

Financial Services



STATEMENT OF ACCOUNTS

2004/05

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

TORBAY COUNCIL

STATEMENT OF ACCOUNTS 2004/2005

	Page
Explanatory Foreword	3 –10
Statement of Accounting Concepts and Accounting Policies	11-19
Statutory Statements	
Consolidated Revenue Account	20
Notes to the Consolidated Revenue Account	21-32
Collection Fund Summary Account	33-35
Consolidated Balance Sheet	36-37
Notes to Consolidated Balance Sheet	37-57
Cash Flow Statement	58-60
Statement of Total Movement in Reserves	61-63
Appendix	
Harbour Revenue Accounts	64-65
Operating Services Accounts	66
Financial Certificates	
Statement of Responsibilities for the Statement of Accounts	67-68
Auditors' Report to Torbay Council	69-70
Statement on Internal Control	71-76
Glossary of Financial Terms	77-82

Explanatory Foreword

1 Introduction

The Statement of Accounts for 2004/05 has been prepared in accordance with “The Code of Practice on Local Authority Accounting in the United Kingdom 2004” published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This lays down the proper accounting practice for Local Authorities. Any departures from this standard are referred to in the notes.

2 Financial Overview

The Council's management is linked to its overall aims and priorities. These aims and objectives, with a summary of the Council's budgetary position are included in the Council's 2005/2006 Best Value Performance Plan (BVPP) and its Corporate Plan 2005-2008. These are available on the Council's website:- www.torbay.gov.uk.

The 2004/05 financial year was another year of significant change and challenges for the Council.

Torbay was assessed in December 2004 as a “Fair” performing Council under the Government's Comprehensive Performance Assessment. This was the second consecutive improvement in performance and was identified as one of the top five most improving Councils in the country. Following the last assessment the Council reorganised its services in January 2005 to a Strategic Director structure to improve Council performance further.

The Council initially set a Revenue budget of £139.429 million for 2004/2005 (an increase of 3.3% over 2003/2004). This equated to a Band D Council Tax of £999.05 for the Torbay Council Tax requirement, an increase of 9.95%. The Total Council Tax Band D including the Devon and Cornwall Police Authority and Devon Fire Authority was £1,168.08, an overall increase of 10.1%. This was the first year the Devon Fire Authority was a precepting body rather than funded from within the Council's overall budget.

However, in July 2004 the Council's budget was nominated (capped) by the Government and had to reduce its budget by at least £614,000. Subsequently the Council set a revised budget of £138.815 million for 2004/2005 (an increase of 2.8% over 2003/2004). This equated to a Band D Council Tax of £985.93 for the Torbay Council Tax requirement, an increase of 8.5%. The Total Council Tax Band D including the Devon and Cornwall Police Authority and Devon Fire Authority was £1,154.91, an overall increase of 8.9%. The Council resolved to fund this capping from reserves to protect services.

The Council's budget requirement of £138.815 million is primarily funded from Central Government grant and redistributed NNDR (£92.256 million or 66%), with the balance funded from local taxpayers (£46.559 million or 34%). In addition the Council also generated income from services and other specific government grants, which supports the provision of services.

The Council faced a number of financial pressures in 2004/05. The main pressures being within housing services from increased demand of homelessness cases and from other demand led social services including the supporting people initiative and children's social services. The Council gained from Non Domestic Rate rebates and from pro active treasury management that enabled a balanced budget position to be attained. During the year the Council transferred the responsibility of the Adult Education function to South Devon College.

In setting its 2005/06 budget based on prioritisation and consultation the Council made a reduction in a number of services. Some of the “one off” costs associated with this process were provided for within 2004/05.

The Council's Executive on the 14th June 2005, and subsequently ratified by Full Council on the 21st July 2005 considered a Provisional Outturn Report for 2004/05 (Report 151/2005). The final net underspend for 2004/05 transferred to the General Fund Reserve was £413,000, (or 0.3% of approved budget).

The Consolidated Revenue Account on page 20 shows that the final outturn position for 2004/05 has increased the Council's General Fund Balance at the year end to £2.672 million. (2003/4: £2.259 million).

2004/05 also saw the introduction of greater freedom for Councils to borrow to fund capital investment (under the Local Government Act 2003) subject to compliance with the new CIPFA Prudential Code for Capital Finance in Local Authorities. This required the Council to set and monitor a suite of Prudential Indicators, including its Affordable Borrowing Limit, and establish its policy for using the new freedoms.

The Council introduced a new Financial Information and Management System in February 2005, and these accounts have been prepared from the new system.

3 Statement of Accounts

The Statement of Accounts is over 80 pages long with its form and content mostly prescribed by legislation. The Accounts consist of a number of financial statements and supporting notes to them. A summary statement is also being prepared for wider, more public, distribution.

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

4 The Consolidated Revenue Account

This statement reports the actual revenue expenditure and income of the services for which the Council is responsible. It demonstrates how the net cost has been financed from Central Government Grants and from local taxpayers and brings together expenditure and income relating to all of the Authority's functions.

A summary of the Consolidated Revenue Account for 2004/05 is shown below in comparison with the revised budget (the detailed account is shown on page 20). Note where required the budget and actual for both 2003/04 have restated to incorporate changes in accounting policy.

Summary Consolidated Revenue Account

	Budget £m	Net Expenditure £m	Variance £m
	2004/2005	2004/2005	2004/2005
Net Cost of Services	149.2	145.1	(4.1)
Surplus on Trading Undertakings	0	(0.0)	0
Non Operational Assets – Investment Properties	(0.4)	(0.4)	0
Asset Management Revenue Account	(5.1)	(5.0)	0.1
Pensions Interest Cost and Return on Assets	2.1	2.1	0
Debt Restructuring	0	(0.3)	(0.3)
Interest and Investment Income	(1.1)	(1.8)	(0.7)
	144.7	139.7	(5.0)
Net Operating Expenditure			
Contribution to or from Capital Reserves.	(4.3)	(4.3)	0
Contribution to Devon County Council Debt	1.1	1.1	0
Transfer to Insurance Reserve	0	0.5	0.5
Transfers to School Balances	0	0.7	0.7
Transfers to Earmarked Reserves	0	2.4	2.4
Transfers to Pension liability	(2.9)	(2.9)	0
Capital Expenditure Financed from Revenue	0.2	1.2	1.0
	138.8	138.4	(0.4)
Amount to be met from Government Grants and Local Taxation			
General Government Grants	(55.7)	(55.7)	0
NNDR Redistribution	(36.5)	(36.5)	0
Demand on Collection Fund (Council Tax payers)	(46.2)	(46.2)	0
Transfer from collection fund in respect of surplus	(0.4)	(0.4)	0
Net General Fund (Surplus)	0	(0.4)	(0.4)

5 Trading Operations Summary

Trading Operations are where a service of the Council is trading with the public, third parties or trading within an internal market within the Council. The Council has disclosed a number of these activities as a note to the Consolidated Revenue Account.

For information, the statements for the trading operations of both the Council's Operating Services (formally Contracting Division), a former Direct Service Organisation to which CCT no longer applies, and the "ring fenced" Harbour Accounts are included as an appendix to these accounts.

6 The Collection Fund

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

7 The Consolidated Balance Sheet

The Consolidated Balance Sheet shows the overall financial position of the Authority at 31st March 2005. It shows the balances and reserves of the Authority together with the total assets and liabilities. The Consolidated Balance Sheet includes all assets and liabilities of all activities of the Authority excluding Trust Funds.

8 The Statement of Total Movement in Reserves

The Statement of Total Movement in Reserves brings together all the recognised gains and losses of the Authority during the period and identifies those which have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves.

9 The Cash Flow Statement

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

10 The Statement of Internal Control

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

11 The Statement of Responsibilities for the Statement of Accounts

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

12 Group Accounts

The SORP guidance for the accounting for Group accounts has been updated. The Council has assessed its relationships with other bodies to see if Group Accounts apply. At present there are no bodies that create a requirement to be included within Torbay Council's Accounts, therefore for 2004/05 Group Accounts do not apply.

The Council owns the following companies:

- Torbay Enterprise Agency Ltd, however the turnover and assets held by this company are considered not significant enough to produce Group Accounts.

- Torbay Development Agency Limited. This company to date has had no financial transactions.

In addition the Council has an interest in the following company:

- SWERCOTS Ltd. This is the South West of England Regional Co-ordination of Trading Standards and represents the 15 South West Regional Authorities. The company was established in 2004 as a company limited by guarantee to operate 'Consumer Direct' a Central Government funded initiative. The payment of a £10 membership fee gives Torbay Council membership of the board with Torbay represented by the Executive Member for Environment. There are no transactions/liabilities associated with Torbay Council's membership other than the £10 initial one-off fee.

13 Current Borrowing, Asset Utilisation and Investments

As at 31st March 2005, the total external investments of the Council amounted to £28.480 million, which represents Funds held by the Council's external fund manager and temporary short term cash deposits with borrowers on the Council's approved lending list (31/3/04 £19.450 million). As at the 31st March 2005 the Council had not borrowed any short term monies.

As at 31st March 2005, the Council had long term debt outstanding of £54.178 million primarily to Public Works Loan Board (PWLB) loans, of which £8.808 million is repayable within one year, principally to finance the costs of the Authority's Capital Programme (31st March 2004 total debt outstanding £42.639 million). See note 10 to the Balance Sheet.

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

Fixed Assets under Construction - where assets are under construction and therefore not yet Operational at the year end, the added value of any significant works in progress is assessed by the Council's professional valuer pending the issue of a revaluation certificate upon completion of the works. £2.35million has been included in the Balance Sheet value of Non-Operational Fixed Assets to reflect this capital investment to date on incomplete assets. The value of Assets under Construction has reduced from the value at 31st March 2004 (£4.423million) reflecting the assets which reached practical completion and became operational in the year.

Capital Expenditure in the year totalled £18.84million. The major areas of spending during the year were:

	2004/05
	£,000
<u>Children</u>	
Pre-Primary and Primary Provision	1,292
Secondary Provision	1,188
Special School Provision	2,758
All School Initiatives	4,893
Other	207
<u>Culture</u>	
Torre Abbey	379
Other	65
<u>Housing</u>	
Grants & Advances	1,142
Community Development	46
<u>Adults</u>	
Residential Home & Day Centres	59
Client IT systems	212
<u>Transport</u>	
Structural Maintenance and Bridges	2,297
Integrated Transport Schemes	1,703
<u>Environment</u>	
Hr Brixham Watercourse	373
Other	436
<u>Other Services</u>	
Waterfront projects	171
Office Accommodation	157
New Financial Information System	475
IT Developments	474
Other	517
TOTAL CAPITAL EXPENDITURE	18,844
<u>The Expenditure was Financed from- *</u>	
Borrowing	7,685
Grants and Contributions	6,814
Reserves	404
Revenue	232
Capital Receipts	3,709
	18,844

This expenditure, combined with the results of the Council's 5-year cyclical revaluation programme, resulted in an overall increase of £33 million in the Balance Sheet value of the Council's Tangible Fixed Assets.

*The detailed analysis of these figures differs from note 1 to the balance sheet due to timing differences of commitments and accruals.

14 Local Government Pension Fund

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

FRS 17 requires Local Authorities to recognise pension assets and liabilities within their accounts. The impact on the General Fund for 2004/05 of the FRS17 entries is neutral overall.

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

The actuary has now estimated a net deficit on the funded liabilities within the Pension Fund as at the 31st March 2004 of £66.960 million (£34.380m 2003/04) (excluding unfunded liabilities). This is a 95% increase in estimated liabilities within the year of £32.580 million, which is due primarily to a change in the Discount rate for scheme liabilities used by the actuary to assess Torbay's overall FRS17 fund position.

The Discount Rate for scheme liabilities has been changed from a rate determined each year by the Government Actuaries Department based on the assumed long term real rate of return expected to be earned on as portfolio of long dated index linked stocks to the "current rate of return on a high quality corporate bond of equivalent currency and term to the Scheme Liabilities" which is often referred to as "AA Corporate Bond Rates". As a consequence the reduction in the assumed real discount rate has resulted in a significant increase in liabilities and the current service cost.

The actuary has also estimated the liability on the Council's unfunded liabilities, i.e. enhanced pension payments) to be £7.810 million at 31st March 2005 (£6.540 million 2003/04).

Therefore the Council's overall pension liability as at 31st March 05 is £74.770 million. (£40.920 million 2003/04). The overall impact on this liability on the Council is to reduce its net assets by 41% as at 31st March 2005 (27% in 2003/04).

15 Changes in Accounting Policies

The Council's Accounting policies were reviewed for 2004/05, and any changes have been incorporated within the Statement of Accounts. The significant changes in accounting policies are as follows:

The new CIPFA Prudential Code for Capital Finance introduced the concept of the Capital Financing Requirement upon which the calculation of the Minimum Revenue Provision for the repayment of debt is now based. In order to reconcile fully to this requirement funding of capital expenditure is now entirely based upon an accrual basis rather than a cash basis.

Deferred charges for expenditure incurred in relation to Local Government Reorganisation in 1998 have been removed from the Balance Sheet. To achieve this the CRA, Balance Sheet and Statement in Movement of Reserves for 2003/04 have been restated to remove entries related to this transaction. The net impact on both the Council's CRA and balance sheet is nil.

The Council introduced a new Financial Management system in February 2005 and this is the first set of accounts to have been produced using that system. In a number of areas the new system accounts for transactions in a different way and has resulted in revised procedures being used to close the Council's accounts. These changes are not material to the readers understanding of these accounts, however where applicable notes have been made to highlight any changes.

