

**Statement of Accounts
for the Financial Year
2006/07**



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Explanatory Foreword

Introduction

Welcome to the 2006/07 financial statements for Devon County Council. This year the format of our Accounts has changed to comply with the new Statement of Recommended Practice (SORP) for 2006. This is a move to make the Accounts more compliant with Generally Accepted Accounting Principals (UK GAAP), and to make them easier to understand.

We have arranged both the Accounting Policies (from page 10) and the Notes to the Accounting Statements (from page 39) in alphabetical order for ease of reference.

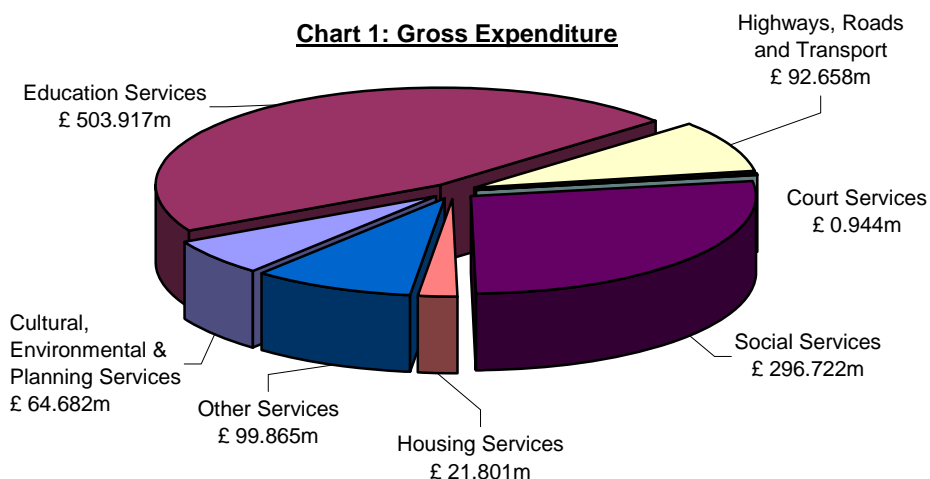
Contained within you will find information regarding our financial performance for the year within the following statements :-

- Income and Expenditure Account, analysing the Council's day to day operations (page 34);
- Statement of the Movement on the General Fund Balance, (page 35);
- Balance Sheet, specifying the assets and liabilities of the Council as at 31 March 2007, excluding Pension and Trust Fund transactions (page 36);
- Statement of Total Recognised Gains and Losses (page 37);
- The Cash Flow Statement, summarising the inflows and outflows of cash arising from revenue and capital transactions (page 38);
- The Core Accounting Statements are followed by specific notes to aid understanding and provide more detail (from page 39);
- Devon Pension Fund Accounts, recording the Fund Account and Net Asset Statement for the Fund (page 83).
- It is important to note that the accounts for the Devon Pension Fund are separate from the accounts of the County Council.

Throughout the Statement, we have provided comparative figures for the previous financial year and where this is possible, we have re-stated the figures for 2005/06 into the new formats, so they can be compared to 2006/07 performance.

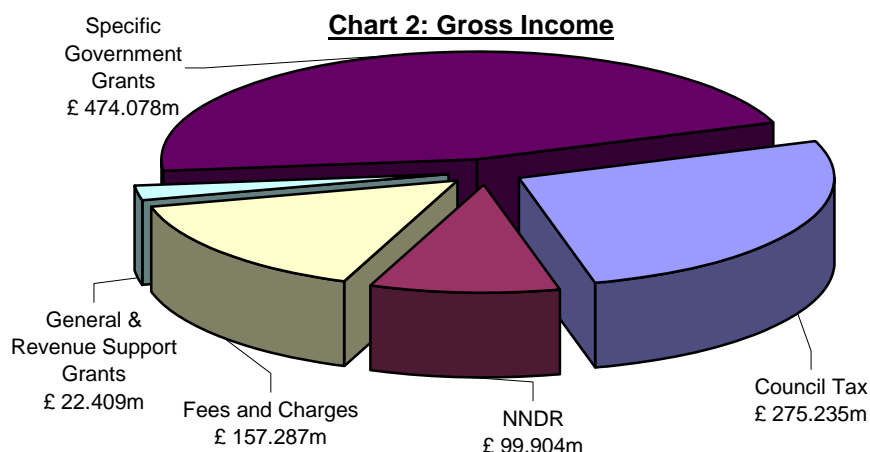
Detailed Analysis of Income and Expenditure

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 2006 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 £1,080.589 million and Chart 1 highlights spending for each service.



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

Total gross income of £1,028.913 million was received during the year, made up of £474.078 million in specific grants and £157.287 million from fees and charges. General and Revenue Support Grant from Government was £22.409 million. The Council's share of the National Non-Domestic Rate Pool was £99.904 million and income from Council Tax amounted to £275.235 million.



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. The outcome of financial management throughout the County Council was as follows:

Management of the Budget: 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 was as follows.

Children and Young People:

In accordance with the Scheme of Funding required by the Department for Education and Skills (DfES), schools will carry forward £10.910million, just under 3.3% of their budgets. This figure is lower than the carry forward from the 2005/06 financial year (£10.935 million, or just under 4.00%)

There were some pressures on the non-schools budget because of increased costs of independent special school fees and on social care services for Children and Families. Strategic action was taken during the year to produce significant levels of savings mainly on management posts to offset in part some of these increased costs.

Carry forwards into 2007/08 include the statutory carry forward for schools, together with the LEA contribution to Standards Fund budgets. In addition, there are some other proposals to carry forward smaller sums on the Youth Service, Early Years Services, the Education Psychology Service and other items.

After all of the above transactions, there is a net overspend of £5.124 million which has been provided for from savings elsewhere in the accounts.

Environment, Economy and Culture:

Tight control of vacancies, service level agreements, premises costs and IT costs have produced savings across a number of budget headings. In addition, the Council received a grant of £0.408 million very late in the financial year in respect of the disposal of Waste Electrical and Electronic Equipment (WEEE). The Directorate net spending was £91.059 million against a budget of £93.330 million.

Proposed carry forwards into 2007/08 include the surplus on the statutory On-Street parking Account, together with a range of modest sums on the other budget headings. It is also proposed to transfer the WEEE grant into the Waste Management Fund to meet costs of disposal in future years

Central Directorates (Chief Executive's, Finance, IT & Trading and Personnel & Performance):

Part of the budget management strategy for 2006/07 was to hold expenditure on staffing, IT and other support costs to offset projected overruns in other services. As a result, there have been underspends on premises, procurement, Information Technology, Systems and staffing costs.

The Chief Executive's Directorate produced an underspend of £1.076 million which arose from staff savings, additional income and a delayed office strategy.

The Personnel and Performance Directorate spent £3.327 million of its £3.666 million budget and the underspend arose from vacant posts, delayed projects, increased turnover in respect of temporary staff and other services.

The Finance, IT and Trading Directorate produced an underspend of £3.050 million which centred around delayed IT Infrastructure development projects and hardware / software acquisitions, posts being held vacant, additional income and increased contract savings and supplier refunds on procurement contracts.

There are some modest carry forward proposals in each of these areas to enable Directorates to proceed with key projects which were put on hold earlier in 2006/07. There are also proposals to make contributions to some earmarked reserves.

Adult and Community Services:

Net expenditure totalled £142.170 million against a budget of £140.962 million, producing an overspend of £1.208 million.

There were concerns at the start of the year in respect of the demand and cost pressures of Older Peoples Services and Learning Disability Services. Members took a prudent decision before the commencement of the year to establish a reserve of around £5 million to cover these pressures. It is a tribute to the Members Budget Working Party and the Director and his staff that the final outturn position was contained comfortably within this figure. Learning Disability Services experienced the greatest pressures, with an overrun of £3.546 million. There was also an overrun of £0.240 million on Older Peoples Services and £0.181 million on Mental Health Services. There was a small underspend of £0.259 million on Strategic and Corporate Services.

Because of the time taken to develop and implement proposals with partners, the Extra Care Housing budget of £2.5 million was not spent and it is proposed to carry this sum forward to meet the cost of schemes in the pipeline.

Other Budgets:

Interest generated from investment income achieved £4.348 million above target, with savings totalling £1.015 million also being realised in terms of capital financing costs.

Movements in Reserves:

The Authority budgeted for contributions of £8.606 million to earmarked reserves. Through the use of reserves at outturn, earmarked balances were reduced by a net £9.749 million above the budgeted value.

Overall:

The net budgetary impact of underspending and additional contributions to earmarked reserves is a net underspending of £0.071 million and this has been added to the General Fund. At 31 March 2007, the General Fund balances stood at £14.119 million.

Management of the Budget: Capital Spending

The 2006/07 Capital Programme represented a further major investment in the County Council's asset base. With slippage from 2005/06 and success in attracting additional capital resources at the start of the year meant that it was possible to fund a capital programme of £132.517 million. Year-end accrued spending totalled £120.560 million, with 93% of the underspend being carried forward into 2007/08.

Capital Expenditure in 2006/07 resulted in a number of major improvements to the infrastructure of the County. Some of the major schemes undertaken were :-

- Barnstaple Western By-pass;
- Exwick Heights new Primary School;
- Uffculme Community College Sports Hall;
- A replacement for Walter Daw Primary School;
- Works at Nichols Centre;
- Monkerton Road Link;
- Exeter Canal Bridge; and
- Broadpath In-Vessel Composting Unit

Material Assets Acquired or Liabilities Incurred

There were no single material assets acquired during the year. However, as always, a number of major capital schemes were completed and these included the schemes outlined above.

Sale of Exeter and Devon Airport Ltd

Exeter and Devon Airport Limited was sold, generating a capital receipt of £58.568 million. £10 million of this sum was used to repay outstanding borrowing related to previous capital expenditure at the Airport. The net receipt is therefore £48.568 million.

Pensions Liabilities / Assets

Based on actuarial valuations, the accounts reflect the benefits that have been accrued by members of the local government pension scheme, together with the assets available to meet those benefits. The estimated liabilities total £1,105.87 million (2005/06 - £1,025.49 million) , against estimated assets of £789.850 million (2005/06 - £716.50 million). It must be emphasised that these estimates reflect the position as at 31 March 2007 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 and changes to the provisions of the Local Government Pension scheme. Solvency (i.e. having sufficient cash available to pay pensions) is not an issue in the foreseeable future. The Pension Fund still receives more in contributions than it pays out (and will continue to do so for many years to come) and the Fund has agreed a long term strategy to reach full funding over a period of time.

Material or Unusual Charges or Income within the Accounts

The County Council implemented its Job Evaluation scheme with effect from 1 April 2006, as agreed with Trades Unions. The agreement provided for up to six years Equal Pay Compensation, where post grades increased. This resulted in an exceptional payment of £18.6 million, funded from a capitalisation direction from Government.

Near the end of the financial year, the County Council drew down funding of £10.265 million from the Department for Education and Skills (DfES). This relates to a balance previously held by the DfES on the Mandatory Student Grant account mainly from 1994/95 and subsequent years. The Council drew this money on the advice of the DfES. As Council records do not exist to confirm Council ownership of this money, a written assurance from the DfES has been sought. In the meantime, the money has

been placed in an earmarked reserve (Service Development Fund), from which no sums can be withdrawn until written assurance of ownership is received. Please also see note 8.1 (page 50) regarding Contingent Liabilities.

Changes to Accounting Practice

In 2006/07 the Council reviewed the following accounting treatments:

The useful life of our Infrastructure assets was reviewed and changed. The effect of this was an increase in depreciation of £13.612 million

The residual value of PFI Schools was reviewed and is now taken to the Capital Finance Account instead of to an earmarked reserve.

County Council 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 via the Public Works Loan Board and for 2006/07 the authorised limit for external debt was set at £676.507 million.

At the year-end, long-term borrowing totalled £599.639 million. We hold no short-term borrowing.

Funds for Capital and Other Commitments

The capital programme required finance of £120.560 millions. Borrowing, under the Prudential Code comprised £88.019 millions, with grants and contributions totalling £31.135 millions. Capital receipts from the sale of assets contributed funding of £0.096 millions and direct revenue contributions / use of reserves provided £1.311 millions per note 5.5 on page 44.

PFI

The Private Finance Initiative has completed its first full year of service delivery. The contractual liability remaining after allowing for Government Grants and other income is £32.490 million.

Post Balance Sheet Events

On 1 April 2007, the Council entered into a 15 year Joint Venture Agreement with NPS South West Ltd – a company owned jointly by NPS Property Consultants Limited 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 County Council has identified a preferred supplier for the provision of some residential and domiciliary social care services, which is likely to involve the transfer of the Council's residential cares homes. We will seek to conclude negotiations before the end of the 2007/08 financial year

At the time of preparing these accounts, a response from the DfES is awaited regarding written confirmation of ownership of the balance on the Mandatory Student Grants Account. In the absence of this written assurance, a contingent liability has been included within the notes to these accounts on page 51

Group Accounts

Due to the sale of Exeter International Airport during the year, and the County Council's changed role in respect of PLUSS, group accounts are not required for 2006/07.

Accounting Changes

The SORP introduced a number of changes to the presentation of accounts for 2006/07. The previous Consolidated Revenue Account contained notional accounting entries related to capital financing charges. CIPFA's view is that such entries do not comply with UK Generally Accepted Accounting

Practices (GAAP) and as such, should be excluded from the revenue account. This statement therefore now only contains income and expenditure and has consequently been renamed the Income and Expenditure Account.

The Statement of Total Movement in Reserves has been replaced by the Statement of Total Recognised Gains and Losses. Not all gains and losses experienced by the Council should be reflected in the Income and Expenditure account; for example gains on revaluations of fixed assets. GAAP requires that such items should be reflected within the Statement of Total Recognised Gains and Losses.

Finally, the structure of the accounts has been re-ordered, so that "core" financial statements and supplementary notes flow as follows. Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses and Cash Flow Statement

Conclusion

The year has once again provided many challenges for budget management and the County Council faces many issues into the future.

The financial year has seen the conclusion of the sale of Exeter and Devon Airport Ltd and the transfer of the property function to NPS (SW) Ltd (on 1 April 2007). In addition the Council has entered the final stages of negotiation with its preferred supplier for the transfer of some residential and domiciliary care services. The Council has also taken steps to reduce the number of managerial and supervisory posts, with a reduction of nearly 100 posts during the year. The scheme of Single Status Job Evaluation was concluded, giving rise to significant expenditure in respect of Equal Pay Compensation.

Towards the end of the financial year, Exeter City Council's bid for Unitary status was taken to the second stage of stakeholder consultation. Irrespective of the outcome of this process, it is likely that service provision, both front-line and support, will face change from the integrated working with partners and shared service agenda, with a consequential financial impact. We also await the outcome of Government's Comprehensive Spending Review and the impact that this will have on local government finance generally and the County Council specifically.

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 Authority.

John Mills
Director of Finance, IT and Trading
June 2007

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 precedents.

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 the latest Statement of Recommended Practice (2006) and Code of Practice on Local Authority Accounting, except where indicated in the notes which follow.

POLICIES

Accruals of Income and Expenditure

Customer and Client Receipts - in the form of sales, fees, charges and rents are accrued and accounted for in the period to which they relate. Revenue is recognised only when a 'right to consideration exists' and such a right exists only to the extent that performance of contractual obligation has taken place. Payments received in advance of such performance are recognised as a liability in the balance sheet.

Employee Costs - are charged in full to the accounts of the period within which the employees worked. Accruals are made for wages earned but unpaid at the year-end. Where retrospective adjustments or special payments are required, e.g. through pay awards or redundancy payments, the accounts are charged with the additional amount as soon as it can reasonably be estimated, in line with the requirements for recognising a provision.

Interest - payable on external borrowing or receivable from investments is accrued and accounted for in the accounts of the period to which it relates, on a basis which reflects the overall economic effect of the borrowings.

Supplies and Services - are accrued and accounted for in the period during which they were consumed or received. Accruals are made for all material sums unpaid at the year end for goods or services received or works completed.

Acquired Operations

Income and expenditure directly related to acquired operations are shown separately on the face of the Income and Expenditure account under a separate heading.

Contingent Assets

Contingent assets are not recognised in the primary accounting statements, but are disclosed by way of notes when the in-flow of a receipt or economic benefit is probable. Such disclosures indicate the nature of the contingent asset and an estimate of its financial effect.

