

**Audited  
Statement of Accounts  
2008/09**



**Devon County Council Statement of Accounts**

Explanatory Foreword .....	3	Devon County Council Pension Fund .....	95
Statement of Accounting Policies .....	9	Statement of Accounts .....	96
Statement of Responsibilities for the Statement of Accounts .....	18	Notes and Accounting Policies .....	99
Approval of the Statement of Accounts .....	19	Statistical Summary .....	107
Independent Auditors' Report to the Members of Devon County Council .....	25	The Fund's Largest Equity Shareholdings .....	108
Income and Expenditure Account .....	29	Employing Bodies .....	109
Statement of Movement on the General Fund Balance	30	Statement of the Actuary for the year ended 31 March 2009 .....	110
Balance Sheet .....	31		
Authorisation .....	32		
Statement of Total Recognised Gains and Losses .....	33		
Cash Flow Statement .....	34		
1. Adjustments to the Prior Period .....	35		
2. Authorised for Issue .....	36		
3. Audit Fees .....	36		
4. Capital and Fixed Assets .....	37		
5. Contingent Liabilities .....	48		
6. Creditors and Debtors .....	50		
7. Long Term Debt .....	51		
8. Exceptional item .....	51		
9. Financial Instruments .....	51		
10. Government Grants .....	58		
11. Government Grants and Contributions – Deferred and Unapplied .....	61		
12. Income from services provided to other Local Authorities and Public Bodies .....	62		
13. Interest Payable and Similar Charges .....	62		
14. Interest and Investment Income .....	62		
15. Landfill Allowances Trading Scheme .....	63		
16. Operating Lease and Contract Hire .....	63		
17. Long Term Debtors .....	64		
18. Members' Allowances .....	64		
19. Movement in Cash and Other Financial Resources .....	65		
20. Officer Remuneration .....	67		
21. Partnerships and Related Party Transactions ...	67		
22. Pensions .....	73		
23. Post Balance Sheet Events .....	77		
24. Provisions .....	77		
25. Publicity Expenditure .....	79		
26. Reserves .....	80		
27. Schemes under the Transport Act 2000 .....	84		
28. Stock and Work In Progress .....	84		
29. The General Fund .....	85		
30. Trading Accounts .....	86		
31. Trust Funds .....	87		
Glossary of Terms .....	88		



# Explanatory Foreword

## Introduction

Welcome to the 2008/09 financial statements for Devon County Council. This year the format of our Accounts has changed marginally to comply with the Statement of Recommended Practice (SORP) for 2008.

Information regarding our financial performance for the year is contained within the following statements:

- Income and Expenditure Account, analysing the Council's day to day operations (page 26). It summarises the resources that have been generated and consumed in providing services and managing the Council. 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 projected value of retirement benefits earned by employees in the year;
- Statement of the Movement on the General Fund Balance, (page 27). Appropriations to reserves and adjustments for statutory and regulatory requirements are made in the statement of movement of the general fund balance. These adjustments allow for generally accepted accounting practice to be reconciled to council tax levels;
- Balance Sheet, specifying the assets and liabilities of the Council as at 31 March 2009, excluding Pension and Trust Fund transactions (page 28). This summarises assets and liabilities outstanding at the end of the financial year measured in accordance with financial reporting standards. Accruals made to reflect the resources consumed in the income and expenditure account are included together with tangible assets and the financing used to obtain them. Net assets are matched by reserves generated by capital investment and revenue activities;
- Statement of Total Recognised Gains and Losses (page 29). This brings together all the gains and losses for the year and shows the aggregate increase in net worth. Gains and losses not taken to the income and expenditure account are disclosed in this statement. In addition to the surplus generated on the income and expenditure account, it includes gains and losses relating to the revaluation of fixed assets, re-measurement of the net liability to cover the cost of retirement benefits and gains and losses generated by the valuation of financial instruments;
- The Cash Flow Statement, summarising the inflows and outflows of cash arising from revenue and capital transactions (page 30). It summarises the change in liquid assets that have occurred during the year. Cash movements for revenue and capital activities are aggregated with the cash effect of financing decisions. The aggregate changes are reconciled to the movement of liquid assets shown in the balance sheet;
- The Core Accounting Statements are followed by specific notes to aid understanding and provide more detail (from page 31). The notes provide comparative figures for the previous financial year so they can be compared to performance for the reporting period; and
- Devon Pension Fund Accounts, recording the Fund Account and Net Asset Statement for the Fund (from page 90).

The Devon Pension Fund accounts are separate from the accounts of the County Council. The pension fund statement of accounts is included with those of the County Council for probably the last time. The accounting is influenced by the Pension SORP (2007) and has required some changes to the way in which some of the figures are presented. In particular investments are shown at fair value based on 'bid price', there is more information about the last actuarial valuation and more detail is provided regarding employers' contributions. Some transitional provisions apply to the presentation as a result of these changes. It should be understood that the Pension Fund financial statements do not recognise the liability for future pension payments.

## Economic context

This financial year has seen unprecedented turmoil in financial and commodity markets. There has been a marked deterioration in the outlook for domestic and global economies. The banking system has experienced severe instability which has been fed by the economic outlook and characterised by increased risk aversion and exceptional volatility in financial markets. Domestic demand has weakened

as credit has contracted and the national economy has entered a recession. There are some signs of recovery. Growth in the domestic economy of 1.25% is forecast by the Chancellor of the Exchequer for 2010.

The Bank of England has responded to recent difficulties by reducing interest rates sharply. This has been accompanied by fiscal measures designed to limit the depth and duration of the recession. The Bank of England base rate now stands at 0.5% which is 4.5% lower than that for September 2008. Analysts suggest that the outlook for interest rates is more stable and that rates may begin to strengthen towards the end of 2009. As a provider of services and consumer of products the County Council has not been immune from the impact of these uncertainties.

A lower level of investment income has been received than that originally anticipated this year although performance is still above budget. Although cushioned by lending at advantageous rates early in the period, the income shown in the accounts is substantially lower than would otherwise have been expected.

Property values have been affected resulting in a fall in value of £55.0 million. This impairment is partly reflected in the income and expenditure account due to the lack of cover above depreciated historic cost in the revaluation reserve.

The most marked impact is shown in the pension liability. The falling value of investments combined with changes in the factors used to calculate liabilities have increased it by £213.1 million. This is discussed in more detail later in the Foreword.

## Accounting policies and comparative information

Note 1 to these accounts analyses the changes that have been made to the 2007/08 comparative figures. An explanation of the changes is summarised below:

Changes to accounting policies:

- The valuation of pension fund investments for pension liability disclosures; and
- The adoption of accounting for 'revenue expenditure funded from capital under statute' which requires expenditure which is treated for regulatory purposes as capital to be charged direct to the income and expenditure account.

Area Based Grant has been received, and accounted for, for the first time in 2008/09; it replaces Local Area Agreement Grant. The grant is a non-ringfenced general grant and not specifically linked to individual services. The impact on the net cost of services in the income and expenditure account is to increase comparative spending by approximately £35 million. As this does not represent a change in accounting policy the comparative figures for 2007/08 have not been restated.

Adjustments to the comparative figures have been made to remove assets belonging to trust and foundation school governing bodies from the balance sheet and correct other less significant issues. The restatements are disclosed in notes to the accounts.

The adoption of International Financial Reporting Standards (IFRS) will require very significant changes to the financial statements for the 2010/11 financial year. The changes will be fully retrospective and will require the financial statements to be restated for 1 April 2009 and 2010. The restatement does not affect the financial statements for 2008/09, as presented, and no IFR Standards have been adopted for this reporting period.

## Financial performance

The Income and Expenditure Account is produced in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Best Value Accounting Code of Practice (BVACOP) and the 2008 Statement of Recommended Practice. This requires a standard analysis of service expenditure, to be shown at total cost, which includes charges for capital asset utilisation, apportionments of central costs, expenditure from funds and reserves and appropriate provision for pension costs. Gross expenditure totalled £1,267.3 million and Chart 1 highlights spending for each service.

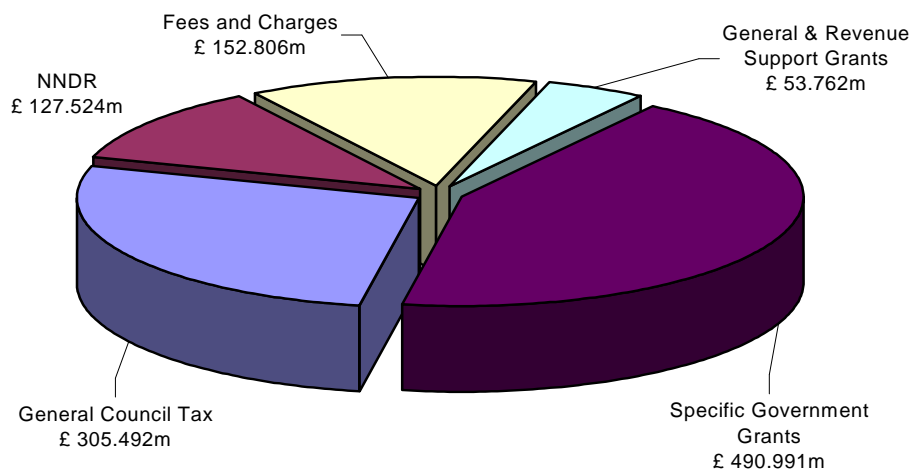
**Chart 1: Gross Expenditure**



Expenditure is funded from a number of sources, some within Devon and some from Central Government. Chart 2, below, highlights sources of revenue income for the County Council during the year.

Total gross income of £1,130.6 million was received during the year, made up of £491.0 million in specific grants and £152.8 million from fees and charges. General and Revenue Support Grant from Government was £53.8 million. The Council's share of the National Non-Domestic Rate Pool was £127.5 million and income from Council Tax amounted to £305.5 million.

**Chart 2: Gross Income**



Whilst the published Income and Expenditure Account is based on the BVACOP analysis, the Council manages the revenue budget according to Directorate management responsibilities, as shown below.

**Revenue Spending**

Revenue expenditure provides the day to day services of the County Council. Income arises from charges for such services where appropriate and contributions towards their costs.

Monitoring of income and expenditure takes place throughout the year. The financial performance of Directorates, relative to budgets approved by Members is as follows:

Children and Young People's Services

In total the budgets for Children and Young People's Services underspent by £13.960m of which £13.579m related to expenditure funded from the Dedicated Schools Grant (DSG). Legislation requires

that any schools under or overspending must be carried forward to the following financial years to be used by schools. Hence this sum is being carried forward into 2009/10.

In terms of non schools services, spending pressures were reported throughout the year in areas such as services for Children and Families where fair access to carer's breaks and an increase in special needs residential and fostering placements led to budgets being exceeded. However, it was recognised that these would be counter-balanced by savings elsewhere mainly found from management action to hold vacancies and delay initiatives. As a result the CYPS Directorate has ended the year with a small underspending of £381,000.

In addition to the statutory carry forward for schools and DSG related items, carry forwards are sought in respect of youth and community initiatives, preventing violence in schools, support for the Learning Skills Council Pilot Project and for developing proposals for the Atkinson Unit. In total these amount to £380,000. Hence the CYPS Directorate has carried-forward most of its non-schools underspending. It has also transferred £220,000 to reserves relating to the surplus made by Devon Education Services and funding unused by the Youth Offending partnership budget.

#### Environment, Economy and Culture

2008/09 was not just an exceptional year in terms of changing economic circumstances; it was also exceptional in terms of the weather experienced in the County. Highway maintenance budgets overspent by just over £4.3 millions. The main cause of this was sustained adverse weather conditions that led to the need for additional gritting and increased reinstatement works. This overspending was partly offset by an underspending on Waste Disposal, vacancy savings and a surplus on the On-Street parking account. The Directorate ended the year with an overspending of just under £1.4m.

It is the policy of the Council to meet the costs for extreme weather conditions from reserves, should the budget prove insufficient. It is recommended that £3.5m from reserves is used for this purpose. The County Council has a statutory duty to carry forward the balance on the on-street parking account to the 2009/10 financial year. A reserve has been set up to achieve this. £261,000 has been carried forward for the Transport Asset Management Plan and the modernisation of library facilities.

#### Adult and Community Services

The Adult and Community Services Directorate finished the year with an underspending of £3.1m. The main component of this is a planned underspending of £2.5 millions in relation to extra care housing. This has been transferred to an earmarked reserve for extra care housing. Work is underway to review the use of Council's residential homes for older people in line with strategies to increase the provision of extra care housing in Devon.

The Directorate has also benefited from the transfer of responsibility for clients to the Devon Primary Care Trust under NHS continuing Healthcare guidance. Other underspendings have arisen from vacancy savings and the delayed implementation of some provisions of the Mental Capacity Act. A carry forward of £445,000 to deliver continuing projects in relation to older people, disability services, supporting people and the Mental Capacity Act has been made.

#### Chief Executives, Finance & IT and Personnel & Performance

Central directorates produced a combined underspend of £1.3m. There were however a few areas where budgets were not able to contain spending pressures. In the Chief Executive's Directorate there were increased mortuary, post-mortem and analysts fees. In the Personnel and Performance Directorate there was increased spending on human resource activities. Central Directorates have carried forward £844,000 of the underspending into 2009/10.

#### Other Items

Interest from investment secured additional income of £1.4m with capital financing charges producing an under spend of £2.8 m. Capital Financing charges are less than anticipated mainly due to slight slippage in the Capital Programme and the fact that no new additional borrowing has been undertaken to fund the programme. The year end position on income from investments is slightly better than was anticipated although not as good as in previous years. The impact of the dramatic interest rate falls seen in the second half of the financial year has been cushioned by the advantageous rates achieved from earlier agreements. The beneficial impact of this will gradually reduce as the agreements come to an end. The largest item of note relates to the one-off costs of successful Job Evaluation appeals. These are shown in the outturn summary at £13.4m. This is a far greater cost than was anticipated in 2007/08. From this sum, £5.564m is being met in 2008/09 and this cost has been accommodated by lower than anticipated contributions to earmarked reserves. The regulations that govern Job Evaluation Settlements allow for the financing of the payments to be met in the year in which they are made. Hence the

remainder of this cost is being carried forward into 2009/10. An application has been made for a capitalisation order to meet part of this cost in 2009/10 but it is by no means certain that the application will be successful. In the event that it is not, funding to meet the cost falling in 2009/10 will need to be identified and this will not be easy to do.

The result of the spending and appropriations outlined is an increase in balances of £43,000. The General Fund balance at 31 March 2009 stands at £14.239m.

## Capital Spending

The 2008/09 Capital Programme represented a further major investment in the County Council's asset base. The original programme of £185.360 million was increased through slippage from 2007/08. In year significant re-phasing took place to give a final programme of £149.333 million. Year-end accrued spending totalled £139.166 million, 4.4% of the underspending is being carried forward into 2009/10.

Capital Expenditure in 2008/09 resulted in major schemes being undertaken and these are shown in note 4.7.

## Assets and Liabilities

Assets Acquired: Primary school projects were completed at Braunton Caen, Broadclyst Exeter Clyst Heath Nursery & Community Primary, Exeter St Davids C of E Primary, Upton Primary and Withycombe Raleigh C of E Primary, Exmouth. Secondary phase projects include a new lecture theatre in Dartmouth part funded from a successful Targeted Capital Fund bid and improvement projects at The College, Chulmleigh and The Kings School Ottery. In addition work started on site in the summer of 2008 at Bideford College.

Maintenance of the highway network has been a prominent theme, with the second financial year of additional funding provided to upgrade the capacity of drainage systems. Investment has been made by installing lower energy highway lighting, to contribute to reducing the County Council's carbon footprint. Good progress has been made on the remedial work at Bideford Longbridge and Avocet Depot improvement works have been completed.

The Library and Culture Service has been supported by the opening of the new library at the Watermark Centre in Ivybridge, Amory House One Stop Shop Community Information Centre, South Molton and the opening of Princetown Library. The roll out of self service technology has begun in library branches.

Assets for schools acquiring trust or foundation status during the year have transferred to the school governing bodies. With control passing from the County Council the assets are no longer recognised in the balance sheet and have been treated as disposals in the income and expenditure account. The fixed asset and capital reserve have been adjusted accordingly.

Pensions Liability: The pensions liability is based on an actuarial valuation and represents the benefits that have been accrued by members of the local government pension scheme. At the end of March 2009 the liability is estimated at just under £1,201.8 million which is set against estimated assets of £615.5 million. These estimates reflect the position as at 31 March 2009 and the conditions and actuarial assumptions prevailing at that time. The situation will change, for example, with changes in the financial performance of the Pension Fund investments or changes to the provisions of the Local Government Pension Scheme.

The turmoil in the financial markets has had a significant impact on the net pension liability included in the accounts. For 2008/09 the net liability has increased by just over £213 millions from £373 millions to £586 millions. This increase in net liability is due in part to lower returns on investments in comparison with previous years. Other contributory factors are changes in benefits earned and variations to the actuarial assumptions used in calculating employee benefits. Changes in assumptions reflect improving life expectancy, changes to inflation rates and a tailored discount rate which is closer to the period over which benefits from the scheme will be paid. The pension fund deficit does not represent an immediate call on the County Council's reserves but simply provides a snapshot (at 31<sup>st</sup> March 2009), with the value of assets changing on a daily basis. The deficit does have a substantial impact on the net worth of the authority as recorded in the balance sheet but arrangements for managing the deficit mean that overall the financial position of the County Council remains healthy. The deficit on the fund will be actively managed and made good by increased contributions over the remaining working life of employees. The level of employer contributions will be reviewed by the actuary in 2011. Investment income will also need to improve. The fluctuating nature of market conditions can be accommodated given the very long term over which investments make a return. Short and medium term prospects will depend largely on whether, and how rapidly, confidence and value are restored to pension fund investments.

Borrowing: The County Council borrows in the long-term to finance capital expenditure and in the short-term, to smooth the cash flow requirements of the authority on a daily basis.

The principal source of borrowings in excess of one year (i.e. classified as long-term borrowing) is the Public Works Loan Board and for 2008/09 the authorised limit for external debt was set at £736.6 million.

At the year-end, long-term borrowing totalled £613.9 million. There is no short-term borrowing at the end of the year.

Funds for Capital and Other Commitments: The capital programme required finance of £139.167 million. Borrowing was met from internal sources during 2008/09 and amounted to £ 67.700 million. No new long term borrowing took place during the year. Other sources of finance were grants and contributions totalling £62.532 million, capital receipts from the sale of assets contributed funding of £7.386 million and direct revenue contributions and use of reserves provided £1.549 million.

Earmarked Reserves: At the beginning of the financial year, earmarked reserves stood at £55.619 million. During the year, some budgeted and other contributions have been made to earmarked reserves and spending has taken place. The net effect has been to decrease earmarked reserves by £4.774 millions (as restated).

The fall in the level of earmarked reserves was anticipated when the 2009/10 Budget was prepared. At that time it was forecast that the level of earmarked reserves retained at 31 March 2009, excluding school and other service carry forwards would be £40.8 million. The result shown in the Statement of Accounts indicates that after taking into account the funding requirement for single status appeals the value of earmarked reserves available is in line with forecast at £40.8 million.

#### Post Balance Sheet Events

Great Torrington School achieved foundation status on 1 April 2009. Control of its tangible fixed assets passed to the governing body of the school on that date. A reduction of tangible fixed assets will be made in the 2009/10 financial statements.

## **Conclusion**

Whilst there have been few changes to the way in which the Statement of Accounts is prepared for 2008/09, there has been unprecedented volatility in financial markets and the national economy has entered recession. The County Council is relatively well placed to meet these challenges. It had no money invested with Icelandic banks when they failed. Balances and reserves remain at relatively high levels although some will probably be needed to support the budget for 2009/10. Members and officers will need to continue to closely monitor budgets in 2009/10 to ensure that the budget is delivered and that calls on reserves are kept to a minimum.

It is recognised that the findings of the Boundary Committee, when they are announced in July, may have far reaching implications for the Council and service delivery to the citizens of Devon. Regardless of the outcome, service provision, both front-line and support continues to face change from integrated working with partners and the shared service agenda.

I would like to place on record my thanks to members and officers of the Council who have done much to secure the current financial health of the Council.

Mary Davis  
Director of Finance  
June 2009

# Statement of Accounting Policies

## GENERAL CONCEPTS

### Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared which “present fairly” the financial position and transactions of Devon County Council, and of group financial statements where the County Council has material interests in other organisations. These statements are prepared with due regard to the following:

- Quality of Information.
- Relevance – providing financial information that is useful for assessing the stewardship of public funds.
- Reliability – providing financial information that properly represents what it purports to represent, is neutral, free from material error, is complete within the bounds of materiality and which has been prudently prepared.
- Comparability – is consistent and can be compared with the previous year’s activity.
- Understandability – allowing the reader to interpret the financial position of the Council.
- Materiality - an item of information is material to the Financial Statements if its misstatement or omission might reasonably be expected to influence assessment of Devon County Council’s stewardship, economic decisions or comparison with other organisations, based on those financial statements.

### Overriding Accounting Concepts

**Accruals** – Financial Statements other than the Cash Flow Statement are prepared on an accruals basis.

**Going Concern** – The accounts are prepared on the assumption that Devon County Council will continue in operational existence into the foreseeable future i.e. there is no intention to significantly curtail the scale of the operation.

**Legislative Requirements** – It is a fundamental principle that where specific legislative requirements and accounting principles conflict, legislative requirements take precedence.

### General Principles

The general principles in compiling these accounts are those recommended by CIPFA. The County Council’s accounts have been prepared in accordance with the Best Value Accounting Code of Practice and Code of Practice on Local Authority Accounting – A Statement of Recommended Practice 2008 (the SORP).

The accounting convention adopted is historic cost modified by the revaluation of certain categories of tangible fixed assets.

## POLICIES

### Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides for the relevant goods and services.
- The full cost of employees is charged to the accounts for the period within which the employees worked. Accruals are made for salaries and wages earned but unpaid at the year-end.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowings and receivables on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### Revenue Expenditure Funded from Capital under Statute

Some expenditure can be classified as capital for funding purposes when it does not result in expenditure being carried on the Balance Sheet as a fixed asset. This is to avoid a charge on the general fund and impact on the year's council tax. Such expenditure is charged to the income and expenditure account. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the capital adjustment account and crediting the general fund balance and showing this as a reconciling item in the statement of movement on the general fund balance. Where under the general provisions of the SORP the statutory capital receipt is accounted for within the balance sheet, the statutory requirement is effected by crediting capital receipts reserve and debiting the capital adjustment account.

### Provisions

Provisions are made 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 of the transfer is uncertain. Provisions are charged to the appropriate service revenue account in the year that the Council 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 be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party, this is recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Back pay arising from unequal pay claims is deferred until the date on which the Council must pay the back payment. The difference between the amount of expenditure included in the income and expenditure account in each year for unequal pay back pay claims and the amount under the regulations charged to the general fund is included as a reconciling item in the statement of movement on the general fund balance. The double entry to the amounts credited and debited to the general fund is to a new reserve, the unequal pay back pay account.

## Contingent Assets and Liabilities

Contingent liabilities are disclosed by way of note when there is a possible obligation which may require a payment or a transfer of economic benefits. The timing of the economic transfer and the level of uncertainty attaching to the event are such that it would be inappropriate to make a provision.

Contingent assets are disclosed by way of note where inflow of a receipt or economic benefit is probable.

## Exceptional items and extraordinary items

Exceptional items are either included in the cost of the service to which they relate or separately disclosed on the face of the Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts.