The Council has fully incorporated any changes arising from the Code of Practice on Local Authority Accounting in the United Kingdom 2004, including the introduction of an Intangible Asset classification on the Council's balance sheet. The comparative figures for 2003/04 have been restated to reflect this change.

Statement of Accounting Concepts and Accounting Policies

General Policies and Concepts

The general policies and concepts adopted in compiling the accounts are those recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA) in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (SORP).

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

Fundamental Accounting Concepts

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

Qualitative Characteristics of Financial Information:

a) Relevance

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

b) Reliability

Financial information will be reliable if:

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

c) Comparability

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

d) Understandability

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

Pervasive Accounting Concepts

a) Accruals

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

b) Going Concern

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

c) Primacy of Legislative Requirements

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

Accounting Policies

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

Reserves and Provisions

CIPFA's Local Authority Accounting Panel (LAAP) Bulletin No:55 issued February 2003 states that revenue reserves result from events that have allowed money to be set aside from surpluses, or decisions causing anticipated expenditure to have been postponed or cancelled.

Reserves of this nature can be spent or earmarked at the discretion of an authority. The purpose of each of the Council's reserves is explained within the notes to the balance sheet.

The fixed asset restatement account represents principally the balance of surpluses or deficits arising on the periodic revaluation of fixed assets.

In accordance with FRS12 the Council sets aside provisions for specific future liabilities which are likely or certain to be incurred but uncertain as to the timing or amounts.

Tangible & Intangible Assets

(i) Recognition

Expenditure on the acquisition, creation or enhancement of tangible and intangible assets (i.e. which adds to, and not merely maintains, the value of the asset) is capitalised and classified as

either a Tangible Fixed Asset or an Intangible Asset on the Balance Sheet, provided that the asset yields benefits to the Authority and the services it provides are for a period of more than one year. Expenditure is capitalised on an accruals basis.

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

A general de-minimis limit of £50,000 is applied to Intangible Assets.

(ii) Measurement

Assets are categorised into classes as follows:

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

Tangible Fixed Assets :

Operational Assets - assets held and occupied in the direct delivery of services, including infrastructure and community assets

Non- operational Assets - assets held but not directly occupied or used in the delivery of services, including investment and surplus assets

Tangible Assets, excluding Infrastructure and Community assets, are included in the Balance Sheet at the lower of net current replacement cost or net realisable value (in existing use for operational assets). For non-specialised operational assets, net current replacement cost is calculated on the basis of Existing Use Value (EUJ). For specialised operational assets, net current replacement cost is calculated on the basis of Depreciated Replacement Cost (DRC). Non operational assets including investment properties are included in the Balance Sheet at Open Market Value (OMV). Infrastructure and Community Assets are included in the Balance Sheet at Historical Cost, net of depreciation where appropriate. Infrastructure Assets transferred from Devon County Council upon Local Government re-organisation in 1998 are held at the value disaggregated by the County Council using tax base.

Intangible assets are included in the Balance Sheet at purchase cost (net of amortisation).

(iii) Revaluation (assets held at current cost)

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

Assets where a material change (e.g. capital expenditure on improvement or enhancement) occurs during the year are revalued at the time of the change.

Where a fixed asset is included in the balance sheet at current value, the difference between the amount at which the asset was included in the balance sheet immediately prior to the latest revaluation and the new value is credited or debited to the Fixed Asset Restatement Account as appropriate.

(iv) Depreciation

In accordance with FRS 15 depreciation is provided on all Tangible fixed assets. Depreciation is not normally provided for freehold land, community assets or non-operational properties. The effect of the basis of measurement is disclosed in Note 1 to the Balance Sheet.

The information on asset life and residual value required to calculate depreciation on operational buildings was not fully available when the requirement for depreciation was fully introduced in 2001/02. Data is being gathered by the Council's Valuer during the current 5-year revaluation cycle. An estimated average useful life of 40 years is used as an interim measure and is revised for individual assets when useful life is certified by the Valuer.

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

Provision for depreciation is made on a straight-line basis over the estimated life of the asset.

Amortisation of Intangible Assets.

Intangible assets are amortised to revenue over their useful life (usually 3-5 years) in accordance with FRS10.

(v) Impairment

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

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

(vi) Charges to Revenue

The SORP requires that service revenue accounts are charged with a capital charge for all tangible fixed assets used in the provision of a service. The charge covers the annual provision for depreciation, where applicable, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. For assets carried at current value, including assets carried at historical cost as a proxy for current value, the rate of interest to be applied in determining capital charges has been set at 3.5% for 2004/05. For assets carried at historical cost, that is infrastructure and community assets, the rate to be applied in 2004/05 is 4.8%.

The capital charges are in accordance with the SORP Code of Practice apart from the level of depreciation charged (see note above). Charges are calculated based upon the opening Balance Sheet value for each asset unless a material change has occurred during the financial year, in which case a pro-rata adjustment is made.

Capital charges for the use of fixed assets and relevant impairment losses are credited to the Asset Management Revenue Account.

Finance costs (including interest payable under finance leases) and provisions for depreciation are charged to the Asset Management Revenue Account. Any excess of depreciation and impairment over the Minimum Revenue Provision is adjusted through the Capital Financing Account to balance the charge to the council taxpayer to the Minimum Revenue Provision (see below).

(vii) Disposal

Capital receipts arising from the disposal of assets are credited to the Usable Capital Receipts Reserve. Upon disposal the net value of the asset disposed of is written off against the Fixed Asset Restatement Account. Receipts may be used either to finance capital expenditure or as voluntary provision for repayment of debt. Unspent receipts earn interest for the Revenue budget until required. Receipts below the de-minimis level of £10,000 specified by the Capital Finance Regulations 2003 are credited to the Revenue Account.

(viii) Deferred Charges

Deferred charges are items of a capital nature, which do not result in the creation of a fixed asset (e.g. Private Sector Renovation Grants). The opportunity is taken to write out in the year any expenditure that is incurred, which means that the cost of service is charged with the deferred charge expenditure incurred in the year.

(ix) Grants

Capital grants and contributions payable to the Council are credited to the Unapplied Capital Grants and Contributions Accounts when due and transferred to Deferred Capital Grants and Contributions accounts when applied to finance capital expenditure. These balances are released to the Asset Management Revenue Account over the life of the asset acquired (or in some instances direct to the Capital Financing Account). Capital Grants that relate to Deferred Charges written off in the year are credited to the service Revenue Account and treated as revenue grants.

(x) Finance Leases

Assets acquired under a Finance Lease are recognised on the Council's Balance Sheet. The liability for the lease payments is recognised as a deferred liability on the Balance Sheet. Rental payments are apportioned between interest (charged to the Asset Management Revenue Account) and the reduction of the outstanding liability.

(xi) Foundation Schools

The assets of Foundation schools remain with the Governing Bodies which are exempt charities. However these assets can only be used as schools and the value of Foundation schools is included in the Balance Sheet value of the Council's Fixed Assets. The net value of the 6 Foundation Schools included in the Balance Sheet is £39.8 million.

(xii) Voluntary Aided and Voluntary Controlled Schools

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

Interest

Interest payable on external borrowings and interest income is accrued and accounted for in the accounts of the period to which it relates. This accounting policy is also applied to the calculation of the interest due on the Council's long term debt with Barclays (LOBO loan). See also Balance Sheet Note 10 part e.

Revenue Provision (Debt Redemption)

Provisions in the Local Government Act 2003 require authorities to set aside revenue resources for repayment of debt incurred as a result of funding capital expenditure. The “Minimum Revenue Provision” (MRP) is calculated as 4% of the adjusted Capital Financing Requirement (a notional measure of the Council’s indebtedness) as laid down in the Capital Finance Regulations 2003.

Any excess of charges in the Asset Management Revenue Account in respect of depreciation, impairment and other charges over the MRP is adjusted through the Capital Financing Account to ensure that only the MRP is charged to Council Taxpayers in the year.

Voluntary contributions above the “Minimum” are made and charged to services where Borrowing is undertaken (under the new Prudential Code freedoms) which is “unsupported” by Government Grant. The voluntary contribution tops up the MRP to ensure sufficient provision is set aside from the Revenue Account to enable the Borrowing to be repaid over the life of the asset acquired.

Repurchase of Borrowing

Gains or losses arising from repurchase or early settlement of borrowing should be recognised in the period during which the transaction was made. Where however the repurchase of borrowing was coupled with a refinancing or restructuring with substantially the same overall economic effect when viewed as a whole, gains or losses are recognised over the life of the replacement borrowing.

Operating Leases

The Council’s Operating Leases relate mainly to computer equipment and vehicles and are charged direct to revenue or to holding accounts.

Harbour Covenant

The Council has a covenant agreement relating to the financing of Brixham Fish Quay. The balance outstanding as at 31st March 2005 was £73,000. (£208,000 2003/04).

Long Term Contracts (PFI)

Westlands and Homelands Schools – Private Finance Initiative.

The Council has entered into a 26 year contract for the receipt of services with a private sector partner. The cost of these services is recognised in the revenue account for the years in which they are receivable. The Council is in receipt of Government support for part of the cost of the scheme. The Council set up a sinking fund reserve to set aside some of the grant proceeds so that the scheme can be funded evenly from Government support over its operational life.

The Project Agreement was signed on 31st March 2000 with Torbay School Services Ltd, for the provision of serviced facilities at Westlands Secondary and Homelands Primary Schools in Torquay. The contract became effective on 10th May 2000 at which time both parties agreed that the conditions precedent had been satisfied.

The contract is a “design, build, finance and operate” PFI contract. The terms of the contract indicate that, following separation of some service elements, FRS 5 will apply. An analysis of the benefits and risks associated with the properties indicated that upon commencement of the headleases (following final completion of the construction phases in August 2002) the properties are not recognised on the Authority’s Balance Sheet as Fixed Assets. Deferred assets representing the expected fair value of the residual assets remaining at the end of the contract period (year 2027) are being built up in the Council’s Balance Sheet over time.

Debtors and Creditors

The Authority operates its revenue accounts on an income and expenditure basis and FRS18 "Accounting Policies". This means that all sums, which are due to be remitted to the Authority, are recorded in the accounts whether or not the cash has actually been received or paid in the year. This will include customer and client receipts, employee costs and supplies and services. Where the exact amount of the sum is unknown an estimate will be made based on historical knowledge of the type of transaction and the value of similar payments. An exception is where there are regular bills, such as utilities and staff travel payments where, if not material, no accruals have been made as over a period of time the number of payments per year will even out.

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

The Council makes a provision for the non payment of debt on its debt outstanding. The level of the provision depends on the type and age of debt outstanding.

Internal transactions between different sections of the Council, including schools have been netted off so to have no impact on the Council's balance sheet.

Included within the internal debtors and creditors for 2004/05 are entries reflecting the agreement reached with Westlands School over its contributions to the costs of the PFI initiative. The school has reflected the transactions within their accounts with the PFI Sinking Fund used to balance the entries. The Fund will be replaced as the School pays the outstanding internal invoices over the next two financial years.

An aspect of the Council's new financial system is to account for payment of invoices slightly differently. The impact of the new system is to record expenditure in the Council's accounts earlier than in previous years. This is a result of the use of a purchasing module with a goods receipting facility and where invoices are now recorded when they are input onto the system rather than when the invoice is paid. The impact of this is minor changes within balance sheet categories. The areas effected are mainly Council creditors (and classifications within that category) and the Council's cash reconciliation.

Government Grants

Revenue Grants are matched with the expenditure to which they relate. Grants are accounted for on an accrual basis and recognised in the accounts when the conditions for their receipt have been complied with. To meet earlier closure requirements where the exact value of a grant is not yet known estimates of the amounts due/owed have been made.

Stock and Work in Progress

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

Central Overheads

The Council allocates the costs of administration and management, central support services and capital charges to services. This meets the requirement for services to be reported at total cost. The majority of the costs of management and administration and central services have been charged to services based on the Authority's Resource management system or on other appropriate (fair) bases.

Best Value

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

Pensions

The pension costs charged to the Authority's accounts in respect of its employees are based on the Devon County Council Pension Fund's actuary's estimate of the Current Cost of pension liabilities and other FRS17 entries within the Council's accounts.

Torbay Council and its employees contribute to the Local Government Scheme administered by Devon County Council which is a defined benefit scheme and to the Teachers pension scheme which is classified for reporting purposes as a defined contribution scheme where FRS17 does not apply. The 2004 SORP exempts the Teachers' Pension scheme, a multi employer defined benefit scheme, from FRS17 requirements and requires it to be accounted for as a defined contribution scheme.

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

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

In particular the following accounting policies have been applied by the actuary for 2004/05:

The attributable assets in the scheme are measured at fair value.

The attributable liabilities of each scheme are measured on an actuarial basis using the projected unit method.

Scheme liabilities are discounted at a rate that reflects the time value of money and the characteristics of the liability

The deficit on the scheme is the shortfall of the value of the assets in the scheme below the value of the scheme liabilities

The current service cost is based on the most recent actuarial valuation of the period with the financial assumptions updated to reflect conditions at that date.

Interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period.

The expected return on assets is based on long-term expectations at the beginning of the period and is expected to be reasonably stable.

Actuarial gains and losses will arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at balance sheet date.

Past Service costs are disclosed on a straight line basis over the period in which the increase in benefits vest.

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

The Discount Rate for scheme liabilities has been changed from a rate determined each year by the Government Actuaries Department based on the assumed long term real rate of return expected to be earned on as portfolio of long dated index linked stocks to the "current rate of return on a high quality corporate bond of equivalent currency and term to the Scheme Liabilities" which is often referred to as "AA Corporate Bond Rates". As a consequence the reduction in the assumed real discount rate has resulted in a significant increase in liabilities and the current service cost. Further details of this change are within note 17 to the balance sheet.

The overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are approximately 1% higher (5% 2003/04) after the replacement of employers contributions by current service costs. Net operating expenditure is also higher by 2% (1% higher 2003/04) than it would otherwise have been.

The requirement to recognise the net pensions liability has reduced the reported net worth of the authority by 41% (27% 2003/04).

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

Investments

Temporary investments are shown in the balance sheet at cost. They reflect the temporary investment of the Council's cash balances as at 31st March 2005. Such investments are held with banks and other similar institutions. Any interest due is accrued as interest income. The balance held by the Council's fund Manager is valued at the original investment with all changes in that value of the investment accrued as interest to the Council. Other investments are also valued at cost.

Financial Relationships with Companies

Councils are required to produce Group Accounts in accordance with FRS2 (Accounting for Subsidiary Undertakings) and FRS 9 (Associates and Joint Ventures). The Council owns Torbay Enterprise Agency, Torbay Development Agency Limited and has representation on the board of SWERCOTS Ltd but these companies are not consolidated into the Council accounts, as the amounts involved are not material.

VAT

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

Consolidated Revenue Account for the Year ended 31st March 2005

Restated Net Expenditure £,000 2003/04	Gross Expenditure £,000 2004/05	Gross Income £,000 2004/05	Net Expenditure £,000 2004/05
568 Central Services to the Public	11,931	(10,997)	934
241 Court Services - Coroner	307	(93)	214
18,571 Cultural, Environmental and Planning Services	27,324	(7,025)	20,299
65,469 Education services	96,723	(29,299)	67,424
6,654 Highways Roads and Transport Services	13,972	(7,248)	6,724
6,600 Housing Services	45,849	(42,782)	3,067
37,345 Social Services	67,684	(26,235)	41,449
2,367 Corporate and Democratic Core	3,176	(318)	2,858
530 Non Distributed Costs	1,924	(51)	1,873
195 Devon & Cornwall Magistrates' Courts	234	0	234
4,792 Devon Fire Authority	0	0	0
766 Environment Agency	0	0	0
144,098 Net Cost of Service	269,124	(124,048)	145,076
360 (Surplus) on Trading Undertakings			38
130 Income from Investment Properties			(394)
(4,172) Asset Management Revenue Account (see note 3)			(4,992)
(1,041) Interest and Investment income			(1,809)
(233) (Gains) on early settlement of borrowing			(259)
3,040 Pension Interest costs and expected return on pension assets			2,050
142,182 Net Operating Expenditure			139,710
<u>Appropriations</u>			
(6,517) Contributions to or from Capital Reserves, including the provision for repayment of external loans and amounts set aside to finance capital expenditure. (see note 11 to Balance Sheet)			(4,320)
1,098 Contributions to Devon County Council Debt Repayment			1,052
(882) Transfers (from)/to Insurance Reserve			525
(1,772) Transfers (from)/to Earmarked Reserves			2,404
113 Transfers to Schools Balances			703
2,494 Capital Expenditure financed from Revenue			1,194
(1,760) Contribution from the Pensions Reserve			(2,866)
134,956 Amount to be met from Government Grants and Local Taxation			138,402
(50,770) General Government Grants			(55,702)
(39,369) NDR Redistribution			(36,554)
(44,031) Demand on Collection Fund			(46,153)
(830) Transfer from collection fund in respect of surplus			(406)
(44) Net General Fund Surplus			(413)
(2,215) Balance on General Fund b/f			(2,259)
(2,259) Balance on General Fund c/f			(2,672)

Note:

2003/04 comparatives have been restated for removal of LGR deferred charges and recategorisation of some trading services including car parks to net cost of services

Net amount held by schools under local management schemes:

Schools Balances within Earmarked Reserves as at 31/3/05 £2.9 million (31/3/04 £2.2 million).

Within the schools earmarked balances an adjustment has been made to reflect £300,000 of income in advance relating to Westlands School.

This was the first year the Devon Fire Authority was a precepting body rather than funded from within the Council's overall budget.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT
--

The Consolidated Revenue Account reports the net cost for the year of the functions for which the Authority is responsible. It also demonstrates how that cost has been financed from general Government Grants and income from Torbay Council Taxpayers. It brings together expenditure and income relating to all of Torbay Council's functions.

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

1 Acquired or Discontinued Operations

There are no disclosures in relation to any acquired or discontinued operations.

2 Exceptional and Prior Period Adjustments

During 2004/05 the Council benefited from £0.8 million of rate refunds.

To meet the requirements of the new SORP comparative data for 2003/04 on the Consolidated Revenue Account and Balance Sheet have been restated, in particular in relation to Intangible assets. In addition, the deferred charge of £6.390 million in relation to Local Government Reorganisation has been removed from the accounts resulting in the restatement of 2003/04 comparatives. Deferred charges and the capital financing account on the balance sheet and note 11 to the balance sheet have been restated

To fund the "capping" budget reduction of £614,000 the insurance reserve was used. This reserve will be replenished over the next two financial years.

As part of the Council's budget reductions for its 2005/06 budget £0.7 million of redundancy and £1.1 million pension related costs were committed, of these £731,000 were included as a provision (see note 8 to the Balance Sheet). Costs have been funded from capitalisation directions in 2004/05 and 2005/06.

3 Asset Management Revenue Account

Capital Charges are levied on all of the Authority's Assets used in the provision of services and these charges are included in all of the service accounts. However, while the aim of these charges is to give a fairer picture of the true cost of services, it is not intended that they should affect the level of local taxation. Consequently, the Authority maintains the Asset Management Revenue Account centrally to hold the income from these charges with the surplus being returned to the General Fund. Thus the overall cost to the Taxpayer is only the external payments of interest on debt and the Minimum Revenue Provision which must be levied under the current legislation.

2003/2004 £ ,000	Components of the Asset Management Account	2004/2005 £ ,000
1,637	External Interest Payable	2,287
29	Interest Payable under Finance Leases	25
1,632	Interest on Transferred Debt	1,542
5,798	Depreciation	5,006
0	Amortisation of Intangible Assets	271
0	Impairment Loss	345
9,096	Expenditure	9,476
(12,866)	Reversal of Capital Charges	(13,220)
0	Reversal of Amortisation of Intangible Assets	(271)
0	Reversal of Impairment Loss	(345)
(402)	Capital Grants / Contributions released from the government grants deferred account	(632)
(13,268)	Income	(14,468)
(4,172)	Net position of the Asset Management Revenue Account	(4,992)

Provision for Repayment of External Debt (Minimum Revenue Provision)

The net amount charged to revenue in compliance with the statutory requirement to set aside a Minimum Revenue Provision for the repayment of external debt is £2.188 million (£1.495 m 2003/04) calculated as follows:-

	2004/05 £,000	2003/04 £,000
4% of Capital Financing Requirement (CFR) – Adjusted	1,826	1,397
Additional amount Credit Approval re Local Gov't Reorganisation	1,212	1,104
Commutation adjustment	(850)	(1,006)
	2,188	1,495

The excess of depreciation, impairment and the effect of deferred charges and intangible assets charged to Net Operating Expenditure over the Minimum Revenue Provision (£4.320 million) is reversed after Net Operating Expenditure by an appropriation from the Capital Financing Account.

4 Leases

(i) Operating Leases

From August 1994, the Authority has entered into operating lease agreements to acquire vehicles, plant and equipment. Drawdowns up to 31st March 2005 totalled £7,989,293. (£7,922,901 2003/04). In addition, from 1st April 1998, the Authority adopted operating lease agreements previously entered into by Devon County Council and subsequently transferred under unitary agreements.

The combined lease rentals incurred in 2004/05 amounted to £885,315 (£971,034 in 2003/04). The outstanding obligation on all operating lease drawdowns is £1,937,052.

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

Year Due	Value £,000
Within One Year	579
One to Two Years	474
Two to Five Years	822
Over five years	62
Total Due:	1,937

(ii) Finance Leases

The Council has a finance lease in respect of printing equipment which expires in 2005/06. Lease payments amounted to £45,000 in 2004/05. Payments of £30,000 are due in 2005/06

5 Undischarged Obligations – PFI Initiative

A Project Agreement was signed on 31st March 2000 with Torbay School Services Ltd (TSS) for the provision of serviced facilities at Westlands Secondary and Homelands Primary Schools in Torquay. The contract became effective on 10th May 2000. The period of the contract is 26 years from the actual completion of the redevelopment of the Westlands School buildings which occurred on 24th October 2001 (i.e. expires in 2027). Payments under the contract commenced on 1st April 2001 when Phase 1 of Westlands was completed. The actual level of payments depends upon TSS performance in providing accommodation and services. The actual payment to TSS in 2004/05 was £1.687 million (£1.637m 2003/04). The Council is committed to a maximum payment of £1.745 million in 2005/06 depending on performance.

6 Pension Assets and Liabilities

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

Local Government Scheme

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

Further information on the scheme and its performance can be found in Devon County Council's Superannuation Fund's Annual Report which is available upon request from the Director of Resources, Devon County Council, County Hall, Exeter, EX2 4QJ.

The 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 the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the CRA after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

	Local Government Scheme	
	£000's	£000's
	2003/04	2004/05
Net Cost of Services		
- Current Service Cost	(4,630)	(7,110)
- Past Service Cost	(460)	(990)
Net Operating Expenditure		
- Interest Cost	(8,170)	(9,260)
- Expected Return on Assets in the Scheme	5,130	7,210
Amounts to be met from Government Grants and Local Taxation		
- Movement on Pensions Reserve	1,760	2,840
Actual Amounts charged against council tax for pensions in year	(6,370)	(7,310)

Note 17 to the Balance Sheet contains details of assumptions made in estimating the figures included in this note. Note 5 to the Statement of Total Movements in Reserves details the movements that have arisen through the year on the Council's Pension Reserve.

Teachers' Pension Scheme

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

In 2004/05 the Authority was due to pay £4.610 million (£4.385 million in 2003/04) to the Pensions Agency in respect of teachers' retirement benefits, which represents 13.50% (13.5% in 2003/04) of teachers' pensionable pay.

Contributions to Devon County Unfunded Discretionary Pensions

The Council is responsible for a proportion of pension payments awarded by Devon County Council prior to 1st April 1998. It was agreed that the Council would make annual contributions to meet the cost of future payments made by Devon County Council. These amounts do not have sufficient characteristics of liabilities directly in respect of retirements benefits for which FRS17 retirement benefits apply. Therefore these amounts have been disclosed as amounts payable to Devon County Council as they fall due each year. In 2004/05 these amounted to £0.743 million (£0.730 million in 2003/04).

7 Section 137 Expenditure

Section 137 of the Local Government Act 1972 empowers the Authority, subject to various conditions and limits, to incur expenditure which in its opinion is in the interest of, and will bring direct benefit to, the area or any part of it, or all or some of its inhabitants.

The Local Government Act 2000 granted new powers to authorities in England and Wales to promote 'well being' in their area. As a consequence the majority of the provisions of Section 137 were replaced with effect from October 2000.

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

8 Staffing

The number of employees whose taxable remuneration exceeds £50,000, is set out in the table below:-

No. of Employees 2003/04	Remuneration Band	No. of Employees 2004/05
14	£50,000 to £59,999	20
6	£60,000 to £69,999	5
4	£70,000 to £79,999	5
1	£80,000 to £89,999	1
0	£90,000 to £99,999	1
0	£100,000 to £109,999	0
0	£110,000 to £119,999	0
1	£120,000 to £129,999	0
0	£130,000 to £139,999	0
0	£140,000 to £149,999	1
26		33

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

9 Members Allowances

Member's Allowances for 2004/05 were £341,000 (£335,000 in 2003/2004). During 2004/05 the allowances paid to members were reviewed.

10 Publicity Account

2003/04		2004/05	
£ ,000	£ ,000	£ ,000	£ ,000
	366		337
	Recruitment advertising		
	Publicity Advertising		
	Torbay Tourist Board:-		
970	Marketing (including Riviera Guide)	610	
(430)	Less: advertisement income	(429)	
	540		181
	121		153
	Other Publicity Advertising		
	56		72
	Other Advertising (includes statutory)		
	<u>1,083</u>		<u>743</u>

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

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

11 Related Party Transactions

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

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

During the year transactions with related parties arose as follows:

Members: A Members Record of Interests is maintained and is available for public inspection. In addition for 2004/05

- Co-opted Member Susan Fenner declared receiving Foster Carers Allowance.
- Councillor Hytche declared that his vehicle had been serviced by Operational Services (Environment).
- Councillor Lomas declared that his motor caravan had been MOT tested by Operational Services (Environment).

Officers: The Council maintains a Register of Gifts & Hospitality. During 2004/05 officers received hospitality (over the value of £25) in the course of their employment from the following organisations/Individuals:-

Local Government Chronicle
 Right Coutts Management Consultants
 Chartered Institute of Waste Management
 David Shelleck Torquay Regatta
 Kompan
 Torbay Easter Hockey Festival Committee

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

The largest joint working arrangements are with the Devon Partnership NHS Trust for the provision of Mental Health and Learning Disability functions. In both cases the "operational" expenditure remains with the Council, while the management of the function is spread over the various partners.

Trusts: The Council paid a management fee of £153,100 to the Torbay Coast and Countryside Trust in 2004/05. Although the Council has representation on the Trustee Board it is not felt to have a significant influence over Trust policies.

The Council contributed £540,000 to Riviera Centre International Limited, a not for profit company. The Council does not hold assets or liabilities in the new Company.

Assisted Organisations: The Council provided £127,000 to the Torbay Citizen's Advice Bureau. The Council does not have any influence over policies.