Contingent Liabilities

Contingent liabilities are not recognised in the primary accounting statements, but are disclosed by way of notes when there is a possible obligation which may require a payment or a transfer of economic benefits. For each class of contingent liability, the following information will be disclosed; the nature of the contingency, a brief description, an estimate of its financial effect, where this is possible to estimate, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

Deferred Charges

Deferred charges are amortised to revenue over an appropriate period consistent with the consumption of the economic benefits controlled by Devon County Council.

Deferred charges refers to items where the Council seldom controls the economic benefits arising from the expenditure, for example loans to external organisations for capital purposes. The full amount of deferred charge is written off to the Income & Expenditure Account in the year the deferred charge is recognised.

In those cases where Devon County Council does control the economic benefits arising from the expenditure and therefore can properly recognise an asset in the balance sheet, it is not described as a Deferred Charge but as an asset. The economic benefit is categorised in line with the category of asset to which the benefit relates.

De minimis

Capital expenditure and income items falling below the following limits are regarded as de minimis (of trifling importance), and treated as revenue items:

- Buildings £ 50,000
- Plant and Equipment £ 12,000
- Capital Receipts £ 10,000

Discontinued Operations

Income and expenditure directly related to discontinued operations is shown separately on the face of the Income and Expenditure account under a separate heading. Any liabilities in respect of discontinued operations are disclosed separately in the notes to the balance sheet.

Events after the Balance Sheet date

Where an event (favourable or unfavourable) occurs after the balance sheet date, but which provides evidence of conditions that existed at the balance sheet date, the amounts recognised in the statement of accounts are adjusted. Any disclosures affected by the new information are updated.

Where an event occurs after the balance sheet date which is indicative of conditions that arose after the balance sheet date, no adjustments are made to the primary financial statements. However, the following information is disclosed, where such events might be regarded as material:

- The nature of the event.
- An estimate of the financial effect or a statement that such an estimate cannot be made reliably.
- Events after the balance sheet date are reflected up to the date when the Statement of Accounts is authorised for issue.

Exceptional items, extraordinary items and prior-year adjustments

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. A description of each exceptional item is given within the notes to the accounts. The costs of any fundamental reorganisation or restructuring which has a material effect on the nature and focus of Devon County Council's operations is shown separately on the face of the Income and Expenditure Account.

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.

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified, and are accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the statement of accounts and notes and adjusting the opening balance of reserves for the cumulative effect. The cumulative effect of the adjustments is also noted at the foot of the Statement of Total Recognised Gains and Losses of the current period. The effect of prior period adjustments on the outturn for the preceding period is disclosed where practicable.

Foreign currency translation

Income and expenditure arising from a transaction denominated in a foreign currency is translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly, an average rate for a period is used as an approximation. Where the transaction is to be settled at a contracted rate, that rate is used.

At each balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated by using the closing rate or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions.

Devon County Council continues to work with other authorities to assess the implication of any changes which the European monetary union may bring. To date no financial commitments have been entered into or expenditure incurred to meet future payments.

Government grants and other contributions

Revenue grants for specific purposes are matched with the expenditure to which they relate.

Grants made to finance the general activities of Devon County Council or to compensate for a loss of income are credited within the revenue account to the period in respect of which they are payable.

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited to the government grants-deferred account and written off in the service revenue account over the useful life of the asset to match the depreciation of the asset to which it relates.

Government grants or other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

Intangible Assets

An intangible item may meet the definition of an asset when access to the future economic benefits that it represents is controlled by Devon County Council, either through custody or legal protection.

There are three broad categories of intangible assets:

- Development expenditure
- Goodwill
- Other intangible assets

Devon County Council does not carry out research and development of the type envisaged by the accounting standards and does not acquire or hold goodwill. These types of intangible assets are not relevant to Devon County Council's accounts.

The following accounting principles are applied to intangible assets.

- Recognition - Purchased intangible assets (e.g. software licences) are capitalised as assets. Internally developed intangible assets are only capitalised where there is a readily ascertainable market value.
- Measurement - A purchased intangible asset is capitalised at its cost.
- Amortisation - Intangible assets are amortised on a systematic basis over their economic lives. Where access to the economic benefits associated with an intangible asset is achieved through legal rights that have been granted for a finite period the economic life does not extend beyond that period unless the legal rights are renewable and renewal is assured. There is a rebuttable presumption that the economic lives of intangible assets are limited to periods of 20 years or less. The useful economic lives of intangible assets are reviewed at the end of each reporting period and revised where necessary.

Accounting for Disposals of Intangible Assets

- Income and Expenditure Account - The gain or loss on disposal of an intangible asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the value of the fixed asset.
- Statement of Movement on the General Fund Balance - The gain or loss on disposal of the intangible asset is a reconciling item in the Statement of Movement on the General Fund Balance.
- Charges to Revenue - For intangible assets held at historical cost, General Fund service revenue accounts and trading accounts are with a provision for amortisation. Where an intangible asset has been revalued the accounting is the same as for tangible fixed assets.

Investments

Investments in listed and unlisted companies and in marketable securities are carried at cost less provision, where appropriate, for loss in value. Investments held by pension funds are carried at market value. Long-term investments are identified separately on the face of the balance sheet. Dividend income from investments is recognised when Devon County Council has a right to receive the dividend. For dividends from quoted securities this is when the security is quoted ex-dividend.

For dividends from unquoted securities this is when the dividend is declared, except when the security is sold before the dividend becomes receivable. Where Devon County Council's investment in a company is unlikely to be recovered, the loss is written off to the appropriate revenue account.

Landfill Allowance Trading Scheme

The Waste and Emissions Trading Act 2003 places a duty on Devon County Council as a Waste Disposal Authority to reduce the amount of Biodegradable Municipal Waste (BMW) disposed to landfill. It also provides the legal framework for the Landfill Allowance Trading Scheme (LATS), which commenced operation on 1 April 2005.

The LATS scheme, like certain Emission Rights schemes, is a 'cap and trade' scheme, which allocates tradable landfill allowances to each Waste Disposal Authority. This allowance represents a 'cap' on the maximum amount of waste that can be disposed of via landfill. Local authorities can only exceed this cap by purchasing additional allowances from other local authorities or paying a penalty to the Government.

In accounting terms, the Landfill Allowances Trading Scheme gives rise to:

- An asset for allowances held
- LATS grant income
- A liability for actual BMW landfill usage.

Allowances, whether allocated by the Government or purchased from another Waste Disposal Authority, are recognised as current assets and measured initially at their fair value. Devon

County Council has adopted a policy of valuing landfill allowances in subsequent years at the lower of cost and net realisable value.

Initial landfill allowances are issued free by DEFRA, and the fair value of this allowance is treated as government grant, although no actual cash transfer is involved. The grant is initially recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated.

Actual BMW landfill usage is treated as a liability, which is recorded in the form of a current liability. The liability is discharged by using allowances to meet the liability, paying a cash penalty to DEFRA or a combination of both. The liability is measured at the best estimate of the expenditure required to meet the obligation at the 31 March 2007. This will be the present market price at the 31 March 2007 of the number of allowances needed to cover actual BMW landfill usage for the year. If a local authority estimates that some or the entire obligation will be met by paying the £150 per tonne cash penalty, this part of the liability is measured at the cost of the penalty rather than at the market price of the relevant number of allowances.

Leasing

Treatment of leases differs from recommended practice in two respects:

- Devon County Council does not capitalise assets acquired under finance leases on grounds of materiality. The approximate value after depreciation of equipment acquired under finance leases is £84,600. Outstanding liabilities in relation to equipment acquired under lease finance total £14,700;
- Accruals are not made to annual leasing payments, on grounds of materiality. Accruals would have necessitated creditor provisions of £0.255 million as at 31 March 2006 and £0.128 million as at 31 March 2007.

Overheads

Charges or apportionments covering all support service costs are made to all users, including services to the public, divisions of services, trading undertakings, capital accounts, services provided for other bodies and other support services.

The cost of service management is in the same way apportioned consistently to the accounts representing the activities managed as agreed by service level agreements.

The cost of service strategy and regulation of any service to the public is allocated to a separate objective expenditure head in the accounts of that service. The costs of the corporate and democratic core and unapportionable central overheads is each allocated to a separate objective expenditure head.

Where overheads are not charged or apportioned, the reason for not doing so, together with the nature of the overhead and the amount, is disclosed in a note to the accounts.

Pension costs

The County Council participates in pension schemes for its employees. Each provides members with defined benefits related to pay and service. The schemes are as follows:

Teachers' Pensions Scheme – this is an unfunded scheme administered by the Department for Education and Skills. The pensions cost charged to the accounts is the contribution rate set by the Government Actuary.

Local Government Pension Scheme – the cost of providing pensions to employees within the Local Government Pension Scheme is funded according to statutory requirements governing the scheme. Pension scheme contribution rates must be set to ensure that, over a period of time, assets meet 100% of the overall liabilities of the fund. The fund was only 61% of this level at the time of the last valuation.

Implementation of Financial Reporting Standard 17 (FRS17) – Retirement Benefits

The treatment of pension costs in these accounts complies with the SORP 2006 which requires full adoption of FRS17 'Retirement Benefits' subject to statutory requirements and a variation of the discount rate for determining scheme liabilities.

Classification of Schemes

The SORP 2006 specifies accounting treatment of the schemes in which the County Council participates as follows:

- Teachers' Pension Scheme – accounting treatment as if defined contribution scheme.
- Local Government Pension Scheme – accounting treatment as defined benefit scheme.
- Unfunded Discretionary Benefits – accounting treatment as defined benefit scheme.

Defined Benefit Schemes

The objectives of FRS17 are to ensure that for defined benefit schemes:-

- financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations and any related funding;
- the operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise; and
- the financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

Defined Contribution Schemes

The SORP requires the teachers' pension scheme to be accounted for as a defined contribution scheme. For this scheme the pensions cost reported for the year is equal to contributions payable to the scheme for the accounting period.

Pensions Reserve and Impact on Council Tax

It is a statutory requirement that the cost of pensions benefit to be funded by taxation are those cash payments made in accordance with the scheme requirements. These payments do not match the change in the County Council's pension assets or liabilities for the same period including the real cost of retirement benefits earned during the year by County Council employees. The difference between the cost charged against taxation and the real cost of retirement benefits is represented by an appropriation to the pensions reserve, which equals the net change in the pensions liability recognised in the Income and Expenditure Account.

Provisions

Provisions are required for any liabilities of uncertain timing or amounts that have been incurred. Provisions are required to be recognised when:

- Devon County Council has a present obligation (legal or constructive) as a result of a past event.
- It is probable that a transfer of economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits or other event is regarded as probable if the event is more likely than not to occur. If these conditions are not met, no provision is recognised.

A provision is recognised when Devon County Council has a contract that is onerous, i.e. the unavoidable costs of meeting the obligations under it exceed the economic benefit/service potential expected to be received under it.

The costs of internal and external restructuring is only recognised as a provision when Devon County Council has a constructive obligation to restructure, i.e. there is an approved and detailed formal plan and Devon County Council has raised a valid expectation in those affected that it will carry out the restructuring either by starting to implement the plan or by announcing its main features to those affected by it.

A restructuring provision includes the direct expenditure arising from the restructuring, which are those that are both:

- Necessarily entailed by the restructuring
- Not associated with the ongoing activities of the Council, e.g. retraining or relocating continuing staff.

Provisions are not recognised for future operating losses.

Provisions are charged to the appropriate revenue account; when payments for expenditure are incurred to which the provision relates they are charged direct to the provision. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the events.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision is reversed.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised only when it is virtually certain that reimbursement will be received if the entity settles the obligation.

The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

In the appropriate revenue account the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

Provisions for bad & doubtful debts are accounted for as follows:

- the value of debtors is adjusted for doubtful debts;
- separate provisions are made to cover doubtful debts;
- known un-collectable debts are written off.

Repurchase of borrowing

Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the income and expenditure account in the periods during which the repurchase or early settlement is made. Where however the repurchase of borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains or losses are recognised over the life of the replacement borrowing.

Research and development

Expenditure on research and development is regarded as part of the continuing operations of Devon County Council and is written off as it is incurred.

Reserves

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves, and transfers to and from them are distinguished from expenditure disclosed in the Income and Expenditure Account. Expenditure is not charged direct to any reserve. For each reserve established, the purpose, usage and the basis of transactions are clearly identified. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

Capital reserves are not available for revenue purposes and certain of them can only be used for specific statutory purposes. The usable capital receipts reserve is a reserve established for specific statutory purposes.

Statutory provision for the repayment of debt

External borrowings are repaid on maturity. In accordance with the Local Government Act 2003 a Minimum Revenue Provision calculated at 4% of the Capital Finance Requirement is set aside annually in order to repay borrowing.

Stocks and long-Term Contracts

Stocks - are included in the balance sheet at the total of the lower of cost and net realisable value of the separate items of stock or of groups of similar items.

- Trading Account stocks are valued at current cost;
- Salt Stock held at South West Highways pending use are valued at cost.

Long-term Contracts - are accounted for in accordance with the requirements of SSAP 9: Statement of Standard Accounting Practices 9 - Stocks and Long-term Contracts, which defines a long-term contract as:

“A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods.”

Tangible Fixed Assets

Recognition

All expenditure on the acquisition, creation or enhancement of tangible fixed assets are capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, is capitalised and classified as a tangible fixed asset, provided that it yields benefits to Devon County Council and the services it provides are for a period of more than one year.

Expenditure that is capitalised includes expenditure on the:

- Acquisition, reclamation, enhancement or laying out of land
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- Acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels.

In this context, enhancement means the carrying out of works which are intended to:

- Lengthen substantially the useful life of the asset.
- Increase substantially the market value of the asset
- Increase substantially the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of Devon County Council.

Under this definition, improvement works and structural repairs are capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance are recognised in the revenue account as it is incurred.

Expenditure on existing fixed assets is capitalised in the following circumstances

- Where a component of the fixed asset that has been treated separately for depreciation purposes and depreciated over its individual useful life, is replaced or restored.
- Where the subsequent expenditure relates to a major inspection or overhaul of a fixed asset that restores the benefits of the asset that have been consumed by Devon County Council and have already been reflected in depreciation.

Where a fixed asset is acquired for other than a cash consideration or where payment is deferred, the asset is recognised and included in the balance sheet at fair value.

Measurement

A fixed asset is initially measured at its cost.

Only those costs that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement.

When substantially all the activities that are necessary to get the fixed asset ready for use are complete, the asset is categorised and included in the balance sheet.

Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where appropriate.

Operational land and properties and other operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use.

Investment properties (other than those held by pension funds) and assets that are surplus to requirements and held for disposal, are included in the balance sheet at the lower of net current replacement cost or net realisable value.

In the case of investment properties net realisable value will normally be market value. In the case of assets under construction net current replacement cost will normally be historical cost and such assets are held at historical cost until they are brought into commission.

When an asset is included in the balance sheet at current value, it is formally revalued at intervals of not more than five years and the revised amount is included in the balance sheet.

A full valuation is performed on a rolling basis to cover all the properties over a five-year cycle.

A full valuation of a property is conducted by qualified internal valuer. A qualified valuer is a person conducting the valuations who holds a recognised and relevant professional qualification and having recent post-qualification experience, and sufficient knowledge of the state of the market, in the location and category of the tangible fixed asset being valued.

The following valuation bases are used to determine net current replacement cost for revalued properties other than investment properties that are not impaired:

- Non-specialised operational properties are valued on the basis of existing use value (EUV).
- Specialised operational properties are valued on the basis of depreciated replacement cost (DRC).
- Investment properties and properties surplus to Devon County Council's requirement are valued on the basis of market value (MV).

When a fixed asset is re-valued, any increase in value is taken to the Fixed Asset Restatement Account, except where it reverses previous revaluation losses (after adjusting for depreciation) that were previously recognised in the Income and Expenditure Account.

Where on revaluation there has been a decrease over the previous value an impairment loss has occurred. It is considered whether the loss has been caused by clear consumption of economic benefits and any such loss is recognised in the Income and Expenditure Account. The amount of the decrease in value not associated with a clear consumption of economic benefit is taken to the Fixed Asset Restatement Account.

Impairment

A review for impairment of a fixed asset whether carried at historical cost or valuation is carried out if events or changes in circumstances indicates that the value of the fixed asset may not be recoverable. Examples of events and changes in circumstances that indicate an impairment may have incurred include:

- A significant decline in a fixed asset's market value during the period.
- Evidence of obsolescence or physical damage to the fixed asset.
- A significant adverse change in the statutory or other regulatory environment in which Devon County Council operates.
- A commitment by Devon County Council to undertake a significant reorganisation.