Extraordinary items are disclosed and described on the face of the Income and Expenditure Account after dealing with all items within the ordinary activities of Devon County Council and are explained fully in a note to the accounting statements.

## Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. 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 expenditure.

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

## Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant or contribution, there is reasonable assurance that the money will be received and the expenditure for which the grant is given is incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure are credited to the foot of the income and expenditure account after net operating expenditure.

## Retirement benefits

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

- The Teachers' Pension Scheme, administered by the Department for Children, Schools and Families (DCSF),
- The Local Government Pension Scheme, administered by Devon County Council.

Both schemes provide defined benefits to members, earned as employees worked for the Council.

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme. No liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

## The Local Government Pension Scheme

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

The liabilities of the Devon pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This is an assessment of the future payments that will be made in relation to retirement benefits earned to date by the employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the Hewitt AA Corporate Bond Yield Curve.

The assets of the Devon pension fund attributable to the Council are included in the balance sheet at fair value:

- quoted securities - current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pension liability is analysed into six components:

- Current service cost – the increase in liabilities as a result of years of service earned this year and allocated in the income and expenditure account to the revenue accounts of service for which the employee worked
- Past service cost – the increase in liability arising from current year decisions which effect relates to years of service earned in earlier years - debited to the net cost of services in the income and expenditure account as part of non-distributed costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid is debited to the net operating expenditure in the income and expenditure account
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on the expected long term return and credited to net operating expenditure in the income and expenditure account
- Gains and losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees and is debited to net cost of services in the income and expenditure account as part of non distributed costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions and are debited to the statement of total recognised gains and losses

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the statement of movement on the general fund balance this means that there are appropriations to and from the pension reserve to remove 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 year end.

## **Discretionary benefits**

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers, are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **VAT**

Income and expenditure excludes any amounts relating to VAT except to the extent that it is irrecoverable.

## **Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 (BVACOP). The total cost absorption costing principle is used. The full cost of overheads and support services are shared between users in proportion to the benefits received with the exception of:

- Corporate and democratic core – costs relating to the Council's status as a multi functional, democratic organisation.
- Non distributed costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and are accounted for as separate headings in the income and expenditure account as part of net cost of services.

### Intangible fixed assets

Expenditure on assets that do not have a physical substance but are identifiable and controlled by the Council is capitalised when it will bring benefits to the Council for more than one financial year. Control of an intangible asset will be secured by legal rights which grant access to benefits for a fixed period. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

### Tangible fixed assets

Tangible fixed assets are assets that have physical substance and are held for the provision of services or for administrative purposes on a continuing basis.

**Recognition:** expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset is charged to revenue as it is incurred.

Expenditure below £50,000 for buildings and £12,000 for plant, vehicles and equipment are treated as revenue items.

**Measurement:** assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Investment properties and assets surplus to requirements - lower of net current replacement cost or net realisable value
- Other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use
- Infrastructure assets and community assets – depreciated historical cost.
- Non-specialised operational properties - existing use value
- Specialised operational properties – where market evidence of existing use value is not available, depreciated replacement cost is used
- Investment properties and surplus assets – market value.

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Exceptionally, gains might be credited to the income and expenditure account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

**Impairment:** the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account.
- Otherwise it is written off against any revaluation gains attributable to the relevant asset in the revaluation reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the income and expenditure account but there were accumulated revaluation gains in the revaluation reserve for that asset, an amount up to the value of the loss is transferred from the revaluation reserve to the capital adjustment account.

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the income and expenditure account as part of the gain or loss on disposal. Receipts from disposals are credited to the income and expenditure account as part of the gain or loss on disposal. Any revaluation gains in the revaluation reserve are transferred to the capital adjustment account. Amounts in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the usable capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are apportioned to the reserve from the statement of movement on the general fund balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the statement of movement on the general fund balance.

**Depreciation:** depreciation is provided for on all assets with a determinable finite life, by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Depreciation is not charged in the year of acquisition. In the year of disposal depreciation is charged for up to the point of disposal.

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant and equipment – straight line over the life of the asset
- Infrastructure – straight-line over the life of the asset.

Where an asset has major components with different estimated lives, these are depreciated separately.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

**Grants and contributions:** where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the government grants deferred account. The balance is then written down to revenue to offset depreciation charges made for related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

## Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

Depreciation attributable to the assets used by the relevant service

Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the revaluation reserve against which they can be written off

Amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations.

It is required to make annual provision from revenue to contribute towards the reduction in the overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the authority in accordance with satisfactory guidance, or loans fund principal charges.). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the statement of movement on the general fund balance, by way of an adjusting transaction with the capital adjustment account for the difference between the two.

## Leases

### Finance leases (Council as Lessor)

Land and Buildings – the Council has 9 assets that are leased to tenants that meet the definition of a Finance Lease. All of the assets are included within Fixed Assets on the Balance Sheet. The present value at 31<sup>st</sup> March 2009 of the rental payments due to the Council is £0.62m. The lease debtor is not

included within the Balance Sheet as the sum is not material. The annual lease income is accounted for within the Income and Expenditure Account as it falls due.

### **Finance leases (Council as Lessee)**

Vehicles, Plant and Equipment – the Council has several low value assets that are held on Finance Leases. Neither the assets nor the lease liabilities are included within the Balance Sheet as the sums involved are not material. The approximate value after depreciation of equipment acquired under finance leases is £86,000 and outstanding liabilities for equipment acquired under finance leases is £nil. The annual lease payments are accounted for within the Income and Expenditure Account as they fall due.

Land and Buildings – the Council has 19 assets that are held on Finance Leases. The Council's interest in the assets is included within Fixed Assets on the Balance Sheet. The value of the assets at 31<sup>st</sup> March 2009 is £7.27m. The present value of lease payments to be made over the term is estimated to be £0.18m. The lease liability is not included within the Balance Sheet as the sum is not material. The annual lease payments are accounted for within the Income and Expenditure Account as they fall due.

### **Operating leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

Where the Council is the lessor, income is credited to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are credited when they are due.

## **Financial instruments**

### **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 interest 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 and interest charged to the income and expenditure account is the amount payable for the year in the loan agreement.

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 the repurchase or settlement. Where repurchase has taken place as part of a restructuring of a 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, in previous periods, 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 or loss over the term that was remaining on the loan against which the premium was payable or the 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.

## 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 are carried at their amortised cost. Annual credits to the income and expenditure account for the 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 and interest credited to the income and expenditure amount receivable for the year in the loan agreement.

The Council has made a small number of loans to other parties 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 foregone over the life of the instrument resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from these bodies, 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 in the financial year. The reconciliation of amounts debited or credited to the income and expenditure account to the net gain required against the general fund balance is managed by a transfer 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 derecognition of the assets are credited or 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 interest rate of interest for the instrument. Where there are no fixed or determinable payments, income 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 price – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the available for sale reserve and the gain or loss is recognised in the statement of total recognised gains and losses. The exception is where impairment losses have been incurred. These are debited to the income and expenditure account, along with any net gain or 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 or debited to the income and expenditure account along with any accumulated gains or losses previously recognised in the statement of total recognised gains and losses.

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

### **Stocks and work in progress**

Stocks are included in the balance sheet at the lower of cost and net realisable value with the exception of trading account stock which is valued at current cost and stock of road salt which is valued at cost.

### **PFI**

Assets created or enhanced under the PFI scheme will pass to the Council at the end of the scheme at less than their fair value. An amount equal to the difference between fair value and the payment made at the end of the contract is built up as a long-term debtor over the contracts life by reducing the amount of the unitary payment charged to revenue.

### **Post Balance Sheet Events**

Balance sheet events have been considered up to the time the Statement of Accounts was authorised for issue.

Where an event after the balance sheet date occurs which provides evidence of conditions that existed at the balance sheet date the Statement of Accounts will be adjusted. An event that occurs after the balance sheet date which is indicative of conditions that have arisen after the balance sheet date, adjustment will not be made.

### **Changes to policies**

Changes to accounting policies are as follows:

- The valuation of pension fund investments for pension liability disclosures at bid price rather than mid price, and,
- The adoption of accounting for 'revenue expenditure funded from capital under statute' which requires expenditure which is treated for regulatory purposes as capital to be charged direct to the income and expenditure account.

The impact of these changes is disclosed in notes to the accounts.

## Statement of Responsibilities for the Statement of Accounts

### The Authority's Responsibilities

The Authority 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 Authority, that Officer is the Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

### Responsibilities of the Director of Finance

The Director of Finance is responsible for the preparation of the Authority'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* ('the Code of Practice').

In preparing this Statement of Accounts, the Director of Finance has:

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

The Director of Finance has also:

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

### Certificate of the Director of Finance

I hereby certify that this Statement of Accounts for the year ended 31 March 2009 has been prepared in accordance with the Accounts and Audit Regulations 2003 (as amended) and that it presents fairly the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year ended 31 March 2009.

M C Davis

**Mary Davis**

**Director of Finance**

**24 June 2009**

## **Approval of the Statement of Accounts**

I confirm that these accounts were approved by the Audit Committee at its meeting held on 30 June 2009.

Signed on behalf of Devon County Council

Cllr Sir Simon Day

**Chairman of the Audit Committee**

**30 June 2009**

## Annual Governance Statement 2008/09

### Scope of Responsibility

Devon County 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. Devon County 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 responsible for putting in place proper arrangements for the governance of its affairs so as to facilitate the effective exercise of its functions and manage risk.

The County 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 can be obtained from the Director of Finance, IT & Trading. This statement explains how the 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.

### Purpose of the Governance Framework

The governance framework comprises the systems and processes and culture and values by which the Council is directed and controlled; also the activities through which it accounts to, engages with and leads the community. It enables the Council 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 the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks not being realised - and the impact should they be realised - and to manage them efficiently, effectively and economically.

### The Governance Framework – The Council's Constitution

The Constitution is fundamental to the working of the County Council, transcending the six core principles of corporate governance in the CIPFA/SOLACE Framework which form the basis of the response set out in the attached schedule.

The Constitution is the Council's Code of Corporate Governance. Framed in accordance with statute and Government guidance and evolved in the light of experience and subsequent legislation, it sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

The Constitution is the guarantor of the continuing openness, accountability and integrity of the Council's decision-making processes and sets a series of exacting standards against which the Council's actions can be judged and, if necessary, challenged.

The Constitution is at the heart of the Council's business:

- It allocates power and responsibility within the Council and between it and partner organisations;
- It delegates authority to act to the Leader, Committees and officers;
- It enables the people of Devon to ask questions at certain meetings and to have them answered or submit petitions;
- It sets down the procedures by which the people of Devon may give their views on the key decisions which the Council's Executive is to take;
- It regulates the behaviour of individuals and groups through codes of conduct, protocols and standing orders.

The Constitution comprises 16 Articles setting out the basic rules governing all aspects of the working of the Council (Part 2) and is then divided up into:

- all the elements which define the Council's internal organisation, standing orders, financial regulations, schemes of delegation and terms of reference, procedures covering executive and scrutiny, risk management and codes of conduct (Parts 3–9);
- working practices which supplementing these formal rules (Part 10);
- documents which focus on the Council's external operation through service delivery, community engagement and partnership working (Part 11).

In formulating its Constitution in 2002, the Council adhered closely throughout to the framework presented in Government's *Modular Constitutions for English Local Authorities*, enabling it to produce a constitution which was logical, integrated and accessible to members, officers, citizens and others interested in the way a local authority makes decisions and governs itself and its area. Then and subsequently, wherever the legislation permits local choice, the Council has framed its Constitution to take advantage of the most open and inclusive of the available options.

The Constitution is designed to meet all the necessary statutory requirements for instruments of governance and to include matters traditionally covered by local authority standing orders, financial regulations, schemes of delegation and terms of reference. It also contains the elements necessary to describe the Council's executive arrangements in a single, coherent document which can be used as a comprehensive point of reference by individuals and organisations inside and outside the Council. All the familiar elements can be found in the Constitution and the Council has sought to use the model format to create a genuinely accessible, meaningful instrument of governance.

The Council is committed to involving the community in setting its priorities, enabling citizens to raise matters with and convey their concerns to the Council and to considering the needs of all groups in the community and promoting democratic understanding and participation. The Council's Constitution provides that framework.

## Review of Effectiveness

The County Council's Constitution has been in place since 2002 and was last reviewed and revised in its totality in December 2007, although specific amendments have been made during 2007/8 in response to changes in legislation or other requirements, as outlined below. The Constitution is published on the Council's website, Information Devon, at <http://www.devon.gov.uk/constitution.htm> and is also available for Inspection at the Council's Offices together with the most recent Annual Report (also at <http://www.devon.gov.uk/annualreport2008>) and the Statement of Accounts for 2007/08 (also at <http://www.devon.gov.uk/statement-of-accounts-0708.pdf>)

Additionally, the County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including systems of internal control. This review of effectiveness is informed by the work of managers within the authority who have a 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.

Details of processes applied in maintaining and reviewing the effectiveness of the governance framework are summarised below.

## The Constitution

The Council has previously reviewed its Constitution in light of the Local Government & Public Involvement in Health Act's requirements for governance arrangements in relation to the concept of a Strong Leader and the right of all Members of the Council to raise issues with Overview/Scrutiny Committees and has developed the Constitution as the Council's Code of Corporate Governance through the addition of a section focusing on the Council's external operations through service delivery, community engagement and partnership working (Part 11 of the Constitution). This will be further developed and updated over the course of the coming year.

The roles and responsibilities of the Council, its Executive and non-Executive Members are set out more fully in Articles 6 and 7 of the Constitution and in Part 3 (Responsibility for Functions). These are themselves balanced by the Codes of Personal Conduct set out at Part 6 of the Constitution.

The Council is currently composed of 62 councillors, meeting together as the full Council for specific purposes, to decide the Council's overall policies and set the budget each year. Meetings of the Council and its Committees are normally open to the public. The Council appoints the Leader, the Overview/Scrutiny Committees, the Standards Committee and all other committees. The Council receives the minutes of committees, and has power to vary or refer back decisions which are outside established policy. From time to time it also debates issues of particular relevance or topicality for the County.

## The Executive

The Executive is the part of the Council responsible for most day-to-day decisions. It is made up of a Leader and no more than nine other members (Executive Members), appointed by the Leader from amongst the membership of the Council. When major decisions are to be discussed or made, these are published in the Executive's Forward Plan in so far as they can be foreseen. These major decisions will be taken with council officers present at meetings of the Executive which will be open to the public except where personal or confidential information is discussed. The Executive has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this matter must be referred to the full Council to decide.

## The Overview/Scrutiny Function

Overview/Scrutiny Committees support the work of the Executive and the Council as a whole. They look at the effectiveness of the Council's own policies and inquire into matters of local concern. These investigations lead to reports and recommendations which advise the Executive and the Council on its policies, budget and service provision. Overview/Scrutiny Committees also monitor the Executive's decisions. They can "call in" a decision which has been made by the Executive but not yet implemented. This enables them to consider whether the decision is appropriate and they may recommend that the Executive reconsiders it. They may also be consulted by the Executive or the Council on forthcoming decisions and the development of policy. An Annual Report is also prepared and considered by the County Council.

More particularly, and in relation to the Overview/Scrutiny function, it is now nearly four years since the 2005 County Council elections and there have been a number of significant developments in this area. The four Overview/Scrutiny Committees continue to be Chaired by members of the largest Opposition party with Vice-Chairmen drawn from the party of the administration. Members of the other opposition groups are appointed as Deputy Chairmen. These Committees continue to operate in a non-partisan way which it is believed has served both the electorate and the Council well in line with the Constitution and the Council's protocol governing relationships between the Council's Executive and Overview/Scrutiny Committees. The ability of members of the Council to place items on the agenda of any Overview/Scrutiny Committee – a right which has always effectively existed in the Constitution since it was first adopted in 2002 - has been strengthened and made more explicit in line the requirements of the Local Government & Public Involvement in Health Act and its new definition of '*any local government matter*'.

Both the Executive and Corporate Management Board have been appreciative of the work undertaken by Overview/Scrutiny Committees and acknowledge that it has made a major contribution to the work of the Council, especially in areas where some detailed objective research and analysis needed to be done.

## Organisational Performance

In relation to performance generally, and building on the most recent CPA Inspection and favourable comments by the Audit Commission in its *Use of Resources* and *Direction of Travel* findings of recent years, the Council's Executive has previously adopted a revised Organisational Performance Framework to strengthen the Council's performance and management reporting systems, which was successfully piloted in the Library and Information Service. The successful roll out of this over the coming year will be carefully monitored.

The Council adopted in 2008 a Corporate Procurement Strategy outlining the Council's plans for maximising value for money through procurement over the period 2008-11, building on the excellent work

that had taken place since the adoption in 2005 of the Council's Procurement Transformation project. The Strategy had been reviewed by the Audit Commission which had been very complimentary about the progress made so far and the Council's approach for the future.

During 2007, the Council launched its *Devon 2011* programme, a corporate programme with three key strands aimed at boosting current performance, improving the way it works in partnership with other organisations and looking ahead to how it can best discharge its duty to community leadership, place shaping and service delivery in the future. The continued development of that programme has been progressed alongside the work being done in preparation for the possible outcomes of the Boundary Committee's Review of local government structure in Devon.

## **The Standards Committee**

The Standards Committee continues to exercise its role in monitoring complaints and standards. The number of complaints received against Councillors remains small – notwithstanding the changes in operation brought about by the Local Government & Public Involvement in Health Act with the Council's Standards Committee now being responsible for the local investigation and determination of complaints against Councillors. There were no cases locally where a councillor was found to have been in breach of the Council's Code of Conduct.

## **The Audit Committee**

The Audit Committee has again been vigilant in monitoring the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources including the work of the Council's Internal Audit team and the Audit Commission and the application of the Council's Risk Management policy. This resulted in an unqualified conclusion by the Audit Commission in its Annual Governance Report.

The Council has approved the establishment of a consortium with Plymouth City and Torbay Councils from April 2009 for the provision of shared internal audit services as a means of improving services through joint working and maximising efficiencies and economies of scale. This could be expanded to other authorities, if desired, in due course.

## **The Investment and Pension Fund Committee**

It is expected that future accounting arrangements will require separate accounts to be prepared for the Devon Pension Fund. Recognising the need for clear governance arrangements for managing these Accounts the Council expanded the remit of the Investment & Pension Fund Committee, as it already monitored the activities of that Fund during the year, to review and approve the accounts of the Devon Pension Fund and to ensure appropriate accounting policies had been in the same way as the Audit Committee is responsible for monitoring and approving the Council's main accounts.

## **Engagement and Participation**

The County Council has always prided itself on the work it does, over and above statutory consultations, to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council. Examples of this over and above the Council's Communications Strategy are the Devon Voice (Residents Panel) and the Young Peoples' Shadow Executive and Scrutiny Forums (Hear by Right).

The Senior Council, set up by the County Council in partnership with the Department of Work and Pensions, is now fully up and running acting as an independent, non-political body to lobby for and be part of local policy making to provide better local services for the over 50s. Devon was one of only eight local authority areas in the country chosen by the Government to pilot new ways of supporting and empowering people over 50, of which the Senior Council is but one element.

In its community leadership role and in the absence of a national inquiry, the County Council set up a local public inquiry in February 2008 to examine *the circumstances leading to the beaching of MSC Napoli (in January 2007) off the East Devon section of the Devon and Dorset World Heritage coastline, and subsequent events, to determine whether any lessons should be learned and submit any findings and questions of public concern arising to relevant Government Departments, local authorities, including the County Council and to partner agencies.* That Inquiry published its final Report in January of 2009 and the Council will make every effort to ensure its recommendations are adopted.

Also and again in its community leadership role and to both raise the profile of the County and to acknowledge its unique character the Council launched a public competition to find a *Song for Devon* which would capture the county's unique and vibrant character. The winner was chosen in December 2009 following a public vote.

## Significant Governance Issues

The Council took a lead back in 2006/07 in undertaking a review of the structure and governance of the Devon Strategic Partnership (DSP). During 2007/08 and 2008/09 these new governance arrangements have been embedded and consolidated and appear to be operating effectively. The Council is also taking steps to ensure that governance of the Council's contribution to the partnership agenda is managed effectively and integrated within mainstream service delivery.

The County Council has developed governance arrangements for integrated working arrangements with Health Partners and is introducing revised arrangements for governance of the Devon Pension Fund including the co-location of the Devon PCT on the Council's main office campus to maximise potential for joint working. The Council and the Devon PCT have also established an Integrated Health & Social Care Delivery Committee to oversee those areas of service delivery for adults and children's services.

The end of 2008/9 saw significant, unforeseen, movements in the national and international economy and extraordinary upheaval in the world's financial markets which, inevitably, had an impact upon the County Council's operations. Fortunately, due to a combination of sound judgement, prudent financial planning and the vigilance and professional expertise of the County Council's Finance staff, those risks were minimised through a cautious approach to investing in the money markets and by moving funds out of institutions and into the Government's Debt Management Office. Similarly, the County Council had never deposited funds with Icelandic Banks as they had never met the Council's strict lending criteria thereby avoiding difficulties encountered by other public bodies.

## Certification

We have been advised on the result of the review of the effectiveness of the governance framework undertaken by the Executive, the Audit Committee, the Investment & Pension Fund Committee and by Overview and Scrutiny Committees and the plans, as summarised above, to address weaknesses and ensure continuous improvement of systems is in place.

We will over the coming year continue 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** Cllr B.C Greenslade

Leader of the Council and Executive Member for Policy & Resources, on behalf of Devon County Council

**Signed** P J Norrey

Chief Executive, on behalf of Devon County Council

# Independent Auditors' Report to the Members of Devon County Council

## Opinion on the Authority accounting Statements

I have audited the accounting statements and related notes of Devon County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Devon County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## Respective responsibilities of the Director of Finance and auditor

The Director of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year.

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

I read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

## **Opinion**

In my opinion the Authority 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 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

## **Opinion on the pension fund accounts**

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Devon County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## **Respective responsibilities of the Director of Finance and auditor**

The Director of Finance's responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

## **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK 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 pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

## **Opinion**

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

### **Authority's Responsibilities**

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

### **Auditor's Responsibilities**

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

## **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, Devon County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

## **Delay in certification of completion of the audit**

The audit can not be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have material effect on the financial statements.

I am required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Devon County Council pension fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1<sup>st</sup> December 2009. As the authority has not yet prepared the Annual Report I have not yet been able to read other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit of

the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Alun Williams

District Auditor  
Audit Commission  
3-4 Blenheim Court  
Matford Business Centre  
Lustleigh Close  
Exeter  
EX2 8PW

29<sup>th</sup> September 2009

## Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during last financial 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.