The Council although providing no direct financial support has 3 representatives out of 16 with full voting rights on Sure Start Paignton.

Precepts and Levies: The total cost of these services disclosed on the Consolidated Revenue Account. Within that total the precepts and levies paid in 2004/05 are as follows:

	£,000
Devon and Cornwall Magistrates Courts Committee	214
Environment Agency	29
Devon Sea Fisheries	41

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

Service Classification	2003/04	2004/05
	£,000	£,000
Central Services	8,090	9,911
Culture, Environment & Planning	704	1,342
Education	19,197	19,413
Highways, Roads & Transport	12	36
Housing Services	38,871	42,657
Social Services	10,277	9,049
Other	735	508
	77,886	82,916

Outstanding Balances: Any amounts due to or from related parties as at 31st March 2005 are within the Council's balance sheet.

12 Building Control Trading Account

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

Building Regulations Charging Account 2004/2005

	Chargeable 2004/2005 £,000	Non – Chargeable 2004/2005 £,000	Total Building Control 2004/2005 £,000
<u>Expenditure</u>			
Employee Expenses	233	125	358
Transport	12	6	18
Supplies and Services	33	17	50
Central Support	36	14	50
Total Expenditure	314	162	476
<u>Income</u>			
Building Control Fees	(396)	0	(396)
Other Income	(3)	(1)	(4)
Total Income	(399)	(1)	(400)
(Surplus) / Deficit for the Year	(85)	161	76
Comparatives for 2003/04:			
Expenditure	298	134	432
Income	(401)	(1)	(402)
(Surplus) / Deficit for the Year	(103)	133	30

13 Local Authorities (Goods and Services) Act 1970

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

2003/04		2004/05
£ ,000		£ ,000
2,838	Torbay Primary Care Trust – Primarily Social Services	2,795
220	Teignbridge and South Hams Councils – Use of Reclamation Facility	131
199	Various Public & External Bodies – Sale of printing services	285
207	Riviera Housing Trust – Property Work	75
386	Operational Services – Maintenance, Waste Collection, Tipping, Cleaning work, Fleet Transport, Supply of Goods & Materials and 24 hour Emergency Control for Devon County Council, Riviera Housing Trust, Teignbridge District Council and Housing Associations.	206
<hr/>		<hr/>
3,850		3,492

14 Trading Operations

The Council is disclosing seven trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations. These are disclosed under the following parameters: - details of units with turnover of greater than £200,000 in 2004/2005 are as follows:

Trading Operations 2004/05

Operation	Description		2003/04 £000's	2004/05 £000's
Operational Services	The Council operates a Trading Operation for a number of its services. Further detail can be found in Appendix 1	Turnover	12,552	12,808
		Expenditure	12,498	12,802
		Surplus/(Deficit)	54	6
Harbours' Accounts	The Council operates a ring fenced account for its three harbours. Further detail can be found in Appendix 1	Turnover	1,434	1,595
		Expenditure	1,415	1,430
		Surplus/(Deficit)	19	165
Off Street Car Parks	The Council operates off street car parking throughout Torbay	Turnover	3,491	3,872
		Expenditure	2,098	2,002
		Surplus/(Deficit)	1,393	1,870
Printing Services	The Council operates an in house printing and stationery service which operates on a trading basis	Turnover	1,327	1,150
		Expenditure	1,327	1,150
		Surplus/(Deficit)	0	0
Industrial Units	The Council maintains a number of sites where land/office space is rented to business to generate employment within Torbay	Turnover	228	254
		Expenditure	177	52
		Surplus/(Deficit)	51	202
Land Charges	The Council has a duty to maintain the register of local land charges and respond to searches on behalf of prospective purchasers.	Turnover	898	654
		Expenditure	92	97
		Surplus/(Deficit)	806	557
Torbay Industrial Services	To enable the maximum number of people with disabilities to gain & sustain paid employment in the most cost effective manner possible.	Turnover	2,053	2,084
		Expenditure	2,443	2,692
		Surplus/(Deficit)	(390)	(608)

15 Agency

Torbay Council undertakes capital work for South West Water Services Ltd on a fee basis. Developer Services works are also undertaken within Torbay, South Hams and Teignbridge under our partnership agreement with Pell Frishmann.

South West Water PLC

2003/04 £,000		2004/05 £,000
62	Sewerage Contract – Revenue	14
131	Sewerage Contract – Capital and Other	105
132	Sewerage Contract – Administration	90
<u>325</u>		<u>209</u>

16 Schemes under Transport Act 2000

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

In addition under this Act local authorities are obliged to have a bus concessionary fare scheme in place. Within the County of Devon there is a unified partnership approach between all councils allowing half price travel, principally for people over the age of 60 and the disabled, throughout Devon (not just the Authority's own area). The scheme is known as the Devonwide Scheme and is operated by Devon County Council.

In 2004/05 Torbay council contributed £315,300 (£343,600 2003/04) to the estimated running costs for the Devonwide Scheme.

Total cost of Devonwide Scheme:-

	2003/04 £000's	2004/05 £000's
Total Cost of Devonwide Scheme:		
Devon County Council Management Costs	167	126
Operator's Costs	1,515	1,413
	1,682	1,539
Income:		
Partnership Authority Contributions	(1,769)	(1,681)
Other Income	(3)	(4)
	(1,772)	(1,685)
Net (surplus)	(90)	(146)

Surpluses are refunded back to partnership authorities pro rata to their contributions to the scheme. Torbay's refund will be £27,622 (£17,656 2003/04).

17 Section 31 Health Act (pooled budgets)

Under Section 31 of the Health Act Council are able to work with NHS bodies to assist in the delivery of services. In 2004/05 the only Pooled budget arrangements with a turnover greater than £200,000 was the Joint Equipment Store in partnership with Torbay Primary Care Trust. In this pooled budget arrangement, established in April 2004, the Council is the lead body in the operation of an equipment store for the purchase and distribution of items to support social care.

	2003/04		2004/05	
	£000's		£000's	
Joint Equipment Store:				
Torbay Primary Care Trust Funding	-		344	
Torbay Council Funding	-		294	
Grant Funding and Sundry Income	-		254	
		-		892

Gross expenditure incurred during 2004/05 was £892,000.

Note: The Mental Health & Substance joint working with Devon Partnership Trust has been reclassified as goods & services and not a pooled budget.

18 Audit Costs

In 2004/05 Torbay Council incurred the following fees relating to external audit and inspection:

	2004/5 £000	2003/4 £000
Fees payable with regard to external audit services carried out by the appointed auditor, PricewaterhouseCoopers LLP	213	217
Fees payable in respect of statutory inspection under s10 Local Government Act 1998	95	71
Fees payable to the Audit Commission for the certification of grant claims and returns by appointed auditor, PricewaterhouseCoopers LLP	51	65
Fees payable in respect of any other services provided by the Appointed Auditor.	0	30

COLLECTION FUND SUMMARY ACCOUNT 2004/05

ACTUAL 2003/04			ACTUAL 2004/05	
£ ,000	£ ,000		£ ,000	£ ,000
Income				
41,521		Council Tax	45,895	
8,227		Transfers from General Fund - Council Tax benefits	9,505	
	49,748			55,400
	23,544	Income in respect of Non-domestic Rates		24,354
	<u>73,292</u>			<u>79,754</u>
Expenditure				
Precepts and demands				
4,748		Devon & Cornwall Police Authority	5,308	
0		Devon Fire Authority	2,602	
44,031		Torbay Council's own Demand	46,153	
	48,779			54,063
Distribution of previous year's estimated collection fund surplus:				
70		Police Authority	44	
830		Torbay Council	406	
	900			450
Non-domestic Rates				
23,312		Payment to NNDR Pool	24,028	
213		Cost of Collection Allowance	210	
	23,525			24,238
Bad & doubtful debts – write offs, provisions				
Council tax:				
333		Write Offs	168	
(176)		Provision for uncollectable amounts	275	
	157			443
Non-domestic Rates:				
173		Write Offs	119	
(154)		Provision for uncollectable amounts	(2)	
	19			117
	<u>73,380</u>			<u>79,311</u>
	<u>(88)</u>	(Deficit)/Surplus for year		<u>443</u>
Movement of Fund Balance				
	677	Balance brought forward, 1st April		589
	(88)	Surplus/(Deficit) for the year		443
	<u>589</u>	Balance carried forward		<u>1,032</u>

NOTES to the COLLECTION FUND SUMMARY 2004/05

1. General

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

2. Council Tax

2.1 Council Tax Base 2004/05

For Council tax purposes the number of domestic properties in each band converted to a Band D equivalent for 2004/05 was as follows:

Valuation Band	2004/05			
	Ratio to Band D	No of Dwellings In valuation list	No of Dwellings Band D Equivalent	Average Council Tax Per Dwelling £
A	6/9	11,787	6,269	769.94
B	7/9	16,151	10,892	898.26
C	8/9	15,506	12,341	1,026.59
D	1	9,286	8,450	1,154.91
E	11/9	4,809	5,407	1,411.56
F	13/9	2,241	3,016	1,668.20
G	15/9	1,175	1,731	1,924.85
H	18/9	112	153	2,309.82
TOTAL		61,067	48,259	
Less Allowance for Non Collection @ 3%			1,448	
TAX BASE 2004/05			46,811	

The number of dwellings Band D equivalent for 2004/05 is required for the setting of the Council Tax. It is calculated prior to the start of the financial year by using the number of dwellings on the valuation list adjusted to set the number of chargeable dwellings per band. This is then adjusted for an appropriate level of reduced assessments (discounts) prior to the number of dwellings in each band being put in a ratio compared to Band D. The figures show above for the Average Council Tax per Dwelling are the revised tax set by the Council in August 2004.

2.2 Council Tax Income 2004/05

Precepts and Demands:

The following Authorities made a demand on the Collection Fund in 2004/05: (Revised Budget August 2004).

	£000
Torbay Council	46,153
Devon and Cornwall Police Authority	5,308
Devon Fire Authority	2,602
Total Demands on Collection Fund 2004/05	54,063
Divided by Council Tax Base	46,811
Band D Council Tax	1,155

The Income credited to the Collection Fund in 2004/05 can be analysed as follows.

	£000
Gross Council Tax Payable for Year	63,712
Reduced Assessments (discounts)	(8,312)
Actual Income from Council tax	55,400
Less Council tax benefit	(9,505)
Total Council tax Income 2004/05	45,895

The difference of £1.337 million between the actual Council Tax income (£55,400 million) and the estimated income (£54,063 million) is due to changes during the year in the Council Tax Base including changes to the number of eligible properties and changes to discounts combined with the actual tax collection rate.

3. Income from Business Rates

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

The total rateable value as at 31st March 2005 was £62,657 (£63.911m 2003/04). The Multiplier (rate in the £) for 2004/05 as set by Government was 45.6 pence in the pound.

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2005

2003/04 Restated £,000	2003/04 Restated £,000		2004/05 £,000	2004/05 £,000
	372	<u>Intangible Assets</u>		1,043
			<i>Note 1a</i>	
		<u>Tangible Fixed Assets</u>		
		Operational Assets:	<i>Note 1a</i>	
155,089		Other Land and Buildings	186,765	
1,861		Vehicles, Plant and Equipment	1,914	
30,157		Infrastructure Assets	33,661	
744		Community Assets	899	
	187,851			223,239
		Non Operational Assets:	<i>Note 1a</i>	
5,209		Investment Properties	5,047	
4,423		Assets Under Construction	2,350	
723		Surplus Assets, held for Disposal	819	
	10,355			8,216
	198,206	Total Tangible Assets		231,455
		<u>Other Assets</u>		
1,059		Deferred Asset (PFI)	<i>Note 1d</i>	1,504
2,170		Deferred Consideration (PFI)	<i>Note 1d</i>	2,078
30		Investments	<i>Note 3</i>	30
617		Long Term Debtors		992
	3,876			4,604
	202,454	Total Long Term Assets		237,102
		<u>Current Assets</u>		
551		Stocks and Work in Progress	<i>Note 4</i>	592
13,796		Debtors (net of provision for bad and doubtful debt)	<i>Note 5</i>	16,794
19,450		Temporary Investments	<i>Note 6</i>	28,480
1,364		Payments in Advance		756
2,150		Cash and bank		3,524
	37,311			50,146
	239,765	Total Assets		287,248
		<u>Current Liabilities</u>		
(4,461)		Long Term Borrowing due within 12 months	<i>Note 10</i>	(8,808)
(17,291)		Creditors	<i>Note 7</i>	(19,634)
(1,221)		Deferred Liabilities due within 12 months	<i>Note 10</i>	(1,105)
(1,538)		Bank Overdraft		(1,261)
(5,530)		Receipts in Advance		(2,662)
	(30,041)			(33,470)
	209,724	Total Assets less Current Liabilities		253,778
(38,178)		Borrowing repayable within a period in excess of 12 months	<i>Note 10</i>	(45,370)
(25,282)		Deferred Liabilities	<i>Note 10</i>	(24,177)
(429)		Creditors due in excess of 12 months		(642)
(1,527)		Provisions	<i>Note 8</i>	(1,648)
(40,920)		Liability related to defined benefit pension scheme	<i>Note 17</i>	(74,770)
	(106,336)			(146,607)
	103,388	Total Assets less Liabilities		107,171

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2005

2003/04 £,000	2003/04 £,000	2004/05 £,000	2004/05 £,000
	<u>Represented by</u>		
94,082	Fixed Asset Restatement Account	116,775	
<u>15,862</u>	109,944 Capital Financing Account	<u>18,828</u>	135,603
	10,817 Government grants-deferred account		16,688
	2,917 Capital Grant and Contributions Unapplied		4,647
	4,258 Usable Capital Receipts Reserve		4,143
	(40,920) Pension Reserve		(74,770)
	12,897 Earmarked Reserves		16,715
	<u>Balance:</u>		
	2,259 General Fund		2,672
	589 Collection Fund		1,032
	627 Trading Operations		441
	<u>103,388</u> Total Net Worth		<u>107,171</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

(1a) **MOVEMENT OF FIXED ASSETS**

The council's entire housing stock, together with associated estate shops and garages were transferred to the Riviera Housing Trust on 19th February 2001, and therefore there are no council dwellings included in the Fixed Asset Portfolio.