If no such events or changes in circumstances are identified, and there are no other indications that a tangible fixed asset has become impaired, there is no requirement for an impairment review. Impairment will therefore be a relatively infrequent addition to depreciation.

Accounting for Disposals of Tangible Fixed assets

The gain or loss on disposal of a tangible fixed asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the value of the fixed asset. This gain or loss is charged to the Income and Expenditure Account. However, in order to comply with statutory restrictions on the use of capital receipts (the proceeds from selling assets), the impact of these gains or losses on the General Fund has to be removed. The Statement of Movement on the General Fund Balance contains a reconciliation item to this effect.

Where a fixed asset is disposed of for other than a cash consideration, or payment is deferred, an equivalent asset is recognised and included in the balance sheet at its fair value.

Depreciation

Depreciation is provided for on all fixed assets with a finite useful life, which can be determined at the time of acquisition or revaluation. For fixed assets other than non-depreciable land and non-operational investment properties, the only ground for not charging depreciation is that the depreciation charge is immaterial. Assets under construction are not depreciated until completed but may suffer impairment. Surplus assets held for sale are not exempted from depreciation.

The depreciation methods used is straight line depreciation over the life of the asset. The useful lives of Devon County Council assets are as follows:

- Buildings 50 to 100 years
- Infrastructure 10 to 60 years
- Vehicles, plant & equipment 5 years

Depreciation is not normally provided for freehold land (whether operational or non-operational) or for non-operational investment properties. However, freehold land is depreciated where it is subject to depletion by, e.g., the extraction of minerals. Investment properties held on a lease are depreciated over the period when the unexpired term is 20 years or less.

Depreciation is based on the amount at which the asset is included in the balance sheet, whether net current replacement cost or historical cost.

Subsequent expenditure on a fixed asset that maintains or enhances the previously assessed standard of performance of the asset does not negate the need to charge depreciation.

Definable major assets or components within an infrastructure system or network with determinable finite lives are treated separately and depreciated over their useful economic lives.

Charges to the Income and Expenditure Account and Statement of Recognised Gains and Losses (STRGL)

General Fund service revenue accounts, central support services and trading accounts are charged with depreciation and where required, any related impairment loss (due to a clear consumption of economic benefits), for all fixed assets used in the provision of the service. This includes surplus assets held for disposal, which are charged to Non Distributed Costs.

All expenditure on repairs and maintenance relating to fixed assets is charged to the appropriate service revenue account.

Finance costs, (including interest payable and interest payable under finance leases) is charged to Net Operating Costs section of the Income and Expenditure Account.

Gains and losses resulting from revaluations are accounted for as follows.

The Statement of Recognised Gains & Losses (and therefore Fixed Asset Restatement Account) is:

- Credited with revaluation gains, except to the extent that they reverse previous revaluation losses (after allowing for depreciation) on the same asset that was charged to the Income and Expenditure Account (or CRA Net service costs)
- Debited with revaluation losses not associated with an impairment related to a clear consumption of economic benefit.

The Income and Expenditure Account is:

- Credited with any revaluation gains that reverse revaluation losses (after allowing for depreciation) on the same asset that was charged to services
- Debited with revaluation losses associated with an impairment related to a clear consumption of economic benefit.

Value Added Tax

VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the rare extent that it is irrecoverable.

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, IT and Trading;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

Responsibilities of the Director of Finance, IT and Trading

The Director of Finance, IT and Trading is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2007. In preparing this Statement of Accounts, the Director of Finance, IT and Trading 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, IT and Trading 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, IT and Trading

I hereby certify that this Statement of Accounts for the year ended 31 March 2007 has been prepared in accordance with the Accounts and Audit Regulations 2006 and that it presents fairly the financial position of the authority as at 31 March 2007 and its income and expenditure for the year ended 31 March 2007.

John Mills,

Director of Finance, IT and Trading

Date

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting held on 26 Sept 2007 and authorised for issue.

Signed on behalf of Devon County Council

Chairman of Audit Committee

Date

Statement of Internal Control

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 and 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 its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Devon County Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of Devon County Council's functions and which includes arrangements for the management of risk.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Devon County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place at Devon County Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts and, except for the details of significant internal control issues at section 5, accords with proper practice.

The Internal Control Environment

Devon County Council's internal control environment comprises the following :-

- a. The County Council's Constitution which 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. Some of these processes are prescribed by the law, others are matters for the Council's discretion. The Constitution is divided into 16 articles setting out the basic rules governing the Council's business together with more detailed procedures and codes of practice which are set out in the document.
- b. Member management of the County Council's Strategic Plans and Policies is achieved through the Committee structure. All councillors meet together as the Council. Meetings of the Council are normally open to the public. Here councillors decide the Council's overall policies and set the budget each year. The Council appoints the Executive, the Overview/Scrutiny Committees, the Standards Committee and all other committees. It 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 is the part of the Council responsible for most day-to-day decisions. For 2006/07 it was comprised of a Leader and six cabinet members, all appointed by the County Council from amongst its membership. 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. In 2006/07 the County Council had four Overview/Scrutiny Committees. These 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.

From 1 January 2003, the Council has had a new power to scrutinise the work of the National Health Service in the County.

Agendas and minutes of all County Council meetings and committees are published on the Authority's internet website and committee meetings are also broadcast through this medium.

- c. Officer input to internal control is achieved through the Management Board. This is headed by the Chief Executive and comprises the Director of Finance, IT and Trading, Director of Personnel and Performance, Director of Children & Young People, Director of Adult & Community Services and Director of Environment, Economy & Culture.

The Chief Executive is the Head of the Paid Service, the Director of Finance, IT and Trading is the Section 151 Officer and the County Solicitor fulfils the role of Monitoring Officer.

- d. Financial management via a programme of bi-monthly officer review at service level of outturn forecasts, bi-monthly reporting to Executive Members of budget monitoring forecasts and outturn reports to Members highlighting relevant issues.
- e. The County Council's Performance Plan and related performance indicators outline the intended actions for the Authority. Continual monitoring against these take place throughout the year and annual plans and reports are produced which reflect outcomes against forecasts.
- f. Internal Audit reports annually to the Audit Committee its findings from the previous year. Other evidence is produced from external audit reports and compliance with legal / statutory requirements.
- g. The County Council has a Risk Management Strategy, with an annual report of progress taken to Executive for ratification. A Corporate Risk Group, which includes a Member Champion, met periodically throughout the year to consider progress.
- h. A programme of service reviews to control significant budgetary pressures in respect of Children & Young People and Adult & Community Services and improve service to the public e.g. Libraries.

- i. The Audit Committee, during the Spring cycle, receives a checklist of key controls from all Directorates and approves recommendations related to further action required to improve weaknesses.
- j. Key controls have been developed for all main financial systems which are evidenced and monitored annually by officers.
- k. Detailed project evaluation and appraisal takes place for all significant projects e.g. Exeter Waste to Energy proposals.
- l. Discussions with the Audit Commission on complex or very significant financial transactions e.g. the funding of and accounting for Job Evaluation costs
- m. Specialist advisers are appointed when the Council acknowledges that it does not have appropriate in-house experience e.g. Exeter Schools PFI, Sale of Exeter and Devon Airport Ltd
- n. Major system implementation such as e-government initiatives and the new payroll / personnel system are subject to review by internal audit.
- o. Major activity areas which have created budget issues in recent years such as the management of expenditure on Mental Health Services in partnership with the relevant Health bodies have been subject to specific review and action to improve internal financial control.
- p. A performance management system has been introduced to manage the production of related information such as performance indicators and benchmark data for all Directorates.
- q. The Finance Standards Manual provides guidelines on standards, procedures and operations for officers to follow in their day-to-day operation of duties. The manual also contains links to all main system procedure manuals for guidance.
- r. Ongoing improvements to enhance the governance of the Pension Fund.

Review of Effectiveness

Devon County Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors in their annual audit letter.

The County Council's Executive has responsibility for the delivery of statutory functions.

Each member of the Executive has an area of responsibility for which they will monitor the budget and allocate resources for that specific area, ensuring that it delivers best value and adheres to the Council's priorities of Equality, Social Inclusion and Sustainability.

The Audit Committee's key responsibilities include keeping under review the operation of the Council's financial and information systems; overseeing the stewardship of the Council's resources; monitoring internal and external audit performance and risk management systems and keeping under review and ensuring compliance with those codes of practice and policies which relate to the Council's financial administration.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the risk management group and reports from Internal Audit, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Council's strategic aims are set out in Our Devon a focus on the future Strategic Plan 2006 – 2011. A set of performance indicators relating to the strategic aims has been developed and performance in relation to these indicators is monitored on a quarterly basis by the Corporate Management Board and Executive Members. Performance is also scrutinised by the Council's Overview / Scrutiny Committees.

The Council also uses programme and project management to ensure delivery of the strategic priorities. Each of the strategic plan priorities and supporting strategies is managed as a programme with a Chief Officer acting as programme sponsor. Under each programme, a set of projects has been established with an identified project manager. Progress in relation to each programme is reviewed by the Corporate Management Board on a six monthly basis and corrective action taken where progress is slower than expected.

The County Council's systems with material transactions such as creditors, debtors, payroll, accountancy and cash are tested annually for their effective operation of controls and the exercise has not identified any areas of concern. In addition, the finance standards manual contains links to relevant procedure notes for such systems.

The County Council has completed a number of major projects in this and recent years which have been reviewed positively, internally and externally by agencies, including in some instances, Government Departments and Trade Unions. These have incorporated the Exeter Schools PFI project, the sale of Exeter Airport, the conclusion of the Job Evaluation and the programme to outsource some of the Adult & Community Service front-line functions.

Internal Audit conducts its work in accordance with "proper practice", which is defined within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. During the year the Audit Committee has received reports on Internal Audit's performance against predetermined measures for delivery and quality of the planned audit work. These have included the Annual Internal Audit Report, the half-yearly progress report and a specific report on the Performance of Internal Audit. All of these reported satisfactory arrangements and performance. A Review of Internal Audit has also recently been carried out by the Audit Commission, the Council's external auditors, who continue to place reliance on Internal Audit work to support their annual opinion work on the Statement of Accounts.

Key risks associated with the delivery of the Council's strategic aims have been identified and are included on the corporate risk register with mitigating action identified and regular reviews scheduled.

Significant Internal Control Issues

In terms of the Statement on Internal Control, it is important to note that during the forthcoming year, action will be required or is taking place in terms of the following items :-

- a. Further developments related to the use of the Council's Performance Management System, developing a strategy and action plan to enhance performance management throughout the Authority
- b. Integration of the Council's Risk Registers with the Performance Management System

- c. Ensuring that there are robust and effective systems of contract management and monitoring, particularly in the newly externalised services
- d. Successful implementation of major computer applications, including new Payroll / Personnel system
- e. Improved timeliness and quality of completion of claims and returns in respect of external funding
- f. Action plan for implementation of the Joint Area Review and Corporate Assessment outcomes
- g. Improved arrangements for recording and monitoring offers of gifts and hospitality, and declarations of interests

Chief Executive

(Dated)

Chair of the Audit Committee

(Dated)

Independent Auditors' Report To The Members of Devon County Council

Opinion on the Financial Statements

I have audited the financial statements and pensions fund account of Devon County Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, 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 pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to Devon County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

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

My responsibility is to audit the financial statements 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 financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its 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 review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA 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 statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and
- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the Pension Fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Signature

Auditor P Lawrence

Address Audit Commission, 3-6 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter EX2 8PW

Date

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 to regularly review the adequacy and effectiveness of these arrangements.

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

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.

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

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

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 December 2006, 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 2007

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 31 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I 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 Audit Practice issued by the Audit Commission.

Signature

Auditor P Lawrence

Address Audit Commission, 3-6 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter EX2 8PW

Date

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.

2005/06 Net Cost restated £'000	Service Expenditure Analysis	Notes	2006/07 Gross Expenditure £'000	2006/07 Gross Income £'000	2006/07 Net Cost £'000
General Fund continuing operations					
43,320	Cultural, Environmental and Planning Services	9.2	64,682	(15,917)	48,765
335,726	Education Services		503,917	(449,400)	54,517
57,876	Highways, Roads and Transport		92,658	(19,316)	73,342
71	Court Services (Coroner's Court)	9.3	944	(102)	842
180,829	Social Services		296,722	(92,295)	204,427
1,292	Housing Services (primarily supporting people)	9.1	21,801	(19,963)	1,838
3,759	Corporate and Democratic Core	7	3,759	(51)	3,708
5,121	Non Distributed Costs	7	10,170	0	10,170
1,312	Central Services to the Public		2,338	(1,420)	918
0	Discontinued operations	2	1,776	0	1,776
0	Exceptional items not included in costs of specific services	13.1	18,600	0	18,600
629,306	Net Cost of Services		1,017,367	(598,464)	418,903
20,826	Gain or loss on disposal of fixed assets	5.2	13,634	0	13,634
489	Precepts of local precepting authorities	25.1	501	0	501
789	Trading Accounts (Surplus) or Deficit	34	14,285	(11,797)	2,488
23,518	Interest payable and similar charges	17	25,672	0	25,672
(5,451)	Interest and investment income	18	0	(10,839)	(10,839)
14,030	Pensions interest cost and expected return on pensions assets	26.3	9,130	0	9,130
0	Extraordinary items	13.2	0	(10,265)	(10,265)
683,507	Net Operating Expenditure		1,080,589	(631,365)	449,224
(260,065)	Council Tax				(275,235)
(194,636)	Government grants (not attributable to specific services)				(22,409)
(217,599)	Distribution from non-domestic rate pool				(99,904)
11,207	(Surplus) or Deficit for the year ended 31 March 2007				51,676

The Net Cost of Services and Net Operating Expenditure totals, for 2006/07, are not directly comparable with those for 2005/06. This is because the Government introduced a new "Dedicated Schools Grant" to fund schools from 1 April 2006. This new grant of £317.7m in 2006/07 is treated as Education Service Income and therefore reduces the reported Net Cost of Services and Net Operating Expenditure. In previous years, funding was received from the Government in the form of General Government Grants and Non Domestic Rates. This funding change does not, however, impact on Council Tax Payers and the bottom line surplus or deficit for the year. Notes referred to in the above account can be found from page 39 onwards.

Statement of Movement of 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.

2005/06 £'000	Notes	2006/07 £'000
11,207		51,676
Surplus or deficit for the year on the Income and Expenditure Account		
(11,254)	33	(51,747)
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year		
(14,001)		(14,048)
General Fund Balance brought forward		
(14,048)		(14,119)
General Fund Balance carried forward		
(47)		(71)
Surplus or deficit for the year		

Statement of Movement on the Balances held by schools under delegated management for the year ended 31 March 2007

2005/06 £'000	Notes	2006/07 £'000
827		(25)
In year activity		
10,108		10,935
Balance brought forward		
10,935		10,910
Balance carried forward		

This reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance. The detail which makes up the net additional amount required to be debited or credited to the General Fund Balance can be found in note 33.1 on page 80.