2007/08 Net Cost restated £'000"	<b>Service Expenditure Analysis</b>	Notes	2008/09 Gross Expenditure £'000"	2008/09 Gross Income £'000"	2008/09 Net Cost £'000"
<b>General Fund continuing operations</b>					
49,701	Cultural, Environmental, Regulatory and Planning Services		71,515	(11,118)	60,397
113,434	Children's and Education Services		701,976	(519,148)	182,828
82,271	Highways and Transport Services		108,008	(14,683)	93,325
996	Court Services (Coroner's Court)		1,238	(129)	1,109
162,486	Adult Social Care		253,641	(61,556)	192,085
1,941	Housing Services (primarily supporting people)		21,876	(20,426)	1,450
3,867	Corporate and Democratic Core		4,005	(51)	3,954
8,227	Non Distributed Costs		(2,948)	0	(2,948)
1,287	Central Services to the Public		3,084	(1,270)	1,814
0	Exceptional items not included in costs of specific services	8	13,382	0	13,382
<b>424,210</b>	<b>Net Cost of Services</b>		<b>1,175,777</b>	<b>(628,381)</b>	<b>547,396</b>
(1,429)	(Gain) or loss on disposal of fixed assets	4	38,389	(1,699)	36,690
523	Local Precepts	21	569	0	569
441	Trading Accounts Deficit	30	775	0	775
25,661	Interest payable and similar charges	13	26,857	0	26,857
(14,617)	Interest and investment income	14	0	(13,717)	(13,717)
9,860	Pensions interest cost and expected return on pensions assets	22	24,960	0	24,960
<b>444,649</b>	<b>Net Operating Expenditure</b>		<b>1,267,327</b>	<b>(643,797)</b>	<b>623,530</b>
(291,118)	General Council Tax				(305,492)
(23,850)	Government grants (not attributable to specific services)	10			(53,762)
(105,307)	Non-domestic rate distribution				(127,524)
<b>24,374</b>	<b>Deficit for the year</b>				<b>136,752</b>

## Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of resources consumed and generated over the last financial year. However, the authority 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 the pension fund and pensioners rather than as future benefits earned;
- The General Fund balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of resources built up in the past and contributions to reserves earmarked for future expenditure.

### Statement of Movement on the General Fund Balance for the year ended 31 March 2009

Restated 2007/08 £'000	Notes	2008/09 £'000
24,374	Deficit for the year on the Income and Expenditure Account	136,752
(25,425)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(137,470)
(25,029)	General Fund Balance brought forward	(26,080)
<b>(26,080)</b>	<b>General Fund Balance carried forward</b>	<b>(26,798)</b>
(11,884)	Amount of General Fund Balance held by governors under schemes to finance schools	(12,559)
(14,196)	Amount of General Fund Balance generally available for new expenditure	(14,239)
<b>(26,080)</b>		<b>(26,798)</b>

## Balance Sheet

Restated 2007/08 £'000		2008/09 £'000	2008/09 £'000	Note
	<b>FIXED ASSETS</b>			
	<b>Operational Assets</b>			
0	Intangible Assets	82		4
1,004,486	Land and Buildings	934,418		4
297,219	Infrastructure assets	322,050		4
18,762	Vehicles, plant, furniture and equipment	24,896		4
	<b>Non Operational Assets</b>			
24,523	Surplus Assets held for Disposal	14,530		4
17,199	Assets under Construction	56,482		4
<b>1,362,189</b>	<b>Total Fixed Assets</b>		<b>1,352,458</b>	
61	Long term investment in companies	61		
25,780	Investments - maturity more than 1 year	5,017		
95,745	Long Term Debtors	94,891		17
<b>1,483,775</b>	<b>Total Long Term Assets</b>		<b>1,452,427</b>	
	<b>CURRENT ASSETS</b>			
2,523	Stocks and Work in Progress	2,483		28
64,513	Debtors	71,145		6
11,123	Cash and Bank	6,158		
	<b>Investments and Loans</b>			
231,795	Investments - maturity less than 1 year	187,432		
0	Vintage Landfill Usage Allowance	0		15
<b>309,954</b>	<b>Total Current Assets</b>		<b>267,218</b>	
<b>1,793,729</b>	<b>Total Assets</b>		<b>1,719,645</b>	
	<b>LESS CURRENT LIABILITIES</b>			
0	BMW Liability for Usage (LATS)	0		
(118,560)	Creditors	(103,775)		6
(3,777)	Bank Overdraft	(1,705)		
<b>(122,337)</b>	<b>Total Current Liabilities</b>		<b>(105,480)</b>	
<b>1,671,392</b>	<b>Total Assets Less Current Liabilities</b>		<b>1,614,165</b>	
(613,858)	Borrowing repayable within a period in excess of 12 months	(613,878)		7
	Deferred Credits	(1,049)		
(207,175)	Government Grants & Conts - Deferred	(259,418)		11
(23,156)	Government Grants & Conts - Unapplied	(24,274)		11
(373,080)	Pensions Liability	(586,220)		22
(14,238)	Provisions	(22,739)		24
<b>(1,231,507)</b>	<b>Total Long Term Liabilities</b>		<b>(1,507,578)</b>	
<b>439,885</b>	<b>Total Assets Less Liabilities</b>		<b>106,587</b>	
	<b>FINANCED BY</b>			
148,583	Revaluation Reserve	146,994		26
61	Available for Sale Financial Instruments Reserve	61		26
518,357	Capital Adjustment Account	412,784		26
(21,695)	Financial instruments adjustment account	(21,381)		26
0	Equal Pay Back Pay Account	(7,084)		26
(344,655)	Pensions Reserve	(557,827)		26
57,535	Usable Capital Receipts Reserve	55,397		26
	<b>Fund Balances and Reserves</b>			
55,619	Earmarked Reserves	50,845		26
14,196	Working Balances - County Fund	14,239		26
11,884	Held by Schools under Delegated Management	12,559		26
<b>439,885</b>	<b>Total Financing</b>		<b>106,587</b>	

## **Authorisation**

These financial statements replace the un-audited financial statements authorised at the meeting of the Audit Committee on 30 June 2009.

M C Davis

Mary Davis  
Director of Finance

25 September 2009

## Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses 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, re-measurement of the net liability to cover the cost of retirement benefits and gains and losses generated by the valuation of financial instruments.

Restated 2007/08 £000's	Notes	2008/09 £000's
24,374	Deficit on the Income and Expenditure Account for the year	136,752
33,115	Deficit arising on revaluation of fixed assets	(8,484)
21,651	Deficit arising on revaluation of available- for-sale financial assets and other financial instruments	0
(71,260)	Actuarial (gains) and losses on pension fund assets and liabilities	205,030
<b>7,880</b>	<b>Total recognised gains and losses for the year</b>	<b>333,298</b>

Included within the Statement of Total Recognised Gains and Losses are the cumulative effects of the prior year restatements as set out in Note 1.

## Cash Flow Statement

2007/08	2008/09	
£'000	£'000	£'000
<b>(22,647)</b>	<b>Net revenue activities cash flow (Note 19.3)</b>	
<hr/>		
<b>Return on Investments and Servicing of Finance</b>		
Cash Outflows		
35,503	Interest paid	27,082
Cash Inflows		
(10,344)	Interest received	(14,081)
<b>25,159</b>		<b>13,001</b>
<hr/>		
<b>Capital Activities</b>		
Cash Outflows		
86,315	Purchase of fixed assets	130,143
6,045	Other capital cash payments	1,400
Cash Inflows		
(3,970)	Sale of fixed assets	(5,248)
(62,998)	Capital grants received	(56,956)
(9,856)	Other capital cash income	(5,237)
<b>15,536</b>		<b>64,102</b>
<hr/>		
<b>18,048</b>	<b>Net cash outflow / (inflow) before financing</b>	<b>67,643</b>
<hr/>		
<b>Management of Liquid Resources</b>		
<b>(7,600)</b>	Net increase/(decrease) in cash value of investments (Note 19.1)	<b>(64,750)</b>
<hr/>		
<b>Financing</b>		
Cash Inflows		
(10,000)	New loans raised	0
<b>(10,000)</b>		<b>0</b>
<hr/>		
<b>448</b>	<b>Net Decrease in cash</b>	<b>2,893</b>
<hr/>		

## 1. Adjustments to the Prior Period

	2008 As reported	General Grants	FRS17 valuation	Asset Restatement	PFI long term debtor	2008 As restated
<b>Income and Expenditure Account</b>						
<b>Service Expenditure Analysis</b>	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund continuing operations</b>						
Children and Education Services	115,161				(1,727)	113,434
<b>Net Cost of Services</b>	<b>425,937</b>	-	-	-	<b>(1,727)</b>	<b>424,210</b>
Pensions interest cost and expected return on pensions assets	9,660		200			9,860
<b>Net Operating Expenditure</b>	<b>446,176</b>	-	<b>200</b>	-	<b>(1,727)</b>	<b>444,649</b>
Government grants (not attributable to specific services)	(28,048)	4,198				(23,850)
<b>(Surplus) or Deficit for the year</b>	<b>21,703</b>	<b>4,198</b>	<b>200</b>	-	<b>(1,727)</b>	<b>24,374</b>
<b>Statement of the Movement of the General Fund balance</b>						
Reversal of current and past service pension costs	(54,862)		(200)			(55,062)
<b>Total included in I&amp;E but reversed in SMFGB</b>	<b>(94,606)</b>	-	<b>(200)</b>	-	-	<b>(94,806)</b>
Contribution to Exeter PFI deferred assets	-				1,727	1,727
<b>Total included by statute in SMFGB</b>	<b>86,485</b>	-	-	-	<b>1,727</b>	<b>88,212</b>
Voluntary provision for repayment of debt	1,266					1,266
Net transfer to/(from) earmarked reserves	6,423	(4,198)				2,225
<b>Transfers to/(from) SMFGB</b>	<b>(14,633)</b>	<b>(4,198)</b>	-	-	-	<b>(18,831)</b>
<b>Total SMFGB adjustments</b>	<b>(22,754)</b>	<b>(4,198)</b>	<b>(200)</b>	-	<b>1,727</b>	<b>(25,425)</b>
Deficit/(Surplus) on Income and Expenditure Account	21,703	4,198	200		(1,727)	24,374
Total SMFGB adjustments	(22,754)	(4,198)	(200)		1,727	(25,425)
General Fund Balance brought forward	(25,029)					(25,029)
<b>General Fund Balance carried forward</b>	<b>(26,080)</b>	-	-	-	-	<b>(26,080)</b>
<b>Statement of Total Recognised gains and Losses</b>						
Deficit on the Income and Expenditure Account for the year	21,703	4,198	200		(1,727)	24,374
Surplus arising on revaluation of fixed assets	(40,341)			71,729	1,727	33,115
Surplus on revaluation of financial instruments	21,651					21,651
Actuarial (gains)/losses on pension fund assets and liabilities	(73,460)		2,200			(71,260)
Surplus on Sale of Investment	-					-
<b>Total recognised gains and losses for the year</b>	<b>(70,447)</b>	<b>4,198</b>	<b>2,400</b>	<b>71,729</b>	-	<b>7,880</b>
<b>Balance Sheet</b>						
<b>FIXED ASSETS</b>						
<b>Operational Assets</b>						
Land and Buildings	1,076,215			(71,729)		1,004,486
<b>Total Fixed Assets</b>	<b>1,433,918</b>	-	-	<b>(71,729)</b>	-	<b>1,362,189</b>
Government Grants & Conts - Unapplied	(18,958)	(4,198)				(23,156)
Pensions Liability	(370,680)		(2,400)			(373,080)
<b>Total Long Term Liabilities</b>	<b>(1,224,909)</b>	<b>(4,198)</b>	<b>(2,400)</b>	-	-	<b>(1,231,507)</b>
<b>Total Assets Less Liabilities</b>	<b>518,212</b>	<b>(4,198)</b>	<b>(2,400)</b>	<b>(71,729)</b>	-	<b>439,885</b>
<b>FINANCED BY</b>						
Revaluation Reserve	156,048			(7,465)		148,583
Capital Adjustment Account	582,621			(64,264)		518,357
Pensions Reserve	(342,255)		(2,400)			(344,655)
<b>Fund Balances and Reserves</b>						-
Earmarked Reserves	59,817	(4,198)				55,619
<b>Total Financing</b>	<b>518,212</b>	<b>(4,198)</b>	<b>(2,400)</b>	<b>(71,729)</b>	-	<b>439,885</b>

Prior period adjustments have been made to take account of changes in accounting policy and to correct misstatements in the reported position as at 31 March 2008. The changes are shown in the table above and are described as follows:

- Restatement of grant which had been included in the 2007/08 closing position as revenue grant has been awarded on the basis that 50% of it will be capital grant. An adjustment between earmarked reserves and capital grant unapplied for £4.198m has been made,

- The change in accounting policy for the valuation of pension fund assets from mid to bid prices has required that the interest cost and expected return on pension assets and the pension fund liability and reserve have been amended,
- School assets that attach to schools that have achieved trust and foundation status have been removed from the balance sheet on the basis that title has transferred to the school governing bodies concerned and that control over the assets and undisputed rights to disposal no longer rest with the Council,
- Land and buildings deemed to be operating leases have been removed,
- The need to take the value of the increase in the long term debtor for the deferred fixed asset which will transfer at less than market value at the end of the PFI contract for Exeter schools through the Statement of Movement on the General Fund Balance has been recognized.

Where it is appropriate, consequent changes to other financial statements than those described above have been recognised.

## 2. Authorised for Issue

Mary Davis the Director of Finance has authorised the 2008/09 Statement of Accounts for issue on 24 June 2009. Events after the balance sheet date have been considered up to the 25 September 2009.

## 3. Audit Fees

In 2008/09 the County Council incurred the following fees relating to the external audit and inspection:

2007/08 £'000	Fees Payable to the Audit Commission	2008/09 £'000
229	With regard to the external services carried out by the appointed auditor under the Audit Commissions Code of Audit Practice in Accordance with section 5 of Audit Commission Act 1998.	223
15	In respect of statutory inspection under section 10 of the Local Government Act 1999	15
16	For the certification of grant claims and returns by the appointed auditor under section 28 of the Audit Commission Act 1998.	12
0	In respect of other services provided	0
260		250

## 4. Capital and Fixed Assets

### 4.1 Movement on Fixed Assets

The format of this note has been remodelled for 2008/09 to bring it into line with the format used by HM Treasury in Whole of Government Accounts. There has been no change to the underlying requirements of the SORP 2008.

The treatment of Tangible Fixed Assets in the accounts is covered in the Statement of Accounting Policies which begins on page 9.

The movements in Tangible Fixed Assets during the year shown below are analysed between:

- Operational Assets, and
- Non-Operational Assets

#### Fixed Asset Measurement

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

- Investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value
- Other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use
- Infrastructure assets and community assets – depreciated historical cost

Net current replacement cost is assessed as:

- Non-specialised operational properties - existing value use (EUV)
- Specialised operational properties – depreciated replacement cost (DRC)
- Investment properties and surplus assets – market value (MV)

#### Prior restatement of opening balance

During 2008/09 a review of Operational Land & Building assets held by the Council was undertaken. This review highlighted that a number of Voluntary Aided / Voluntary Controlled Schools had been included in the 2007/08 balance sheet. The Net Book Value of Operational Land and Buildings at 31 March 2008 was £1,076.215 million, this has been restated by £71.729 million to correct this. The Net Book Value of Operational Land & Buildings at 31 March 2008 is now £1,004.486 million. The Revaluation Reserve has also been adjusted by £7.465 million.

#### De-recognition of assets

Kingsbridge Community College and Coombeshead College achieved Trust status during 2008/09 and require de-recognition from the Authority's Balance Sheet. The Net Book Value of these assets at 31 March 2008 was £38.586 million; the Authority's interests were transferred to the new Trusts. Both assets were treated as accounting disposals.

#### Reclassification of assets

Reclassification of assets results from one of two activities:

- Assets Under Construction in 2007/08 becoming operational during 2008/09, or
- Operational Assets becoming surplus during 2008/09

The net effect of reclassification of assets is nil.

## Depreciation

Depreciation on land and building assets has been calculated in accordance with accounting standards. Fixed assets (excluding land and other non-depreciable assets) are depreciated using the straight-line method over the assets useful economic life (UEL). The UEL is defined as the period in which the Authority will derive benefits from the use of the fixed asset.

Assets UEL's are reviewed regularly, and where the valuer believes the remaining UEL of an asset is materially different than the Authority's standard estimated asset life, it is revised accordingly. Where the UEL of a fixed asset is revised, the assets carrying amount is depreciated over the revised UEL.

The Authority defines the maximum standard estimated UEL of depreciable assets as follows:

<b>Asset Type</b>	<b>Estimated Useful Life</b>
Education – Schools	30 - 100 Years
Education – Non Schools	30 - 60 Years
Libraries	30 - 60 Years
Social Services	50 - 60 Years
Highways Depots	50 Years
Waste Disposal	50 Years
Farms	Indefinite
Offices	50 - 60 Years
Care Homes	50 - 60 Years
Infrastructure	10 to 40 years

## Fixed asset additions

The value of fixed asset additions results from capital expenditure investment incurred during 2008/09.

## Revaluations and impairment

The revaluation gains and impairment losses result only from the 2008/09 formal valuation exercise undertaken by our valuers NPS South West Ltd. Revaluation gains are taken to the Revaluation Reserve, or offset against previous impairment charged to the Income & Expenditure Account. Impairment losses are written off to accumulated revaluation gains, with any excess charged to the Income & Expenditure Account.

There are two types of impairment which have very different accounting treatments. The two types of impairment are:

- Consumption of Economic Benefit (e.g. obsolescence or physical damage to a fixed asset)
- General Fall in prices (e.g. a significant decline in a fixed asset's market value)

The valuer has confirmed that no examples have been identified of assets where there has been a clear consumption of economic benefits in 2008/09. As a consequence of the 20% cross section of asset valuations undertaken during 2008/09 the valuer identified that site values ascribed to primary and secondary schools have potentially altered by more than £2 million in each case since the date of the last valuation. On that basis and in consideration of the current economic climate the site values of these schools have been reassessed on this occasion to ensure that these asset values are not overstated in the balance sheet.

## Intangible Assets

During the year intangible assets costing £82,000 were purchased; this is the year-end balance. Depreciation does not occur in the year of acquisition.

<b><u>Operational Assets</u></b>	<b>Land and Buildings £'000</b>	<b>Vehicles, plant, etc £'000</b>	<b>Infra-structure £'000</b>	<b>Total £'000</b>
<b>Cost or Valuation</b>				
At 1 April 2008	1,017,570	44,798	380,895	1,443,263
Additions	25,044	10,974	40,631	76,649
Donations	0	0	0	0
Disposals	(41,188)	0	0	(41,188)
Reclassifications	6,684	0	7,725	14,409
Revaluations	(70,075)	0	0	(70,075)
<b>At 31 March 2009</b>	<b>938,035</b>	<b>55,772</b>	<b>429,251</b>	<b>1,423,058</b>
<b>Depreciation and Impairments</b>				
At 1 April 2008	(13,084)	(26,036)	(83,676)	(122,796)
Charge for 2008/09	(12,675)	(4,840)	(23,525)	(41,040)
Disposals	800	0	0	800
Reclassifications	0	0	0	0
Revaluations	21,342	0	0	21,342
<b>At 31 March 2009</b>	<b>(3,617)</b>	<b>(30,876)</b>	<b>(107,201)</b>	<b>(141,694)</b>
<b>Balance Sheet amount at 31 March 2009</b>	<b>934,418</b>	<b>24,896</b>	<b>322,050</b>	<b>1,281,364</b>
<b>Balance Sheet amount at 31 March 2008</b>	<b>1,004,486</b>	<b>18,762</b>	<b>297,219</b>	<b>1,320,467</b>

<b><u>Nature of Asset Holding</u></b>	<b>Land and Buildings £'000</b>	<b>Vehicles, plant, etc £'000</b>	<b>Infra-structure £'000</b>	<b>Total £'000</b>
Owned	927,147	24,896	322,050	1,274,093
Finance Lease	7,271	0	0	7,271
PFI	0	0	0	0
	<b>934,418</b>	<b>24,896</b>	<b>322,050</b>	<b>1,281,364</b>

<b><u>Non-Operational Assets</u></b>	<b>Surplus Assets</b> £'000	<b>Assets Under Construction &amp; WIP</b> £'000	<b>Total</b> £'000
<b>Cost or Valuation</b>			
At 1 April 2008	24,814	17,199	42,013
Additions	341	51,083	51,424
Donations	0	0	0
Disposals	(1,474)	0	(1,474)
Reclassifications	(2,609)	(11,800)	(14,409)
Revaluations	(6,542)	0	(6,542)
<b>At 31 March 2009</b>	<b>14,530</b>	<b>56,482</b>	<b>71,012</b>
<b>Depreciation and Impairments</b>			
At 1 April 2008	(291)	0	(291)
Charge for 2008/09	0	0	0
Disposals	0	0	0
Reclassifications	0	0	0
Revaluations	291	0	291
<b>At 31 March 2009</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance Sheet amount at 31 March 2009</b>	<b>14,530</b>	<b>56,482</b>	<b>71,012</b>
<b>Balance Sheet amount at 31 March 2008</b>	<b>24,523</b>	<b>17,199</b>	<b>41,722</b>

<b><u>Nature of Asset Holding</u></b>	<b>Surplus Assets</b> £'000	<b>Assets Under Construction &amp; WIP</b> £'000	<b>Total</b> £'000
Owned	14,530	56,482	71,012
Finance Lease	0	0	0
PFI	0	0	0
	<b>14,530</b>	<b>56,482</b>	<b>71,012</b>

## 4.2 Gains and Losses on Disposal

<b>2007/08</b> £'000	<b>2008/09</b> £'000
- Costs of Disposal	76
(1,429) (Gains) / Losses on Disposal	36,614
<b>(1,429) (Gains) / Losses on Disposal</b>	<b>36,690</b>

The losses on disposal shown above are the result of the disposal of surplus assets of the Council and Kingsbridge Community College and Coombeshead College which have become Foundation Schools. The loss on disposal is charged to the income and expenditure Account.

### 4.3 Summary of Capital Expenditure and Sources of Finance

	2007/08 £ 000	2008/09 £ 000
<b>Opening Capital Financing Requirement</b>	548,879	554,246
<b>Capital Investment</b>		
Tangible Assets - Operational	74,020	76,648
Tangible Assets - Non Operational	15,888	51,425
Intangible Assets	0	82
Revenue Expenditure Funded from Capital under Statute (REFCUS)	6,045	11,011
Externally Financed REFCUS		(4,200)
<b>Sources of Finance</b>		
Capital Receipts	(146)	(7,386)
Government Grants and other Contributions	(63,536)	(58,332)
Funds set aside from Revenue (NB: includes direct revenue financing, MRP and any voluntary set aside)	(26,904)	(26,482)
<b>Closing Capital Financing Requirement</b>	<b>554,246</b>	<b>597,012</b>
<b>Explanation of Movements in Year</b>		
Increase in underlying need to Borrow (supported by government financial assistance)	28,747	48,508
Increase in underlying need to Borrow (unsupported by government financial assistance)	1,228	19,191
Reduction in borrowing due to repayment of debt	(24,608)	(24,933)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>5,367</b>	<b>42,766</b>

#### 4.4 Revenue Expenditure funded from Capital under Statute

Capital expenditure funded from revenue under statute represents expenditure where the Council has not retained ownership of any Fixed Asset. This expenditure is no longer capitalised but is charged direct to the Income and Expenditure account.