During the year revaluations increased the gross value of assets by almost £30 million. These revaluations were part of the cyclical revaluation programme but also reflect other revaluations resulting from significant capital expenditure, particularly within schools e.g. Paignton Community and Sports College, Special Schools, Sherwell Valley Primary.

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

MOVEMENT OF OPERATIONAL ASSETS 2004/2005

	Operational Assets				TOTAL £000's
	Land & Buildings	Infrastructure Assets	Community Assets	Vehicles Plant & Equipment	
	£000's	£000's	£000's	£000's	
Gross book value as at 31st March 2004	164,564	33,354	753	5,472	204,143
Accumulated Depreciation	(9,470)	(3,197)	(9)	(3,611)	(16,287)
Accumulated Impairment	(5)	0	0	0	(5)
Net Book Value as at 31 March 2004	155,089	30,157	744	1,861	187,851
Revaluations in Year applicable from 1 April (Rolling Programme)					
- Gross Value	15,037	0	188	0	15,225
- Depreciation written off	2,193	0	0	(2)	2,191
Restated Net Book Value at 1 April 2004	172,319	30,157	932	1,859	205,267
<u>Movement in year 2004/05</u>					
Additions					
- Capital Expenditure in Year	10,962	4,336	33	568	15,899
- Other Acquisitions	0	0	0	19	19
Disposals - Sales	(133)	0	0	(71)	(204)
Re-classification	101	0	(33)	0	68
Revaluations (other than Rolling Programme)	5,417	0	(33)	(2)	5,382
	16,347	4,336	(33)	514	21,164
<u>Depreciation in year</u>					
Depreciation for year	(3,656)	(832)	0	(518)	(5,006)
Depreciation on assets sold / disposals	5	0	0	59	64
Re-classification	(2)	0	0	0	(2)
Revaluations	2,092	0	0	0	2,092
	(1,561)	(832)	0	(459)	(2,852)
<u>Impairment for year</u>					
Impairment for year	(345)	0	0	0	(345)
Revaluations	5	0	0	0	5
	(340)	0	0	0	(340)
Net book value as at 31st March 2005	186,765	33,661	899	1,914	223,239

MOVEMENT OF NON OPERATIONAL ASSETS 2004/2005

	Non Operational Assets			
	Investment	Surplus	Assets Under	TOTAL
	Properties	Properties	Construction	
	£000's	£000's	£000's	
Gross book value as at 31st March 2004	5,259	784	4,423	10,466
Accumulated Depreciation	(50)	(21)	0	(71)
Accumulated Impairment	0	(40)	0	(40)
Net Book Value as at 31 March 2004	5,209	723	4,423	10,355
Revaluations in Year applicable from 1 April (Rolling Programme)				
- Gross Value	0	0	0	0
- Depreciation written off	5	0	0	5
Restated Net Book Value at 1 April 2004	5,214	723	4,423	10,360
<u>Movement in year 2004/05</u>				
Additions				
- Capital Expenditure in Year	0	10	0	10
Disposals - Sales	0	(46)	0	(46)
Re-classification	(170)	101	0	(69)
Revaluations (other than Rolling Programme)	0	(10)	0	(10)
Assets Under Construction	0	0	(2,073)	(2,073)
	(170)	55	(2,073)	(2,188)
<u>Depreciation in year</u>				
Depreciation on assets sold / disposals	0	2	0	2
Re-classification	3	(1)	0	2
	3	1	0	4
<u>Impairment for year</u>				
Impairment for year	0	0	0	0
Revaluations	0	40	0	40
	0	40	0	40
Net book value as at 31st March 2005	5,047	819	2,350	8,216

MOVEMENT IN INTANGIBLE ASSETS 2004/05

	<u>Software</u> <u>Licences</u> <u>£'000</u>	<u>Total</u> <u>£'000</u>
Original Cost	526	526
Amortisations to 1 April 2004	(153)	(153)
Balance at 1 April 2004	373	373
Expenditure in Year	941	941
Written Off to Revenue in year	(271)	(271)
Balance at 31 March 2005	1,043	1,043

1(b) CAPITAL EXPENDITURE AND FINANCING IN YEAR

The Capital Financing Requirement (CFR) is a new requirement for 2004/05 introduced by the Prudential Code for Capital Finance and reflects the movement in the Balance Sheet Accounts for Fixed Assets, Capital Financing Account, Government Grants Deferred and the Fixed Asset Restatement Account.

The analysis on the following page of the Capital Financing Requirement shows the change in the underlying need to Borrow as a result of capital investment and resources set aside in the year.

	<u>2004/05</u> <u>£'000</u>
Opening Capital Financing Requirement	81,064
<i>Capital Investment in Year :</i>	
Operational Assets (Tangible Fixed Assets)	15,899
Non Operational Assets	10
Intangible Assets	941
Deferred Charges	1,994
Total Expenditure in the Year	<u>18,844</u>
<i>Sources of Finance*</i>	
Capital Receipts	(4,293)
Government Grants and Other Contributions	(7,690)
Direct Revenue Funding	(750)
Net increase in Borrowing requirement from Spend in Year	<u>6,111</u>
Revenue Provisions for the repayment of Debt :	
Minimum Revenue Provision	(2,188)
Devon Debt	(1,049)
Brixham Covenant	(135)
Closing Capital Financing Requirement	<u><u>83,803</u></u>
<i>Movements in Year</i>	
Increase in Underlying need to borrow (Supported by Govt)	2,549
Increase in Underlying need to borrow (Unsupported by Govt)	190
Increase /Decrease in Capital Financing Requirement.	<u><u>2,739</u></u>

*The sources of finance include the following amounts used to fund 2003/04 creditors:-

	£' 000
Capital Receipts	584
Grants & Contributions	876
Revenue	114
Total	<u><u>1,574</u></u>

This is a one off requirement marking the transfer to the new prudential system for capital accounting.

(1c) SIGNIFICANT COMMITMENTS UNDER CAPITAL CONTRACTS AS AT 31ST MARCH 2005

<u>Children</u>	<u>£'000</u>	<u>£'000</u>
Special Schools	150	
Other Projects:-		
TCC Sports Hall	1,639	
Oldway Primary	804	
TGGS-Learning Resource Cen	1,127	
St Margarets - replace mobiles	<u>120</u>	
		3,840
<u>Adults</u>		
IT system - PARIS		344
<u>Community</u>		
Raglan Housing Association		140
<u>Transport</u>		
Abbey Road, Tqy	34	
Winner St, Pgn	75	
Union Street, Tqy	354	
New Road, Bxm	380	
Carriageway Sealing	<u>105</u>	
		948
<u>Torbay Development Agency</u>		
Inner Harbour Pontoons	38	
Waterfront	<u>129</u>	
		167
<u>Environment</u>		
Bxm Multi Storey Car Park	47	
Hr Brixham Watercourse	<u>126</u>	
		173
<u>All-Service</u>		
Document Image Processing System	<u>55</u>	
		55
		<u>5,667</u>

(1d) ASSETS COMPRISE -

Primary Schools	33	Includes 9 Voluntary Aided Schools where the Council owns the site only; 2 Foundation Schools where the asset rests with the governing body and 1 PFI school where the asset rests with Torbay Schools Services Ltd*
Secondary Schools	8	Includes 1 Voluntary Aided School where the Council owns the site only; 4 Foundation Schools where the asset rests with the governing body and 1 PFI school where the asset rests with Torbay Schools Services Ltd *
Special Schools	3	
Libraries	4	
Civic Offices		Including Torquay Town Hall and Oldway Mansion
Torre Abbey and Spanish Barn		
Depots		Yalberton and Borough Road
Off Street Car Parks		
Leisure Centres and Pools		Torbay Leisure Centre (Leased out); Brixham Community Centre
Theatres		Princess (Leased out); Babbacombe; Brixham and Palace Avenue
Information Centres		
Parks and Recreational Facilities		
Cliff Railway		
Piers and Beaches		22 Miles of Coastline
Public Conveniences		
Public Shelters		
Cemeteries; Crematorium and Closed Churchyards		
Riviera Centre		Council owns freehold. Leased to Riviera Centre International Limited.
Harbours		Fish Quays and Infrastructure
Industrial Units and development land		
Community Asset Holdings		Berry Head Country park (leased to Torbay Coast & Countryside Trust); Cockington Land Holdings (leased to Torbay Coast & Countryside Trust); Brixham Town Square, Victoria Park.
Leased Commercial Property		Waterside Caravan Park; The Pavillion; Goodrington Beach Resort; Torquay Golf Club; Victoria Shopping Centre; Gala Bingo Club; Model Village; Vaughan Parade Properties: Parkfield Nursery

* Westlands and Homelands Schools are PFI schools provided by Torbay Schools Services Ltd. The fixed assets are not on the council's balance sheet. **Deferred assets** has been identified which will be built up over the period of the PFI contract (26 years) representing the residual value of the assets which will transfer back to the Council at the end of the contract term.

Deferred consideration has also been identified to acknowledge the economic benefit to the council, which accrues from providing a site to the school at a peppercorn rent.

(1e) ASSETS HELD UNDER FINANCE LEASES

During 2001/02 the Council acquired printing equipment valued at £207,750 financed by a Credit Arrangement over 4 years. The value of the equipment is included under Fixed Assets in the Balance Sheet as the Council retains most of the risk and rewards of ownership of the asset other than legal title.

	Gross Book Value 31 st March 2005	Accumulated Depreciation
	£000	£000
Printing Equipment	207	77

(1f) VALUATION INFORMATION

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

	Land & Buildings	Vehicles & Plant	Non- Operational Properties	Total
	£000	£000	£000	£000
Valued at Historical Cost	0	5,400	0	5,400
Valued at Current Value in year				
2004/05	79,160	587	2,708	82,455
2003/04	45,680	0	5,257	50,937
2002/03	27,325	0	0	27,325
2001/02	19,156	0	315	19,471
2000/01	24,627	0	0	24,627
Total Gross Value	195,948	5,987	8,280	210,215

(2) DEFERRED CHARGES

	Balance 1st April 2004 £ ,000	Expenditure In Year £ ,000	Discharged £ ,000	Balance 31st March 2005 £ ,000
Private Sector Improvement Grants	0	680	(680)	0
Housing Associations	0	451	(451)	0
Other Grants	0	11	(11)	0
Capitalised Revenue Costs	0	553	(553)	0
Voluntary Aided /Controlled Schools	0	299	(299)	0
Total	0	1,994	(1,994)	0

Expenditure on Deferred Charges is generally written out to revenue in the year in which it is incurred, leaving no balances at the end of the year.

The deferred charge in relation to Local Government Organisation of £6 million has been removed from the accounts

(3) INVESTMENTS

Association of District Councils

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

(4) STOCKS AND W.I.P

	31 March 2004 £ ,000	31 March 2005 £ ,000
General Fund	292	316
Operations	259	276
	<hr/>	<hr/>
	551	592
	<hr/>	<hr/>

(5) DEBTORS

	31 March 2004 £ ,000	31 March 2005 £ ,000
Sundry Debtors	3,789	5,168
Accrued income	6,154	8,500
Significant debtors are:		
- NNDR Payments to Pool	1,898	1,147
- Revenue & Customs re VAT	853	1,063
Assisted Car Purchase	111	87
Liability Orders for Community Charge, Council Tax and NNDR	141	178
Other Debtor systems	321	277
Housing Benefit Recovery Control	1,249	1,225
Council Tax Arrears	1,684	2,059
NNDR Arrears	576	571
Sub-total	<hr/>	<hr/>
	16,776	20,275
Bad Debt Provision – Debtors	(540)	(660)
Housing Benefit recovery	(1,024)	(1,132)
NNDR arrears	(288)	(286)
Council Tax arrears	(1,128)	(1,403)
Total	<hr/>	<hr/>
	13,796	16,794
	<hr/>	<hr/>

(6) TEMPORARY INVESTMENTS

Temporary investments include £18.480 million (£9.450m 2003/04) of short-term investments and £10 million to Alliance Capital Fund Managers who will continue to manage the fund on the basis of their agreed mandate.

(7) CREDITORS

	31 March 2004 £ ,000	31 March 2005 £ ,000
Creditors	14,000	16,914
Revenue & Customs	2,580	1,980
Devon County Council Pension Fund	711	740
	<u>17,291</u>	<u>19,634</u>

(8) PROVISIONS

	Balance 1st April £ ,000	Additions £ ,000	Withdrawals £ ,000	Balance 31st March £ ,000
<u>Provisions</u>				
Commuted Sums	164	59	7	216
Leased Vehicle Returned Condition	85	26	2	109
Leased Bins Returned Condition	42	0	0	42
Highway Defects	0	10	0	10
Insurance	1,236	0	696	540
Redundancy Provision	0	731	0	731
TOTAL PROVISIONS	1,527	826	705	1,648

Description of Provisions

Name of Provision

Description of Provision

Commuted Sum

Amounts received by the Council from developers to carry out maintenance work on adopted sites if required at some time in the future. The liability to the Council will depend on the actual operational requirements based primarily on programmed maintenance and inspection, which will vary from year to year.