Balance Sheet

2005/06 £'000		2006/07 £'000	2006/07 £'000	Note
	FIXED ASSETS			
	Operational Assets			
974,079	Land and Buildings	1,022,663		5.1
0	Community Assets	0		5.1
253,896	Infrastructure assets	282,181		5.1
17,303	Vehicles, plant, furniture and equipment	18,759		5.1
	Non Operational Assets			5.1
12,512	Surplus Assets held for Disposal	12,972		5.1
10,461	Assets under Construction	19,862		5.1
1,268,251	Total Fixed Assets		1,356,437	
9,695	Investments in Companies	0		
106,985	Long Term Debtors	96,988		21
21,856	Deferred premiums on early repayment of debt	21,154		12
1,406,787	Total Long Term Assets		1,474,579	
	CURRENT ASSETS			
2,307	Stocks and Work in Progress	2,404		32
65,546	Sundry Debtors	54,069		10
(1,262)	Less Provision for Bad Debts	(820)		10
8,565	Cash Balance including Cash In Transit	7,794		6
	Investments and Loans			
144,664	Short Term Investments	260,139		11.2
4,387	Vintage Landfill Usage Allowance	4,336		19
224,207	Total Current Assets		327,922	
1,630,994	Total Assets		1,802,501	
	LESS CURRENT LIABILITIES			
	Borrowing repayable on demand			
(5,694)	or within 12 months	0		
(3,419)	BMW Liability for Usage (LATS)	(3,167)		19
(72,890)	Sundry Creditors	(130,482)		10
(12,442)	Cash Overdrawn	0		6
(94,445)	Total Current Liabilities		(133,649)	
1,536,549	Total Assets Less Current Liabilities		1,668,852	
	Borrowing repayable within a period			
(539,639)	in excess of 12 months	(599,639)		11.1
(138,858)	Government Grants & Conts - Deferred	(155,280)		15
(9,722)	Government Grants & Conts - Unapplied	(15,090)		15
(423,630)	Pensions Liability	(433,390)		26.3
(15,117)	Provisions	(17,688)		28
(1,126,966)	Total Long Term Liabilities		(1,221,087)	
409,583	Total Assets Less Liabilities		447,765	
	FINANCED BY			
655	Usable Capital Receipts Reserve	53,789		30
404,167	Fixed Asset Restatement Account	421,209		30
319,516	Capital Financing Account	297,877		30
(394,049)	Pensions Reserve	(403,533)		30
968	Landfill Allowance Trading Scheme Reserve	1,169		30
	Fund Balances and Reserves			
53,343	Earmarked Reserves	52,225		30
14,048	Working Balances - County Fund	14,119		30
10,935	Held by Schools under Delegated Management	10,910		30
409,583	Total Financing		447,765	

Statement of Recognised Gains and Losses

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

2005/06 £'000	Notes	2006/07 £000's
11,207 (Surplus) or deficit on the Income and Expenditure Account for the year		51,676
(12,750) (Surplus) or deficit arising on revaluation of fixed assets		(39,698)
0 Surplus on Sale of Investment		(48,870)
(29,563) Actuarial (gains) and losses on pension fund assets and liabilities	26.5	(1,290)
Any other (gains) and losses required to be included in the STRGL		
(31,106) Total recognised gains and losses for the year		(38,182)

Cash Flow Statement

2005/06 £'000	CASH FLOW STATEMENT	2006/07		Note
		£'000	£'000	
	Revenue Activities			
	Cash Outflows			
480,903	Cash paid to and on behalf of Employees	479,347		
457,937	Other Operating cash payments	527,254		
442	Precepts and Levies	542		
939,282			1,007,143	
	Cash Inflows			
(260,065)	Council Tax income	(275,235)		
(217,599)	Non-domestic rate receipts from national pool	(99,904)		
(192,148)	Revenue Support Grant	(18,905)		
(2,488)	Other Government Grants (General)	(3,504)		
(145,136)	Other Government Grants (Specific)	(481,971)		14
(154,284)	Cash received for goods and services	(217,216)		
(971,720)			(1,096,735)	
(32,438)	Revenue Activities Net Cash Flow		(89,592)	
	Dividends from Associates			
	Cash Inflows			
0	Dividends received		0	
	Return on Investments and Servicing of Finance			
	Cash Outflows			
24,351	Interest paid	18,522		
	Cash Inflows			
(5,470)	Interest received	(9,276)		
18,881			9,246	
	Capital Activities			
	Cash Outflows			
118,248	Purchase of fixed assets	96,913		
2,229	Other capital cash payments	21,771		
	Cash Inflows			
(9,603)	Sale of fixed assets	(4,662)		
(32,411)	Capital grants received	(30,626)		14
(19,153)	Other capital cash income	(17,322)		
59,310			66,074	
	Acquisitions and Disposals			
	Cash Inflows			
0	Sale of Exeter & Devon Airport Ltd.		(58,568)	2
45,753	Net cash outflow / (inflow) before financing		(72,840)	23.2
	Management of Liquid Resources			
43,081	Net increase/(decrease) in short term deposits		115,475	23.1
	Financing			
	Cash Outflows			
0	Repayments of amounts borrowed	10,000		
	Cash Inflows			
(90,000)	New loans raised	(70,000)		
(90,000)			(60,000)	23.1
(1,166)	Decrease / (Increase) in cash and equivalents		(17,365)	23.1

Notes Supporting the Financial Statements

1. Introduction

The County Council's accounts have been prepared in accordance with the Best Value Accounting Code of Practice. Expenditure and income is shown at total cost which includes the cost of support services, capital charges for use of assets and pension costs according to FRS 17. Specific grants are those provided by central government towards the cost of running the services indicated. Other income represents fees and charges levied by the Authority on users of the services it provides.

The date when the statement of accounts was authorised for issue and who gave that authorisation is disclosed below. This is confirmation that this is the date up to which events after the balance sheet date have been considered.

The Chair of the Audit Committee has authorised the issue date for the statement of the 2006/07 accounts for Devon County Council to be 27 June 2007.

2. Acquired and discontinued operations

Exeter and Devon Airport Limited was sold at its commercial valuation as at 31 March 2006. The final transaction date was 4 January 2007. The sale of Exeter and Devon Airport generated a capital receipt of £58.568 million.

All liabilities for the airport have been cleared. The £9.104 million debt associated with the Exeter and Devon Airport Limited and shown as a long term debtor was repaid from the capital receipt as was the £0.100 million interest free loan and £0.750 million related to Exeter Airport (the company which existed before Exeter and Devon Airport Limited)

Devon County Council's investment in Exeter and Devon Airport Limited was £ 9.695 million. This was revalued by £49.670 million in line with the market value and cost of sale and taken to the Fixed Assets Restatement Account. The final disposal of Exeter and Devon Airport Limited at £59.365 million again through the Fixed Asset Restatement Account left no gain or loss on disposal.

During 2006/07 £ 0.629 million was expended on Capital Investments. Direct Revenue Financing of £ 0.062 million was received and applied as financing. The balance of £0.567 million was financed corporately and recognised as a deferred charge.

The cost of sale of Exeter and Devon Airport Limited was £ 0.797 million and this was funded from reserves.

A revenue balance of £ 0.412 million associated with Exeter and Devon Airport Limited but not included in the sale negotiations was also funded from reserves.

There are a series of contingent liabilities associated with the sale which are disclosed separately in note 8.1

3. Agency Expenditure and Income

Agreements under this heading amounted to £5,729.53 as shown below:

- CCTV Maintenance £3,908.46
- Traffic Control System £1,821.07

4. Audit Fees

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

2005/06	Fees Payable to the Audit Commission	2006/07
£'000		£'000
215	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.	188
10	In respect of statutory inspection under section 10 of the Local Government Act 1999	82
37	For the certification of grant claims and returns by the appointed auditor under section 28 of the Audit Commission Act 1998.	26
0	In respect of other services provided	5
262		301

5. Capital and Fixed Assets

5.1 Movement on Fixed Assets

The treatment of Tangible Fixed Assets in the accounts is covered in the Statement of Accounting Policies which begins on page 10 .

There are no intangible assets shown in the accounts for 2006/07.

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

- Operational Assets
- Non Operational Assets:

Operational Assets

	Land & Buildings £'000	Infrastructure Assets £'000	Vehicles, Plant, Furniture & Other Equipment £'000	Community Assets £'000	Total Operational Assets £'000
Certified Valuation as at 31/3/06	996,340	291,988	33,941	0	1,322,269
Accumulated Depreciation	(22,261)	(38,092)	(16,638)	0	(76,991)
Accumulated Impairment	0	0	0	0	0
Net Book Value of Assets 31/03/06	974,079	253,896	17,303	0	1,245,278
Movements 2006/07					
Additions	22,625	49,250	5,803	0	77,678
Revaluations	27,953	0	0	0	27,953
Internal Transfers	(3,024)	0	0	0	(3,024)
Impairment	(42)	0	0	0	(42)
Depreciation Written Out on Revalued Assets	12,340	0	0	0	12,340
Depreciation	(11,268)	(20,965)	(4,347)	0	(36,580)
Net Book Value of Assets 31/3/07	1,022,663	282,181	18,759	0	1,323,603
Certified Valuation as at 31/3/06	1,043,894	341,238	39,744	0	1,424,876
Accumulated Depreciation	(21,189)	(59,057)	(20,985)	0	(101,231)
Accumulated Impairment	(42)	0	0	0	(42)
Net Book Value of Assets 31/03/07	1,022,663	282,181	18,759	0	1,323,603

Non-Operational Assets

	Assets under construction	Surplus Assets held for Disposal	Investment Properties	Total Non Operational Assets
	£'000	£'000	£'000	£'000
Certified Valuation as at 31/3/06	10,461	12,512	0	22,973
Net Book Value of Assets 31/03/06	10,461	12,512	0	22,973
Movements 2006/07				
Additions	19,862	577	0	20,439
Disposals	0	(4,952)	0	(4,952)
Revaluations	0	(8,725)	0	(8,725)
Internal Transfers	(10,461)	13,485	0	3,024
Net Book Value of Assets 31/3/07	19,862	12,897	0	32,759
Certified Valuation as at 31/3/06	19,862	12,897	0	32,759
Net Book Value of Assets 31/03/07	19,862	12,972	0	32,759
Gross Book Value of Assets 31/03/06				1,457,635
Accumulated Depreciation				(101,231)
Accumulated Impairment				(42)
Net Book Value of Assets 31/03/07				1,356,404

The additions figure of £ 98.117 million (£77.678m and £20.439m) represents the capital expenditure on fixed assets excluding expenditure on deferred charges of £ 21.029 million which is disclosed in note 5.4 (page 44) and Long Term Debtors of £0.061 million disclosed in note 5.3 (page 43).

The significant movement on the value of operational fixed assets owned by Devon County Council is due to the complete revaluation of secondary and special schools during 2006/07.

The movement on the value of non- operational assets owned by Devon County Council is due to the increase in Assets Under Construction at the close of the financial year.

The effect of the change in useful life on infrastructure depreciation for 2006/07 was an increase in depreciation of £13.612 million.

The balance sheet does not include the four schools that returned to the Local Education Authority as Foundation Schools as the premises remain under the control of each Foundation.

5.2 Gains and Losses on Disposal

2005/06		2006/07
£'000		£'000
20,826	Losses due to demolitions	13,634
20,826	Losses on Disposal	13,634

5.3 Summary of Capital Expenditure and Sources of Finance

	2005/06		2006/07	
	£'000	£'000	£'000	£'000
Opening Capital Financing Requirement		442,556		491,279
Capital Investment				
Tangible Assets - Operational	105,541		77,678	
Tangible Assets - Non Operational	10,603		20,439	
Intangible Assets	0		0	
Deferred Charges	4,406		21,029	
Long Term Debtors	534		61	
Capital Creditors	1,186		1,353	
		122,270	120,560	
Sources of Finance				
Capital Receipts	(6,134)		(96)	
Government Grants and Contributions	(41,927)		(31,135)	
Direct Revenue Financing	(2,152)		(1,311)	
		(50,213)	(32,542)	
New capital Investment Funded through Borrowing		72,057		88,018
Less:				
Sums set aside from revenue				
Minimum Revenue Provision	(17,862)		(19,216)	
Voluntary Contributions to Repayment of Debt	(149)		(1,202)	
Repayment of Debt	(3,573)		(10,000)	
Other Charges	(397)		0	
		(21,981)	(30,418)	
Unadjusted Closing Capital Financing Requirement		492,632		548,879
Capital Creditors unfinanced		(1,353)		
Closing Capital Financing Requirement		491,279		548,879
Increase in Capital Financing Requirement		48,723		57,600

The difference between £ 120.560 million capital investment shown above and £98.117 million additions in note 5.1 (Operational £ 77.678 million and Non-Operation £ 20.439 million) relates to expenditure of £ 21.029 million on deferred charges; £0.061 million which adds no value to Devon County Councils Assets and Capital Creditors 2006/07.

5.4 Deferred Charges

Capital expenditure on 'Deferred Charges' represents expenditure which has been capitalised but where the Council has not retained ownership of any fixed asset.

Deferred Charges in 2006/07 are as follows:

	Capitalised in 2006/07 £'000	Charge to Income & Expenditure Account £'000	Carry Forward £'000
Capitalisation Direction Works at various schools not included on Devon County Council's Asset Register e.g.	18,600	(18,600)	0
Voluntary Aided Schools	1,549	(1,549)	0
Expenditure at Exeter Airport	568	(568)	0
Ivybridge Housing Units (Mental Health)	210	(210)	0
Holworthy Memorial Hall	40	(40)	0
Loans to Foster Carers	48	(48)	0
Grants to Parents of Handicapped Children	14	(14)	0
	21,029	(21,029)	0

5.5 Direct Revenue Financing of Capital Expenditure

Direct revenue financing of capital expenditure represents contributions from the 2006/07 revenue account towards capital expenditure. In addition to the £1.009 million contribution from service revenue budgets and revenue funds (£0.563 million in 2005/06), schools contributed £0.221 million from their delegated budgets (£1.345 million in 2005/06) and this has, in accordance with the Best Value Accounting Code of Practice, been included within education spending. £20,000 of capital expenditure was met from the European Fund in 2006/07 (£38,000 in 2005/06). In addition £0.061 million of Exeter and Devon Airport Ltd's capital expenditure was funded from revenue.

5.6 Capital Commitments

These are capital contracts let for £200,000 or more as at 31 March 2007 where the ongoing commitment is greater than £5,000.

Contract	£'000
Barnstaple Western Bypass	2,822
A381 Cookworthy Road to West Alvington	20
Bideford Recycling Centre	141
Magpie Viaduct	32
A379 Exeter Canal Bridges	302
A379 Bantham Roundabout to Palegates	15
Branscombe CofE School Gabion Wall	17
Courtlands Bradwalk	352
A379 Devon Hotel to Peamore	21
NCN Route 2 A381 Malborough to Salcombe	2
Wonford Home Zone	11
Barnstaple Ashleigh CofE Primary School	1016
Braunton Community College	1,425
Exeter Exwick Heights	3,425
Halwill County Primary School	656
Ilfracombe Community College – Additional Accommodation	1,173
Kingsbridge School and Community College– Sixth Form Accommodation	869
Moretonhampstead Primary School – New County Primary	2,172
Newton Abbot Coombeshead Community College Phase 3 Teaching Block	1,304
Total Commitments	15,775

5.7 Major Capital Schemes in 2006/07

Children and Young Peoples Service	£'000
Devolved Formula Capital - Projects in Schools	10,104
Exwick Heights - New Primary School	4,349
Uffculme Community College - Sports Hall	2,366
Exeter Walter Daw - Replacement School	2,054
Moretonhampstead - Replace Primary School	2,037
Ilfracombe Community College Art Block	1,907
Kingsbridge Community College Specialist Accommodation	1,657
Halwill New Primary School	1,411
Coombeshead Community College - Specialist Teaching Accommodation	1,292
Ivybridge Community College - New Teaching Block	1,099
Braunton Community College - Dual Use Kitchen	1,082
Adult and Community Services	£'000
Nichols Centre / Treetops	1,279
Corporate	£'000
Capitalisation Direction - Job Evaluation	18,600
Airport	629
Environment, Economy and Culture	£'000
Major Roads Structural Maintenance	18,511
Barnstaple Western By-Pass	8,306
Capitalised Road Maintenance	2,771
Cycle Network	2,533
Monkerton Link Road	2,507
Exeter Canal Bridge	2,072
Bideford Recycling Centre	972
Broadpath In-vessel Composting Plant	764
Exeter Cathedral Precincts	560

5.8 Analysis of Fixed Assets

2005/06		2006/07
Hectares	Land	Hectares
53	Industrial Estates	53
4,199	County Farms	4,146
Number	Buildings	Number
97	Administrative	89
62	Day Care facilities	62
36	Residential Care	35
46	Adult, Comm. Soc. Cent's	44
63	Redevelopment Properties	66
13	Workshops & Stores	13
15	Tourist Parking / Park & Rides	15
4	Nursery / Childrens Centres	10
5	Outdoor Education Centres	7
31	Highway Depots	31
51	Libraries	50
318	Primary Schools**	317
34	Secondary Schools**	32
19	Special Schools*	21
3	Teachers Centres	0
0	Magistrates' Courts	0
7	Other Res. Accom.	6
30	Small Indust. Units	30
Number	Vehicles, Plant, Etc.	Number
760	Light Vehicles & Plant including Pool Fleet	742
92	Heavy Vehicles & Plant	88
23	Antique Items	22
£ Million	Insured Value of Council Assets	£ Million
1047	Buildings	1,090
110	General Contents of Buildings	112
16	Library Stocks	16
Km	Infrastructure	Km
977	Principal Roads	977
11,478	Other County Roads	11,478
365	Green Lanes	365
12,820	Total Roads	12,820
2,522	(Urban roads included in total)	2,522

* Includes Pupil Referral Units 8

** excludes PFI - Primary 1, Secondary 5.

5.9 Community Assets

Grand Western Canal Toilet Block	Loxdown Layby Picnic Site
Halberton Depot	Parracombe Picnic Site
A30 Lay-By & Picnic Site	Hollacombe Tip (Holsworthy)
Denbury Camp	Ivybridge Railway Station
Stover Country Park	National Cycle Network Millennium Route
East Hill Picnic Site	Rooksbridge Picnic Site
Haldon Ridge Picnic Site	The Tamar Valley Mining Heritage Project
Trimstone Cross Picnic Site	

5.10 PFI Scheme

The Exeter School Private Finance Initiative began in 2005/06. The undischarged liability arising from the Private Finance Initiative is £32.490 million.