The charges in 2008/09 are as follows:

	<b>Charge to Income &amp; Expenditure Account £000</b>
IID Community Fund schemes	1,318
VAVC Primary schools - minor schemes	793
Waste Disposal - External contributions to city and district councils	570
Contributions to train and bus service providers in the south west	468
Locally Funded Secondary School schemes	452
CYPS Office hubs	401
Grants / Loans to foster carers and disabled adults	356
Ivybridge & South Molton library project	287
Youth & Community projects	253
Okehampton Castle Hospital contribution	250
IID Green Fund schemes	234
Secondary schools - minor schemes	189
Stagecoach and First Devon & Cornwall Ltd bus conversions / contributions	188
IID Local Projects Fund schemes	186
ACS Office infrastructure / New Ways of Working	169
Contributions to 'Wheels to Work' and community transport groups	143
Sustainable Village Community Schemes	129
Contribution to Landmark Trust - Lundy Island access road	100
IID Major Projects Fund schemes	90
ACS Disabled homes adaptations	42
Princetown Village Centre scheme	40
EEC Travelwise scheme	34
Bideford Community Homes project	33
Miscellaneous schemes < £30,000	86
	<b>6,811</b>

#### 4.5 Direct Revenue Financing of Capital Expenditure

Direct revenue financing of capital expenditure represents contributions from the 2008/09 revenue account towards capital expenditure. In addition to the £0.059 million contribution from service revenue budgets and revenue funds (£1.450 million in 2007/08), schools contributed £1.490 million from their delegated budgets (£0.847 million in 2007/08).

## 4.6 Capital Commitments

Contract Name	Project Purpose	Total Commitment				
		2009/10 (£'000)	2010/11 (£'000)	2011/12 (£'000)	2012/13 (£'000)	2009/10 onwards (£'000)
Bideford CC	New School	20,693	6,618	4,168	13	31,492
Dartington Primary	Replacement School	3,498	8			3,506
Cheriton Fitzpaine Primary	New School	1,710	1,658	51		3,419
Ottery St Mary Primary	420 Place Primary	1,920	48			1,968
Dawlish Youth Centre	New Facility	1,691	155	28		1,874
Dawlish Oaklands Park	New Respite & Residential Accommodation	753	1,068	28		1,849
Concrete Repairs Ltd	Extend Life of Bideford Longbridge	1,074				1,074
Interserve	Exe Estuary Trail-Cycle/Footpath Lypstone to Exton	916				916
Tavistock CC (D78 Scheme)	Provision of Lift and Disabled Changing Facilities	699	4			703
Exeter Ringswell	Phase 1 Remodel Old Science Block	619	16			635
Holsworthy C of E Primary	Foundation Stage Unit	602	9			611
Tiverton High School	Temporary Accommodation	564	14			578
South Brent Primary	Enable Project Building	536	14			550
Chulmleigh CC	Classroom Upgrade Phases 1 & 2	392	4			396
Celtic Composting Systems Ltd	Deepmoor In vessel Composting Facility	316				316
Winkleigh Primary	PSCM Roofing Scheme	271	7			278
Plymouth Ermington Pre-School	Accommodation Improvement	269	7			276
Tiverton Sandcastles Pre-School	Accommodation Improvement	239	27			266
Braunton Caen Primary	Replace Devon Lady Classrooms	234	12			246
Purchase of Newholme, Honiton	Provision of Building for Learning Disability Hub	225				225
Ivybridge The Manor Pre-School	Accommodation Improvement	219	6			225
Dartmouth Learning Campus	Lecture Theatre	204	10			214
Honiton Millwater School	Internal/External Alterations & Window Replacement	209	5			214
Landkey Primary	Reconstruct Assembly Roof	208	5			213
		<b>38,061</b>	<b>9,695</b>	<b>4,275</b>	<b>13</b>	<b>52,044</b>

## 4.7 Major Capital Schemes in 2008/09

<b>Children and young Peoples service</b>	<b>£'000</b>
Broadclyst Primary - Remove Temporary classrooms	1,558
Upottery Primary - 4 class extension/ hall	1,392
Ottery St. Mary Primary - expand and remodel	1,688
Caen Primary - replace temporary classrooms	577
Dartington CofE Primary - Replacement school	3,164
Withycombe Raleigh Primary - Replace Temporary classroom	1,306
Great Torrington School - Drama Studios	921
Bideford C C	14,420
Dartmouth C C - Lecture Theatre	552
St David's first -New Hall/ front extension	586
School devolved formula capital spend	11,851
Tavistock C C - Lift to Sports Hall	783
Chulmleigh C C - Upgrade	873
Ottery Kings - Additional Accommodation	1,200
Kingsbridge Primary Childrens' Centre	729
Dartmouth Primary Childrens' Centre	628
Countess Wear Primary Childrens' Centre	517
Holsworthy Primary - Early Years Provision	516
Harnessing Technology	4,711
Colyton Grammar	526
Other Projects	13,494
	<b>61,992</b>
<b>Adult and Community Services</b>	<b>£'000</b>
Office Accommodation Strategy	1,181
Other Programmes	1,150
	<b>2,331</b>
<b>Corporate</b>	<b>£'000</b>
County Hall and Barnstaple Civic Centre	685
County Farms	509
Other Programmes	1,049
	<b>2,243</b>

<b>Environment</b>	<b>£'000</b>
South Molton - New Library	420
Ivybridge - New Library	364
Other Library works Programme	725
Vehicles and plant	1,983
Highway Structural Improvement	25,657
Towns, Villages and rural community schemes	1,796
Bridge Assessment and Strengthening	2,790
Science Park Development	7,494
Other Economic Development projects	1,264
Depot Improvements	995
Exe Estuary Cycle routes	2,624
Other Cycle Routes	1,418
Public Transport Programme	714
Highway Drainage	1,625
Barnstaple Western Bypass	1,942
Kingkerswell Bypass	1,141
Public Rights of Way	386
Composting Programme	5,409
Recycling Centres	478
Exeter and Barnstaple - Energy from Waste Plants	350
Parking and road safety schemes	1,267
Other EEC schemes	9,476
	<b>70,318</b>
<b>Investing in Devon</b>	<b>£'000</b>
Community Council for Devon	500
Other Programmes	1,782
	<b>2,282</b>
<b>Total</b>	<b>139,166</b>

## 4.8 Analysis of Fixed Assets

2007/08		2008/09
Hectares	Land	Hectares
55	Industrial Estates (1)	53
4,110	County Farms (2)	4,031
Number	Buildings	Number
2007/8		2008/9
89	Administrative	91
67	Day Care facilities	63
31	Residential Care	32
46	Adult, Community and Social Centres	47
44	Redevelopment Properties	38
12	Workshops & Stores	10
16	Tourist Parking / Park & Rides	16
4	Nursery / Childrens Centres(3)	25
7	Outdoor Education Centres	6
26	Highway Depots	27
50	Libraries	50
316	Primary Schools(4)	316
32	Secondary Schools(4)	30
21	Special Schools(5)	22
0	Other Res. Accom.	0
23	Small Indust. Units	24
Number	Vehicles, Plant, Etc.	Number
731	Light Vehicles & Plant including Pool Fleet (6)	743
88	Heavy Vehicles & Plant	124
22	Antique Items	22
£ Million	Insured Value of Council Assets	£ Million
1,219	Buildings	1,134
121	General Contents of Buildings	113
17	Library Stocks	17
Km	Infrastructure	Km
977	Principal Roads (7)	967
11,493	Other County Roads (8)	11,479
365	Green Lanes	385
12,835	Total Roads	12,831
2,537	(Urban roads included in total)	2,581

- (1) Skypark, Roundswell and Mullacott Cross
- (2) 67.7 hectare sold in year, 52.16 hectares being Hurston and Way Farms  
The lease on 11.66 Ha was surrendered
- (3) 23 Childrens Centres, 2 Family Centres, Excluding 9 non DCC.
- (4) Excludes PFI - Primary 1, Secondary 5, Foundation Secondary 7,  
and Trust Secondary 1.
- (5) Includes 9 Pupil Referral units, 1 Special unit
- (6) Includes 111 contract hire vehicles.  
Schools are now placing their vehicles on the fleet register.
- (7) Previously this length has included slip roads(maintained by DCC),  
current thinking is this figure should be excluded
- (8) 2007/8 was an estimate as a detailed study was still in progress.  
The 2008/9 figure is as a result of that study. The variance is due to  
previous assumptions about unclassified roads on new housing estates  
etc. being added to the network.

In addition to the above, the authority owns various small parcels of land which in total amount to approximately 48 hectares , of which 5.3 hectares are possible development/re-development sites.

#### **4.9 Community Assets**

Community assets are assets that the Authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect of sale and change of use. Community assets should be included in the Balance Sheet at historical cost, subject to tests for impairment.

Denbury Camp  
 East Hill Picnic Site  
 Grand Western Canal Toilet Block  
 Haldon Ridge Picnic Site  
 Loxdown Layby Picnic Site  
 Parracombe Picnic Site  
 Stover Country Park  
 The Tamar Valley Mining Heritage Project  
 Trimstone Cross Picnic Site  
 Slapton War Memorial to the US Army  
 Tarka Trail Country Park  
 Area at Cassida Cottage Westleigh

#### **4.10 PFI Scheme**

The Exeter School Private Finance Initiative began in 2005/06. The un-discharged liability arising from the Private Finance Initiative is £35.682 million.

The land associated with the PFI schools is held on the balance sheet. The school buildings constructed as part of this initiative will become County Council assets at the end of the 28 year contract. The construction value of the asset was reviewed in 2007/08 and the value of the asset at current value at 31<sup>st</sup> March 2008 is £93.555 million. The residual value of the asset that will be returned to the council at the end of the 28 year contract is accounted for as long term debtor. £5.105 million was set up in the accounts at 31<sup>st</sup> March 2008 and this is increased by £1.727 million p.a. The corresponding credit is held on the balance sheet in the Capital Adjustment Account.

Payments under the contract commenced in 2005/06. The total payments over the 29 year term amount to £337 million. Set against this, grant of £248 million will be received from Government. Of the balance

£55 million will be met in contributions from delegated school budgets and the remainder will be financed by the County Council.

#### 4.11 Valuation Information

The following statement shows the progress of the council's rolling programme for the revaluation of fixed assets. The valuations are carried out by our qualified external valuer, John Penaligon FRICS, NPS South West Ltd. The basis for valuation is set out in the statement of accounting policies.

	Land and Buildings £'000	Infrastructure £'000	Plant, Vehicle, Furniture and Equipment £'000	Surplus Assets £'000	Assets under construction £'000	Total £'000
<b>Valued at Historical Cost</b>		429,251	55,772		56,482	541,505
<b>Valued at Current Value in:</b>						
2008/09	829,118			14,530		843,648
2007/08	54,383					54,383
2006/07	50,059					50,059
2005/06	862					862
2004/05	3,613					3,613
<b>Total</b>	<b>938,035</b>	<b>429,251</b>	<b>55,772</b>	<b>14,530</b>	<b>56,482</b>	<b>1,494,070</b>

#### 4.12 Net Assets

	2007/08 £'000	2008/09 £'000
General Fund	440,923	108,487
Trading activities	(963)	(1,824)
	<b>439,960</b>	<b>106,663</b>

### 5. Contingent Liabilities

#### New Street Works

No provision is made for accrued interest on New Street Works Advance Payments Deposits and S38 agreements. The capital value for this was approximately £0.963 million at 31 March 2009 (£2.959 million at 31 March 2008).

#### Exeter and Devon Airport Limited

Following the sale of Exeter and Devon Airport Limited possible expenditure relating to the following contingent liabilities has arisen:

- a maximum of £50,000 for construction and other works to ensure that a replacement for the 'compass swing' area is fit for purpose,
- a maximum of £200,000 for construction and equipment costs should the engine testing area be relocated,
- claims under commercial warranties which total more than £500,000 for either a single claim, or a series of related claims. The time limit on these claims is the second anniversary of completion for

those commercial warranties which do not relate to taxation, and the seventh anniversary for those that do,

- losses in connection with claims under the SWERDA agreement (relating to the Flybe hanger development) in excess of £1,920,000,
- legitimate claims or demands from specified contractors for any sum owing to them,
- losses that result in breaches of the covenants existing with the Church Commissioners' Properties which may have resulted from the sale to a maximum of £300,000,
- provable losses resulting from disruption or damage to the instrument landing system including any consequent disruption to the operation of business in connection with the widening of the Clyst Honiton bypass,
- losses arising from disruption resulting from the failure of the concrete used to construct the apron area for the Flybe Hanger 1 and 2 until 2016/17 to a maximum of £125,000.

## Guarantees

The Council has provided a number of guarantees. These are detailed as follows:

- A guarantee has been provided to NPS (SW) Ltd. to meet obligations in relation to rent of premises. Should the company fail to meet its obligations under the terms of the lease it will be assigned to the County Council. The premises will be available for sub-letting.
- The Council together with 14 other authorities in the South West has given a guarantee to the Avon Pension Fund in respect of employer liabilities of South West Grid for Learning Trust.
- Connexions Devon and Cornwall Ltd became a public sector controlled company at 1 April 2008. A guarantee in relation to pension liabilities has been provided on 31 March 2008.
- The Council has provided guarantees to the Devon Pension Fund in respect of employer liabilities of the PLUSS organisation. These employer liabilities could result in the County Council making payments in relation to pension enhancements costs, redundancy costs and any actuarial deficit in the event of the insolvency of PLUSS.

## Atkinson Unit

The Youth Justice Board has ended a contract with the Council for the provision of young persons secure accommodation. The accommodation is provided at the Atkinson Unit which has been renovated using capital grants from the Department of Children, Schools and Families. Conditions attached to the grant require that it is repaid should the Unit no longer be used for secure accommodation. The repayment is based on a reducing balance calculation which would require approximately £1.5m to fund as at 31 March 2009. Options for the use of the Unit for secure accommodation are being considered. No decision has yet been taken to close the Unit or to change its use. The likelihood and timing of any repayment are uncertain.

## 6. Creditors and Debtors

### 6.1 Creditors

These represent sums of money owed by the County Council for goods and services received during the year and not paid for by 31 March, or where money has been received by the County Council in advance.

### 6.2 Debtors

These represent sums of money owed to the County Council for goods and services supplied during the year and not paid for by 31 March, or where the County Council has paid in advance.

2007/08		2008/09	
Creditors	Debtors	Creditors	Debtors
£'000	£'000	£'000	£'000
<b>Revenue Activities</b>			
(4,404)	255	(4,462)	62
(59,995)	5,421	(57,257)	4,436
0	0	0	15
(18,001)	16,581	(7,411)	6,661
(27,575)	40,821	(29,448)	57,044
<b>(109,975)</b>	<b>63,078</b>	<b>(98,578)</b>	<b>68,218</b>
<b>Capital Activities</b>			
(7,010)		(5,022)	
	2,110		3,557
(1,575)	26	(175)	36
(8,585)	2,136	(5,197)	3,593
	(701)		(666)
<b>(118,560)</b>	<b>64,513</b>	<b>(103,775)</b>	<b>71,145</b>
		<b>Total</b>	

## 7. Long Term Debt

### 7.1 Borrowing repayable within a period in excess of 12 months

2007/08	2008/09 £'000
518,139 Public Works Loan Board	518,139
95,719 Other Lenders	95,739
<b>613,858</b>	<b>613,878</b>
Payable in:	
- 1 to 2 years	-
- 2 to 5 years	20,217
20,000 5 to 10 years	-
593,858 over 10 years	593,661
<b>613,858</b>	<b>613,878</b>

## 8. Exceptional item

Payments for equal pay compensation under the job evaluation scheme have been made during 2008/09. A further provision for payments due to be made in 2009/10 has been established. In total exceptional expenditure of £13.382m has been incurred and shown on the face of the income and expenditure account.

Regulations allow for the financing required for payments to be made in 2009/10 to be met in that year. In order to achieve this, £7.084m to be financed in 2009/10 is held in the equal pay back pay account which is shown in the financing section of the balance sheet.

## 9. Financial Instruments

### 9.1 Financial instruments balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Short-Term	
	31/03/2008	31/03/2009	31/03/2008	31/03/2009
	£000	£000	£000	£000
Financial liabilities at amortised cost				
PWLB	518,139	518,139	0	0
Other Sources	95,719	95,739	0	0
<b>Total Borrowings</b>	<b>613,858</b>	<b>613,878</b>	<b>0</b>	<b>0</b>
Loans and receivables	25,780	5,017	231,795	187,432
Available-for-sale financial assets	61	61	0	0
<b>Total Investments</b>	<b>25,841</b>	<b>5,078</b>	<b>231,795</b>	<b>187,432</b>

PWLB loans are at a fixed rate of interest for the duration of the loan. No additional loans have been taken out during the year.

Some of the borrowing from other sources is at stepped rates of interest whereby they typically start at a low rate and at a predetermined point the rate increases to an agreed higher rate. There have been no new loans of this type taken out this year.

The decrease in both Long Term Investments and Short Term Investments reflects that no long term borrowing was taken in 2008/09 and also a change in the mix of the investments portfolio.

On 1st April 2007, the Council entered into a joint venture agreement with NPS South West Ltd - a company owned jointly by NPS Property Consultants Ltd and Devon County Council (80%:20%). The company has been set up to deliver property management services as specified in a provision of services agreement. The shareholding of two £1 shares has been independently valued at 31st March 2008 at a Fair Value of £61,000 and included above as available for sale financial assets.

## 9.2 Financial instruments gains and losses

The gains and losses recognised in the income and expenditure account and the statement of recognised gains and losses in relation to financial instruments are made up as follows:

<u>2008/09</u>	<b>Financial Liabilities</b>	<b>Financial Assets</b>		<b>Total</b>
	Liabilities measured at amortised cost	Loans and receivables	Available-for sale assets	
	£000	£000	£000	£000
Interest expense - Note 13	31,025	0	0	0
Losses on derecognition	0	0	0	0
Impairment losses	0	34	0	34
<b>Interest payable and similar charges</b>	<b>31,025</b>	<b>34</b>	<b>0</b>	<b>34</b>
Interest Income - Note 14	0	(13,577)	0	(13,577)
Gains on derecognition	0	0	0	0
<b>Interest and investment income</b>	<b>0</b>	<b>(13,577)</b>	<b>0</b>	<b>(13,577)</b>
Gains on revaluation	0	0	0	0
Losses on revaluation	0	(485)	0	(485)
Loss on reclassification of Deferred Premiums	0	0	0	0
<b>Surplus arising on revaluation of financial assets</b>	<b>0</b>	<b>(485)</b>	<b>0</b>	<b>(485)</b>
<b>Net gain/(loss) for the year</b>	<b>31,025</b>	<b>(14,028)</b>	<b>0</b>	<b>(14,028)</b>

<b>2007/08</b>	<b>Financial Liabilities</b>	<b>Financial Assets</b>		<b>Total</b>
	Liabilities measured at amortised cost	Loans and receivables	Available-for sale assets	
	£000	£000	£000	£000
Interest expense	30,668	0	0	0
Losses on derecognition	0	0	0	0
Impairment losses	0	120	0	120
<b>Interest payable and similar charges</b>	<b>30,668</b>	<b>120</b>	<b>0</b>	<b>120</b>
Interest Income	0	(14,045)	0	(14,045)
Gains on derecognition	0	0	0	0
<b>Interest and investment income</b>	<b>0</b>	<b>(14,045)</b>	<b>0</b>	<b>(14,045)</b>
Gains on revaluation	0	0	61	61
Losses on revaluation	(772)	(396)	0	(396)
Loss on reclassification of Deferred Premiums	(21,154)	0	0	0
<b>Surplus arising on revaluation of financial assets</b>	<b>(21,926)</b>	<b>(396)</b>	<b>61</b>	<b>(335)</b>
<b>Net gain/(loss) for the year</b>	<b>8,742</b>	<b>(14,321)</b>	<b>61</b>	<b>(14,260)</b>

### 9.3 Fair value assets and liabilities carried at amortised cost

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

- The Public Works Loans Pool (PWL) figures have been calculated by reference to the 'premature repayment' set of rates in force on 31<sup>st</sup> March 2009 and 2008.
- Loans from other sources and investments have been valued by reference to the set of interest rates in force on 31<sup>st</sup> March 2009 and 2008.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	<b>31st March 2008</b>		<b>31st March 2009</b>	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial Liabilities				
PWL	518,139	594,202	518,139	595,460
Other Loans	95,719	116,387	95,739	117,907

The fair value of the loans is in all cases higher than the carrying amount. This is due to current loan rates being less than those available at the time the loans were taken out. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender agreed to early repayment of the loans.

	<b>31st March 2008</b>		<b>31st March 2009</b>	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and Receivables				
Long Term Investments	25,780	25,904	5,017	5,017

The fair value is higher than the carrying amount at 31<sup>st</sup> March 2008 because the authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar investments at the balance sheet date. This guarantee to receive interest above current market rates increases the amount the authority would receive if it agreed to early repayment of the investments.

The fair value is equal to the carrying amount at 31<sup>st</sup> March 2009 as this investment is variable rate linked to LIBOR (London Inter-Bank Offer Rate).

#### **9.4 Disclosure of nature and extent of risks arising from financial instruments**

The authority'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 a central treasury team under policies approved for overall risk management as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

The County Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Treasury Management Policy Statement together with the Statement of Treasury Management Practices was approved by the Executive on 8<sup>th</sup> April 2002. In addition an Annual Investment Strategy is approved as part of the Budget Approval in February of each year and after the year end a Stewardship report is taken with the Outturn Report for approval by the Executive in June of each year.

### **Investment Strategy 2008/09 – 2012/13**

#### **Prudence**

The Council will at all times invest its surplus funds prudently. Priority will be given to security and liquidity rather than yield. However, the highest available rate of interest consistent with the proper levels of security and liquidity will always be sought.

#### **Specified Investment**

Specified Investments are those offering high security and high liquidity and the Council can freely rely on these with minimal procedural formalities. They include investments made with the UK Government, UK Local Authorities and with banks, building societies and money market funds that have satisfactory credit ratings. All such investments must be in sterling and with a maturity of no more than a year.

#### **Non-specified Investment**

The Council recognises that some surplus funds will be available for lending out for periods of more than one year. No more than 20% of available funds will be invested for more than 1 year.

## Credit Ratings

Credit Ratings have been used to decide who the Council should lend to for many years. There are three main credit rating agencies all of which perform the same role. The Council uses Fitch Ratings. Long-term ratings of A or better combined with a short-term rating of F1 or better are considered to be satisfactory. Even institutions with a satisfactory credit rating will be avoided if there are valid reasons for doing so and different maximum limits may be applied to different institutions. Money Market Funds must have an AAA rating. Credit ratings are formally monitored monthly but downgrades or potential downgrades that are reported between reviews will be acted upon. Institutions that lose their satisfactory credit rating are no longer used.

## Liquidity of Investments

Surplus funds may be earmarked for specific purposes or may be general balances and as such may be available for quite long periods or very short periods. When investing cash flow forecasts will be used to judge for how long cash will be available and a margin will be allowed for unexpected cash requirements. At least 10% will be realisable within one month. All known short-term commitments will be covered before lending for over 1 month.

## Performance Targets

The primary targets of the Treasury Management Strategy are to minimise interest payments and maximise interest receipts over the long term whilst achieving annual budgets, without taking undue risk.

## Prudential Indicators

These indicators seek to reduce the risks associated with fixed and variable interest rate loans and with borrowing for different loan periods. Borrowing at fixed rates of interest for long periods can give the opportunity to lock into low rates and provide stability but may mean missing possible opportunities to borrow at even lower rates in the medium term. Variable rate borrowing can be advantageous when rates are falling, but may mean increased volatility and are vulnerability to unexpected rate rises. Borrowing for short periods or having large amounts of debt maturing (and having to be re-borrowed) in one year increases the risk of being forced to borrow when rates are high.