Leased Vehicle Return Condition

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

Leased Bins Return Condition	Provision for bins under an operating lease to cover the potential cost of return. The liability to the Council will depend on the general condition of a large number of wheeled bins when returned.
Highway Defects	Provision to cover the potential liability from material or work quality defects that arise from customer quality inspections on highways work.
Insurance	Reflects a reliable estimate of Council liability on all known claims, which have yet to be settled.
Redundancy Provision	Provision to reflect the redundancy and pension payments arising from decisions in 2004/05 where a constructive obligation for these costs has been created.

(9) RESERVES

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

Description of Reserves

<u>Name of Reserve</u>	<u>Description of Reserve</u>
Revenue Reserve	Following a review of Council's reserves this fund was earmarked to support revenue expenditure in 2004/5.
Equipment Fund	To facilitate renewal of equipment within services where the replacement is at irregular periods.
PFI Sinking Fund	To provide funds to meet the liabilities under the PFI agreement over 25 years (Westlands and Homelands Schools) and to provide funding towards Paignton Community College expansion project.
Early Retirement Reserve	To enable the Council to meet new redundancy-related liabilities as they fall due. Built up from annual budgets for new redundancies.
Financial Strategy Planning	To fund the implementation of high level reviews.
LGR Repayment	To provide for costs of Local Plan Inquiry held every 4/5 years.
	To mitigate the impact of increased Minimum Revenue Provision on the Council's Revenue Account arising from the Council's Local Government Reorganisation Supplementary Credit Approval due to be repaid over a period of 11 years.

<u>Name of Reserve</u>	<u>Description of Reserve</u>
IT Equipment	To provide funds for priority driven replacements of IT equipment, particularly PC's.
Car Parks Machine	To replace Pay and Display machines at the end of their useful life.
Vehicles and Plant	To finance the purchase of vehicles and plant when updating the authorities fleet.
Harbours	Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users.
Capital Funding	To provide funding for items in the approved Capital Plan.
Cemeteries and Crematoria	To provide a reserve into which annual revenue contributions are made to fund future cremator replacement
Miscellaneous Specific	Includes: Council Elections, Art Objects Purchase Fund, Replacement Software Reserve, Claylands Reserve, Hele Signal Maintenance Reserve.
Carry Forwards	Agreed Carry Forwards (per Council 21 st July 2005)
School Carry Forwards	Reflects the net amount held (as a carry forward) by schools under local management schemes.
Kingskerswell Bypass	To set aside funding for the development costs for the Kingskerswell Bypass.
Torbay Enterprise Agency	This reserve reflects the Council's on going support for Torbay Enterprise Agency.
South West Water Agency	This reserve established to hold annual surpluses or deficits arising from Maintenance operations.
Section 106 Reserve	Various sums received from developers under Planning Section 106 agreements, which are used to provide one off public amenity benefits.
Disposal Costs Reserve	Reserve funded from de minimis capital receipts to be used to support revenue costs of the disposal of Council assets.
Pearl Assurance House	Reserve for potential dilapidation on a building leased during the financial year.
Insurance Reserve	To set aside amounts to cover the future cost of past uninsured events which result in a loss to the Council. This reserve comprises estimates of potential liabilities arising from the Council's previous insurers Municipal Mutual Insurance Ltd not having sufficient solvency, to meet pre 1998 claims from Devon County Council, and a general reserve to meet as yet unknown insurance claims

Analysis of Reserve Movements

Reserves

	Balance April 1st 2004 £,000	Additions £,000	Withdrawals £,000	Balance March 31st 2005 £,000
Pearl Assurance House	0	55	0	55
Revenue Reserve	100	0	100	0
Specific Reserves	56	61	1	116
Equipment Reserves	324	283	74	533
PFI Sinking Fund	2,038	2,634	1,313	3,359
Early Retirement Reserve	390	9	250	149
Financial Strategy	0	757	0	757
Planning Reserve	57	67	0	124
LGR Repayment Reserve	505	0	70	435
IT Equipment Reserve	292	95	328	59
Car Parks Machine Reserve	107	0	0	107
Vehicles and Plant	590	112	458	244
Harbour's Reserve	1,146	248	86	1,308
Capital Funding Reserve	530	268	92	706
Cemeteries and Crematoria	460	75	0	535
Carry Forwards	1,426	1,566	1,248	1,744
School Carry Forwards	2,203	2,945	2,242	2,906
Insurance Reserves	2,286	1,439	664	3,061
Disposal Costs Reserve	0	39	0	39
Torbay Enterprise Agency	43	0	0	43
TDA Capital Schemes Reserve	0	247	0	247
South West Water Agency	231	1	132	100
Section 106 Agreements	113	6	31	88
	12,897	10,907	7,089	16,715

Total Reserves	12,897	3,818	16,715
-----------------------	---------------	--------------	---------------

Note:

Within the schools earmarked balances an adjustment has been made to reflect £300,000 of income in advance relating to Westlands School

Analysis of Balances

	Balance April 1st 2004 £,000	Additions £,000	Withdrawals £,000	Balance March 31st 2005 £,000
General Fund	2,259	413	0	2,672
Operational Services Reserves	627	217	403	441
Collection Fund Reserve	589	443	0	1,032
	3,475	1,073	403	4,145

Total Reserves & Balances	16,372	4,488	20,860
--------------------------------------	---------------	--------------	---------------

(10) **LONG TERM BORROWING & DEFERRED LIABILITIES**

Borrowing Repayable		Total Outstanding 31 March 2004 £ ,000	Total Outstanding 31 March 2005 £ ,000
Amounts falling due within one year			
Public Works Loans Board	(Note b)*	4,461	8,808
Amounts falling due in excess of one year			
Barclays Bank plc	(Note e)	0	5,000
Public Works Loans Board		38,178	40,370
Total		42,639	54,178
Deferred Liabilities			
Amounts falling due within one year			
Deferred payment loan and covenant balance	(Note a)*	135	73
Finance Lease	(Note c)*	37	25
Devon County Council Debt Repayment	(Note d)*	1,049	1,007
		1,221	1,105
Amounts falling due in excess of one year			
Deferred payment loan and covenant balance	(Note a)*	73	0
Finance Lease	(Note c)*	25	0
Devon County Council Debt Repayment	(Note d)*	25,184	24,177
		25,282	24,177
Total		26,503	25,282

***Note a**

The amount of outstanding refers to the covenant agreement in respect of Brixham Fish Quay. The final payment of £73,000 is payable on 1st August 2005. Both the principal repayment and all interest due are charged to the Brixham Harbour Revenue Account.

***Note b**

An Analysis of Loans by Maturity	Average Interest Rate	Total Outstanding 31 March 2004 £ ,000	Total Outstanding 31 March 2005 £ ,000
Within 1 year	4.7189%	4,461	8,808
1 up to 2 years	4.2500%	0	1,000
2 up to 3 years	4.2500%	3,000	1,000
3 up to 4 years	4.3750%	1,000	1,000
4 up to 5 years	0	0	0
5 up to 10 years	4.5625%	2,000	2,000
10 up to 15 years	0	7,808	0
15 up to 20 years	4.6928%	9,370	11,370
20 up to 25 years	4.7432%	7,000	11,000
Over 25 years	4.4861%	8,000	18,000
		42,639	54,178

***Note c**

The Council acquired printing equipment in 2001/02 valued at £207,750 financed partly by a Credit Arrangement (Finance Lease) of £147,750 repayable over 4 years.

***Note d**

Deferred Liabilities

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

Transferred Debt principal outstanding at 31st March 2005 is £25,184 million, (£26.234 m 03/04).

***Note e**

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

(11) CAPITAL FINANCING ACCOUNT

	Restated 2003/2004 £000	2004/2005 £000
Opening Balance as at 1st April	23,417	15,862
Adjustment to Opening Balance (Deferred Charge)	(7,429)	0
Capital Receipts Set Aside	729	0
Repayment of Brixham Harbour covenant	125	135
Capital financing		
Capital receipts	0	4,293
Revenue	2,049	750
Transfer from Grants & Contributions Deferred A/c's	2,097	618
Principal repaid on Transferred Debt	1,093	1,049
Funding of Capitalised Element of PFI Payment (Deferred Asset)	445	445
	22,526	23,152
Less :		
Write down of deferred debtors	(147)	(4)
Excess of depreciation & other charges over MRP	(6,517)	(4,320)
Balance as at 31st March	15,862	18,828

The capital financing account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts.

Deferred charges for expenditure incurred in relation to Local Government Reorganisation in 1998 have been removed from the Balance Sheet.

(12) USABLE CAPITAL RECEIPTS RESERVE

	2003/04 £,000	2004/05 £,000
Opening balance as at 1st April	1,653	4,258
Capital receipts in Year	3,334	4,178
Less :		
Capital Receipts Set-Aside	(729)	0
Capital Receipts used for financing	0	(4,293)
Balance as at 31st March	<u>4,258</u>	<u>4,143</u>

The usable capital receipts reserve represents the capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans. The statutory requirement to set aside part of receipts has now been repealed.

Analysis of Capital Receipts in year

	2003/04 £,000	2004/05 £,000
Housing - Clawback from sales to tenants of Riviera Housing Trust	782	1,825
Sale of Assets	2,273	2,339
Repayment of Loans to Housing Associations	143	0
Loan & Covenant repayments	136	14
	<u>3,334</u>	<u>4,178</u>

(13) GOVERNMENT GRANTS & CONTRIBUTIONS DEFERRED ACCOUNT

	2003/04 £,000	2004/05 £,000
Opening Balance as at 1st April	8,495	10,817
Grants and contributions deferred in year	4,820	7,121
Released to Revenue	(402)	(632)
Released to Capital Financing account	(2,096)	(618)
Balance as at 31st March	<u>10,817</u>	<u>16,688</u>

(14) TRUST FUNDS

The Authority acts as trustee for the funds listed below. In accordance with LAAP58 these funds have not been consolidated in the accounts of the Authority and a summary of income and expenditure in year is as shown in the table below.

TITLE OF TRUST FUND	Balance 31st March 2004 £ ,000	Income in Year £000's	Spend in Year £000's	Balance 31st March 2005 £ ,000
Sports Events To provide grants to local sports men and women.	16	1	0	17
Stoney Park Allotment To maintain and repair the Stoney Park Allotment	7	1	0	8
Leanora Carlow: To provide contributions to Handicapped Children in Torbay	13	1	0	14
Thomas W Gleiman: Established to support the poor in Torbay	1	0	0	1
Mayoral Charity Account: To receive contributions to the Mayor of Torbay for distribution to local charities.	4	11	8	7
Education Bequests to specific schools within Torbay	14	1	0	15

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

(15) STATEMENT OF NET ASSETS EMPLOYED IN THE CURRENT YEAR

	Balance 31st March 2004 £ ,000	Balance 31st March 2005 £ ,000
General Fund	88,039	96,197
Operational Services	(1,165)	(3,817)
Harbours	16,514	14,791
	<hr/>	<hr/>
	103,388	107,171

(16) FOUNDATION SCHOOLS

The schools Standards and Framework Act 1998 changed the status of Grant Maintained Schools. Fixed Assets and long term liabilities remain invested in the Governing Bodies of individual Foundation Schools. However, the value of the fixed assets (totalling £39.8m) is included in the Council's balance sheet value of fixed assets reflecting the fact that these properties can only be used as schools ("substance over form").

(17) PENSIONS

a) Local Government Scheme

In accordance with Financial Reporting Standard No 17 – Retirement Benefits (FRS 17) Torbay Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees

Torbay Council participates in the Local Government Pension Scheme, which is administered by Devon County Council. The Local Government Pension Scheme is a defined benefit scheme based on final pensionable salary.

As noted within the Explanatory Forward and note 6 to the Consolidated Revenue Account full compliance with FRS 17 has now been incorporated within these accounts.

The most recent valuation was carried out during 2004/05, and has been updated by independent actuaries to the Devon County Council Pension Fund to take account of the requirements of FRS 17 in order to assess the liabilities of the fund at 31st March 2005. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Torbay Council's contribution rate over the accounting period was 254% of member contributions. The Contribution rates certified for Torbay council at the 31 March 2001 valuation are as follows:

April 2002 to March 2003	254% of members contributions
April 2003 to March 2004	254% of members contributions
April 2004 to March 2005	254% of members contributions

These figures include the past service element of the contribution rate.

Assumptions:

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

	31 March 2004	31 March 2005
	% pa	% pa
Discount Rate for Scheme Liabilities	6.4	5.3
Discount Rate for pension cost over year	5.4	5.3
Rate of inflation	2.9	2.9
Rate of increase to pensions in payment	2.9	2.9
Rate (long term) of increase in salaries	4.4	4.4
Rate of return on equities	7.7	7.7
Rate of return on Government bonds	4.7	4.7
Rate of return on Corporate bonds	5.5	5.3
Rate of return on property	6.7	6.7
Rate of return on other assets	4.2	4.8
Average long term expected rate of return	6.9	6.9

Note: With the change in Discount rates used by the actuary the assumptions for 2003/04 have been restated where applicable.