The school buildings constructed as part of this initiative will become County Council assets at the end of the 28 year contract. A long term debtor of £1.689 million pa (at current valuation) is being created on a straight line basis over the period of the contract, to reflect the value of the assets that will be transferred to the County Council. The corresponding credit is held on the balance sheet in the Capital Finance Account. The estimate for the residual value will be reviewed every five years (next review 2007/08).

Payments under the contract commenced in 2005/06. The total payments over the 29 year term amount to £342 million. Set against this, grant of £197 million will be received from Government.

5.11 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 internal valuer, John Penaligon FRICS. The basis for valuation is set out in the statement of accounting policies.

	Land and Buildings	Infra- structure	Plant, Vehicle, Furniture and Equipment	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000
Valued at historic cost	0	341,238	39,743	0	380,981
Valued at current value in:					
2006/07	598,483			4,593	603,076
2005/06	133,889			2,350	136,239
2004/05	129,192			495	129,687
2003/04	81,390			4,246	85,636
2002/03	120,804			1,286	122,090
Total	1,063,758	341,238	39,743	12,970	1,457,709

5.12 Net Assets

	2005/06	2006/07
	£'000	£'000
Devon County Council	1,267,869	1,356,070
Devon Catering and Cleaning Services	382	367
	1,268,251	1,356,437

6. Cash

This statement provides a 'snapshot' of the cash position of the Council as at 31 March.

2005/06	2006/07
£'000	£'000
8,565 Cash in hand & In Transit	7,794
(12,442) Cash Overdrawn	0
(3,877)	7,794

These figures included the following amounts for cheques and BAC's which have been drawn but not presented by 31 March;

10,121 BAC's	0
2,469 General Payments	0
22 Salaries and Wages	0
12,612	0

7. Central Overheads

Central overheads are apportioned according to the policy contained on page 16. The Best Value Accounting Code of Practice requires that certain costs and overheads are excluded from the cost of Services and be shown separately. This treatment results in costs of £3.7million of cost being charged to the Corporate and Democratic Core and £10.2million (pension related costs and unused assets) against Non Distributed Costs.

8. Contingent Liabilities and Contingent Assets

8.1 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 £2,618,990 at 31 March 2007 (£2,565,346 at 31 March 2006)

Professional Duty Of Care

The Council is vicariously liable for any breaches of duty of care provided by professional officers. Whilst the Insurance Fund would normally provide cover for such liabilities, the fund may need to be topped up if claims become too numerous.

Exeter and Devon Airport Limited

Following the sale of Exeter and Devon Airport Limited the following contingent liabilities arose: Since the airport "Compass Swing" area is currently located on land outside the airport perimeter, the replacement area needs to be checked that it is fit for purpose. There may be building and other works required and a post relocation check. If expenditure needs to be incurred then Devon County Council would be required to meet 90% of the costs, up to a maximum of £ 50,000.

Similarly when the Engine Testing Area is relocated back to airport land there will be a requirement to carry out tests to establish the suitability of an alternate site, with the possible incurring of expenditure on additional plant, machinery, services, infrastructure and construction costs. If this were to occur then Devon County Council would be required to meet 90 % of the costs up to a maximum of £50,000 in the event that such works are not subject to noise attenuation requirements by the relevant planning authority, or up to £200,000 if they are.

If there are claims under Commercial Warranties within two years of the sale of the company, which total more than £ 500,000 for either a single claim, or a series of related claims, Devon County Council will be liable for the accumulated amount. There is no liability for individual and unrelated claims less than £5,000. 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.

Devon County Council will cover any losses in connection with claims under the SWERDA agreement (relating to the Flybe hanger development) in excess of £ 1,919,571.

Devon County Council will cover legitimate claims or demands from specified contractors for any sum owing to it.

Devon County Council will cover any losses that result in breaches of the covenants existing with the Church Commissioners' Properties which may have occurred resulting from this transaction to a maximum of £ 300,000.

Devon County Council will cover any 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.

Devon County Council will cover any 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.

Job Evaluation

The Council has recently concluded an agreement with Trade Unions in respect of Single Status Job Evaluation. This agreement was effective from 1 April 2006. For posts which increased in grade, these are eligible for arrears of pay going back to 1 April 2006 (provided staff were in post then) and up to six years equal pay compensation. The Council has received nearly 3,000 appeals in accordance with the provisions of the Collective Agreement. The appeals process has recently commenced but it will be some time before it is concluded. It is not possible to say what proportion of the appeals will be successful or what their value might be. The Council has set aside funds within the Transition Fund to meet the cost of successful appeals.

Pension Guarantee

The Council has provided guarantees to the Devon Pension Fund in respect of employer liabilities of the PLUS organisation (an arms length local authority company providing sheltered employment services whose members are Devon County Council, Plymouth City Council, Torbay Council and Somerset County Council, each with equal rights and responsibilities). 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 PLUS.

Similarly the County 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 the South West Grid for Learning organisation.

These risks are covered within the calculation of the Council's general reserves.

Mandatory Student Grants Account

The Council has drawn down funds of £10.265m from the Department of Education and Skills (DFES), in relation to a balance on the Mandatory Student Grants Account going back to 1994/95. This income is shown within the Council's accounts. The Council is currently holding this in an earmarked reserve, pending written confirmation from DFES that it does belong to the County Council, bearing in mind the period of time that has elapsed since 1994/95

8.2 Contingent Assets

Exeter and Devon Airport Limited

A refund of tax deduction due on a contribution made by Devon County Council to fully fund pension commitments until 2012. The estimated effect is £ 1.049 million.

9. Cost of Services

9.1 Housing Services

2005/06			2006/07		
Expenditure	Income		Expenditure	Income	Net
£'000	£'000		£'000	£'000	£'000
110	(23)	Travellers Sites	80	(26)	54
20,959	(20,927)	Supporting People	20,095	(19,937)	158
1,173	0	Affordable Housing	1,626	0	1,626
22,242	(20,950)	Total	21,801	(19,963)	1,838

9.2 Industrial Estates

Units are let and sublet to stimulate employment creation. In 2006/07 turnover was £185,800 (£210,600 in 2005/06) and the service made an operational deficit of £37,600 (£59,900 deficit in 2005/06). This expenditure is part of the Cultural, Environmental and Planning Services heading in the Income and Expenditure Account.

9.3 Court Services

Court Services covers the Coroners' Court Services.

9.4 Other Income

This relates to charges to the users of certain services and reimbursements by Central Government and other Local Authorities for services rendered on their behalf. In 2006/07 other income of £155.1 million financed 14.6% of gross operating expenditure (2005/06: £123.0 million / 13.2% of gross operating spending).

10. Creditors and Debtors

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.

Debtors

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

Provision is made for debts, which may prove to be un-collectable and are deducted from Sundry Debtors. For 2006/07 the figure amounted to £0.820 million (£1.262 million in 2005/06).

2005/06		2006/07	
Creditors £'000	Debtors £'000	Creditors £'000	Debtors £'000
Revenue Activities			
(19,388)	327	(42,964)	736
(39,354)	5,741	(51,186)	12,881
(47)	0	(6)	0
(165)	1,347	(12,742)	3,145
(3,694)	6,331	(7,732)	2,476
(7,287)	47,520	(12,435)	31,453
(69,935)	61,266	(127,065)	50,691
Capital Activities			
(2,213)		(3,417)	
(742)			
	1,000		3,243
	3,280		135
(2,955)	4,280	(3,417)	3,378
(72,890)	65,546	(130,482)	54,069
		Total	

11. Debt and Investments

11.1 Borrowing repayable within a period in excess of 12 months

2005/06 £'000		2006/07 £'000
448,139	Public Works Loan Board	508,139
91,500	Other Lenders	91,500
539,639		599,639
Payable in:		
-	1 to 2 years	-
-	2 to 5 years	-
20,000	5 to 10 years	20,000
519,639	over 10 years	579,639
539,639		599,639

11.2 Short Term Investments

	£'000
Opening Balance 01/04/06	144,664
Net Increase during the year	115,475
Closing Balance 31/03/07	260,139

12. Deferred Premiums of early repayment of debt

Premiums resulting from debt rescheduling which have taken place will be written back over the period of new loans taken out.

This item was accounted for in long term liabilities in 2005/06. It is accounted for as a long term asset in 2006/07.

2005/06 £'000		2006/07 £'000
22,558	Balance brought forward	21,856
0	Premiums in Year	0
0	Discounts in Year	(439)
(702)	Allocated in Year	(263)
21,856	Balance at end of year	21,154

13. Exceptional Items, Extraordinary Items and Prior Period Adjustments

13.1 Exceptional Items

Payments totalling £18.6 million were paid to employees in respect of equal pay compensation as a result of the Job Evaluation process.

13.2 Extraordinary Items

In 2006/07 the County Council received £10.265 million from the Department for Education and Skills. This has been transferred to a Service Development Fund until confirmation of ownership is received.

13.3 Prior Period Adjustments

SERVICE EXPENDITURE ANALYSIS	Consolidated Revenue Account in 2005/06 Statement of Accounts £'000	Removal of Capital Finance Charges £'000	Adjustment for Deferred Charges £'000	Relocation of Government Grant deferred credits £'000	Recognition of gains and losses on disposal of fixed assets £'000	2005/06 comparatives in income and expenditure Account £'000
Cultural, Environmental and Planning Services	45,976	(2,155)	0	(501)		43,320
Education Services	376,688	(30,784)	2,003	(12,181)		335,726
Highways, Roads and Transport	68,382	(9,387)	0	(1,119)		57,876
Court Services	838	0	0	(767)		71
Social Services	182,683	(2,121)	928	(661)		180,829
Housing Services (primarily supporting people)	1,292	0	0	0		1,292
Corporate and Democratic Core	3,719	0	40	0		3,759
Non Distributed Costs	5,139	(4)	0	(14)		5,121
Central Services to the Public	1,335	(9)	0	(14)		1,312
Deferred Charges	2,971	0	(2,971)	0		0
TOTAL NET COST OF SERVICES	689,023	(44,460)	0	(15,257)	0	629,306
Loss on disposals of Fixed Assets	0				20,826	20,826
Precepts and Levies	489					489
Trading Accounts (Surplus) / Deficit	829	(40)				789
Asset Management Revenue Account	(36,239)	20,982		15,257		0
Interest Payable and Similar Charges	0	23,518				23,518
Interest and Investment Income	(5,451)					(5,451)
pension assets	14,030					14,030
TOTAL NET OPERATING EXPENDITURE	662,681	0	0	0	20,826	683,507

14. Government Grants

The Government contributed £118.8 million (£409.8 million in 2005/06) towards revenue spending by way of Revenue Support Grant and redistributed Non-Domestic rates. This figure includes an adjustment of £0.380m resulting from a retrospective amendment of grant allocated for previous years. The main reason for the large variation when comparing with the Revenue Support Grant received for 2005/06 is due to the funding for schools, which is now funded by a dedicated schools grant which for 2006/07 totalled £317.7 million.

In addition, £3.5 million was received in 2006/07 as other general Government "reward" grants.

Government grants totalling £474.1 million (£151.3 million in 2005/06) were received in aid of specific services. An analysis of all government grants (both capital and revenue) is given below:

		2006/07	
Revenue:	Awarding Body	£'000	£'000
Animal Movements Licences	DEFRA	495	
Countryside (3 grants, incl. Natural England)	DEFRA	1,054	
Invest to Save	HO / CLG	178	
Landfill Allowance Trading Scheme	DEFRA	3,728	
Miscellaneous projects (7 grants)	EU	276	
Miscellaneous projects (4 grants)	GOSW	1,769	
Miscellaneous projects (5 grants, incl. SRB)	SWRDA	1,293	
Neighbourhood Management Pathfinder	HO	364	
Planning Delivery	CLG	69	
Stronger & Safer Communities	HO	542	
Waste Management (3 grants)	DEFRA	670	
Other (6 grants)		180	
Cultural, Environmental and Planning Services:			10,618
Dedicated Schools Grant	DfES	317,668	
Early Years (Sure Start)	DfES	10,648	
Education Standards Fund	DfES	30,308	
Higher Education Funding Council	DfES	381	
Learning & Skills Council	DfES	26,457	
Private Finance Initiative	DfES / CLG	7,918	
Schools Standards	DfES	16,072	
Teachers' Training Agency	DfES	1,053	
Transport Partnership Fund	DfES	190	
Youth Opportunity Fund	DfES	341	
Education:			411,036

Revenue: (continued)	Awarding Body	2006/07	
		£'000	£'000
Bus Challenge	DfT	683	
Cycling England	DfT	204	
Detrunked Roads	DfT	1,021	
Rural Bus Services	DfT	2,306	
Other (3 grants)		200	
Highways, Roads and Transport:			4,414
Magistrates' courts	DCA	102	
Court Services:			102
Access & Systems Capacity	DH	7,996	
Budget-Holding Lead Professionals	DfES	268	
Carers	DH	2,415	
Children's & Adolescents' Mental Health Services	DH	751	
Children's Services	DfES	1,383	
Delayed Discharges	DH	1,558	
Human Resources Development Strategy	DH	572	
Information Management	DH	143	
Mental Capacity	DH	80	
Mental Health	DH	1,463	
National Training Strategy	DH	1,233	
Preserved Rights	DH	9,049	
Preventative Technology	DH	480	
Teenage Pregnancy Local Implementation	DfES	173	
Other (5 grants)		200	
Social Services:			27,764
Supporting People	CLG	19,918	
Housing Services:			19,918
Emergency response to coastal oil pollution	EU	74	
Emergency response to coastal oil pollution	CLG	152	
Central Services:			226
			474,078
Adjustment for movement in income accrual			7,893
Government Grants: Revenue			481,971
Capital:			
Standards Fund / Capital Grants for Schools	DfES		22,290
PSA Reward Grant	CLG		2,042
Local Transport Plan	DfT		5,850
Other Grants			2,687
			32,869
Adjustment for movement in income accrual			(2,243)
Government Grants: Capital			30,626

14.1 Disclosure of deployment of Dedicated Schools Grant for 2006/7

The council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

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

Schools Budget Funded by dedicated Schools Grant

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Original grant allocation to Schools Budget for the current year in the authority's budget	29,541	288,272	317,813
Adjustment to finalised grant allocation	(145)	0	(145)
DSG receivable for the year	29,396	288,272	317,668
DSG Receivable	29,396	288,272	317,668
Actual expenditure for the year	(30,670)	(288,297)	(318,967)
Overspend for the year	(1,274)	(25)	(1,299)
Use of schools balances brought forward	0	25	25
Overspend for 2007/08	(1,274)	0	(1,274)

The pupil numbers used to forecast the DSG proved to be higher than the actual numbers, hence the adjustment to the finalised grant allocation. The major area of overspending in the central expenditure was for fees for pupils at independent special schools. Both price pressures and an increase in numbers contributed to the overspending. This pressure was partially offset by a reduced call on the contingency for funding pupils with statements in mainstream schools.

15. 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

2005/06 £'000		2006/07 £'000
112,188	Balance at 1 April	138,858
	Applied in year	
41,927	To capital spend	31,135
(15,257)	Offset against depreciation	(14,713)
26,670		16,422
138,858	Balance at 31 March	155,280

GOVERNMENT GRANTS AND CONTRIBUTIONS - UNAPPLIED

2005/06 £'000		2006/07 £'000
11,936	Balance at 1 April	9,722
	Applied in year	
39,713	Received in Year	36,503
(41,927)	Applied to Spend	(31,135)
9,722	Balance at 31 March	15,090

16. 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 £ 5.054 million (£ 6.427 million in 2005/06) which covered the costs of services provided.

17. Interest Payable and Similar Charges

2005/06		2006/07	
£'000		£'000	
26,807	External Interest Payable	29,342	
(3,871)	Acquiring Authorities Interest Payable	(3,678)	
(1,010)	Other Income	(774)	
1,592	Expenses	782	
23,518		25,672	

18. Interest and Investment Income

2005/06		2006/07	
£'000		£'000	
(5,451)	Interest from Lending	(10,839)	
(5,451)		(10,839)	

19. 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 2006/07.