The Council's policy is generally to borrow at fixed rates of interest for as long as possible when rates are considered attractive. This has worked well over recent years but the flexibility to adapt to changing interest rate environments must be retained. The following table sets out the Prudential Indicators approved for 2008/09:

	Upper Limit	Lower Limit
	%	%
Limits on borrowing at fixed interest rates	100	70
Limits on borrowing at variable interest rates	30	0
Percentage of Fixed Rate Debt maturing in:		
Under 12 months	10	0
12 Months to within 24 months	15	0
24 Months to within 5 years	30	0
5 Years to within 10 years	50	0
10 Years and above	100	50

## Credit Risk

The following analysis summarises the authority'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.

No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The authority does not generally allow credit to customers, the amount owed to the authority can be analysed by age as follows:

	Amount at 31/03/09	Historic experience of default	Historic experience adjusted for market conditions at 31/03/09	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	198,607	0	0.0478%	95
Bonds	0	0	0	0
Customers	166,036	0.07%	0.4011%	<u>666</u>
				<u>761</u>

	£000
Less than three months	63,072
Three to six months	4,994
Six months to one year	1,637
More than one year	<u>2,108</u>
	71,811
Provision for bad debts	(666)
Long Term Debtors not yet due	<u>94,891</u>
	<u>166,036</u>

Credit risk can arise from any deposit made with banks and other financial institutions. As part of its investment strategy the County Council makes use of ratings provided by the Fitch credit rating agency to ensure that the exposure risk of its investments is minimised. Security is achieved by use of credit ratings to enable the maintenance and continual review of its approved counterparty list. Deposits are not made with institutions which fall outside the criteria set by the Council. The approved list of counterparties is formally reviewed at least monthly, however in the current financial environment this takes place daily. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, suspending any further lending, as appropriate. None of the Council's investments are past due or impaired.

Over the last two years the Council has given loans totalling £970,000 to The Morwellham and Tamar Valley Trust. The loans are secured by way of a legal charge over the freehold property of the Trust, subject to prior encumbrances. The property subject to this charge has been valued as at 31<sup>st</sup> March 2009 at £878,000.

In line with proper accounting practice the Council carries all loans that are interest free, or below market interest rate, at amortised cost. Although there has been no default or formal restructuring of the debt, the carrying value of the loan has been impaired by £92,000 and the amortisation period increased. As at 31<sup>st</sup> March 2009, the loan is included within the Balance Sheet at an amortised cost of £345,000.

## Liquidity Risk

As the authority has ready access to borrowing from the PWLB there is no significant risk that it will be unable to raise finance to meet its commitments.

Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that not more than 25% of loans are due to mature within any rolling two-year period through a combination of careful planning of new loans taken out and where it is economic to do so making early repayments.

The maturity analysis of borrowing is as follows:

	£000
Less than one year	0
Between one and two years	0
Between two and five years	20,217
More than five years	<u>593,661</u>
	<u>613,878</u>

All trade and other payables (£103,775,000) are due to be paid in less than one year.

## Market Risk

This is the risk that the Council's investments will decrease due to changes in market factors. The council has some exposure to three types of market risk:

- Interest rate risk;
- Price risk; and
- Foreign exchange risk.

Each of the risks is discussed in more detail below.

### Interest Rate Risk

The authority is exposed to some risk but it is not a significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movement in interest rates have a complex impact on the authority. For instance a rise in interest rates would have the following effects:

- Borrowing at fixed rate – the fair value of the borrowings will fall
- Investments at variable rate – the interest income credited to the income and expenditure account 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 the statement of total recognised gains and losses. However, changes in interest receivable on variable rate investments will be posted to the income and expenditure account and affect the general fund balance.

As most of the authority's loans and investments are fixed rate the impact of say a 1% increase in interest rates would have an impact only on variable rate investments by increasing interest receivable by £250,000 if the investments were held for a year.

The formula grant received from central government contains an element for funding debt charges but as the formula is now fixed for three yearly allocations any changes in interest rate would have no effect in the short term.

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

### Price Risk

The authority does not generally invest in equity shares but does have two £1 shares in NPS (SW) Ltd. At 31.3.08 these shares had a fair value of £61,000. Price is therefore not a significant risk for the authority.

### Foreign Exchange Risk

The Council has some exposure to exchange rate movements because some expenditure and income is denominated in foreign currencies but these are generally small and they are normally converted out of or into sterling at the time of each transaction.

Where there are known future transactions that will be in a foreign currency, if their size justifies it, foreign currency deposits may be held or financial derivatives may be used to eliminate or reduce exchange rate risk until the transactions are completed.

The Council has a Euro bank account and if, while the UK is outside the Euro zone, the use of the Euro becomes more extensive in the UK, then balances may be held continuously in that currency.

## 10. Government Grants

### 10.1 General Government Grants

General Government Grants received by the Council and included in the Income and Expenditure account are shown in the following table:

<b>Restated 2007/08 £'000</b>		<b>2008/09 £'000</b>
17,673	Revenue Support Grant	17,752
0	Area Based Grant	35,129
1,979	Local Authority Business Growth Incentives Scheme	580
4,198	Local Public Service Agreement Reward Grant	301
<b>23,850</b>		<b>53,762</b>

Area Based Grant (ABG) has been received in 2008/09. This grant replaces a number of specific grants with a non-ringfenced grant which can be used as a general funding source. The budget for 2008/09 targeted ABG at the spending that had been supported by the specific grants incorporated in it. As well as replacing specific grants ABG supports the transfer to the Council of Connexions, a body that provides careers advice, which had prior to 1 April 2008 been funded directly by the Government. £5.225m of ABG has been spent in 2008/09 for this purpose.

Local Public Service Agreement Reward Grant (LPSA) had been recognised in the accounts for 2007/08. The grant is divided equally between capital and revenue elements. To reflect this treatment the £8.396m shown in 2007/08 has been restated to show £4.198m in general government grant and £4.198m as unapplied capital grant. The final amount due has still to be finalised. The figures shown in the accounts are those currently recognised by the Department of Communities and Local Government as being due.

### 10.2 Specific Government Grants

Government grants of £490.991 million (£506.268 million in 2007/08) were received in aid of specific services. An analysis of all government grants (both capital and revenue) is given below:

2007/08		2008/09		
£'000 Revenue:		Awarding Body	£'000	£'000
521	Animal Welfare	DEFRA	493	
415	Countryside (incl. Natural England)	DEFRA	893	
30	Waste Performance and Efficiency Grant	DCSF	2	
407	Other Economic and Community Grants	Various	1,101	
647	Renewable Energy for Devon	Various		
294	Blackdown Hills	Various		
	Sidmouth (Addington) Papers	HLF	1,416	
395	Other (10 grants)	Various	334	
<b>2,709 Cultural, Environmental and Planning Services:</b>				<b>4,239</b>
336,471	Dedicated Schools Grant	DCSF	348,214	
9,677	Early Years (Sure Start)	DCSF	13,505	
52,777	Standards Funds	DCSF	55,376	
462	Higher Education Funding Council	DCSF	417	
27,506	Learning & Skills Council	DCSF	27,301	
8,691	Private Finance Initiative	DCSF / CLG	8,665	
2,818	Teachers' Training Agency	DCSF	714	
96	Contact Point	DCSF	197	
581	Young People Substance Misuse	DH	401	
5,633	Childrens Services	DH/CLG/DCSF		
341	Youth Opportunity Fund	DCSF	341	
575	Youth Offending Partnership	YJB	589	
134	Pst 16 Pathfinder Grant	DCSF	300	
	Neighbourhood learning in Deprived communities	DIUS	66	
	PCDL Income	DIUS	1,545	
	First Steps	DIUS	433	
	Family Learning Income	DIUS	134	
	LSC Adults 19+ Adult Learner Responsive	DIUS	1,692	
	LSC Young People 16-18	DCSF	68	
	LSC Additional Learning Support	DCSF	94	
	LSC Employer Responsive - FE Workplan NVQ	DIUS	196	
	Specific Grants (FLLN)	DIUS	259	
4,619	Other Adult & Community Learning	DCSF	52	
2,157	Children - other	Various	1,258	
<b>452,538 Children's and Education Services</b>				<b>461,817</b>

2007/08		2008/09		
Revenue: (continued)		Awarding Body	£'000	£'000
183	Bus Challenge	DfT	111	
926	Road Safety	DfT	434	
3,408	Traffic Asset Management Plan	DfT	150	
159	Other			
<b>4,676 Highways, Roads and Transport:</b>				<b>695</b>
109	Magistrates' courts	DCA	91	
	Probation	DfJ	38	
<b>109 Court Services:</b>				<b>129</b>
991	Partnership for Older People	DH	2,836	
8,538	Access and Systems Capacity	DH		
1,602	Delayed Discharges	DH		
179	Mental Capacity	DH		
1,466	Mental Health	DH		
1,833	Training Support	DH		
2,391	Carers	DH		
8,326	Preserved Rights	DH		
807	Assertive technology	DH		
	Social Care Reform	DH	1,230	
	Delivering Stroke Care for Adults	DH	131	
66	Other	DH	93	
<b>26,199 Adult Social Care</b>				<b>4,290</b>
20,037	Supporting People	CLG	19,821	
<b>20,037 Housing Services:</b>				<b>19,821</b>
<b>506,268 Government Grants: Revenue</b>				<b>490,991</b>
<b>Capital:</b>				
35,963	Standards Fund / Capital Grants for Schools	DCSF		35,906
4,002	Highways	DfT		3,339
12,532	Local Transport Plan	DfT		2,759
	Rural Development Agency - Science Park	RDA		7,431
	Dept of Environment, Farming and Rural Affairs	DEFRA		1,292
	Department of Health	DOH		904
	Government Office South West	GOSW		3,451
	Public Service Agreement	PSA		4,130
9,368	Other Grants	Various		1,082
<b>61,865 Government Grants: Capital</b>				<b>60,294</b>

### 10.3 Details of the deployment of DSG receivable for 2008/09 are as follows:

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget included elements for a range of educational services provided on an authority-wide basis and for the individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2008/09 are as follows:

2007/08 Restated	2008/09			
£'000	Central Expenditure		Total	£'000
	£'000	ISB	£'000	£'000
335,278 Final DSG	36,008		312,206	348,214
0 Brought forward	0		0	0
0 Carry forward agreed in advance	0		0	0
<u>335,278</u> Agreed budgeted distribution	<u>36,008</u>		<u>312,206</u>	<u>348,214</u>
(32,833) Actual central expenditure	(34,988)		0	(34,988)
(302,647) Actual ISB deployed to schools	0	(313,006)		(313,006)
202 Local authority contribution	0		800	800
<u>0</u> Carry forward	<u>1,020</u>		<u>0</u>	<u>1,020</u>

The 2007/08 figures have been restated to exclude non DSG school balances. This is a change to the note only and has had no effect on the financial position of the authority.

## 11. Government Grants and Contributions – Deferred and Unapplied

The Government Grants And Contributions – Deferred Account contains all external contributions which are used to finance capital expenditure. It will be used to offset the charge for depreciation against assets which will fall in the revenue account.

### GOVERNMENT GRANTS AND CONTRIBUTIONS - DEFERRED

2007/08 £'000		2008/09 £'000
(155,280)	<b>Balance at 1 April</b>	(207,175)
	<b>Applied in year</b>	
(63,535)	To capital spend	(58,332)
	Fixed Asset Disposal	273
11,640	Offset against depreciation	5,816
<u>(51,895)</u>		<u>(52,243)</u>
<u>(207,175)</u>	<b>Balance at 31 March</b>	<u>(259,418)</u>

**GOVERNMENT GRANTS AND CONTRIBUTIONS - UNAPPLIED**

<b>Restated 2007/08 £'000</b>		<b>2008/09 £'000</b>
<b>(15,090)</b>	<b>Balance at 1 April</b>	<b>(23,156)</b>
	<b>Applied in year</b>	
(71,602)	Received in Year	(63,650)
63,536	Applied to Spend	58,332
	Applied to REFCUS expenditure	4,200
<b>(23,156)</b>	<b>Balance at 31 March</b>	<b>(24,274)</b>

**12. Income from services provided to other Local Authorities and Public Bodies**

A number of trading units provided services to other local authorities. For the majority of units the level of income was not significant in relation to their turnover. The only significant area of income from other Local Authorities was Devon Procurement income of £1.870 million (£2.012 million in 2007/08) which covered the costs of services provided.

**13. Interest Payable and Similar Charges**

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
30,668	External Interest Payable	30,947
(3,454)	Acquiring Authorities Interest Payable	(3,071)
(1,553)	Other Adjustments	(1,019)
<b>25,661</b>		<b>26,857</b>

**14. Interest and Investment Income**

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
(14,045)	Interest from Lending	(13,577)
(572)	Other Interest	(140)
<b>(14,617)</b>		<b>(13,717)</b>

## 15. Landfill Allowances Trading Scheme

As a Waste Disposal Authority (WDA) the County Council is required to comply with the Landfill Allowance Trading Scheme (LATS) which commenced operation on 1 April 2005.

LATS is a 'Cap and Trade' Scheme whereby Landfill Vintage Allowances are allocated free of charge to authorities. These allowances can then be traded with other WDA's depending on the needs of each authority. The County Council undertook no trading of allowances in 2008/09.

The County Council is required to account for the use made of the LATS allowance in 2008/09, based on a notional allowance value. This value is subject to evaluation by individual local authorities. The value assigned at the balance sheet date is £0 per tonne as local experience indicates that, in practice, the allowances cannot be traded. In addition, under LATS guidance it is not possible to carry forward any surplus allowances to 2009/10, therefore these cease to be an asset from 1st April 2009.

2007/08		2008/09	
Weighted Average value per allowance £0.00		Weighted Average value per allowance £0.00	
Tonnage Allowance	£'000	Tonnage Allowance	£'000
193,654		176,847	
(151,158)		(140,000)	
<b>42,496</b>	<b>0</b>	<b>36,847</b>	<b>0</b>
	<b>Surplus for Year</b>		

	Allowances Allocated	Expected Use	£'000
Balance at 1 April 2008	0	0	0
Adjustments to opening balance in respect of changes in volume and value	0	0	0
Surplus for the Year			0
<b>Balance at 31 March 2009</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 16. Operating Lease and Contract Hire

Payment made and commitments for leasing payments are set out in the following table

	Property	Equipment	Contract Hire	Total
	£000	£000	£000	£000
Payments in the current year	1,128	455	299	1,882
Commitments expiring within 1 year	238	102	123	463
Commitments expiring in 2 - 5 years	596	108	87	791
Commitments expiring in more than 5 years	294	-	-	294
Total commitment	<b>1,128</b>	<b>210</b>	<b>210</b>	<b>1,548</b>

The rental received for operating property leased to third parties for the year is £1,446,000, of which £823,000 relates to smallholdings. The gross value of smallholdings at 31 March 2009 is £15.39 million. Property leases are often for parts of assets for which individual valuations are not maintained and therefore an exact valuation is not provided.

## 17. Long Term Debtors

<b>2007/08</b>		<b>2008/09</b>
<b>£'000</b>		<b>£'000</b>
103	Car Loans to Employees	91
163	East Devon College	147
809	Exeter and Devon Airport (EDAL)	867
5,105	Exeter Schools Project - Val. Fund	6,832
15	Foster Carer loans	4
7	Housing Advances	6
4	Industrial Loans	4
474	Morwellham Quay	346
770	Magistrates	691
465	PLUSS	441
59,106	Plymouth & Torbay Councils	56,741
28,425	Plymouth & Torbay Unfunded pensions	28,393
299	Probation	278
0	Sustrans	50
<b>95,745</b>		<b>94,891</b>

Of the long term debtors shown in the table £2.305m (£2.631m in 2007/08) are payable within one year.

## 18. Members' Allowances

The authority pays its elected members basic allowances, special responsibility allowances and travel and subsistence. During 2008/09 £1,098,973 was paid (£1,079,306 in 2007/08).

## 19. Movement in Cash and Other Financial Resources

### 19.1 Movement in Cash, Liquid Resources and Long Term Borrowing

As at 31/03/08 £'000		As at 31/03/09 £'000	Movement £'000
	<b>Movement in -</b>		
11,123	Cash balance including cash in transit	6,158	(4,965)
(3,777)	Cash (Overdrawn)	(1,705)	2,072
<b>7,346</b>	<b>Cash and equivalents</b>	<b>4,453</b>	<b>(2,893)</b>
252,539	Investments	187,789	(64,750)
<b>259,885</b>	<b>Liquid resources</b>	<b>192,242</b>	<b>(67,643)</b>

Liquid resources include the cash cost of investments placed in the money markets.

	<b>Movement in -</b>		
(518,139)	Public Works Loans Board	(518,139)	0
(91,500)	Other Lenders	(91,500)	0
<b>(609,639)</b>	<b>Cash value of long term borrowing</b>	<b>(609,639)</b>	<b>0</b>
<b>(349,754)</b>	<b>Total Net Debt</b>	<b>(417,397)</b>	<b>(67,643)</b>

### 19.2 Movement in Other Assets / Liabilities and the Reconciliation between the Cash flow and the Income and Expenditure Account

As at 31/03/08 £'000		As at 31/03/09 £'000	Movement £'000
	<b>Movement in Other Current Assets / Liabilities</b>		
2,523	Stock and Work in Progress	2,483	(40)
64,513	Debtors	71,145	6,632
(118,560)	Creditors	(103,775)	14,785
<b>(51,524)</b>		<b>(30,147)</b>	<b>21,377</b>

£'000	Reconciliation of net cash flow to movement in net debt	£'000
	(Increase) / decrease in net debt from:	
(448)	Operational activities	(2,893)
(10,000)	Debt financing	0
(7,600)	Movement in investments	(64,750)
<b>(18,048)</b>	<b>Movement in net debt in the period</b>	<b>(67,643)</b>
(331,706)	Net debt at 1 April 2008	(349,754)
<b>(349,754)</b>	<b>Net debt at 31 March 2009</b>	<b>(417,397)</b>

### 19.3 Reconciliation of Revenue Cash flow

2007/08 £'000		2008/09 £'000	£'000
(14,119)	Opening General Fund Balance	(14,196)	
(14,196)	Closing General Fund Balance	(14,239)	
<b>(77)</b>	<b>(Surplus) / Deficit for Year</b>		<b>(43)</b>
	<b>Adjustment for non-cash items:</b>		
(8,566)	Contributions (to) / from Earmarked and Schools Reserves	4,099	
0	Transfer to Equal Pay Back Pay Account	7,084	
(23,624)	Capital and funding (charges)/credits	(23,365)	
3,450	(Increase) / Decrease in Provisions	(8,501)	
<b>(28,740)</b>			<b>(20,683)</b>
	<b>Movement in other assets/liabilities</b>		
119	Increase / (Decrease) in Stock	(40)	
10,021	Increase / (Decrease) in Debtors	6,632	
11,922	(Increase) / Decrease in Creditors	14,785	
9,267	Increase / (Decrease) in Capital items	2,890	
<b>31,329</b>			<b>24,267</b>
(25,159)	Net Interest Payments		(13,001)
<b>(22,647)</b>	<b>Net revenue activities cash flow</b>		<b>(9,460)</b>

## 20. Officer Remuneration

The number of employees whose remuneration exceeded £50,000 during 2008/09, excluding pension contributions, is set out below:

2007/08				Emoluments £	2008/09			
Schools Staff	Other Staff	Total	Left in Year		Schools Staff	Other Staff	Total	Left in Year
131	81	212		50,000 - 59,999	197	96	293	2
33	13	46	3	60,000 - 69,999	41	6	47	1
18	9	27	2	70,000 - 79,999	15	12	27	1
5	3	8	1	80,000 - 89,999	11		11	
1		1		90,000 - 99,999	2	3	5	1
2	1	3		100,000 - 109,999		1	1	
1	1	2	1	110,000 - 119,999	2	1	3	
1	4	5		120,000 - 129,999	1	4	5	
1	1	2		130,000 - 139,999		1	1	
1	1	2		140,000 - 149,999	2	1	3	
	1	1		150,000 - 159,999		1	1	
				160,000 - 169,999	1		1	

## 21. Partnerships and Related Party Transactions

The Council is required to disclose material transactions with related parties, bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government** has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with government departments are set out in Note 10.

**Members of the Council** have direct control over the Council's financial and operating policies. The Council's constitution requires members to declare their interests in related parties in a register of interests. In addition members are asked to declare separately any transactions with the authority. Transactions which require disclosure are in respect of four members who have interests in companies which have received in total £1,155 from the Council during the year. These transactions were entered into in full compliance with the County Council's Financial Regulations and Code of Business Conduct.

**Officers** are bound by the Council's Code of Business Conduct which seeks to prevent related parties exerting undue influence over the authority. Directors are required to declare any transactions with the authority. No transactions have been identified.

### 21.1 Local Precepts

The following precepts were paid during the year:

	£'000
Environment Agency	220
Devon Sea Fisheries	349
	<b>569</b>

For the financial year 2008/09, the Council's Director of Finance, IT and Trading also acted as the Chief Finance Officer for the Dartmoor National Park Authority and the Devon Sea Fisheries Committee. The Council received payments from these bodies for services provided as follows:

	£'000
Dartmoor National Park	147
Devon Sea Fisheries	7
	<b>154</b>

The Council gave grants to Dartmoor National Park Authority of £49,000 principally for the maintenance of footpaths, bridleways and footbridges and received grants of £19,000 mainly for the support of public transport arrangements.

## 21.2 Other public sector bodies

Devon Primary Care Trust has provided £68.474 million of income to the County Council and received payments of £4.543 million during the year. The income is primarily for funded nursing care payments that are administered by the County Council on behalf of the Trust and other healthcare partnership agreements.

## 21.3 Transaction with the Pension Fund

The Council charged the fund £1.568 million for expenses incurred in administering the fund.

## 21.4 Assisted Organisations

The Council has provided significant contributions to the following bodies:

- Seven District Councils in Devon a total of £0.787 million conditional on long term agreements for the daytime use of pools and dual use sports halls by schools, without charge.
- Citizens Advice Bureaux in Devon have received £0.805 million and the Council for Voluntary Services £0.317 million from the Council conditional on long term agreements for the provision of services.
- The Community Council of Devon, The Devon Council for Racial Equality, Devon Historic Buildings Trust, Southwest Pound, the Senior Council for Devon and Exeter Cathedral have received grants of £0.902 million, £0.115 million, £0.005 million, £0.173 million, £0.190 million and £0.007 million respectively.
- Devon Authorities Waste Reduction and Recycling Joint Committee receives £0.073m as a contribution towards its funding.

## 21.5 Partnerships

There are a number of partnerships in which the County Council participates. The most significant of these are shown in the table below.