Position in the Fund:

Assets are valued at fair value, principally market value for investments. The market value of the Devon County Council Pension Fund at 31st March 2005 was £1.55 billion. The proportion of total assets held in each asset type by the Fund as a whole at 31st March 2005 and 31st March 2004 are as follows:

	Long Term rate of return %pa expected at 31/3/05	Estimated value at 31/3/05 £m	% of value held by type	Long Term rate of return %pa expected at 31/3/04	Estimated value at 31/3/04 £m	% of value held by type
Equities	7.7	1,029.88	66	7.7	921.41	68
Property	6.7	148.10	10	6.7	127.75	9
Government Bonds	4.7	238.74	15	4.7	211.42	16
Corporate Bonds	5.3	13.46	1	5.5	0	0
Other	4.8	121.88	8	4.2	87.77	7
Total	6.9	1,552.06	100	6.9	1,348.35	100

The following amounts, needed for reconciliation to the balance sheet, were measured in accordance with the requirements of FRS17 at 31st March 2005 and 31st March 2004 are as follows:

	2004 £m	2005 £m
Share of assets in Devon County Council Pension Fund	102.21	132.02
Estimated funded liabilities	(136.59)	(198.98)
Estimated unfunded liabilities	(6.54)	(7.81)
Torbay Council's deficiency in the scheme	(40.92)	(74.77)

The deficiency revealed above should be borne in mind when considering the amount of overall reserves held. The Council's total reserves as at 31/3/05 are £20.9 million as shown within the Balance Sheet and notes to it. The projected deficit of £74.77 million above is an assessment of the value of the fund at a point in time (i.e. at 31 March 2005). Future costs to the Council are reflected by periodic actuarial valuations of the fund and the resulting reassessed employer's contribution that will be set at a rate to meet 100% of the long term liabilities of the fund. After the actuarial revaluation in 2004, Torbay has increased the number of years over which it will meet these liabilities to 25 years from 12 years. Torbay's employer's contribution for 2005/06 has been set at 16.1% a 5% increase from 2004/05.

The movement in net deficit for the year to 31st March 2005 is as follows:

	2004/05		2003/04	
	£m	£m	£m	£m
Net Deficit at beginning of year:		(40.920)		(53.600)
Contributions paid	7.310		6.370	
Current Service Costs	(7.110)		(4.630)	
Past Service Costs	(0.990)		(0.460)	
Gain/Loss on Curtailments	0		0	
Expected return on pension fund assets	7.210		5.130	
Interest on pension scheme liabilities	(9.260)		(8.170)	
Actuarial Gain/loss	(31.010)	(33.850)	14.440	12.680
Net Deficit at end of year		(74.770)		(40.920)

The Actuarial gains and loss within the year of £31.010 million can be furthered analysed as follows:

	Year Ending 31/3/05		Year Ending 31/3/04	
	£m	%	£m	%
Difference between expected And actual return on scheme assets:	7.08	5.4%	14.23	13.9%
Experience gains on scheme liabilities	3.20	1.5%	0.21	0.1%
Change in Assumptions	(41.29)	(20%)	0	0%
Total	(31.01)	(15%)	14.44	10.1%

b) Teachers Pensions Scheme

With Regard to the Teachers Pensions scheme there were no contributions remaining payable at the year end.

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

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

c) Contributions to Devon County Unfunded Discretionary Pensions

Note 6 to the Consolidated Revenue Account refers to Torbay's liability to Devon County Council in relation to their unfunded pensions prior to 1998. It is estimated that, if FRS17 applied to these contributions, the total liabilities in relation to these pre 1998 enhancements at the liability at 31st March 2005 to be £90.793 million (£78.083 million 2004), of which Torbay's share would be £10.650 million (£9.160 million 2004).

(18) THE EURO

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

(19) RELATED COMPANIES

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

For the company's latest accounts for the financial year ended 31st March 2005 its profit for the financial year was £8,446, increasing its total net assets to £21,790. Due to the size of the company under the Companies Act 1985 it is exempt from audit. Copies of the accounts can be obtained from the Director of Finance at Torbay Council.

(20) POST BALANCE SHEET EVENTS

The Council is restructuring the delivery of a number of its services including:-

the transfer of Torbay Industrial Services to a not for profit company part owned by the Council. The transfer was completed on 1st August 2005.

the creation of a partnership with Torbay Primary Care Trust (to be redesignated as a Care Trust) to deliver social care to adults within Torbay. There will be restructuring costs arising from these changes of which the Council's share is estimated to be at a minimum £0.2 million. Government approval was received September 2005. Estimated partnership start date December 2005.

CASH FLOW STATEMENT

<u>Revenue Activities</u>	2004/05 £ ,000	2004/05 £ ,000	2003/04 £ ,000
Cash Outflows			
Cash paid to and on behalf of employees	113,550		106,005
Precepts paid	7,910		4,818
NNDR payments to national pool	25,175		24,233
Housing Benefit paid out	33,426		33,011
Other operating cash payments	<u>110,832</u>		<u>107,949</u>
	290,893		276,016
Cash Inflows			
Rents	(2,837)		(3,123)
Council Tax receipts	(46,102)		(41,657)
Non-domestic rate income receipts	(26,440)		(23,782)
Receipt from National NNDR Pool	(38,451)		(39,369)
Revenue Support Grant	(55,702)		(50,770)
DWP grants for housing benefits	(31,766)		(31,995)
Other Government grants	(51,139)	<i>Note 4</i>	(45,172)
Cash received for goods and services	(33,986)		(32,034)
Other Operating Cash Receipts	<u>(12,626)</u>		<u>(18,805)</u>
	(299,049)		(286,707)
Net Cash Flow from Revenue Activities	<i>Note 1</i>	(8,156)	(10,691)
<u>Returns on Investment and Servicing of Finance</u>			
Cash Outflows			
Interest Paid	3,697		3,297
Interest Element of finance lease payments	<u>8</u>		<u>8</u>
	3,705		3,305
Cash Inflows			
Sale of fixed assets	(765)		(629)
Net Cash Inflows from Investments		2,940	2,676
<u>Capital Activities</u>			
Cash Outflows			
Purchase of fixed assets	15,600		13,474
Other capital cash payments (deferred charges)	<u>1,580</u>		<u>3,304</u>
	17,180		16,778
Cash Inflows			
Sale of fixed assets	(3,390)		(3,194)
Capital grants received	(8,266)		(5,812)
Other capital cash receipts	<u>(667)</u>		<u>(373)</u>
	(12,323)		(9,379)
Net Cash Flow from Capital Activities		4,857	7,399
Net Cash inflow/outflow before Financing		(359)	(616)
<u>Management of Liquid Resources</u>			
Short term investments	<i>Note 3</i>	9,030	1,555

Financing

Cash Outflows			
Repayment of Amounts Borrowed		4,596	5,972
Devon County Transferred Debt	Note 3	1,049	1,093
Capital element of finance leases		33	37
Cash Inflows			
New Loans Raised		<u>(16,000)</u>	<u>(10,000)</u>
		<u>(10,322)</u>	<u>(2,898)</u>
Net (Increase) in Cash	Note 3	<u>(1,651)</u>	<u>(1,959)</u>

NOTES TO CASH FLOW STATEMENT

1. <u>Reconciliation of Revenue Cash Flow</u>	2004/05	2003/04
	£ ,000	£ ,000
Consolidated Revenue Account (Surplus)/Deficit for the year	(413)	(44)
Items classified elsewhere on cash flow:		
Interest Paid	(3,705)	(3,305)
Interest Received	765	629
	<u>(2,940)</u>	<u>(2,676)</u>
Increase/(decrease) in stock and work-in-progress	41	(95)
(Increase)/decrease in creditors/receipts in advance	312	(2,141)
Increase/(decrease) in debtors/payments in advance	2,765	(3,858)
Contributions (to)/from Reserves	(3,633)	2,542
Contributions to/(from) other balances	(4,288)	(4,419)
Revenue Activities Net Cash Flow	<u>(8,156)</u>	<u>(10,691)</u>
2. <u>Reconciliation of Movements in Cash & Net Debt</u>	2004/05	2003/04
	£ ,000	£ ,000
Cash Flow from Revenue Activities	(8,156)	(10,691)
Cash Flow from Capital Activities	4,857	7,399
Cash Flow from Investments and Servicing of Finance	2,940	2,676
Net increase in Debt	<u>(359)</u>	<u>(616)</u>
Cash Flow from Liquid Resources	(9,030)	(1,555)
Cash Flow from Financing	10,322	2,898
Change in Cash Balances	<u>(1,651)</u>	<u>(1,959)</u>
Net Increase in Debt	<u>(359)</u>	<u>(616)</u>

<u>3. Movement of Financing and Liquid Resources</u>	As at 31 March 2004 £,000	As at 31 March 2005 £,000	Movem't in year £,000
Financing Items			
External Long Term Borrowing (net movement)	42,639	54,178	11,539
Devon County Transferred Debt	26,233	25,184	(1,049)
Finance Leases/Covenant	266	98	(168)
	<u>69,138</u>	<u>79,460</u>	<u>10,322</u>
Liquid Resources			
Temporary Investments	(19,450)	(28,480)	(9,030)
Cash Related			
Net Cash Overdrawn	1,538	1,261	(277)
Cash In Hand	(2,150)	(3,524)	(1,374)
	<u>(612)</u>	<u>(2,263)</u>	<u>(1,651)</u>
Total Movement of Financing & Liquid Resources	49,076	48,717	(359)

Liquid resources are current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market. The temporary investments held by the Council's External Fund Managers are repayable on demand.

4. Analysis of Other Government Grants

Related Service Area	2004/05 £,000	2003/04 £,000
Education	20,747	19,502
Social Services	8,664	8,710
Supporting People	6,341	6,100
Council Tax Benefit	9,924	7,239
Other Grants	5,463	3,621
	<u>51,139</u>	<u>45,172</u>

STATEMENT of TOTAL MOVEMENTS in RESERVES
For the Year ended 31st March 2005

	Restated 2003/4 £000	2004/5 £000	
Surplus / (deficit) for the year:			
- General Fund	44	413	
- Trading & Other Balances	(180)	(186)	
<i>add back</i> Movements on specific revenue reserves	(2,361)	3,818	
<i>add back</i> Movements on Collection Fund	(88)	443	
<i>deduct</i> Appropriations from Pension Reserve	(1,760)	(2,840)	
Actuarial gains/(losses) relating to Pensions	14,440	(31,010)	
Total increase / (decrease) in revenue resources	10,095	(29,362)	
Increase / (decrease) in useable capital receipts	2,444	(115)	
Increase / (decrease) in unapplied capital grants & contributions	(782)	1,730	
Total increase / (decrease) in realised capital resources (Note 1)	1,662	1,615	
Gains / (losses) on revaluation of fixed assets	631	22,877	
Impairment losses on fixed assets due to general change in prices	0	0	
Total increase / (decrease) in unrealised value of fixed assets (Note 2)	631	22,877	
Value of assets sold, disposed of or decommissioned (Note 3)	(1,009)	(184)	
Capital receipts set aside	729	4,293	
Revenue resources set aside	(3,991)	(1,945)	
Movement on Government Grants Deferred	4,419	6,489	
Total increase / (decrease) in amounts set aside to finance capital investment (note 4)	1,157	8,837	
Total recognised gains and losses	12,536	3,783	

Notes to the Statement of Total Movements on Reserves :

	<i>Usable capital receipts</i> £000	<i>Unapplied capital grants & contributions</i> £000
1. Movements in realised capital resources		
Amounts receivable in year	4,178	8,851
Applied to finance new capital investment in year	(4,293)	(7,121)
Total increase / (decrease) in realised capital resources in year	(115)	1,730
Balance brought forward 1 April 2004	4,258	2,917
Balance carried forward at 31 March 2005	4,143	4,647

	Fixed asset restatement account £000
2. Movements in unrealised value of fixed assets	
Gains / losses on revaluation of fixed assets in year	22,877
Total increase / (decrease) in unrealised capital resources in year	22,877
3. Value of assets sold, disposed of or decommissioned	
Amounts written off fixed asset balances for disposals in year	(184)
Total movement on reserve in year	22,693
Balance brought forward at 1 April 2004	94,082
Balance carried forward at 31 March 2005	<u>116,775</u>

	<i>Capital financing account</i>	<i>Government grants deferred</i>	Total
	£000	£000	£000
4. Movements in amounts set aside to finance capital investment			
Capital receipts set aside in year :			
- useable receipts applied	4,293	0	4,293
Total capital receipts set aside in year	<u>4,293</u>		<u>4,293</u>
Revenue resources set aside in year:			
- capital expenditure financed from revenue	1,194	0	1,194
- repayment of deferred liabilities/debtors	1,182	0	1,182
of which: transferred debt	1,049		
covenant	135		
mortgages	(2)		
- reconciling amount for provisions for loan repayment	(4,321)	0	(4,321)
Total revenue resources set aside in year	<u>(1,945)</u>		<u>(1,945)</u>
Grants applied to capital investment in year	0	7,121	7,121
Amounts credited to Capital Financing Reserve	618	(618)	0
Amounts credited to AMRA	0	(632)	(632)
Movement on Government Grants Deferred	<u>618</u>	<u>5,871</u>	<u>6,489</u>
Total increase / (decrease) in amounts set-aside to finance capital investment			8,837
Total movement on reserve in year	2,966	5,871	
Balance brought forward at 1 April 2004	15,862	10,817	
Balance carried forward at 31 March 2005	<u>18,828</u>	<u>16,688</u>	

5. Pension Reserve Movements

The actuarial gains identified on the Pension reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2005.