The County Council is required to account for the use made of the LATS allowance in 2006/07, based on a notional allowance value.

2005/06		2006/07	
Weighted Average value per allowance £20.20		Weighted Average value per allowance £17.98	
Tonnage Allowance	£'000	Tonnage Allowance	£'000
217,183	4,387	207,099	3,728
(169,242)	(3,419)	(175,963)	(3,167)
47,941	968	31,136	561

	Allowances Allocated	Expected Use	£'000
Balance at 1 April 2006	4,387	(3,419)	968
Adjustments to opening balance in respect of changes in volume and value	(3,779)	3,419	(360)
Surplus for the Year	3,728	(3,167)	561
Balance at 31 March 2007	4,336	(3,167)	1,169

20. Lease and Contract Hire

The Income and Expenditure Account incurred charges totalling £1.118 million (£1.420 million in 2005/06) in lease rentals for plant, vehicles and equipment and £0.343 million in respect of contract hire. It is estimated that the outstanding liability, in future years, for leasing charges amounts to £1.055 million and £0.365 million for contract hire.

21. Long Term Debtors

2005/06 £'000		2006/07 £'000
194	Car Loans to Employees	133
196	East Devon College *	180
9,104	Exeter and Devon Airport (EDAL)	0
100	EDAL interest free loan	0
60	Foster Carer loans	60
8	Housing Advances	8
4	Industrial Loans	4
882	Magistrates *	799
64,241	Plymouth & Torbay Councils *	61,675
29,581	Plymouth & Torbay Unfunded pensions	29,857
392	Probation *	360
1,689	Exeter Schools Project - Val. Fund	3,378
534	PLUSS	534
106,985		96,988

* Long term debtors for transferred debt

22. Members' Allowances

The authority pays its elected members basic allowances, special responsibility allowances and travel and subsistence. During 2006/07 £ 993,028 was paid (2005/06, £ 922,144).

23. Movement in Cash and Other Financial Resources

23.1 Movement in Cash, Liquid Resources and Long Term Borrowing

As at 31/03/06 £'000		As at 31/03/07 £'000	Movement £'000
	Movement in Cash and Equivalents		
(5,694)	Short Term Borrowing	0	5,694
(3,877)	Cash (Overdrawn)	7,794	11,671
(9,571)		7,794	17,365
	Movement in Liquid Resources		
144,664	Short Term Investments	260,139	115,475
144,664		260,139	115,475

Liquid resources are short-term investments placed in the money markets for periods of less than one year.

	Movement in Long Term Borrowing		
(448,139)	Public Works Loans Board	(508,139)	(60,000)
(91,500)	Other Lenders	(91,500)	0
(539,639)		(599,639)	(60,000)
(404,546)	Total Net Debt	(331,706)	72,840

23.2 Movement in Other Assets / Liabilities and the Reconciliation between the Cashflow and the Income and Expenditure Account

As at 31/03/06 £'000		As at 31/03/07 £'000	Movement £'000
Movement in Other Current Assets / Liabilities			
65,546	Debtors	54,069	(11,477)
(1,262)	Less provision for bad debts	(820)	442
2,307	Stock and Work in Progress	2,404	97
(72,890)	Creditors	(130,482)	(57,592)
(6,299)		(74,829)	(68,530)
Reconciliation of net cash flow to movement in net debt			
£'000			£'000
1,166	Increase / (decrease) in cash in the period - operational activities		(41,203)
0	Increase / (decrease) in cash in the period - disposal of subsidiary		58,568
(90,000)	Cash inflow from increase in debt financing		(60,000)
43,081	Cash outflow from increase in liquid resources		115,475
(45,753)	Movement in net debt in the period		72,840
(358,793)	Net debt at 1 April 2006		(404,546)
(404,546)	Net debt at 31 March 2007		(331,706)

23.3 Reconciliation of Revenue Cashflow

2005/06 £'000		2006/07 £'000	£'000
(14,001)	Opening General Fund Balance	(14,048)	
(14,048)	Closing General Fund Balance	(14,119)	
(47)	(Surplus) / Deficit for Year		(71)
Non Cash Transactions:			
(16,347)	Contributions (to) / from Earmarked and Schools Reserves	1,143	
(773)	Direct Revenue Financing	(707)	
(702)	Deferred Charges	(702)	
(1,320)	(Increase) / Decrease in Provisions	(2,571)	
(19,142)			(2,837)
Movement in other Assets/Liabilities			
(1,065)	Increase / (Decrease) in Stock	97	
10,422	Increase / (Decrease) in Debtors	(21,308)	
(1,275)	(Increase) / Decrease in Creditors	(57,592)	
(2,450)	Increase / (Decrease) in Capital Creditors	1,365	
5,632			(77,438)
(18,881)	Net Interest Payments		(9,246)
0	Dividend from Associates		0
(32,438)	Revenue Activities Net Cash Flow		(89,592)

24. Officer Remuneration

The number of employees whose remuneration exceeded £50,000 during 2006/07, excluding pension contributions, is set out below:

2005/06				Emoluments £	2006/07			
Schools Staff	Other Staff	Total	Left in Year		Schools Staff	Other Staff	Total	Left in Year
49	15	64		50,000 - 59,999	60	26	86	8
20	11	31		60,000 - 69,999	20	16	36	3
3	5	8		70,000 - 79,999	10	4	14	5
3	2	5		80,000 - 89,999	3	2	5	2
2	3	5		90,000 - 99,999	1		1	
	1	1		100,000 - 109,999	1		1	
	1	1		110,000 - 119,999	1	5	6	
1		1		120,000 - 129,999		1	1	
				130,000 - 139,999	1		1	
				140,000 - 149,999		1	1	
	1	1	1	150,000 - 159,999				

Redundancy and early retirement payments which fall on the revenue account are included in the definition of remuneration. The main reason for the increased level of leavers during 2006/07 was as a result of the corporate redundancy exercise. This together with annual pay awards, are the primary reasons for the increased number of staff with emoluments greater than £50,000.

25. Partnerships and Related Party Transactions

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

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 a note to the Cash Flow Statement.

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. The only material transactions disclosed are in respect of two members that have relatives who are in receipt of social care services from the authority. These contracts were entered into in full compliance with the Council's standing orders and procedures for social care, the County Council's Financial Regulations and Code of Business Conduct. Details of these transactions are recorded in the Register of Members' Interest, open to public inspection at County Hall, Exeter.

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 disclosed.

25.1 Precepts and Levies

The following levies were paid during the year:

	£'000
Environment Agency	207
Devon Sea Fisheries	294
	501

For the financial year 2006/07, 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;

	£
Dartmoor National Park	49,074
Devon Sea Fisheries	5,639
	54,713

The Council gave grants to Dartmoor National Park Authority of £75,000 for the maintenance of footpaths, bridleways and footbridges within the park.

The Devon Combined Fire and Rescue Authority appointed its own Chief Finance Officer with effect from 1 April 2006. In August 2006 the Devon Combined Fire & Rescue Authority ceased to have a balance of surplus cash deposited with the Council. The Council made a final interest payment of £101,752.20.

25.2 Transaction with the Pension Fund

The Council charged the fund £1.483m for expenses incurred in administering the fund.

25.3 Assisted Organisations

The Council paid seven district councils in Devon a total of £570,307 conditional on long term agreements for the daytime use of pools and dual use sports halls by schools, without charge. Grants or financial assistance to charitable bodies are allowable under Section 137 of the Local Government Act, 1972.

The Council provided material financial assistance to the following organisations that comprised 50 % or more of their funding, on terms that gave the Council effective control over their operations.

Citizen' Advice Bureaux The Council paid 11 Citizen' Advice Bureaux a total of £417,000 conditional on long term agreements for the provision of services.

Brentor Commons Association The Association is an independent, registered Charity, set up to manage two areas of Common Land in the vicinity of Brentor. DCC has no formal involvement in, or relationship with, the Association. The Council paid the Association a grant of £1,500 to support conservation enhancement works. A number of conditions were specified in the grant letter to ensure that these objectives were met. The intention is that DCC might promote the Association as an example of how other community groups might get involved in biodiversity projects.

Devon Artist Network. The County Arts Officer is in regular liaison with the organisation and monitors its development and activities. The County Council is not represented on the organisation's board and takes no part in its decision-making process. The Council made a contribution of £31,000 towards the cost of the Network's activities.

25.4 Health Partnerships (Section 31)

The Council operates a pooled budget in conjunction with NHS Primary Care Trusts under the terms of Section 31 of the Health Act 1999, which covers the provision of a Joint Community Equipment Store. The contributors to the pooled budget are Devon County Council and Devon Primary Care Trust.

	Income £'000	Expenditure £'000	Net Expenditure £'000
Section 31 partnerships			
Joint Equipment Store	(1,256)	2,182	926
Other partnerships			
a Against Domestic Violence & Abuse	(367)	641	274
b Devon Partnership Trust	0	985	985
c Drug Action Team	(665)	766	101
d EROCIPS EU Partnership	(834)	777	(57)
e RAFAEL EU Partnership	(225)	251	26
f Safer Devon Partnership	(1,223)	1,289	66
g Supporting People	(20,050)	19,924	(126)
h The Valley Regeneration Scheme	(73)	73	0
i Youth Offending Team	(2,277)	3,329	1,052
j Smaller partnerships (aggregate)	(244)	627	383

The table above shows the gross expenditure of the pooled budget (2005/06, £2.219million). The net expenditure figure shown represents the County Council's contribution to the pool (2005/06, £0.928 million). 50% of the stock held by the partnership is recorded on the Council's balance sheet.

Devon Primary Care Trust was formed on 1 October 2006, and took over the Section 31 partnerships entered into by its predecessor bodies:

- East Devon Primary Care Trust
- Mid Devon Primary Care Trust
- South Hams & West Devon Primary Care Trust.
- Exeter Primary Care Trust
- North Devon Primary Care Trust
- Teignbridge Primary Care Trust

25.5 Other partnerships

- a. The Against Domestic Violence & Abuse Partnership includes the County Council, Devon & Cornwall Police Authority, the National Probation Service, Devon Primary Care Trust, the Department of Communities and Local Government. Additional funding is allocated from the Safer Devon Partnership (see item f. below).

- b. 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.
- c. The Drug Action Team is a partnership between the local authorities and primary care trusts operating in Devon, together with the police authority, the probation service and the prison service. Further assistance is provided by the Home Office and the National Treatment Agency. The team jointly commissions services related to substance misuse education, access to information and development of services for vulnerable people.
- d. The Emergency Response to Coastal Oil, Chemical and Inert Pollution from Shipping project (EROCIPS) consists of a series of work packages designed to provide shoreline responders with the necessary information to ensure a targeted counter pollution response. The overall aim of the project is the 'development of common, trans-national methodologies, tools and techniques for dealing with the shoreline response to coastal pollution incidents, transferable across the EU, in order to support the sustainability of sea transport systems'. The project involves 16 partners from the UK, France, Spain and Portugal working collaboratively and runs until October 2007, under the overall lead of Devon County Council.

The figures shown represent the income and expenditure for the calendar year 2006 and are based on actual grant claims made during this period. Due to delays in making claims, not all expenditure incurred by partners during 2006 will be included. It should also be noted that the apparent surplus of income relates to an advance payment of grant from the Department for Communities and Local Government to the council.

- e. **The Renaissance of Atlantic Food Authenticity and Economic Links project (RAFAEL)** aims to enhance the identity and economy of the Atlantic Area by the concerted promotion of local food production.
- f. The **Safer Devon Partnership** includes the County Council, Devon and Cornwall Police Authority, Devon Combined Fire & Rescue Authority, the National Probation Service and Devon Primary Care Trust. Funding is received from the Department for Communities and Local Government (CLG) via the Safer and Stronger Communities strand of the Local Area Agreement, and contributions from all partners involved. Funding is allocated to projects selected by the Safer Devon Partnership to deal with local and county-wide crime and disorder issues. Funding is passed on to other partnerships including Against Domestic Violence and Abuse and Youth Offending Team (referred to in (a) and (i)). The figures shown represent county-wide spending by the County Council and local spending by Local Crime and Disorder Partnerships, but exclude spending by the ADVA and YOT partnerships, as this is included in their reported income and expenditure.

The total 2006/07 spending that was grant-funded via the Local Area Agreement was as follows:

Analysis by Community	Net	Analysis by Issue	Net
Safety Partnership	£'000	addressed	£'000
East Devon	95	Volume Crime	333
Exeter	89	Anti-Social Behaviour	287
Mid-Devon	87	Domestic Abuse	2
East, Exeter & Mid Devon	16	Drug & Alcohol Crime	268
Northern Devon	134	DAT Coordination	87
South Devon & Dartmoor	197	Prejudice / Hate Crime	43
County-wide	670	Youth Crime Prevention	20
		Amethyst	45
		Safer Devon Partnership	156
		Running costs	47
	1,288		1,288

Not all county-wide projects were undertaken via the County Council.

- g. **Supporting People.** Devon 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.
- h. **The Valley Regeneration Scheme.** The County Council is the accountable body for The Valley Regeneration Scheme, which receives funding from the regional Single Regeneration Budget towards the cost of a variety of schemes in the Wonford (Priory Ward) area of Exeter.
- i. **The Youth Offending Team** is funded by a combination of Government Grants, and contributions from the Council, Devon & Cornwall Police Authority, Devon Primary Care Trust and the National Probation Service. The YOT identifies the needs of each young offender and the specific problems that make the young person offend as well as measuring the risk they pose to others. This leads to the identification of suitable programmes to address the needs of the young person, with the intention of preventing further offending. The figures shown here represent the core funding for the Youth Offending Partnership, along with the funding allocated to crime prevention and other more specific projects.
- j. **Other Smaller Partnerships.** The County Council is also involved in a number of smaller partnerships with a collective gross revenue expenditure of just over £0.4 million. These partnerships typically provide services related to social care and the protection of children. Figures relating to partnerships where the County Council is the sole source of funding have been excluded.

25.6 Subsidiary and Associated Companies and Joint Ventures

Exeter & Devon Airport Ltd. [registered company no. 2148705] was sold by the County Council during 2006. Prior to this sale, the company was a subsidiary of the County Council, which owned 100% of the company's share capital and appointed the company's six non-executive directors. Further details of this sale can be found in note 2, Acquired and discontinued operations

The PLUS Organisation Ltd. [registered company no. 05171613] is a company 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 – each have equal voting rights, and would share equally in the assets & liabilities in the event that the company was wound up. All losses or profits are retained within the company while operating as a going concern. Somerset County Council became an additional member of the company with effect from 1 July 2006. Copies of the company's accounts can be obtained from the PLUS Organisation Limited, 22 Marsh Green Road, Exeter, DEVON, EX2 8PQ.

During 2006/07 the Council supplied management & support services to the **Playlines Trust** to the value of £129,875. Although the objectives of the Trust are complementary to the County Council's own work with young children, the Trust is independent of the County Council, and there is no group relationship. The County Council appoints just one of the eight trustees (although a second trustee is a County Council employee serving in a private capacity), and has no powers to set Trust policy. During 2006/07 the Trust was funded predominantly by grants from Central Government and the National Lottery. A significant part of that grant funding was re-routed to the County Council via the Children and Young People strand of the Local Area Agreement with effect from 1 April 2007, thus changing the nature of the relationship between the Council and the Trust in the financial year 2007/08.

The County Council entered into a new joint venture with Norfolk County Council for the provision of property management services with effect from 1 April 2007 (see note 27).

South West Grid for Learning [registered company no. 5589479]. This is a company limited by guarantee, which started operating part-way through 2006/07. The County Council is one of 15 authorities from the South West that have guaranteed the pensions of former local authority employees transferring to the company (currently just one). The company provides Education IT Support Services.

26. 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. This 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.

26.1 Local Government Pension Scheme

The Local Government Pension Scheme for employees is a funded 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.