Reference - see below		Income £'000	Expenditure £'000	Net Expenditure £'000
	<b>Health - Section 75 partnerships</b>			
a	Joint Equipment Store	(1,171)	2,760	1,589
b	Integrated Health and Social Care	(175)	1,163	988
	<b>Other partnerships</b>			
c	Against Domestic Violence & Abuse	(186)	783	597
d	Devon Partnership Trust	0	1,276	1,276
e	Electronic Single Assessment	(687)	725	38
f	Safer Devon Partnership	(186)	694	508
g	South West Devon Waste Partnership	0	184	184
h	Speed Camera Partnership	(197)	718	521
i	Supporting People	(20,527)	21,413	886
j	Youth Offending Team	(1,645)	3,417	1,772

- a. The Council operates a pooled budget in conjunction with Devon Primary Care Trust and North Devon Health Care Trust under the terms of Section 75 of the Health Act 2006, which covers the provision of a Joint Community Equipment Store. Gross expenditure is £2.760 million (£2.667 million in 2007/08). The Council's net contribution to the pool is £1.171 million (£1.165 million in 2007/08). The Council's share (50%) of the stock and liabilities are held on the Council's balance sheet.
- b. The integrated health and social care management structure is a partnership arrangement under the terms of section 75 of the Health Act 2006, but is not a pooled budget. Instead, staff are employed by either, Devon CC, Devon PCT or North Devon Healthcare Trust, with agreed proportions of the cost of these staff being shared with other partners to the arrangement.
- c. The Against Domestic Violence & Abuse Partnership includes the County Council, Devon & Cornwall Police Authority, the National Probation Service, Devon Primary Care Trust, and the Department of Communities and Local Government. Additional funding is allocated from the Safer Devon Partnership (see f below). Expenditure includes grant payment to three women's aid organisations totalling £531,000.
- d. The Devon Health & Social Care Partnership Trust manages the provision of services for people with learning difficulties and mental health needs on behalf of the County Council and the Primary Care Trusts operating in Devon. The spending shown above represents the County Council's contribution to the joint working arrangement.
- e. The County Council manages the development of the Electronic Single assessment Process (ESAP) on behalf of 13 local authorities in the South West.
- f. The Safer Devon Partnership includes the County Council, Devon and Cornwall Police Authority, Devon Combined Fire & Rescue Authority, and Devon Primary Care Trust. Funding is received from all the partner organisations. Funding is allocated to projects selected by the Safer Devon Partnership to deal with local and county-wide crime and disorder issues.
- g. The South West Devon Waste Partnership is an equal partnership between Devon County Council, Plymouth City Council and Torbay Council which is establishing arrangements to convert waste into energy.
- h. The Speed Camera Partnership has a membership that includes highways authorities in Devon and Cornwall, Devon and Cornwall Police Authority and the Highways Agency. Its purpose is to reduce road casualties by deterring and detecting speeding and traffic light offences. Funding is drawn from Road Safety Grant.
- i. The County Council is the Administering Authority for grant-funding allocated to the Supporting People initiative on behalf of a Joint Commissioning Body comprising senior representatives of the County Council, District Councils, the Primary Care Trust and the Devon & Cornwall Probation service. This funding provides a variety of housing-related support services.
- j. The Youth Offending Team is a statutory partnership funded by contributions from the County Council, Devon & Cornwall Police Authority, Devon Primary Care Trust and the National Probation Service, as well as a combination of government grant. The initiative provides programmes to reduce youth re-offending and youth crime prevention programmes to reduce first time offending.

## 21.6 Subsidiary and Associated Companies and joint ventures

### **The PLUSS Organisation Ltd.** [registered company no. 05171613]

The company is limited by guarantee, with no share capital. The principal activity of the company is the provision of employment and work-related services for people with disabilities. Four local authorities, Devon County Council, Plymouth City Council, Torbay Council and Somerset County Council have equal voting rights. The members of the Company have no right to share in the net assets of the Company

should it be dissolved. Profits and losses are retained by the company. The Company's performance during 2008/09 is as follows:

2007/08		2008/09
£000		£000
313	Profit for the year	306
2,509	Net assets at the balance sheet date	(2,186)
5,025	Net transactions with the Council during the year	5,004

A loan arrangement with the Company is disclosed in Note 17 and a guarantee for pension liabilities is disclosed at Note 5.

Copies of the Company's accounts can be obtained from the PLUSS Organisation Limited, 22 Marsh Green Road, Exeter, Devon, EX2 8PQ.

#### **NPS South West Ltd** [registered company no. 06078903]

The Company was established on 1 April 2007 to provide property management services. The Council has a 20% equity holding in the Company and appoints two members to its Board that comprises six members in total. Pre-tax profits are shared equally between the Council and NPS (SW) Ltd, the Council's share being used to discount the payments it makes to the company for property management services provided to it. The Company's performance during 2008/09 is as follows:

2007/08		2008/09
£000		£000
204	Profit for the year	13
204	Net assets at the balance sheet date	217
3,364	Net transactions with the Council during the year	7,694

A guarantee for premises liabilities is disclosed at Note 5.

Copies of the Company's accounts can be obtained from the NPS South West Ltd, County Hall, Martineau Lane, Norwich, Norfolk NR1 2DH.

#### **Connexions Cornwall and Devon Ltd (Careers South West Ltd from 1 April 2009)** [registered company no. 3029947]

On 1 April 2008 the Company became a local authority controlled company limited by guarantee. The principal object of the Company is to develop, co-ordinate and ensure provision of support services for young people and to provide careers advice, information and guidance services to people of all ages. The council is one of four members of the Company. The members have guaranteed the Cornwall Pension Scheme, such that in the event of the Company being wound up, any outstanding pension liabilities relating to Company employees, will be met by the members, 45% of the liability will be met by Devon County Council. The Company's performance during 2008/09 is as follows:

	2008/09
	£000
Surplus for the year	61
Net assets at the balance sheet date	1,008
Net transactions with the Council during the year	5,223

A guarantee for pension liabilities is disclosed at Note 5.

Copies of the Company's accounts can be obtained from Connexions Cornwall and Devon Ltd, Tamar Business Park, Pennygillam Industrial Estate, Launceston, Cornwall PL15 7ED.

**South West Forest Ltd** [registered company no. 06600851]

This Company was incorporated on 22 May 2008 to revitalise the rural economy and environment of the area for the benefit of local people, by focusing on rural land based policies and activities. Its aims are to use new woodland planting, management and utilisation as a catalyst, along side other activities, for regeneration in the rural land-based sectors and communities, to secure integrated social, economic and environmental benefits. The Company has not started to trade. The company's registered office is Ashford House, Grenadier Road, Exeter, EX1 3LH.

**Exeter Skypark Ltd** [registered company no. 02021631]

The company was set up on 21 May 1986 to develop the Skypark site as a business and industrial site. However it has never been used and is currently dormant.

**Skypark Development Partnership LLP** [registered company no. OC343583]

The company was set up on 24 February 2009. The company is a limited liability partnership of which the Council has a fifty percent interest. The purpose of the partnership is to develop a business park which will offer high quality employment opportunities. As at the 31 March 2009 the partnership had no material assets or liabilities and has not produced any financial statements. The company's registered office is Sir Stanley Clarke House, 7 Ridgeway, Quinton Business Park, Birmingham, B32 1AF.

**South West Grid for Learning** [registered company no. 5589479].

The company is limited by guarantee. The County Council is one of 15 member authorities based in the South West. The principal activity of the Company is to provide education information technology support services. A guarantee for pension liabilities is disclosed at Note 5.

**21.7 Combined interest**

The combined interest in these companies is not material and therefore group accounts have not been prepared.

## **22. Pensions**

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

The County Council participates in two different pension schemes: the Local Government Pension Scheme and the Teachers Pension Scheme. Both schemes provide members with defined benefits related to pay and service

### **22.1 Local Government Pension Scheme**

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

### **22.2 Change of Accounting Policy**

Under the 2008 SORP the Council has adopted the amendment to FRS17, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets at 31 March 2008 has been restated from £768.24 million to £765.84 million, a decrease of £2.400 million, resulting in an increase of the pension deficit of £2.400 million (31 March 2007 of £2.670 million). The General Fund Balance has been unaffected by this change.

### **22.3 Transactions relating to Retirement Benefits**

The County Council recognises 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 required to be made against the council tax is based on the cash payable in the year, so the real cost of retirement benefit is reversed out in the statement of movement in the general fund balance.

The following transactions have been made in the income and expenditure account and statement of movement in the general fund balance during the year:

Local Government Pension Scheme	Funded Liabilities		Unfunded Liabilities	
	2007/08 As restated £'000	2008/09 £'000	2007/08 As restated £'000	2008/09 £'000
<b>Income and Expenditure Account</b>				
Net Cost of Services:				
Current service cost	35,880	28,180	0	0
Past service cost	8,840	460	230	290
Curtailments/settlements	(1,180)	(1,420)	0	0
Net Operating Expenditure:				
Interest cost	58,920	70,020	6,020	7,360
Expected return on assets in the scheme	(55,080)	(52,420)	0	0
Contribution to pre 1/4/98 unfunded benefits			1,432	32
<b>Net Charge to the Income and Expenditure Account</b>	<b>47,380</b>	<b>44,820</b>	<b>7,682</b>	<b>7,682</b>
<b>Statement of Movement in the General Fund Balance</b>				
reversal of net charges made for retirement benefits in accordance with FRS17 ( Note 29)	<b>(47,380)</b>	<b>(44,820)</b>	<b>(7,682)</b>	<b>(7,682)</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employers contributions payable to scheme	34,790	36,080	0	0
Retirement benefits payable to pensioners (net)	0	0	7,890	8,280
	<b>34,790</b>	<b>36,080</b>	<b>7,890</b>	<b>8,280</b>

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and (losses) of £(205.030)m (£71.260m 2007/08 as restated) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is £102.920m.

## 22.4 Assets and Liabilities in relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

Local Government Pension Scheme	Funded Liabilities		Unfunded Liabilities	
	2007/08 £'000 As restated	2008/09 £'000	2007/08 £'000 As restated	2008/09 £'000
1st April	(1,105,870)	(1,026,730)	(117,370)	(112,190)
Current Service Cost	(35,880)	(28,180)	0	0
Interest Cost	(58,920)	(70,020)	(6,020)	(7,360)
Contributions by scheme participants	(10,900)	(11,790)	0	0
Curtailments and settlements	1,180	8,620	0	0
Actuarial gains/(losses)	158,890	8,460	3,540	(4,360)
Benefits paid	33,610	34,270	7,890	8,280
Past service costs	(8,840)	(460)	(230)	(290)
<b>Total (Liability)</b>	<b>(1,026,730)</b>	<b>(1,085,830)</b>	<b>(112,190)</b>	<b>(115,920)</b>

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme	Assets	
	2007/08 £'000	2008/09 £'000
	As restated	
1st April	787,180	765,840
Expected rate of return	55,080	52,420
Actuarial gains/(losses)	(88,500)	(209,130)
Employer contributions	34,790	36,080
Contributions by scheme participants	10,900	11,790
Settlements	0	(7,200)
Benefits paid	(33,610)	(34,270)
<b>Total Assets</b>	<b>765,840</b>	<b>615,530</b>

A building block approach is used in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2009.

The actual return on scheme assets in the year was £(156.71m) (2007/08: £(33.42m)).

## 22.5 Scheme History

	2004/05* £'000	2005/06* £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000
			As Restated	As Restated	
Present value of Liabilities					
Funded Liabilities	(905,660)	(1,025,490)	(1,105,870)	(1,026,730)	(1,085,830)
Unfunded Liabilities	(108,390)	(114,640)	(117,370)	(112,190)	(115,920)
	(1,014,050)	(1,140,130)	(1,223,240)	(1,138,920)	(1,201,750)
Fair value of assets	573,820	716,500	787,180	765,840	615,530
Surplus / (deficit) in the scheme	(440,230)	(423,630)	(436,060)	(373,080)	(586,220)

\* The council has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS17.

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £586 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The pension fund deficit at 31 March 2009 has increased by £213.14m from 31 March 2008. The increase is due to changes in assumptions relating to mortality and other assumptions and the general volatility of the financial markets at this time.

The regular contributions to the Fund for the accounting period 31 March 2010 are estimated to be £38.16m. In addition, Strain on Fund Contributions may be required. In respect of unfunded benefits, in the accounting period ending 31 March 2010 it is estimated that £8.65m will be paid directly to beneficiaries.

## 22.6 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The County Council Fund liabilities have been assessed by Hewitt Associates Ltd, an

independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2007.

The main assumptions used for the purposes of FRS 17 are as follows:

	Funded		Unfunded	
	2007/08	2008/09	2007/08	2008/09
<b>Long-term expected rate of return on assets in the scheme:</b>				
Equity Investments	7.6%	7.0%		
Corporate Bonds	6.8%	5.8%		
Government Bonds	4.6%	4.0%		
Property	6.6%	6.0%		
Other	6.0%	1.6%		
<b>Mortality Assumptions:</b>				
Longevity at 65 for current pensioners:				
Men	22.1	23.1	22.1	23.1
Women	24.1	25.0	24.1	25.0
Longevity at 65 for future pensioners:				
Men	24.0	25.4		
Women	25.3	27.3		
Rate of Inflation	3.7%	3.4%	3.7%	3.4%
Rate of increase in salaries	5.2%	4.9%		
Rate of increase in pensions	3.7%	3.4%	3.7%	3.4%
Rate of discounting scheme liabilities	6.8%	6.7%	6.8%	6.7%
Take-up of option to convert annual pension into retirement lump sum	50 / 75*	50 / 75*		

\* Pre 2008 service / post 2008 service.

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

Local Government Pension Scheme	Assets	
	31-Mar-2008	31-Mar-2009
	%	%
Equity Investments	63.9	53.7
Government Bonds	15.9	21.6
Other Assets	10.5	16.6
Property	8.7	7.0
Corporate Bonds	1.0	1.1
<b>Net Asset / (Liability)</b>	<b>100.0</b>	<b>100.0</b>

## 22.7 History of experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2009:

	2004/05*		2005/06*		2006/07 #		2007/08 As Restated		2008/09	
	£m	%	£m	%	£m	%	£m	%	£m	%
Difference between expected and actual return on assets	27.12	4.70	100.87	14.10	9.41	1.20	(88.50)	(11.56)	(209.13)	(33.98)
Experience gains (losses) on funded liabilities	(19.32)	(1.90)	(0.92)	(0.10)	0.04	0.00	12.22	1.19	(4.74)	(0.44)
Experience gains (losses) on unfunded liabilities							(1.67)	(1.49)	(3.81)	(3.29)

\* The council has elected not to restate for 2004/05 and 2005/06 as permitted by FRS17.

# The council has not restated 2006/07 as the amounts are not material.

## 22.8 Teachers Pension Scheme

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Children, Schools and Families. It provides teachers with defined benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2008/09, the County Council paid £27.630 million (£26.882 million in 2007/08) to Capita Hartshead on behalf of the Teachers Pensions Agency, in respect of Teacher's pension costs. For 2008/09 this represented 14.1% (14.1% in 2007/08) of teachers' pensionable pay.

The Scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Authority 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.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pension liability described in this note. During 2008/09 enhanced lump sum payments of £43,630 and additional annual enhanced payments of £14,543 were made.

## 23. Post Balance Sheet Events

Great Torrington Secondary School achieved foundation status on 1 April 2009. Control of tangible fixed assets passed to the governing body of the school on that date. A reduction of tangible fixed assets with a gross book value of £9.709m at the 31 March 2009 will be made in the 2009/10 financial statements.

## 24. Provisions

Provisions are used to assist the financial management of the County Council and its trading accounts. They enable funds to be set aside to meet known liabilities where the exact amount is not known when the accounts are prepared.

2007/08 £'000		Income £'000	Expenditure £'000	2008/09 £'000
548	Insurance Fund prior to 01/04/98		(19)	529
9,554	Insurance Fund from 01/04/98	322	1,266	11,142
168	Out of date cheques		5	173
90	ACC Pensions			90
2,291	Job Evaluation Single Status	8,846	(2,291)	8,846
25	Economy		10	35
100	Social Care		45	145
695	Property Related		(37)	658
318	Waste Management		(16)	302
378	Trading Accounts	435	(96)	717
71	Devon Catering & Cleaning		(71)	0
0			102	102
<b>14,238</b>	<b>Total</b>	<b>9,603</b>	<b>(1,102)</b>	<b>22,739</b>

## 24.1 Insurance Provision

The Council's Insurance provision enables it to carry some of its insurable risks in-house, achieving significant savings in external premiums. It covers Public Liability, Professional Indemnity, Employers Liability and vehicles, but excludes theft and accidental damage. The insurance provision established for the period prior to 1 April 1998 covers claims arising from events prior to Local Government re-organisation on that date. A separate provision has been created for the period after 1 April 1998. Both provisions are currently sufficient to meet registered claims as at 31 March 2009. These claims plus any new claims will be paid in future years. Payments from the provision are dependent on claim settlement. Expectation is that in normal circumstances payments from the provision for current claims would be made within twelve months however claims can be settled over much longer periods.

## 24.2 Out of Date Cheques

This represents cheques that are still unrepresented after 6 months and awaiting repayment.

## 24.3 Association of County Council's Pensions

Devon County Council's share of the subscribing Authorities pension costs.

## 24.4 Economy / Social Care / Property Related / Waste Management

These provisions relate to claims against the Council arising from events in previous financial years. It is anticipated that a large proportion of these provisions will be required in 2009/10.

## 24.5 Trading Accounts and Devon Catering and Cleaning

A number of small provisions relating to these activities have been aggregated. Payment from the provisions will vary according to purpose.

## 24.6 Single Status Job Evaluation

Appeals relating to single status job evaluation have yet to be settled. An estimate of the impact has been made and a provision established. It is anticipated that payments resulting from appeals will be made during the 2009/10 financial year.

## 25. Publicity Expenditure

Expenditure on publicity in accordance with the requirements of section 5(1) of the Local Government Act 1986 is set out in the following table.

<b>2007/08</b>		<b>2008/09</b>
<b>£'000</b>		<b>£'000</b>
	207 Press & Publicity Office	<b>285</b>
	40 Devon's Online Roving Information Service	<b>35</b>
	39 Devon Link Magazine	<b>42</b>
	36 County Council Exhibit at the Devon County Show	<b>32</b>
	348 Waste Minimisation Campaign - other funding	<b>342</b>
	2,797 General Publicity	<b>2,978</b>
	<b>3,467 Total net publicity expenditure</b>	<b>3,714</b>

General publicity includes expenditure on recruitment advertising; image development; marketing and other publicity, corporate communications and production of the Council Tax leaflet.

## 26. Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance 1 April 2008 £'000	Net Movement in Year £'000	Balance 31 March 2009 £'000	Purpose of Reserve	Further Details of Movements
Usable Capital Receipts Reserve	57,535	(2,138)	55,397	Proceeds of fixed asset sales available to meet future capital investment	(a) below
Revaluation Reserve	148,583	(1,589)	146,994	Store of gains on revaluation of fixed assets not yet realised through sales	(b) below
Capital Adjustment Account	518,357	(105,573)	412,784	Store of capital resources set aside to meet past expenditure	(c) below
Financial Instrument Adjustment Account	(21,695)	314	(21,381)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	(d) below
Available for Sale Financial Instrument Reserve	61	0	61	Store of gains on revaluation of investments not yet realised through sales	(e) below
Equal Pay Back Pay Account	0	(7,084)	(7,084)	Account to allow back pay provisions to be financed in the year in which payments are made	(f) below
Pensions Reserve	(344,655)	(213,172)	(557,827)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 22
General Fund	14,196	43	14,239	Resources available to meet future running costs for services	Statement of Movement on the General Fund, page 27
School Balances	11,884	675	12,559	Reserve available to meet future schools running costs	Statement of Movement on the General Fund, page 27
Earmarked Reserves	55,619	(4,774)	50,845		Note 26.1
<b>Total</b>	<b>439,885</b>	<b>(333,298)</b>	<b>106,587</b>		

**Further Details****Usable Capital Receipts Reserve**

	£'000
(a) <b>Opening Balance</b>	<b>57,535</b>
Capital receipts received during the year	5,248
Capital receipts applied to finance capital expenditure	(7,386)
<b>Closing Balance</b>	<b>55,397</b>

**Revaluation Reserve**

	£'000
(b) <b>Opening Balance</b>	<b>148,583</b>
Disposal of fixed assets	(10,074)
Revaluations	8,485
<b>Closing Balance</b>	<b>146,994</b>

**Capital Adjustment Account**

	£'000
(c) <b>Opening Balance</b>	<b>518,357</b>
Depreciation and impairment	(104,345)
Amortisation of Government Grants	5,816
Expenditure funded from capital under statute	(6,811)
Loss on disposal of fixed assets	(31,789)
Contribution to the repayment of debt	24,933
Third party debt repayments	(4,039)
Capital expenditure met from revenue sources	1,549
Capital expenditure met from capital receipts	7,386
Contribution to deferred assets	1,727
<b>Closing Balance</b>	<b>412,784</b>

**Financial Instrument Adjustment Account**

	£'000
(d) <b>Opening Balance</b>	<b>(21,695)</b>
Loan premiums taken into account	702
Impact of soft loan arrangements undertaken in 2008/09	(432)
Write down of existing adjustments over the life of the financial instruments	44
<b>Closing Balance</b>	<b>(21,381)</b>

**Available for Sale Adjustment Account**

	£'000
(e) <b>Opening Balance</b>	<b>61</b>
Movement during the year	0
<b>Closing Balance</b>	<b>61</b>

**Equal Pay Back Pay Account**

	£'000
(f) <b>Opening Balance</b>	<b>0</b>
Deferred financing of the provision to meet cost of equal pay awards falling in the 2009/10 financial year	(7,084)
<b>Closing Balance</b>	<b>(7,084)</b>

**26.1 Earmarked Reserves**

<b>Balance 2007/08 £'000</b>	<b>Reference</b>		<b>Contribs to / (from) Reserves £'000</b>	<b>Expenditure £'000</b>	<b>Balance 2008/09 £'000</b>
<b>Contingency Reserves</b>					
1,110	1	Roads Emergency	(1,110)		0
554	2	Reinstatement of Existing Landfill Sites		(75)	479
4,060	3	Redundancy		(369)	3,691
100	4	Prior Year Tax			100
78	5	Inspection / Implementation			78
439	6	New Road & Street Works Act Fund			439
200	7	Blighted Properties			200
2,364	8	Waste Management Fund		(328)	2,036
4,000	9	Insurance			4,000
<b>Reserves for Planned Developments</b>					
300	10	Local Initiatives		(172)	128
423	11	European Matched Funding	350	(262)	511
28	12	Systems Development Fund	281	(173)	136
250	13	Procurement Initiative		(34)	216
102	14	Emergency			102
55	15	Energy & Water Efficiency		5	60
658	16	Customer Access Strategy		(242)	416
989	17	Transition Fund		(989)	0
745	18	Financing Fund		(306)	439
2,752	19	Modernisation Fund	946	(1,290)	2,408
1,653	20	Affordable Housing		(424)	1,229
2,150	21	Development Fund			2,150
1,113	22	LPSA1 Reward		(294)	819
1,291	23	LPSA2 Reward		2,582	3,873
2,402	24	PFI Sinking Fund		(903)	1,499
3,732	25	Local Authority Business Grant		(314)	3,418
6,646	26	Extra Care Housing	2,500	(182)	8,964
10,199	27	Service Development		(3,699)	6,500
200	28	Energy Conservation			200
559	29	Devon Cleaning & Catering		288	847
0	30	Integrated Youth Support	100		100
0	31	Invest to Save	2,000	(708)	1,292
0	32	On Street Parking	1,129		1,129
<b>Trading Accounts Reserves</b>					
2	33	Trading Accounts			2
604	34	Building Maintenance		(170)	434
<b>Budget Management Reserves</b>					
5,861	35	Directorate Budget Carry Forwards	(2,911)		2,950
11,884	36	Schools Carry Forwards	675		12,559
<b>67,503</b>		<b>Total</b>	<b>3,960</b>	<b>(8,059)</b>	<b>63,404</b>

See next page for reference details.