26.2 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	
	2005/06	2006/07
	£'000	£'000
Income and Expenditure Account		
Net Cost of Services:		
Current service cost	31,170	34,170
Past service cost	3,620	9,290
Curtailments/settlements	(80)	0
Net Operating Expenditure:		
Interest cost	54,010	56,270
Expected return on assets in the scheme	(39,980)	(47,140)
Net Charge to the Income and Expenditure Account	48,740	52,590
Statement of Movement in the General Fund Balance		
reversal of net charges made for retirement benefits in accordance with FRS17	(48,740)	(52,590)
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers contributions payable to scheme	30,020	31,226
Retirement benefits payable to pensioners (net)	6,598	10,836
	36,618	42,062

26.3 Assets and Liabilities in relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March are as follows:

	Local Government Pension Scheme	
	2005/06	2006/07
	£'000	£'000
Estimated Liabilities in the Scheme		
Funded Liabilities	(1,025,490)	(1,105,870)
Unfunded Liabilities	(114,640)	(117,370)
Estimated Assets in the Scheme	716,500	789,850
Net Asset / (Liability)	(423,630)	(433,390)

The Movement in the Net Asset/Liability for the Year 31 March 2007

	£'000	£'000
Net deficit at the beginning of year		(423,630)
Movement in year:		
Operating Charge:		
Current service cost within 2006/07	(34,170)	
Past service costs	(9,290)	
Gain/loss on any settlements or curtailments	0	
Total Operating Charge		(43,460)
Contributions		
Contributions towards funded liabilities:	35,860	
Contributions towards unfunded liabilities:	8,260	
Total Contributions		44,120
Expected return on Pension Fund assets	47,140	
Interest on pension scheme liabilities	(56,270)	
		(9,130)
Actuarial loss		(1,290)
Deficit in the scheme		(433,390)
Long term debtor in respect of Plymouth & Torbay		29,857
Council's deficit in scheme		(403,533)

The total liability of £433.39m shows the underlying commitments that the Authority has in the long run to pay retirement benefits. This pension fund deficit does not represent an immediate call on the County Council reserves but merely provides a snapshot (at 31 March 2007), with the value of the 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 statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit on the local government scheme is actively managed and will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary and by additional investment income.

26.4 Basis for Estimating Assets and Liabilities

The most recent valuation was carried out as at 31 March 2004, and has been updated by independent actuaries (Hewitt Bacon & Woodrow Limited) to the Council's Pension Fund to take account of the requirements of FRS17 to assess the liabilities of the Fund as at 31 March 2007. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value.

The main assumptions used in their calculations have been:

	31 March 2006 (%pa)	31 March 2007 (%pa)
Discount rate for scheme liabilities	3.0	3.2
Rate of general long-term increase in salaries	4.5	4.7
Rate of increase in pensions in payment	3.0	3.2
Rate of increase in deferred pensions	3.0	3.2
Discount rate	4.9	5.3
Take-up of option to convert annual pension into retirement grant	50.0	25.0

Assets in the County Council Pension Fund are valued at fair value, principally market value for investments, totalling £2,183.52m for the Fund as a whole at 31 March 2007 (£1,977.41m at 31 March 2006).

The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	Long-term Return 2007 (%)	Proportion of Assets Held			
		31 March 2007 %	31 March 2006 %	31 March 2007 £'000	31 March 2006 £'000
Equities	7.7	68.32%	68.73%	1,491.76	1359.12
Property	6.7	9.98%	9.77%	217.87	193.16
Government Bonds	4.7	14.06%	15.25%	307.10	301.55
Corporate Bonds	5.3	0.81%	0.65%	17.70	12.91
Other assets	5.6	6.83%	5.60%	149.09	110.67

26.5 Actuarial Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2007:

	2002/03		2003/04		2004/05		2005/06		2006/07	
	£m	%	£m	%	£m	%	£m	%	£m	%
Difference between expected and actual return on assets	(118.06)	(29.40)	71.24	14.10	27.12	4.70	100.87	14.10	9.41	1.20
Experience gains (losses) on liabilities	2.79	0.50	(0.87)	(0.10)	(19.32)	(1.90)	(0.92)	(0.10)	0.04	0.00
Change in Assumptions	(0.27)	0.00	1.46	0.20	(200.31)	(19.80)	(73.01)	(6.40)	(10.74)	(0.90)
Net Gain / (Loss)	(115.54)		71.83		(192.51)		26.94		(1.29)	

In assessing liabilities for retirement benefits as at 31 March 2007, the following changes in assumptions when comparing to 2005/06 have been used by the actuary:

The financial assumptions can be found in note 26.4 and has resulted in a reduction on the liabilities measured at £38.33 million.

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

- It is assumed that 25% of members will commute the maximum amount of pension possible. This is a reduction from the assumption of 50% used for FRS17 accounting figures last year and is based on experience of Devon County Council Pension Fund.
- Further life expectancy improvements have been identified in pension schemes with the post retirement mortality assumption being changed to reflect this.

The above changes has resulted in an increase in the value placed on the liabilities of £49.07 million.

26.6 Teachers Pension Scheme

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions. 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 2006/07, the County Council paid £24.587 million (£23.382 million in 2005/06) to Capita Hartshead on behalf of the Teachers Pensions Agency, in respect of Teacher's pension costs. For 2006/07 this represented 13.5% until January 2007 when it changed to 14.10% (13.5% in 2005/06) 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.

27. Post Balance Sheet Events

On 1 April 2007, the Council entered into a 15 year Joint Venture Agreement with NPS South West Ltd – a company owned jointly by NPS Property Consultants Limited and Devon County Council in the shares of 8:2 respectively. The company has been set up to deliver property management services as specified in a provision of services agreement.

The County Council has identified a preferred supplier for the provision of some residential and domiciliary social care services, which is likely to involve the transfer of the Council's residential cares homes. We will seek to conclude negotiations before the end of the 2007/08 financial year.

At the time of preparing these accounts, a response from the DCSF is awaited regarding written confirmation of ownership of the balance on the Mandatory Student Grants Account. In the absence of this written assurance, a contingent liability has been included within the notes to these accounts on page 51.

28. Provisions

These 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.

2005/06 £'000		Contribs £'000	Expend £'000	2006/07 £'000
664	Insurance Fund prior to 01/04/98	43	(137)	570
9,500	Insurance Fund from 01/04/98	4,792	(2,888)	11,404
173	Out of date cheques	65	(22)	216
90	ACC Pensions			90
2,907	Stepped Interest Rate Loan	41		2,948
620	Social Care	216	(468)	368
642	Property Related	44	(87)	599
100	Waste Management	715	(32)	783
421	Trading Accounts	366	(77)	710
15,117	Total	6,282	(3,711)	17,688

28.1 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 Fund Prior to 01/04/98 covers claims arising from events prior to Local Government re-organisation on the 1 April 1998. A separate fund has been created for the period after 1 April 1998. Both funds are currently sufficient to meet registered claims as at 31 March 2007. These claims plus any new claims will be paid in future years.

28.2 Out of Date Cheques

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

28.3 Association of County Councils's Pensions

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

28.4 Stepped Interest Rate Loan

To equalise interest payable in respect of a number of stepped Interest rate loans.

28.5 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 2007/08.

28.6 Trading Accounts

Provisions required in respect of Devon County Council trading accounts. It is anticipated that a significant proportion of these provisions will be required in 2007/08 although others may be used over the next 20 years.

29. Publicity Expenditure

Per the requirement of section 5(1) of the Local Government Act 1986, the Council's spending on publicity was:

2005/06		2006/07
£'000		£'000
131	Press & Publicity Office	158
69	Devon's Online Roving Information Service	64
32	Devon Link Magazine	29
44	County Council Exhibit at the Devon County Show	45
341	Waste Minimisation Campaign - other funding	267
2,376	General Publicity	1,805
2,993	Total net publicity expenditure	2,368

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

30. 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.

PURPOSE	Opening Balance 2006/07	Net Movement in Year	Closing Balance 2006/07
A Usable Capital Receipts Reserve	655	53,134	53,789
B Fixed Asset Restatement Account	404,167	17,042	421,209
C Capital Finance Account	319,516	(21,639)	297,877
Pension Reserve			
D Pensions Reserve	(394,049)	(9,484)	(403,533)
Other Reserves			
E Landfill Allowance Trading Scheme Reserves	968	201	1,169
Fund Balances and Reserves			
F Earmarked Reserves	53,343	(1,118)	52,225
G Held by Schools under Delegated Management	10,935	(25)	10,910
H Working Balances County Fund	14,048	71	14,119
Total Financing	409,583	38,182	447,765

Purpose of Reserve

A	Proceeds of fixed asset sales available to meet future capital investment
B	Store of gains and losses on revaluation of fixed assets
C	Store of capital resources set aside to meet past expenditure
D	Balancing account to allow inclusion of pension liability in the balance sheet
E	Stores the balance of unused allowances at current value
F	See Note 30.1 for detail
G	See Note 30.1 for detail
H	See Statement of Movement on General Fund

30.1 Earmarked Reserves

Balance 2005/06 £'000	Reference		Contribs to / (from) Reserves £'000	Expenditure £'000	Balance 2006/07 £'000
Contingency Reserves					
1,110	1	Roads Emergency			1,110
593	2	Reinstatement of Existing Landfill Sites		(15)	578
4,327	3	Redundancy	2,160	(6,475)	12
100	4	Prior Year Tax			100
78	5	Inspection / Implementation			78
572	6	New Road & Street Works Act Fund		(133)	439
200	7	Blighted Properties			200
2,200	8	Waste Management Fund	641	(115)	2,726
Reserves for Planned Developments					
738	9	Local Initiatives	504	(416)	826
1,093	10	European / Matched Funding	498	(614)	977
900	11	Systems Development Fund	3,022	(2,428)	1,494
134	12	Procurement Initiative		(24)	110
171	13	Emergency	53	(5)	219
46	14	Energy & Water Efficiency	6	(2)	50
1,285	15	Customer Access Strategy	876	(1,356)	805
8,950	16	Transition Fund	3,832	(7,320)	5,462
3,679	17	Financing Fund	(1,301)	(1,420)	958
5,222	18	Modernisation Fund	(915)	(1,450)	2,857
29	19	Office Rationalisation	(29)		0
80	20	Revolving Loan Fund	(80)		0
4,918	21	Affordable Housing		(1,626)	3,292
2,150	22	Development Fund			2,150
2,344	23	PSA Reward	1,096	(1,590)	1,850
1,374	24	LPSA2 Pump Priming		(372)	1,002
3,236	25	PFI Sinking Fund			3,236
746	26	Local Authority Business Grant	1,461	(311)	1,896
2,490	27	Extra Care Housing	2,500	(430)	4,560
0	28	Service Development	10,265		10,265
Trading Accounts Reserves					
574	29	Trading Accounts	(114)		460
290	30	Building Maintenance	204	(114)	380
Budget Management Reserves					
3,714	31	Directorate Budget Carry Forwards	4,133	(3,714)	4,133
10,935	32	Schools Carry Forwards	10,910	(10,935)	10,910
64,278		Total	39,722	(40,865)	63,135

See next page for reference details.

1	Roads Emergency – funding for emergency road maintenance.
2	Reinstatement of Existing Landfill Sites - to cover unexpected upward movement in the cost of the 10 year plan for redundant landfill site restoration.
3	Redundancy – to finance redundancy costs and early retirement costs of restructuring.
4	Prior Year Tax – to meet future liabilities with regard to tax inspections and review.
5	Inspection & Implementation – to meet unexpected impacts of CPA and other inspections.
6	New Road & Street Works Act – development of policies for promotion and encouragement of safe integrated efficient and economic transport facilities.
7	Blighted Properties – to finance the future costs of blighted properties.
8	Waste Management Fund – to provide funding of new facilities to meet EU Landfill Directives.
9	Local Initiatives – to fund local initiatives and community development.
10	European Funding/Matched Funding – to provide matched funding for Externally Funded Projects.
11	Systems Development Fund – to facilitate the development of major ICT systems.
12	Procurement Initiatives – funding for procurement initiatives.
13	Emergency – reserves held in respect of emergency planning initiatives.
14	Energy and Water Efficiency – receives savings from investments in energy and water efficiency and funds new projects.
15	Customer Access Strategy – to fund development that will improve the public access to County Council services.
16	Transition – reserves to fund future transitional cost of modernisation.
17	Financing Fund – fund set aside to finance capital expenditure on agreed schemes.
18	Modernisation – fund for the modernisation of County Council services.
19	Office Rationalisation Fund – to finance the rationalisation of the office estate.
20	Revolving Loan – a fund to pump prime community development projects, loans to communities to be repaid if and when alternative funding achieved.
21	Affordable Housing – fund held to finance projects jointly agreed with Districts.
22	Development Fund – to provide financing for infrastructure renewal in County Council services.
23	PSA Reward – to pump prime and provide one off support for new development
24	LPSA2 Pump Priming – to pump prime and provide one off support for new development.
25	PFI Sinking Fund – to manage the payments and income relating to the Exeter School's PFI Scheme
26	Local Authority Business Grant – to Fund Economic Development Projects as part of the LAA
27	Extra Care Housing – to fund housing for vulnerable adults
28	Service Development – fund held to promote service development
29	Trading Accounts – surplus on internal trading unit accounts
30	Building Maintenance – fund held in respect of schools building maintenance.
31/32	Budget Management – funds into which budget underspends or overspends within the council's overall scheme of budget management are paid.

31. Schemes under the Transport Act 2000

Devon County Council did not operate any schemes under this act in 2006/07.

32. Stock and Work In Progress

2005/06		2006/07
£'000		£'000
0	Children & Young Peoples' Service	0
302	Adult & Community Services	483
656	Environment, Economy and Culture	523
1,349	Other	1,398
2,307	Total Stocks and Work in Progress	2,404

The figure shown for Adult and Community Services stocks reflects an adjustment to the Joint Equipment Store Stock to reflect the split of the pooled budget arrangement operated in conjunction with Primary Care Trusts.

33. The General Fund

33.1 Statement of Movement on the General Fund Balance

2005/06		2006/07
Restated £'000	Notes	£'000
(18,769)	Depreciation and impairment of fixed assets	(37,070)
15,257	Government Grants Deferred amortisation matching depreciation and impairments	14,713
(2,971)	Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute (ie Deferred Charges)	(21,029)
(20,826)	Net gain or loss on sale of fixed assets	(13,634)
(48,740)	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	(52,590)
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		(109,610)
17,862	Statutory provision for repayment of debt - MRP	19,216
(2,002)	Other Charges	(1,808)
(2,672)	Plymouth and Torbay Principal	(2,566)
563	Capital expenditure charged to the General Fund Balance	707
36,618	Employer's contribution payable to the Devon Pension Fund and retirements benefits payable to pensioners	42,062
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		57,611
149	Voluntary provision for repayment of debt	1,202
14,277	Net transfer to (or from) earmarked reserves	(950)
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		252
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)		(51,747)

34. Trading Accounts

The County Council has a number of trading units where the service manager is expected to balance their budget by generating income from other parts of the authority or other organisations. Details of those units which trade with the public or who provide services in an internal market are given below. These surpluses / (deficits) have been calculated in accordance with the Best Value Accounting Code of Practice and include adjustments for non-operational costs (e.g. FRS17 adjustments, capital and central charges etc) and costs associated with the Job Evaluation arrears of pay.

2005/06		2006/07	
£'000		£'000	£'000
	Supply Zone is the procurement trading unit for the Authority	Turnover - External	(3,880)
		Turnover - Internal	(3,175)
		Expenditure	7,177
(49)		(Surplus) / Deficit	122
	Devon Cleaning and Catering Services provide cleaning, caretaking and catering services	Turnover - External	(7,917)
		Turnover - Internal	(8,967)
		Expenditure	19,250
878		(Surplus) / Deficit	2,366
829 Net (Surplus) / Deficit on trading accounts			2,488

During 2006/07, Devon Supply Zone operated independently of the Corporate Procurement Unit. The turnover for the year significantly reduced from the previous year. Additionally the unit funded Job Evaluation arrears of pay which increased the deficit.

Prior to the Job Evaluation arrears and redundancy payments, the Cleaning trading unit made a surplus and the Catering trading unit a small deficit. The Job Evaluation arrears and redundancy costs increased the deficit by £2.3m.

35. Trust Funds

2005/06					2006/07			
CYPS £'000	ACS £'000	Others £'000	Total Funds £'000		CYPS £'000	ACS £'000	Others £'000	Total Funds £'000
1,480	40	22	1,542	Balance at 1 April	1,444	26	22	1,492
42			42	Revaluations	108			108
75	1		76	Income	122	1		123
7			7	Transfer income		13		13
(160)	(15)		(175)	Less Expenditure	(121)	(2)		(123)
1,444	26	22	1,492	Balance 31 March	1,553	38	22	1,613
Represented by								
146	26		172	Cash and Debtors	147	38		185
10		22	32	Internal Investments	10		22	32
1,288			1,288	Land, Buildings and Investments	1,396			1,396
1,444	26	22	1,492	Total	1,553	38	22	1,613
43	7	2	52	Number of Funds	47	7	2	56

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
- Money held in trust for Social Services clients
- Certain funds used to finance capital projects or maintain fixed assets. The statement above summarises the finances of these funds. Since they do not belong to the County Council, the figures DO NOT appear in the Council's Balance Sheet.