1	<b>Roads Emergency</b> – funding for emergency road maintenance.
2	<b>Reinstatement of Existing Landfill Sites</b> - to cover unexpected upward movement in the cost of the 10 year plan for redundant landfill site restoration.
3	<b>Redundancy</b> – to finance redundancy and early retirement costs of restructuring.
4	<b>Prior Year Tax</b> – to meet future liabilities with regard to tax inspections and review.
5	<b>Inspection &amp; Implementation</b> – to meet unexpected impacts of CPA and other inspections.
6	<b>New Road &amp; Street Works Act</b> – development of policies for promotion and encouragement of safe integrated efficient and economic transport facilities.
7	<b>Blighted Properties</b> – to finance the future costs of blighted properties.
8	<b>Waste Management Fund</b> – to provide funding of new facilities to meet EU Landfill Directives.
9	<b>Insurance</b> – funding to meet large and unexpected self insured claims
10	<b>Local Initiatives</b> – to fund local initiatives and community development.
11	<b>European Funding/Matched Funding</b> – to provide matched funding for Externally Funded Projects.
12	<b>Systems Development Fund</b> – to facilitate the development of major ICT systems.
13	<b>Procurement Initiatives</b> – funding for procurement initiatives.
14	<b>Emergency</b> – reserves held in respect of emergency planning initiatives.
15	<b>Energy and Water Efficiency</b> – receives savings from investments in energy and water efficiency and funds new projects.
16	<b>Customer Access Strategy</b> – to fund development that will improve the public access to County Council services.
17	<b>Transition</b> – reserves to fund future transitional cost of modernisation.
18	<b>Financing Fund</b> – fund set aside to finance capital expenditure on agreed schemes.
19	<b>Modernisation</b> – fund for the modernisation of County Council services.
20	<b>Affordable Housing</b> – fund held to finance projects jointly agreed with Districts.
21	<b>Development Fund</b> – to provide financing for infrastructure renewal in County Council services.
22	<b>LPSA1 Reward</b> – to pump prime and provide one off support for new development
23	<b>LPSA2 Pump Priming</b> – to pump prime and provide one off support for new developments
24	<b>PFI Sinking Fund</b> – to manage the payments and income relating to the Exeter School's PFI Scheme
25	<b>Local Authority Business Grant</b> – to Fund Economic Development Projects
26	<b>Extra Care Housing</b> – to fund housing for vulnerable adults
27	<b>Service Development</b> – fund held to promote service development
28	<b>Energy Conservation</b> – to fund initiative to conserve energy and manage carbon emissions
29	<b>Devon Cleaning and Catering</b> – surplus to be used to manage the services in future years
30	<b>Integrated Youth Support</b> – initiatives relating to youth support
31	<b>Invest to Save</b> – investment in education services to provide future savings
32	<b>On Street Parking</b> – ring fenced money for the on street parking account
33	<b>Trading Accounts</b> – surplus on internal trading unit accounts
34	<b>Building Maintenance</b> – fund held in respect of schools building maintenance.
35/36	<b>Budget Management</b> – funds into which budget underspends or overspends within the council's overall scheme of budget management are paid. School balances can only be used for educational purposes by the schools carrying them forward.

## 27. Schemes under the Transport Act 2000

Devon County Council did not operate any schemes under this act in 2008/09.

## 28. Stock and Work In Progress

<b>2007/08</b>		<b>2008/09</b>
<b>£'000</b>		<b>£'000</b>
0	Children & Young Peoples' Service	0
708	Adult & Community Services	748
562	Environment, Economy and Culture	517
1,253	Other	1,218
<b>2,523</b>	<b>Total Stocks and Work in Progress</b>	<b>2,483</b>

## 29. The General Fund

### Statement of Movement on the General Fund Balance

Restated 2007/08		Notes	2008/09
£'000			£'000
(47,395)	Depreciation and impairment of fixed assets		(104,345)
11,640	Government Grants Deferred amortisation matching depreciation and impairments	11	5,816
(6,045)	Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute (ie revenue expenditure funded from capital under statute)	4.3	(6,811)
1,429	Net gain or loss on sale of fixed assets	4.2	(36,614)
627	Differences between amounts debited / credited to the income and expenditure account and amounts payable / receivable to be recognised under statutory provisions relating to soft loans, stepped interest rate borrowing and premiums on the early repayment of debt	26d	314
(55,062)	Amount by which pension costs calculated in accordance with the SORP (ie in accordance with FRS 17) are different from the contributions due under the pension scheme regulations	22	(52,502)
<b>(94,806)</b>	<b>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</b>		<b>(194,142)</b>
23,341	Statutory provision for repayment of debt	4	23,584
(4,155)	Contribution to the repayment of debt from third parties		(4,039)
2,297	Capital expenditure charged to the General Fund Balance	4.5	1,549
1,727	Contribution to Exeter PFI deferred assets	17	1,727
42,680	Employer's contribution payable to the Devon Pension Fund and retirements benefits payable to pensioners	22	44,360
22,322	Amounts debited to the statement of movements to the general fund balance in recognition of the transitional arrangements for financial instruments		0
<b>88,212</b>	<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>		<b>67,181</b>
1,266	Voluntary provision for repayment of debt	4	1,349
2,225	Net transfer to (or from) earmarked reserves	26	(4,774)
0	Transfer to the Equal Pay Back Pay Adjustment Account		(7,084)
(22,322)	Amounts appropriated to the financial instruments adjustment reserve in recognition of the transitional arrangements for financial instruments		0
<b>(18,831)</b>	<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>		<b>(10,509)</b>
<b>(25,425)</b>	<b>Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (shown on the face of the SMGFB)</b>		<b>(137,470)</b>

### 30. Trading Accounts

The County Council operates two trading units where the service managers are expected to balance their budget by generating income internally, from other parts of the authority, or externally from other organisations. Details of these units are given below. The results are stated in accordance with the Best Value Accounting Code of Practice, and include adjustments in respect of retirement benefit accounting and attributable central overhead costs.

2007/08 £'000		2008/09 £'000	£'000
(3,905)	<b>Supply Zone</b> is the procurement trading unit	Turnover - External	(3,208)
(2,436)	for the Authority	Turnover - Internal	(2,576)
6,668		Expenditure	5,955
<b>327</b>		<b>(Surplus) / Deficit</b>	<b>171</b>
(95)	<b>Devon Design and Print</b> provides the	Turnover - External	(122)
(1,162)	services of a printshop for the Authority	Turnover - Internal	(994)
1,371		Expenditure	1,720
<b>114</b>		<b>(Surplus) / Deficit</b>	<b>604</b>
<b>441 Net (Surplus) / Deficit on trading accounts</b>			<b>775</b>

During 2008/09, Supply Zone continued to operate independently of the Corporate Procurement Unit. The reduced deficit is attributable to an exceptional bad debts charge in 2007/08 (in respect of prior years' trading).

Devon Design and Print is undergoing a fundamental restructure and the deficit is stated after providing £435,000 in respect of this process.

### 31. Trust Funds

2007/08				2008/09				
CYPS £'000	ACS £'000	Others £'000	Total Funds £'000		CYPS £'000	ACS £'000	Others £'000	Total Funds £'000
1,552	38	22	1,612	Balance at 1 April	2,385	65	22	2,472
853			853	Revaluations	(49)			(49)
35	1		36	Income	81	1		82
	26		26	Transfer income				
(60)			(60)	Less Expenditure	(33)			(33)
				Tranfers out of the scheme	(2,285)	(48)		(2,333)
<b>2,380</b>	<b>65</b>	<b>22</b>	<b>2,467</b>	<b>Balance 31 March</b>	<b>99</b>	<b>18</b>	<b>22</b>	<b>139</b>
				<b>Represented by</b>				
122	65		187	Cash and Debtors	77	18		95
18		22	40	Internal Investments			22	22
2,240			2,240	Land, Buildings and Investments	22			22
<b>2,380</b>	<b>65</b>	<b>22</b>	<b>2,467</b>	<b>Total</b>	<b>99</b>	<b>18</b>	<b>22</b>	<b>139</b>

The County Council administers a number of charitable and other trusts as trustees. These fall into three main categories:

- Education Trusts such as School Prize Funds. The Council is in the process of returning these sums to the Fund Trustees. During 2008/09 £2.285m has been returned.
- Money held in trust for Social Services clients
- Certain funds used to finance capital projects or maintain fixed assets.

Trust funds do not belong to the County Council and the figures have been excluded from the financial statements.

## Glossary of Terms

### ACCOUNTING POLICIES

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

### ACCRUALS

Adjustments made so that accounts match income and expenditure to the period in which the related activity or benefit occurs, rather than when cash is received or paid.

### ACTUARY

An actuary is an expert on pension scheme assets and liabilities. Actuaries make recommendations every three years regarding the rate of employer contributions due to the Local Government Pension Scheme.

### AMORTISATION

Writing off the value of a balance sheet item over a long period, usually related to the useful life of a fixed asset. It can refer to the reduction in the value of Government grants on the balance sheet, in line with the depreciation in value of the asset that the grants originally paid for.

### APPROPRIATION

Amounts transferred between the income and expenditure account and reserves.

### ASSOCIATE

An associate is an organisation in which the County Council has a participating interest, and over which it is able to exercise significant influence but less than that required for the organisation to be categorised as a subsidiary.

### AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

The reserve corresponds to the valuation of companies to market value when there is an equity interest held.

### BALANCE SHEET

The balance sheet is the statement which sets out the Council's total net assets and how they are financed.

### BUDGET

A budget is the statement of the County Council's expected spending and income, either over a set period or for a specific project.

### CAPITAL CHARGE

The charge to the revenue account for depreciation which represents the use of fixed assets during the period.

### CAPITAL EXPENDITURE

In most circumstances, "capital expenditure" relates to the acquisition of a fixed asset (land, buildings, vehicles, plant and machinery), or expenditure which adds to, and not merely maintains, the value of a

fixed asset. Other items of expenditure are also classified as capital expenditure in local authority accounts, such as expenditure on fixed assets owned by other bodies, or grants awarded to other bodies towards the cost of capital works on their own assets. In exceptional circumstances, the Secretary of State may also issue directions to treat items as if they were capital expenditure, even though they do not fall within the usual definition.

## **CAPITAL ADJUSTMENT ACCOUNT**

The capital adjustment account aggregates the amounts set aside to repay debt and the amount of capital expenditure financed by capital receipts and revenue. It also contains the difference between the amounts provided for depreciation and revaluations prior to 1 April 2007.

## **CAPITAL RECEIPTS**

Capital receipts are income received from the sale of capital assets. They are available to finance new capital expenditure or to repay debt.

## **CASHFLOW STATEMENT**

The cash flow statement summarises the inflows and outflows of cash and other liquid resources arising from transactions with third parties for capital and revenue purposes.

## **CIPFA**

The Chartered Institute of Public Finance and Accountancy. CIPFA is the lead body for setting standards for public sector accounting practice.

## **CONTINGENT LIABILITIES**

Contingent liabilities are either a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control or a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

## **COUNTY (GENERAL) FUND**

This balance is a general revenue reserve, enabling the Council to operate without borrowing before the first precept payments are received. The balance on this fund is an element of the Council's risk management strategy.

## **CREDITORS**

Amounts owed by the Council for goods and services that it has received but for which payment has not been made by 31 March.

## **CURRENT ASSETS / LIABILITIES**

Current assets are amounts owed to the County Council and due for payment within twelve months, or items that can be readily converted to cash (like stocks.) Current liabilities are amounts that the County Council owes to other bodies, and due for payment within twelve months.

## **DEBTORS**

Amounts owed to the Council at 31 March where services have been delivered but payment has not been received.

## **DEPRECIATION**

Depreciation is the measure of the cost or re-valued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in

the useful life of a fixed asset whether arising from use, passage of time, or obsolescence – which may result from either changes in technology or demand for the goods and services produced by the asset.

## **DIRECT REVENUE FINANCING**

Direct revenue financing is the financing of capital expenditure from revenue monies rather than from loan or other capital funds.

## **FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT**

The adjustment account is used to equalise the impact of financial reporting standards for financial instruments on council tax over the life of financial instruments concerned.

## **FINANCIAL REPORTING STANDARDS (FRS)**

These standards are set nationally by the Accounting Standards Board.

## **FIXED ASSETS**

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

## **GOVERNMENT GRANTS**

Sums of money paid by the Government and inter-government agencies and similar bodies, whether local, national or international, in return for past or future compliance with certain conditions relating to the activities of the authority either in aid of local government services generally (Revenue Support Grant) or for identified services (specific grants).

The following abbreviations have been used to describe awarding bodies in the analysis of Government grants:

- CLG = (Department of) Communities & Local Government
- DCMS = Department for Culture, Media & Sport
- DEFRA = Department of the Environment & Rural Affairs
- DfCFS = Department for Children, families and Schools
- DfT = Department for Transport
- DH = Department of Health
- DTI = Department of Trade & Industry
- DWP = Department of Work & Pensions
- EN = English Nature
- EU = European Union
- GOSW = Government Office South West
- HO = Home Office
- SWRDA = South West Regional Development Agency

## **IMPAIRMENT**

Impairment is the reduction in value of an asset due to either a loss of economic benefit or a general fall in the value of the asset. It can apply to tangible assets and financial instruments.

## **INCOME AND EXPENDITURE ACCOUNT**

This is the account which sets out the Council's income and expenditure for the year for non-capital spending.

## **INFRASTRUCTURE ASSETS**

Fixed assets that are regarded as “inalienable” (impossible to surrender or transfer), expenditure on which is recoverable only by continued use of the asset created. The main examples are highways and footpaths.

## **INTANGIBLE ASSETS**

Intangible assets are fixed assets that do not have physical substance but are identified and controlled by Devon County Council. DCC’s Intangible Assets all relate to Software Licenses.

## **JOINT VENTURES**

A joint venture is an organisation in which the County Council has a participating interest, and over which it is able to exercise significant influence – but only with the unanimous agreement of the other participating interests.

## **LANDFILL ALLOWANCES TRADING SCHEME (LATS)**

The LATS scheme is one in which each Waste Disposal Authority is allocated a limit on the amount of waste that can be disposed of via landfill: exceeding this limit incurs a financial penalty unless additional allowances can be purchased from other local authorities.

## **LENDERS’ OPTION / BORROWERS’ OPTION (LOBO)**

Some types of loan are structured to allow either the lender or the borrower to exercise the option to change the interest payable on the loan at specified break-points.

## **LOANS OUTSTANDING**

Amounts borrowed to finance capital expenditure which have yet to be repaid.

## **MARKET VALUE**

Market value is a method of valuing a fixed asset in relation to current market conditions.

## **MINIMUM REVENUE PROVISION**

The minimum amount that Government regulations specify must be charged each year towards the cost of repaying external debt.

## **NET BOOK VALUE**

Net book value is the amount at which fixed assets are held on the balance sheet, based on the value less the cumulative amount provided for depreciation.

## **OUT-TURN**

The final actual expenditure and income in a given period

## **PRECEPTS / LEVIES**

A levy is a charge made by one statutory body on another to meet the net cost of its services. A precept is a charge made by a statutory body upon the council tax collection fund of a district council.

## **PRIVATE FINANCE INITIATIVE (PFI)**

PFI is a generic term used to describe a wide variety of arrangements under which private sector provision of a combination of assets and services is paid for by the public sector by a long-term performance-related contract.

## REVALUATION RESERVE

The revaluation reserve represents the difference between the revalued amount for fixed assets and their historic cost.

## PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are adjustments applicable to prior years arising from changes in accounting policies, or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

## PROVISIONS

Sums of money set aside to meet specific expenses which are likely or certain to be incurred but where the amount cannot be accurately determined. The sums set aside are charged to the income and expenditure account.

## PUBLIC WORKS LOAN BOARD

A Government Agency which provides long term loans to local authorities.

## RELATED PARTIES

Related parties of a local authority might include:

- Central Government;
- Other bodies levying demands on the Council Tax;
- Subsidiary and Associated Companies;
- Joint Ventures and Joint Venture partners;
- Members and Chief Officers;
- the Pension Fund; and
- any member of a close family, household, partnerships, companies, trusts or other entity in which the individual, or a member of their close family or the same household, has a controlling interest.

The Code of Practice requires disclosure of information in respect of material transactions with related parties, not disclosed elsewhere, including:

- Details of significant government grants and the awarding bodies;
- Transactions with subsidiary and associated companies;
- Transactions with the Pension Fund.
- The aim of the disclosure is to identify those bodies who may exercise an element of influence or control over the financial and operating policies of an Authority.

## RELATED PARTIES' TRANSACTIONS

These transactions represent the transfer of assets or liabilities or performance of services by, to, or for, related parties irrespective of whether a charge is made.

Examples where actions between related parties occur:-

- The purchase, sale, lease, rental or hire of assets.
- The provision by a pension fund.
- The provision of a guarantee
- The provision of services (administration services)
- Transactions with related individuals not applicable to other members of the community

## **REPLACEMENT COST**

A method of valuing fixed assets based on the costs of acquiring a replacement asset for the same purpose, and in a similar physical condition. This method is often used to value assets for which there is no widespread market in their existing use.

## **RESERVES**

Sums of money set aside to meet general rather than specific future liabilities. The sums set aside are charged to general county funds and not to the income and expenditure account.

## **REVENUE EXPENDITURE**

Revenue expenditure is incurred in providing services on a day-to-day basis.

## **REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Expenditure that is treated by the regulations as capital expenditure but which does not meet the definition of capital expenditure in the Statement of Recommended Practice.

## **SECTION 151 OFFICER**

The council officer designated under section 151 of the Local Government Act 1972 to take overall responsibility for the financial administration of the local authority.

## **SINKING FUND**

This is a method of equalising payments due over the period of a long-term contract, used where contractual payments and sources of finance differ in their timing. The County Council is using a sinking fund in respect of the Exeter Schools contract, due to differences between the profile of payments to the contractor and associated Government grant support known as PFI credits.

## **STATEMENT OF MOVEMENT ON THE GENERAL FUND (SMGF)**

This statement reconciles the income and expenditure of the Council to the General Fund balances held which has to be adjusted to take account of transfer to and from reserves and other statutory and non statutory transactions.

## **STATEMENT OF RECOGNISED GAINS AND LOSSES (STRGL)**

This is a statement which pulls together all the gains and losses of the local authority during the year. This information is available elsewhere within the statement of accounts, some gains and losses relate to the Income and Expenditure Statement, and some to the Balance Sheet.

## **STATEMENT OF RECOMMENDED PRACTICE (SORP)**

The SORP is a statement of the accounting requirements under which the accounts of local authorities are prepared.

**SUBSIDIARY**

A subsidiary is an organisation over which the County Council is able to exercise control in respect of its operating and financial policies, and from which the County Council is able to gain benefits or is exposed to the risk of potential losses

**TEMPORARY BORROWING**

Short term financing from third parties for less than one year is referred to as short term borrowing.

## Devon County Council Pension Fund

### Background

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

- The Teachers' Pension Scheme, administered by Capita Teachers' pensions on behalf of the Department for Children, Schools and Families (DCSF)
- The Local Government Pension Scheme, administered by Devon County Council.

Both schemes provide defined benefits to members earned as employees. The arrangements for the teachers' scheme mean that liabilities for these benefits fall on the DCSF and do not form part of the pension fund. The fund also extends to cover employees of unitary and district councils, civilian employees of the Devon and Cornwall Police Authority and Devon Fire and Rescue Authority and employees of a number of other member bodies.

The accounts of the fund, which are set out are in line with Chapter 2 "Recommended Accounting Practice" of the Pension Statement of Recommended Practice (SORP).

The accounts reflect the assets that are available to the trustees, and the current liabilities. Longer-term liabilities for future pension benefits are not reflected in the accounts. Future contributions are matched to future liabilities through an actuarial valuation.

All employers' contribution rates are decided by the fund's actuary every three years after an actuarial valuation of the fund.

The cash balance is invested through our own treasury arrangements and is actively managed to get the best investment returns possible.

The Accounts are set out in the following order:

- **Fund Account** - which discloses the income to and expenditure from the fund relating to scheme members and to the investment and administration of the fund. The account also reconciles the fund's net assets at the start of the year to the net assets at the year end.
- **Net Asset Statement** - which discloses the type and value of all net assets at the year end.
- **Notes to the Fund Account** - provides supporting details and analysis of the figures in the Fund Account and Net Asset Statement.

## Statement of Accounts

<b>Fund Account</b>		<b>2008</b>	<b>2009</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
<b>CONTRIBUTIONS AND BENEFITS</b>			
Contributions receivable :			
Employers	8	103,510	107,084
Employees		33,427	37,171
Transfers in from other schemes			
Group Transfers		3,330	0
Individual Transfers		16,707	12,523
		<u>156,974</u>	<u>156,778</u>
Benefits payable :-			
Pensions		(78,888)	(84,098)
Lump Sums		(18,788)	(20,802)
Death Benefits		(2,099)	(2,213)
Refunds		(27)	(4)
Transfers out to other schemes			
Group Transfers		0	0
Individual Transfers		(7,061)	(6,847)
Administration expenses	17	(1,346)	(1,342)
		<u>(108,209)</u>	<u>(115,306)</u>
<b>Net Additions from dealings with Fund members</b>		<u><b>48,765</b></u>	<u><b>41,472</b></u>
<b>RETURNS ON INVESTMENTS</b>			
Investment Income			
Fixed Interest			
U.K. Government Stocks		5,500	5,645
U.K. Government Index Linked Stocks		2,044	2,010
Overseas Government		2,810	2,920
Overseas Index Linked		190	679
Other		1,144	1,432
Equities (Listed)			
U.K.		7,273	4,077
Overseas		4,059	3,614
U.K. Property Unit Trusts		6,964	6,619
Other Unit Trusts		37	839
Interest on Cash Deposits		9,900	11,324
Underwriting Commission		0	17
<b>Less</b>			
Investment Management expenses	17	(1,530)	(781)

Change in Market Value of Investments:-		
Realised & Unrealised profit/(loss)	(118,790)	(453,072)
<b>Net Returns on Investments</b>	<b>(80,399)</b>	<b>(414,677)</b>
Net Increase (Decrease) in the Fund during the year	(31,634)	(373,205)
<b>ADD</b>		
Opening Net Assets of the Fund at 1 April 2008	2,187,421	2,155,787
<b>Net Assets of the Fund at 31 March</b>	<b>2,155,787</b>	<b>1,782,582</b>

<b>Memorandum note</b>	<b>2008</b>	<b>2009</b>
<b>Total Contributions</b>	£'000	£'000
<b>Analysed by</b>		
Administering authority	45,556	48,294
Scheduled bodies	87,247	92,159
Admitted bodies	4,134	3,802
	<b>136,937</b>	<b>144,255</b>
<b>Benefits Payable</b>		£'000
<b>Analysed by</b>		
Administering authority		43,880
Scheduled bodies		68,236
Admitted bodies		1,848
		<b>113,964</b>

**Net Asset Statement**

		<b>2008</b>	<b>2009</b>
	Notes	£'000	£'000
<b>Investments at Market Value</b>	3/5		
Fixed Interest			
U.K. Government Stocks		115,262	157,609
U.K. Government Index Linked Stocks		120,141	87,251
Overseas Government		50,629	128,978
Overseas Index Linked		39,036	453
Other		28,036	19,285
Equities ( Listed )			
U.K.		169,391	117,342
Overseas		244,835	180,985
Managed Funds	5	763,065	544,403
U.K. Property Unit Trusts		189,246	123,103
Other Unit Trusts		120,442	84,047
Unlisted Securities		119,158	57,591
Foreign Currency		1,076	1,064
Short Term Deposits		161,650	237,950
Cash & Bank Deposits		15,538	26,767
		<u>2,137,505</u>	<u>1,766,828</u>
Current Assets	13	22,597	19,489
Current Liabilities	13	(4,315)	(3,735)
<b>Net Assets of the Fund at 31 March</b>		<u><b>2,155,787</b></u>	<u><b>1,782,582</b></u>

**Note to the Net Asset Statement**

The financial statements above summarise the transactions and net assets of the Fund but do they not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund's accounting year.

## Notes and Accounting Policies

### 1. In General

The Devon Pension Scheme is a defined benefit scheme which provides pensions for County, Unitary and District Council staff not in other schemes, together with staff at certain other admitted bodies.

Currently, eligible staff from 89 active employers may join the fund. At 31 March 2009 there were 38,304 contributors and 42,413 pensioners in the Fund. Devon County Council is the designated Administering Authority. The Investment and Pension Fund Committee comprising of County Councillors together with representatives of the Unitary and District Councils (with observers representing the staff and retired members) control the investments with advice from specialists.

The Fund Accounts are prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and in accordance with the Statement of Recommended Practice for Pension Funds (SORP) issued by the Pensions Research Accountants Group (PRAG). (The Accounting Standards Board has approved PRAG for the purposes of issuing recognised SORPS for pension schemes).

- Contributions, benefits and investment income are included on an accruals basis.
- Investments are included in the accounts at a fair value basis.
- All settlements for buying and selling of investments are accrued on the day of trading.
- Debtors and creditors are raised for all amounts outstanding at 31 March 2009
- Transfer values received and paid out have been accounted for on a cash basis.
- Some additional payments are made to beneficiaries on behalf of certain employers. These payments are subsequently reimbursed by those employers. The figures contained in the accounts are shown exclusive of both payments and reimbursements.
- Interest on deposits is accrued if they are not received by the end of the financial year.

### 2. Market Value of Investments

The market values of investments referred to in this report are provided by Euraplan Ltd. Derivatives are now required to be valued on a fair value basis. Investments are also required to be valued at their fair value and where there is an active market the bid price is usually the appropriate quoted market price; prior to the 2008 Statement of Recommended Practice the mid market price was used as a basis for valuing investments. This has been accounted for as a change in accountancy policy and the comparative information restated. The 2007/08 investments have been revised down by £2.441m in order to provide comparative information.

### 3. Investment Management Arrangements

The Pension Fund is managed by the in-house Investment Team and currently two external managers in the following proportions:-

	31 March 2009	
	£000	%
DCC Investment Team	882,974	50.0
SSGA (Managed Fund)	275,056	15.6
UBS (Managed Fund)	269,347	15.2
UBS Global Asset Management Ltd.	193,088	10.9
Transition Managers (UBS & SSGA)	146,363	8.3
	<b>1,766,828</b>	<b>100.0</b>

### 4. Investment Movements

	Value at 31 March 2008	Purchase at cost & Derivative Payments	Sale proceeds & Derivative Payments	Change in Market Value	Value at 31 March 2009
	£000	£000	£000	£000	£000
<b>Fixed Interest</b>					
U.K. Government Stocks	115,262	151,580	(119,983)	10,750	157,609
U.K. Index Linked Stocks	120,141	75,775	(103,777)	(4,888)	87,251
Overseas Government Stocks	50,629	161,393	(102,431)	19,387	128,978
Overseas Index Linked	39,036	13,239	(51,600)	(222)	453
Other	28,036	52,502	(68,631)	7,378	19,285
<b>Equities (Listed)</b>					
U.K.	169,391	104,579	(104,791)	(51,837)	117,342
Overseas	244,835	134,549	(140,265)	(58,134)	180,985
Managed Funds	763,065	20,000	0	(238,662)	544,403
Property Unit Trusts	189,246	2,183	(1,041)	(67,285)	123,103
Other Unit Trusts	120,442	18,717	(24,230)	(30,882)	84,047
Unlisted Securities	119,158	6,000	(28,717)	(38,850)	57,591
Foreign Currency	1,076	103,825	(104,151)	314	1,064
Futures	0	18,023	(17,882)	(141)	0
Short Term Deposits	161,650	76,300	0	0	237,950
Cash & Bank Deposits	15,538	11,229	0	0	26,767
	<b>2,137,505</b>	<b>949,894</b>	<b>(867,499)</b>	<b>(453,072)</b>	<b>1,766,828</b>
Current Assets	22,597	(3,108)			19,489
Current Liabilities	(4,315)	580			(3,735)
	<b>2,155,787</b>	<b>947,366</b>	<b>(867,499)</b>	<b>(453,072)</b>	<b>1,782,582</b>

## 5. Analysis of Managed Funds

	UBS £'000	SSGA £'000
UK	269,347	58,589
North America		108,471
Europe		83,382
Japan		24,614
	<b>269,347</b>	<b>275,056</b>

## 6. Stock Lending

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 1998 allow the Fund to lend stock provided that the total value of the securities to be transferred does not exceed 25% of the total fund value. In 2008/09 the In-House managed funds and the external manager lent both UK and Overseas stocks. JP Morgan Worldwide Securities Services act as custodian for the Fund,

and have been authorised to lend stocks from these portfolios. Collateral is required against all loans in the form of cash or another approved form of security. At 31 March 2009 the total stock on loan amounted to £91.794m (5.15% of total fund value).

	31 March 2009 £000
DCC Investment Team	79,507
UBS Global Asset Management Ltd.	12,287
	<b>91,794</b>

## 7. Taxation

### Value Added Tax

The Fund is reimbursed by H.M.Revenue & Customs, and the accounts are shown exclusive of this tax.

### Income Tax

The Pension Fund is an exempt fund, and where permitted U.K tax on interest and dividends is recovered from H.M.Revenue & Customs. The Pension Fund cannot reclaim the 20% tax credit attached to U.K. company dividends which are included net of the tax credit.

### Withholding Tax

This is payable on income from overseas investments. This tax is recovered wherever local tax law permits.

### Other Taxation Issues

Consequent upon rulings given in the European Court of Justice, along with a number of other local authority pension funds, the

Devon Fund is pursuing the recovery of tax paid on certain dividends. If successful this will be of material benefit to the Fund.

## 8. Contributions

<b>Contributions received</b>	2008	2009
	£'000	£'000
<b>Employers</b>		
Normal	77,178	84,946
Deficit funding	26,320	22,127
Augmentation	12	11
	<b>103,510</b>	<b>107,084</b>
<b>Employees</b>		
	33,427	37,171
	<b>136,937</b>	<b>144,255</b>

## 9. Additional Voluntary Contributions (AVC) Investments

The Fund has two AVC providers; Equitable Life and Prudential. The value of employees' AVC investments is shown below.

31/03/2008	Contributions	Investment Return	Paid Out	31/03/2009
£000	£000	£000	£000	£000
4,985	480	81	(734)	4,812

These amounts are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

## 10. Foreign Currency Transactions

The Pension Fund has significant investments overseas. The value of these investments in the Balance Sheet is converted into sterling at the exchange rate prevailing on 31 March as supplied by Euraplan Ltd. Income receipts, and purchases and sales of overseas stocks, are normally converted into sterling at or about the date of each transaction, and are accounted for using the actual exchange rate received. The in-house managed fund operates a Euro bank account through which income and other transactions are passed. These transactions are converted to sterling monthly at an average exchange rate.

## 11. Investment Transactions

During 2008/09 the transactions of the Fund were £862.3million purchases and £867.5million sales.

## 12. Declarable Shareholdings

As required by the Disclosure Transparency Rules (which replaced the Companies Act 1985 regulations) shareholdings representing 3% or more of any class of share have to be notified to the company concerned and the Financial Services Authority (FSA). At 31 March 2009 the Fund had the following declarable holdings:

	Value of Holding £000	Percentage of Share Capital %
JP Morgan Emerging Markets Investment Trust	15,121	4.34
Genesis Emerging Markets Investment Trust	13,564	4.12
Advance Developing Markets Trust	6,902	3.99

## 13. Debtors/Creditors

Debtors and Creditors include purchases and sales of investments not yet due for settlement. These large amounts due to or from the Pension Fund are paid within a few days of the year-end and have been included on a gross basis.

	31 March 2008 £000	31 March 2009 £000
<b>Current Assets</b>		
<b>Debtors and Prepayments</b>		
Contributions Receivable		
- Employers	8,441	8,798
- Employees	2,896	3,166
Interest on Cash & Bank Deposits	4,278	3,596
Dividends receivable	1,467	2,715
Settlements receivable	2,805	873
Other debtors	2,710	341
	<b>22,597</b>	<b>19,489</b>
<b>Current Liabilities</b>		
<b>Creditors and Receipts in Advance</b>		
Devon County Council	1,453	1,444
Settlements payable	745	196
Other creditors	2,117	2,095
	<b>4,315</b>	<b>3,735</b>

## 14. Contingent Liabilities

(i) On 1 December 2005 staff employed by Torbay in providing social care services were transferred to the Torbay Primary Trust. From that date pension contributions for those employees went to the National Health Service Pension Scheme (NHSPS). All affected staff subsequently have 12 months to elect whether to leave their accrued pension entitlement with the Devon Fund (as a deferred benefit) or transfer that 'pension pot' to the NHSPS. The detailed results of these elections have not yet been finalised and agreed but the Devon Fund Actuary estimates that the bulk transfer value should not exceed £15m. The cash transfer should be concluded in 2009/10.

(ii) On 1 April 2007 staff employed by Devon County Council in providing property design and maintenance were transferred to NPS (SW) Ltd. From that date pension contributions for those employees went to the Norfolk County Council Pension Fund. All affected staff subsequently had 12 months to elect whether to leave their accrued pension entitlement with the Devon Fund (as a deferred benefit) or transfer that 'pension pot' to the Norfolk Fund. The detailed results of these elections are now being finalised and agreed between the Devon Fund Actuary and Norfolk Pension Fund's Actuary. It is currently estimated that the bulk transfer value should not exceed £10m. The cash transfer should be concluded in 2009/10.

## 15. Contingent Asset

At 31 March 2005 all staff employed by the Devon & Cornwall Magistrates Courts Service who were members of the Devon (LGPS) Fund transferred to the Principal Civil Service Pension Scheme (PCSPS). No further contributions were received from that employer. All affected staff subsequently had 12 months to elect whether to leave their accrued pension entitlement with the Devon Fund (as a deferred benefit) or transfer that 'pension pot' to the PCSPS. The detailed results of these elections have still to be finalised and agreed between the Devon Fund Actuary and the Government Actuary's Department (Actuary to the PCSPS). The latest estimate from the Actuary shows that a capital sum of £1.4m will be payable to the Devon Fund by the PCSPS. Under the transfer protocol issued by the Department for Constitutional Affairs any capital payments due to local authority pension funds would be repaid in ten annual instalments. It is anticipated that the first capital receipt should be receivable in 2009/10.

## 16. Post Balance Sheet Events

At its meeting on 9 May 2008 the Investment & Pension Fund Committee terminated the investment management contract of Capital International Ltd and also agreed to outsource a large portion of the in-house managed assets. Transitional arrangements were put in place until the procurement process to appoint new managers would be concluded. The new management arrangements to replace Capital International Ltd. and the in-house managed assets will be finalised during 2009/10.

## 17. Administration Expenses and Related Party Transactions

Devon County Council is the administering authority for the purpose of the fund, and included within the investment management expenses are charges for investment management, accounting and administration expenses. These have been incurred for the internal cost of providing the services. The expenses are detailed below:

	2007/08	2008/09
	£000	£000
<b>Administration Expenses</b>		
Pensions Administration (note a)	1,263	1,303
Actuarial Services	83	39
	<b>1,346</b>	<b>1,342</b>
<b>Investment Management Expenses</b>		
Investment Management & Accounting (note a)	312	266
External Investment Management (note b)	1,050	593
Custodian	271	46
Stock Lending Income & Commission Recapture	(103)	(123)
	<b>1,530</b>	<b>782</b>
	<b>2,876</b>	<b>2,124</b>

Note:

(a) Devon County Council is the administering authority for the purpose of the Fund, and included within the Investment Management expenses are charges amounting to £0.266m for Investment Management and Accounting and in Administration expenses £1.303m for Pensions Administration expenses. These have been incurred for the internal cost of providing these services.

(b) The cost of external fund management varies with the value of investments under management and the extent to which performance fees are earned. In 2008/09 fees are lower due to the termination of one external manager's contract in May 2008. No performance fees were earned by the external Fund Managers in 2008/09.

## 18. Cost of Investment

The costs shown in the Accounts include only the direct costs of purchasing investments.

## 19. Minimum Pension Guarantee

Over a number of years pension funds generally, have made small but cumulative sometimes material over payments because of miscalculations in the minimum pension guarantee. The information to make these calculations is provided to the Pension Fund by HM Revenue & Customs (National Insurance Contributions Office). The government has deemed that individual overpayments will not be reclaimed. At present Devon Pensions are still awaiting information

from HMRC to allow the over payments to be fully calculated. Based on a sample of correct pensioner records the value of over payments is estimated to be £1.8m

## 20. Statutory Statements

The statutory statements can be found within the Devon Pension Fund Annual Reports and Accounts 2008/09

- Investment Principles
- Funding Strategy Statement
- Communications Strategy Statement
- Governance Policy Statement
- Governance Compliance Statement

They are also available in full on the following website:-

<http://www.devon.gov.uk/index/jobscareers/pensions/investments.htm>

## 21. Contributions

For 2007/08 scheme members (employees) paid 6% of their total pensionable pay into the fund. However variable rates applied for 2008/9 and are set out below.

Whole Time Pay Rate	Member contribution rate
Up to £12,600	5.5%
£12,601 to £14,700	5.8%
£14,701 to £18,900	5.9%
£18,901 to £31,500	6.5%
£31,501 to £42,000	6.8%
£42,001 to £78,700	7.2%
More than £78,700	7.5%

## Statistical Summary

### Financial Summary

	2004/05	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000	£'000
<b>Contributions and Benefits</b>					
Contributions received	108,791	119,571	131,310	136,009	143,845
Employers Additional Capital contributions	7,492	965	540	928	410
Transfers from Other Schemes	20,338	18,529	18,339	20,037	12,523
	<b>136,621</b>	<b>139,065</b>	<b>150,189</b>	<b>156,974</b>	<b>156,778</b>
Benefits Paid	(75,934)	(82,554)	(95,502)	(99,802)	(107,117)
Transfers to Other Schemes	(10,957)	(13,113)	(7,059)	(7,061)	(6,847)
Administration Expenses	(1,086)	(1,020)	(1,201)	(1,346)	(1,342)
	<b>(87,977)</b>	<b>(96,687)</b>	<b>(103,762)</b>	<b>(108,209)</b>	<b>(115,306)</b>
<b>Net Additions (Withdrawals) from Dealings with Fund members</b>	<b>48,644</b>	<b>42,378</b>	<b>46,427</b>	<b>48,765</b>	<b>41,472</b>
<b>Returns on Investments</b>					
Investment Income	28,800	32,662	34,821	39,921	39,176
Investment Management Expenses	(1,744)	(1,494)	(1,509)	(1,530)	(781)
Increase / (decrease) in Market Value of Investments during the Year	136,425	351,949	121,714	(118,790)	(453,072)
<b>Net Returns on Investments</b>	<b>163,481</b>	<b>383,117</b>	<b>155,026</b>	<b>(80,399)</b>	<b>(414,677)</b>
<b>Net Assets of the Fund at 31 March</b>	<b>1,560,473</b>	<b>1,985,968</b>	<b>2,187,421</b>	<b>2,155,787</b>	<b>1,782,582</b>

### Membership Summary

	31.03.05	31.03.06	31.03.07	31.03.08	31.03.09
Contributors	34,751	35,058	36,563	36,346	38,304
Pensioners and Dependents	18,483	19,193	20,274	21,206	22,171
Deferred Pensioners	13,144	15,151	16,946	19,293	20,242

## The Fund's Largest Equity Shareholdings

<b>United Kingdom Equities</b>			31/03/2009	% of total
<b>Company</b>	<b>Sector</b>		£'000	Investment
BP	Oil & Gas		5,943	0.33
Vodafone	Telecommunications		4,380	0.25
GlaxoSmithkline	Pharmaceuticals		4,071	0.23
Royal Dutch Shell	Oil & Gas		3,711	0.21
Tesco	Retailers		2,706	0.15
HSBC	Banks		2,319	0.13
DIAGEO	Food & Beverages		1,773	0.10
Rio Tinto	Mining		1,763	0.10
Barclays	Banks		1,729	0.10
Tullow Oil	Oil & Gas		1,721	0.10
			<hr/>	
			30,116	1.70
Plus other investments including UK Managed Funds			415,162	23.28
			<hr/>	
			445,278	24.98
<hr/>				
<b>Overseas Equities</b>				
<b>Company</b>	<b>Sector</b>	<b>Country</b>		
Roche	Pharmaceuticals	Switzerland	1,293	0.07
Total	Oil & Gas	France	1,063	0.06
Intel Corp	Electronics	United States	865	0.05
BNP Paribas	Banks	France	801	0.04
NOKIA	Electronics	Finland	800	0.04
Societe Generale	Banks	France	765	0.04
Siemens	Electronics	Germany	733	0.04
Apple	Electronics	United States	630	0.04
E.ON	Utilities	Germany	627	0.04
Novartis	Pharmaceuticals	Switzerland	619	0.03
			<hr/>	
			8,196	0.45
Plus other investments including Overseas Managed Funds			389,256	21.85
			<hr/>	
			397,452	22.30
<hr/>				
<b>UK Property Unit Trusts</b>				
Aviva Pooled Property Fund			13,923	0.78
Threadneedle Property Unit Trust			13,801	0.77
Hermes Property Unit Trust			12,595	0.71
UBS Triton Property Fund			12,326	0.69
Schroder Exempt Property Unit Trust			11,552	0.65
ING Lionbrook Property Unit Trust			10,809	0.61
Rockspring Hanover Property Unit Trust			10,740	0.60
Blackrock Property Fund			9,527	0.53
Royal London Exempt Property Fund			7,729	0.43
Falcon Property Unit Trust			7,311	0.41
RReef UK Core Property Fund			6,421	0.36
UBS SERF Property Fund			4,331	0.24
Schroder Indirect Real Estate Fund			2,029	0.11
			<hr/>	
			123,094	6.89
<hr/>				
<b>Other Large Holdings</b>		<b>Included in</b>		
UBS International Infrastructure Fund		Other Unit Trusts	20,944	1.17
Hermes European Focus Fund		Unlisted Securities	13,049	0.73
F&C Stewardship Fund **		Other Unit Trusts	8,972	0.50

\*\* The F&C Stewardship Fund invests in UK companies selected using ethical criteria. Over 20% of the Fund's investments in the UK stock market is invested in those same ethical stocks.

## Employing Bodies

There are currently 89 employers who have active members in the Fund.

### Scheduled Bodies

Devon County Council  
 East Devon District Council  
 Exeter City Council  
 Mid Devon District Council  
 North Devon District Council  
 Plymouth City Council  
 South Hams District Council  
  
 Teignbridge District Council  
 Torbay Council  
 Torridge District Council  
 West Devon Borough Council  
  
 Dartmoor National Park Authority  
 Devon & Cornwall Police Authority  
 National Probation Service - Devon & Cornwall  
 Devon & Somerset Fire & Rescue Authority  
 Devon Sea Fisheries Committee  
  
 Plymouth CityBus

### Foundation Schools

Colyton Grammar School  
 Devonport High School for Boys  
 Hayes Primary School  
 Newton Abbot College  
 St.Boniface R.C. Boys College  
 South Dartmoor Community College  
 Stoke Damerel Community College  
 Teign School  
 Torquay Boys Grammar School  
 Uffculme School  
 Widewell Primary School

### Town & Parish Councils

Ashburton Town Council  
 Barnstaple Town Council  
 Bideford Town Council  
 Bovey Tracey Town Council  
 Braunton Parish Council  
 Brixham Town Council  
 Buckland Monachorum Parish Council  
 Combe Martin Parish Council  
 Crediton Town Council  
 Cullompton Town Council  
 Dartmouth Town Council  
 Dawlish Town Council  
 Exmouth Town Council  
 Ilfracombe Town Council  
 Ivybridge Town Council  
 Kingsbridge Town Council  
 Kingsteignton Parish Council  
 Lynton & Lynmouth Town Council  
 Newton Abbot Town Council  
 Okehampton Town Council  
  
 Sidmouth Town Council  
 South Brent Parish Council  
 South Molton Town Council  
 Tavistock Town Council  
 Totnes Town Council  
 Ugborough Parish Council  
 Woodbury Parish Council

### Further/Higher Education

#### Corporations

Bicton College Of Agriculture  
 City College Plymouth  
 Exeter College  
 North Devon College  
 Plymouth College of Art & Design  
 South Devon College of Arts & Technology  
 University of Plymouth

### Admitted Bodies

Amey Services  
 Call 24 Hour Ltd  
 Carillion JM Ltd  
 Dame Hannah Rogers School  
 Exeter Royal Academy for Deaf Education  
 Keyham Community Partnership  
 Initial Catering Services  
  
 Interserve Project Services  
 Leisure East Devon Ltd  
 Millfield Economic Development Trust  
 NCP Ltd  
 North Devon Crematorium Committee  
 North Devon Homes Ltd.  
 Open College Network - SW region  
  
 PLUS  
  
 Plymouth Citizen's Advice Bureau  
  
 Plymouth Shopmobility  
  
 Riviera Housing Trust  
 South West Tourism  
 Tarka Housing Ltd  
 Teign Housing Ltd  
 Tone Leisure (South Hams) Ltd  
 Tor Homes Ltd  
 Torbay Coast & Countryside Trust  
 Torquay Museum Trust  
 Valuation Tribunal Service - Devon  
  
 West Devon Homes Ltd  
  
 Wolseley Development Trust

## Statement of the Actuary for the year ended 31 March 2009

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Devon County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

### Actuarial Position

1. Rates of contributions paid by the participating Employers during 2008/09 were based on the actuarial valuation carried out as at 31 March 2007.
2. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £2,190.0M) covering 80% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the Fund's assets, along with a change in the funding target for scheduled bodies. These were partially offset by the impact of changes in the actuarial assumptions used to reflect higher price inflation expectations and longevity improvements.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2008 was as set out below:
  - 15.0% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

#### Plus

- 4.9% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years from 1 April 2008.

#### Less

- 1.4% of pensionable pay in respect of assumed additional investment returns over the period to 1 April 2011.

These figures were based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
- Changes were made consistent with the Finance Act 2004.
- A new scheme had been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

The rates of contributions payable by each participating Employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 28 March 2008 which is appended to our report of the same date on the actuarial valuation.

If the assumptions are borne out in practice, the rate of contribution for each employer would increase as at 1 April 2011 due to the cessation of the allowance for assumed additional short term investment returns. It would then continue at the resultant level for the balance of the recovery period used for that employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010.

5. The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.
6. The main actuarial assumptions were as follows:

Discount rate for periods

In service

Admitted Bodies	6.2% a year
Scheduled Bodies	6.2% a year

Left service:

Admitted Bodies	5.2% a year
Scheduled Bodies	6.2% a year

Short term investment returns until 1 April 2011

Equity/property assets	6.9% a year
Other investments	5.2% a year

Rate of general pay increases 4.7% a year

Rate of increases to pensions in payment 3.2% a year

Valuation of assets market value

7. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited (previously Hewitt Bacon & Woodrow Limited), for inclusion in the accounts of Devon County Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, Devon County Council, in respect of this statement.

Hewitt Associates Limited

20 May 2009

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