The Pension Fund Accounts

2005/06	Fund Account	2006/07
£'000	Contributions and Benefits	£'000
	Contributions receivable:	
89,866	Employers	99,201
965	Employers – Additional Capital Contributions	540
29,705	Employees	32,109
18,529	Transfers in from other schemes	18,339
139,065		150,189
	Benefits Payable:	
(67,982)	Pensions	(72,978)
(13,274)	Lump Sums	(20,564)
(1,066)	Death Benefits	(1,885)
(232)	Refunds	(75)
(13,113)	Transfers out to other schemes	(7,059)
(1,020)	Administration expenses	(1,201)
(96,687)		(103,762)
42,378	NET ADDITIONS / (WITHDRAWALS) FROM DEALINGS WITH FUND MEMBERS	46,427
	Returns on Investments	
32,662	Investment Income	34,821
(1,494)	Investment Management expenses	(1,509)
351,949	Change in Market Value of Investments:	121,714
383,117	Net Returns on Investments	155,026
425,495	Net Increase / (Decrease) in the Fund during the year	201,453
1,560,473	Opening Net Assets of the Fund at 1 April	1,985,968
1,985,968	Net Assets of the Fund at 31 March	2,187,421

Net Asset Statement

Investments at Market Value		
	Fixed Interest	
88,760	U.K. Government Stocks	107,242
104,301	U.K. Index Linked Stocks	94,071
80,592	Overseas	77,630
35,439	Other	38,910
	Equities (Listed)	
202,125	U.K.	210,265
226,651	Overseas	244,201
751,282	Managed Funds	830,578
193,162	U.K. Property Unit Trusts	217,865
78,883	Other Unit Trusts	90,219
105,727	Unlisted Securities	123,888
3	Foreign Currency	269
1,866,925		2,035,138
111,448	Cash and Short Term Loans	137,313
15,451	Current Assets	21,596
(7,856)	Current Liabilities	(6,626)
119,043		152,283
1,985,968	Net Assets of the Fund at 31 March	2,187,421

Notes to the Pension Fund Accounts

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 83 active employers may join the fund.

At 31 March 2007 there were 36,563 contributors and 37,220 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, the staff and retired members control the investments with advice from specialists.

2. General Accounting Principles

The Fund Accounts are prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1999 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 (ASB) 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 market value.
- Debtors and creditors are raised for all amounts outstanding at 31 March 2007.
- 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 the payments and reimbursements.
- The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.

3. Statutory Statements

As required by the LGPS Regulations a number of Statutory Statements have been prepared and published by Devon County Council (as the Administering Authority). They are as follows:

3.1 Statement of Investment Principles

A Statement of Investment Principles (S.I.P) was approved by the Investment & Pension Fund Committee and published in February 2000. The S.I.P has subsequently been revised and updated by the Committee in May 2007. The current S.I.P is available on the County Council's website at www.devon.gov.uk/statement_of_inv_principles.pdf

3.2 Funding Strategy Statement

A Funding Strategy Statement was approved by the Investment & Pension Fund Committee and published in March 2004. This statement describes the County Council's strategy for the funding of the Pension Fund (and was prepared having regard to the guidance published by CIPFA in March 2004). Full details are published on the County Council's website at www.devon.gov.uk/strategy_statement090305.pdf.

3.3 Governance Policy Statement

A Governance Policy Statement was approved by the Investment & Pension Fund Committee and published in February 2006. This statement sets out the Administering Authority's policy on Fund governance including the representation and participation of key stakeholders on the Investment & Pension Fund Committee. Full details are published on the County Council's website at www.devon.gov.uk/governance_policy_statement.pdf

3.4 Communications Strategy Statement

A Communications Strategy Statement was approved by the Investment & Pension Fund Committee and published in February 2006. This statement describes the Fund's strategy for communicating with its various stakeholders. Full details are published on the County Council's website at www.devon.gov.uk/communications_policy_statement.pdf

4. Employers' Contributions

The Employers contribute to the Fund on the basis of recommendations made by the Actuary from time to time. A valuation was carried out during 2004-05 covering the three years ending 31 March 2004. The resulting changes in contribution rates were implemented in 2005/06.

5. 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 amounting to £0.314m for investment management and accounting and in administration expenses £1.169m for pensions administration expenses. These have been incurred for the internal cost of providing the services.

6. Cost of Investment

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

7. 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 rates prevailing on 31 March. Where appropriate income receipts, purchases and sales of overseas stocks are converted into sterling at or about the date of each transaction and are accounted for using the actual exchange rate received. Transactions undertaken entirely in foreign currencies are converted into sterling for accounting purposes using rates supplied by Euraplan/ External Investment Managers.

8. Market Value of Investments

Market values of stock market investments are provided by Euraplan Limited. Managed Funds, Unit Trusts and other pooled investment vehicles are valued by the individual managers. Unlisted investments totalling £123.9m are held by the Fund, and have been valued by the individual fund managers at market value.

9. Value Added Tax

The Fund is reimbursed VAT by HM Customs and Excise and the Accounts are shown exclusive of the tax.

10. Income Tax

The Pension Fund is an exempt Fund, and where permitted UK Income Tax on interest and dividends is recoverable from the Inland Revenue. Legislative changes (as a consequence of the Budget on 2 July 1997) mean that pension funds are no longer able to redeem the 20% tax credit attached to UK company dividends. Since that date UK company dividends are included net of the tax credit. Withholding tax is payable on income from overseas investments. This tax is recovered wherever local tax laws permit.

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. The amount which may be recoverable is not currently quantifiable.

11. Investment Transactions

In 2006/07 the transactions of the Fund comprised £789.6 million purchases and £639.8 million sales.

12. Actuarial Valuation

An actuarial valuation of the Fund was last carried out at 31 March 2004. At this date the Fund had assets with a market value of £1,348.3 million. In Actuarial terms this represented a solvency level of 61%. Contribution rates are set with a target of bringing assets to 100% of liabilities over a period of approximately 25 years. The valuation was prepared using the Smoothed Market Value method and the following actuarial assumptions were made. Rate of Return on Assets 5.2%pa (after retirement), 6.2%pa (before retirement), Rate of Pay Increases 4.4%pa, Rate of Pension Increases 2.9%pa (on pensions in excess of guaranteed minimum pensions), Rate of Price Inflation 2.9%pa. The results were implemented with effect from 1 April 2005. The statutory triennial actuarial valuation of the Fund, as at 31 March 2007, is currently underway and the recommendations of the Actuary will be due for implementation from 1 April 2008.

13. Employer transfer into the Devon Fund

During 2006/07 the Investment & Pension Fund Committee agreed to admit Somerset County Enterprise who were transferred under TUPE to the PLUSS Organisation (an existing admitted body in the Devon Fund). The bulk transfer value agreed between the Devon & Somerset Fund Actuaries was £ 1.996m.

14. Investment Management Arrangements

The Fund is managed by the In-house Investment Team and three external managers in the following proportions at 31 March 2007.

	£'000	%
DCC Investment Team	849,744	39.1
UBS	251,081	11.6
Capital International	241,048	11.1
UBS (Managed Fund)	394,643	18.2
SSGA (Managed Fund)	435,935	20.0
Total	2,172,451	100.0

15. Stock Lending

The Local Government Pension Scheme Regulations 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 2006/07 the In-house managed funds and both external managers lent both UK and Overseas stocks. State Street Bank acts as custodian to the In-house funds and to one of the external managers (Capital International) and has been authorised to lend on behalf of both. JP Morgan Worldwide Securities Services act as custodian for the other external manager (UBS), and have been authorised to lend stocks from this portfolio. Collateral is required against all loans in the form of cash or another approved form of security. At 31 March 2007 the total stock on loan amounted to £46.995m (2.15% of total fund value).

	£'000
DCC In-House	25,980
Capital International	7,343
UBS	13,672
Total	46,995

16. Analysis of Investments

	U.K	£'000	Overseas	£'000
Fixed Interest	218,464		99,389	
Equities (Listed)	210,265		244,201	
Managed Funds	535,878		294,700	
Property Unit Trusts	217,865		0	
Other Unit Trusts	35,079		55,140	
Unlisted Securities	69,293		54,595	
Cash and Short Term Loans	137,313		269	
Total	1,424,157		748,294	

17. Investment Income

	£'000
Fixed Interest:	
UK Government Stocks	5,182
UK Government Index Linked Stocks	2,270
Overseas Government Stocks	2,654
Other	1,035
Equities (Listed):	
UK	7,048
Overseas	3,378
UK Property Unit Trusts	7,119
Other Unit Trusts	32
Interest on Short Term Investments/ Bank Deposits	6,097
Underwriting Commission	6
Total	34,821

18. Analysis of Managed Funds

	UBS £'000	SSGA £'000
U.K.	394,643	141,235
North America		118,599
Europe		129,487
Japan		46,614
Total	394,643	435,935

19. Scheduled and Admitted Bodies

The scheduled and admitted bodies who are contributors to the Pension Fund are listed below.

Principal Councils

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

Other Major Service Providers

Dartmoor National Park Authority
 Devon & Cornwall Police Authority
 Devon & Cornwall Probation Service
 Devon Fire & Rescue Authority
 Devon Sea Fisheries Committee

Town & Parish Councils

Ashburton Town Council
 Barnstaple Town Council
 Bideford Town Council
 Bovey Tracey Town Council
 Braunton Parish 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 Town Council
 South Molton Town Council
 Tavistock Town Council
 Totnes Town Council
 Ugborough Parish Council
 Woodbury Parish Council

Other Scheduled Bodies (deemed)

Plymouth City Bus

Foundation Schools

Colyton Grammar
 Devonport High School for Boys
 Knowles Hill School
 Paignton Hayes Road Primary School
 St. Boniface R.C. Boys College
 Teign School
 Torquay Boys Grammar School
 Uffculme School

Further / Higher Education Corporations

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

Admitted Bodies

Call 24 Hour Ltd.
 Carillion JM Ltd.
 Dame Hannah Rogers School
 Leisure East Devon Ltd.
 NCP Ltd.
 North Devon Crematorium Committee
 North Devon Homes Ltd.
 Open College Network – SW Region
 PLUSS
 Plymouth Citizen's Advice Bureau
 Plymouth Keyham Community Partnership
 Plymouth Millfield Economic Development Trust
 Plymouth Shopmobility
 Plymouth Wolseley Development trust
 Riviera Housing Trust
 Royal School for the Deaf, Exeter
 South West Tourism
 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.

20. Contingent Liabilities

On 1 December 2005 staff employed by Torbay in providing social care services were transferred to the Torbay Primary Care Trust. From that date pension contributions for those employees went to the National Health Service Pension Scheme (NHSPS). 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 NHSPS. The detailed results of these elections have now been finalised and the Devon Fund Actuary is in negotiations with the Government Actuary's Department (Actuary to the NHSPS) over the final value of the bulk transfer value. The Devon Fund Actuary estimates that it should not exceed £15m. The cash transfer will be concluded in 2007/08.

On 1 April 2007 staff employed by Devon County Council in providing property design and maintenance were transferred to the NPS (SW) Ltd. From that date pension contributions for those employees went to the Norfolk County Council Pension Fund. 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 Norfolk Fund. 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 2007/08.

21. 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. The first capital receipt will be due in 2007/08.

22. Pension Fund Annual Report

A more detailed annual report on the activities of the Pension Fund is available from the County Council's website at www.devon.gov.uk/pensions/investments.html or by request in writing from the Investment Manager, Devon County Council, County Hall, Exeter, EX2 4QJ.

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. Accounting policies do not include estimation techniques.

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 expert on long-term 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 is usually used to 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 & Expenditure Account and reserves.

ASSOCIATE

For the purposes of the group accounts, 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 joint venture or a subsidiary.

BALANCE SHEET

The accounting statement which sets out the Council's total net assets and how they were financed.

BUDGET

A 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 the use of fixed capital assets.

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. This is similar to the definition used in most commercial accounts. However, a few 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 FINANCING ACCOUNT

Contains the amounts to be 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 the amount for Minimum Revenue Provision.

CAPITAL RECEIPTS

Income received from the sale of capital assets and available, subject to rules laid down by Government, to finance new capital expenditure or to repay debt.

CASHFLOW STATEMENT

Summarises the inflows and outflows of cash 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.

CONTINGENCIES

Sums set aside within a budget to meet the cost of items that are difficult to predict in terms of timing or scale.

CONTINGENT LIABILITIES

They 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.

CREDIT CEILING

Statutorily prescribed measure of net indebtedness arising from historical capital transactions.

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.

DEFERRED CHARGES

Expenditure which accounting rules allow to be held on the balance sheet and written off over several years, even though it did not result in the creation of a fixed asset.

DEPRECIATION

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

The financing of capital expenditure from revenue monies rather than from loan or other capital funds.

FINANCIAL REPORTING STANDARDS (FRS)

These standards are set nationally by the Accounting Standards Board, and are complementary to the Statements of Standard Accounting Practice.

FIXED ASSETS

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

FIXED ASSET RESTATEMENT ACCOUNT

Represents the difference between the revalued amount for fixed assets and their original cost.

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 shown in note 14 to the cash-flow statement on page 55:

- CLG = (Department of) Communities & Local Government
- DCMS = Department for Culture, Media & Sport
- DEFRA = Department of the Environment & Rural Affairs
- DfES = Department for Education & Skills
- 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

GROUP ACCOUNTS

A consolidation of the County Council's major financial statements with those of its subsidiaries, joint ventures and associates.

IMPAIRMENT

A reduction in the value of a fixed asset, measured by specific means, below its stated amount in the balance sheet.

IN AND OUTS

Capital receipts earmarked for spending on replacement assets.

INCOME AND EXPENDITURE ACCOUNT

This is the Account which sets out the Council's Income and Expenditure for the year for non-capital spending. It is sometimes referred to as the Revenue Account.

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.

JOINT VENTURES

For the purposes of the group accounts, 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 of £150 per tonne, unless additional allowances can be purchased from other local authorities. The County Council is required to show a notional book value for the allowances allocated in the revenue account and to show the unused allowances on the balance sheet, even though no actual cash has changed hands.

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. In some circumstances it may be more appropriate to make provisions that anticipate future exercise of such options, in order to spread the effect over the entire length of the loan. This treatment does not affect the total amount of interest paid.

LOANS OUTSTANDING

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

MARKET VALUE

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 to the Income & Expenditure Account each year towards the cost of repaying external debt.

NET BOOK VALUE

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. The two concepts are similar, and are often confused. In 2006/07, the County Council paid levies to the Devon Sea Fisheries Committee and the Environment Agency. The County Council also issued precepts upon the Council Tax Collection Fund operated by each of the eight District Councils in its area.

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 via a long-term performance-related contract.

PRIVATE FINANCE INITIATIVE REVALUATION RESERVE

The County Council's PFI contract for Exeter schools results in the school buildings being handed over to the County Council without further charge at the end of the contract period. The PFI revaluation reserve spreads the value of the buildings being acquired over the contract period, in order to reflect the extent to which contract payments will ultimately result in additional assets for the County Council.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies, or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. 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 appropriate service Revenue Accounts.

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

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 service Revenue Accounts. The Reserves balances form part of the earmarked section of the County Fund.

REVENUE EXPENDITURE

Expenditure on the day-to-day provision of services.

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.

SERVICE LEVEL AGREEMENT (SLA)

Service Level Agreements set out the type and standard of service that one organisation provides to another, or – more frequently – the services provided by one part of an organisation to another part of the same organisation.

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)

Recommendations by the Accounting Standards Board as to accounting treatment, but which do not have the same force as Financial Reporting Statements or Statements of Standard Accounting

Practice. SORPs are usually used to provide greater detail regarding the appropriate accounting treatment for a particular sector, such as local authorities or charities.

SUBSIDIARY

For the purposes of the group accounts, a subsidiary is an organisation over which the County Council is able to exercise control in respect of its operating & financial policies, and from which the County Council is able to gain benefits or is exposed to the risk of potential losses.

STATEMENT OF STANDARD ACCOUNTING PRACTICE (SSAP)

Standard accounting treatment of specific types of transaction as laid down by the Accounting Standards Board. These statements are predecessors to the Financial Reporting Standards, and still apply to issues for which no Financial Reporting Standard has been issued: eg, the treatment of stocks.

TEMPORARY BORROWING

Borrowing for temporary purposes for a period of less than one year.