	2003/04 £,000	2004/05 £,000	2004/05 %
Actual return less expected return on assets.	14,230	7,080	5.4
Experience gains and losses on pensions liabilities	210	3,200	1.5
Changes in assumptions underlying present value of pension liabilities	0	(41,290)	-20.0
	<u>14,440</u>	<u>(31,010)</u>	<u>-15.0</u>

6. Movement in Revenue Reserves

	General Fund Balance	Restated Pensions Reserve	Specific Revenue Reserves
Surplus for 2004/05	413	0	0
Appropriations from Revenue	0	(2,840)	3,818
Actuarial gains and losses relating to pensions	0	(31,010)	0
	<u>413</u>	<u>(33,850)</u>	<u>3,818</u>
Balance brought forward at April 2004	2,259	(40,920)	12,897
Balance Carried forward at 31st March 2005	<u>2,672</u>	<u>(74,770)</u>	<u>16,715</u>

The specific reserves are described in more detail as a note to the Balance Sheet. The Pensions Reserve is a requirement of FRS17 Retirement Benefit entries which requires Council's to show the position of their share of the Local Government Pension Fund at the end of each year. The Pensions Reserve is offset on the Council's Balance Sheet by a Pension Liability for the same balance. The annual actuarial assessment of the position of the fund is represented by the actuarial assessment of the gains or losses on the performance of the fund.

Earmarked reserves include Collection Fund and Trading Reserves.

HARBOUR REVENUE ACCOUNTS
For the Year ended 31st MARCH 2005

TORQUAY and PAIGNTON HARBOURS (excluding FRS17 Retirement Benefits)

	2003/04	2004/05
	Actual	Actual
Expenditure	£ ,000	£ ,000
Operations and Maintenance:-		
Harbour Attendants Salaries and Wages	85	119
Repairs and Maintenance	116	87
Other Operating Costs	82	76
Management and Administration:-		
Salaries	119	88
Internal Support Services	99	86
Other Administration Costs	30	28
Capital Charges	33	32
	<u>564</u>	<u>516</u>
Income		
Rents and Rights:-		
Property and Other Rents/Rights	153	187
Marina Rental	182	194
Operating Income:-		
Harbour Dues	74	91
Mooring fees	65	79
Boat and Trailer parking	39	28
Other Income	29	35
Net Surplus on Other Harbour Services		10
	<u>542</u>	<u>624</u>
Operating Surplus / (Deficit)	(22)	108
Net Contribution (to)/from Reserve Fund	23	8
Net Surplus / (Deficit) to Reserve Fund	<u>1</u>	<u>116</u>
 RESERVE FUND		
Opening Balance as at 1st April	342	283
Interest Received	11	15
Net Contribution (to) / from Revenue Account	(23)	(8)
Net Surplus / (Deficit) from Revenue Account	1	116
Withdrawals	(48)	(23)
Closing Balance as at 31st March	<u>283</u>	<u>383</u>

HARBOUR REVENUE ACCOUNTS For the Year ended 31st MARCH 2005
--

<u>BRIXHAM HARBOUR (excluding FRS17 Retirement Benefits)</u>	2003/04	2004/05
	Actual	Actual
Expenditure	£ ,000	£ ,000
Operations and Maintenance:-		
Harbour Attendants Wages	74	77
Repairs and Maintenance	130	152
Other Operating Costs	233	293
Management and Administration:-		
Salaries	95	106
Internal Support Services	94	64
Other Administration Costs	59	46
Capital Charges	166	170
	851	908
Income		
Rents and Rights:-		
Rents and Rights	146	133
Marina Income	121	129
Operating Income:-		
Harbour Dues	77	84
Mooring fees	88	110
Fish Tolls income	392	424
Other Income	37	57
	861	937
Operating Surplus / (Deficit)	10	29
Net Contribution (to)/from Reserve Fund	8	26
Net Surplus / (Deficit) to Reserve Fund	18	55
 RESERVE FUND		
Opening Balance as at 1st April	823	863
Interest Received	30	41
Net Contribution (to) / from Revenue Account	(8)	(26)
Net Surplus / (Deficit) from Revenue Account	18	55
Net Withdrawals/Contributions	0	(9)
Closing Balance as at 31st March	863	924

Operational Services – Summary Revenue Account

	Income 2004/05 £ ,000	Expenditure 2004/05 £ ,000	Surplus /(Deficit) £ ,000
Highways and Sewers	1,940	1,931	9
Building Maintenance	1,004	964	40
Landscape Maintenance	1,252	1,246	6
Other Cleansing	1,492	1,489	3
Building Cleaning	702	696	6
Refuse Collection	2,126	2,122	4
Vehicle Repair and Maintenance	615	612	3
Fleet Transport	2,220	2,214	6
Waste Transfer Station and C/A Sites	1,457	1,451	6
FRS17 Retirement Benefits		77	(77)
Total	12,808	12,802	6
Total Previous Year 2003/04	12,552	12,498	54
Total of Balances on the above operations			£ ,000
Balances Brought Forward (Surplus)			626
Plus: surplus/(deficit) for the year on trading activities			6
Plus: contributions			57
Plus: FRS17 Retirement Benefits			77
Less: appropriations to General Fund			0
Less: withdrawals			(325)
Balance Carried Forward (Surplus)			441

NOTES:-

Operations

The Summary Operational Services Revenue Account brings together all of the categories of work that were required to be separately accounted for under the Compulsory Competitive Tendering requirements and are now continued as Trading operations. Full reports and accounts of all Operational Services are produced separately and may be obtained from Operational Services.

The Revenue Accounts are charged directly with a capital financing charge that is based on 3.5% of the valuation of assets used by each operation.

FINANCIAL CERTIFICATES

The 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 as the Council's Chief Finance Officer
- ◆ to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- ◆ approve the Statement of Accounts

Full Council Approval of the Statement of Accounts 2004/05

I confirm that the Council completed its approval process of the Statement of Accounts 2004/05 on the 21st July 2005 at a meeting of the Council.

A handwritten signature in black ink, appearing to read 'Peter Killick', with a horizontal line underneath the signature.

Councillor The Reverend Peter Killick

Mayor of Torbay

Date 21st July 2005

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).

In preparing this Statement of Accounts, the Chief Finance Officer has:-

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

The Chief Finance Officer has also:-

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

The Chief Finance Officer's Statement

The Statement of Accounts as required by the Accounts and Audit Regulations 2003 is set out on page 20 to page 68 and has been prepared in accordance with the accounting policies set out on pages 11 to 19. It presents fairly the financial position of the Authority at 31st March 2005 and its income and expenditure for the year ended 31st March 2005.

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



R. THORPE BACPF
Director of Finance
12th July 2005

Auditors' Report to Torbay Council

We have audited the Statement of Accounts which comprises the Consolidated Revenue Account, Consolidated Balance Sheet, Statement of Movement on Reserves, Cashflow Statement and Collection Fund and the notes to those statements and which has been prepared in accordance with the accounting policies applicable to local authorities as set out in the Statement of Accounting Policies.

This report is made solely to Torbay Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditors

As described in the Statement of Responsibilities for the Statement of Accounts, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2004. Our responsibilities, as auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the Statement of Accounts presents fairly the financial position and results of operations of the Council.

We 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" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the Statement of Accounts. We are not required to consider, nor have we considered, whether the Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

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

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

We read the other information published with the Statement of Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Statement of Accounts. The other information comprises only the explanatory foreword.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Statement of Accounts. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the statement of accounts, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the Statement of Accounts presents fairly the financial position of Torbay Council as at 31 March 2005 and its income and expenditure for the year then ended.

Certificate

We certify that we 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:

Date:

25 October 2005

A rectangular box containing a handwritten signature in blue ink that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP
Bristol

STATEMENT ON INTERNAL CONTROL 2004/2005

1. SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Torbay Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at Torbay Council throughout the year ended 31st March 2005 and up to the date of approval of the annual report and accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

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

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

The published document "Transforming Torbay – Making Change Happen" comprising the Council's Strategic Plan 2004-2008, Action Plan 2004-2008 and Best Value Performance Plan 2004/05 set out the Council's seven corporate objectives that support the Community Strategy (the long-term strategy for improving the quality of life in Torbay) and reflect the Council's role as a Community Leader. These objectives were the result of extensive consultation with the community and the Torbay Strategic Partnership. A hierarchy of more detailed sub objectives and priorities link Council business plans and statutory plans.

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

Policy and Decision-making

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The full Council of 36 elected Members determines the budget and policy framework. The Executive is responsible for most Member Level decisions and comprises the Leader and Executive Members who oversee specific areas of Council business. Prior notice of matters for Executive or Officer level decisions that are classed as key decisions is published within the Forward Plan. Executive meetings are public and prior notice of all areas for discussion is published in advance. Matters outside of the budget and policy framework are referred to full Council for decision.

Schemes of delegation to Officers and Members are contained within the Constitution and are subject to regular review. The Council has a well developed and successful Scrutiny function in the Overview & Scrutiny Board which undertakes a range of reviews into policies and performance and also has the facility to call in Executive, Member or Officer decisions and makes recommendations to the Executive as appropriate.

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

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

Compliance with established policies, procedures, laws and regulations

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

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

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

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

Directors and Assistant Directors are responsible for risk management within their departments, with advice and support from the Council's Risk Management group. Business Plans identify the key risks affecting Business Units and identify control measures where applicable. The Director of Law and Support has been given responsibility for overseeing the implementation and monitoring of the risk management strategy and policy supported by a Corporate Risk Management Group and Directorate Risk Management Co-ordinators. Directorate Risk Registers are being developed and will feed into a review of the Council's Corporate Risk Register

A risk appetite for the Council has been agreed by Members together with a Risk Assessment Matrix and delegated authority limits for the acceptance of risk.

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

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

The Council has in place a clear annual planning cycle including detailed business plans for all business units / service areas. This includes budgetary pressures for the current and future financial year and planned actions. Business Plans targets are reviewed by Performance Boards and actions recorded on the Councils SPAR system.

The Council completed a fundamental Best Value review of support services in the year and is continually looking for efficiencies and service improvements including regular meetings of the Financial Review Group.

The Council has a well developed (and praised by the Audit Commission) scrutiny function which undertakes detailed reviews into key service areas as part of its agreed work programme.

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

Financial Management

The system of internal financial control is based on a coherent accounting and budgeting framework including financial regulations, contract standing orders, scheme of delegation and accountability. In particular the system includes: -

- Medium-term financial plans covering both revenue and capital spend which provides a framework for the planning and monitoring of resource requirements. These also link in with the business development proposals which are fed by the Strategic Plan
- Operation of the Capital Strategy aims to ensure that investment is linked to Strategic Objectives. Bids for capital and other asset management funding require an effective 'business case' linked to Strategic Objectives, and progress in delivering projects is formally monitored by the Capital Asset Management team, Councillors and Directorate Management Teams.
- Financial stewardship in respect of both capital and revenue is reported to Overview and Scrutiny quarterly, and is considered regularly by Directors Management Team and Performance Boards. In addition Directorate Management Teams also consider their respective budgets on a

regular basis. This is supported by an established budget monitoring process by managers and Accountancy staff.

Performance Management

The Council has strengthened its arrangements for performance management including improvements to business planning and to best value reviews. It is taking a more systematic approach to appraising the performance of its staff and to meeting their training and development needs.

The Council has improved its collection and use of performance information and has made significant improvements in its data collection and verification of Performance Indicators. This has been recognised by the External Audit report on the 2003/04 BVPIs. The Corporate Performance Assessment Report also recognised that the Council had made significant improvements and was commended as one of the top 5 improving Councils in classifying the Authority as Fair in December 2004.

Performance Boards have been established for all the Council's directorates and for the Corporate Centre. These boards monitor performance against performance indicators and also consider progress against the Strategic Plan, Business Plans, delivery of Service Level Agreements, budget monitoring reports and other performance issues. The Boards comprise Scrutiny Lead Members and Executive members and report to the Overview and Scrutiny Board.

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

Key issues and targets for statutory indicators and corporate priorities and policies are cascaded down the organisation and reflected in individual performance targets as part of the Councils personal appraisal process (RADAR). The Council has also restructured and appointed four Strategic Directors who each have responsibility for one of the Councils key themes from the Community and Strategic Plan.

4. REVIEW OF EFFECTIVENESS

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

Overall responsibility for the system of internal control rests with the Executive and they receive regular reports from the Director of Finance (Section 151 Officer) on financial issues and the Monitoring Officer on legal issues as and when appropriate. This includes regular budget monitoring information and the Medium Term Financial Plan. The Executive has also approved the Risk Management Strategy and Appetite and has identified the key Strategic Risks facing the Authority.

The Council Constitution has been reviewed during the year by a Constitution Working party and includes a Members Code of Conduct, and an Officers Code of Conduct, as well as defining the relative responsibilities of the Council, the Executive, Scrutiny Board and Chief Officers. This also includes the Council's Standing Orders and Financial Regulations.

Internal Audit

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

- Annual reviews of the Council's key financial systems by Internal Audit against known and evolving risks;
- Cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks based on a detailed risk assessment which includes consideration of materiality, sensitivity and previous audit and inspection findings;
- Work in relation to the prevention of fraud and corruption and an allowance for the investigation of any potential irregularities identified either from audit work or through the Council's whistleblowing policy.
- Value for Money work in relation to assessing the efficiency, economy and effectiveness of the Council's operations and recommending improvements as necessary.

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

In addition there are quarterly meetings between the Assistant Director, the Scrutiny Co-ordinator and the Scrutiny lead member for Finance to discuss audit issues. Regular update reports are also prepared by Internal Audit for Directorate Performance Boards.

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

External Review

The Comprehensive Performance Assessment review in December 2004 scored the Council three out of four for the Auditors Scored Judgement which demonstrates a commitment by the Council to manage its affairs wisely. The assessment covered: -

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

The Council has embarked on an ambitious programme to improve corporate arrangements in a number of areas. There has been substantial progress in many of these areas as recognised by External Audit and by the Audit Commission Comprehensive Performance Assessment, which moved Torbay from weak to fair and commended the Council as one of the top 5 most improved Councils in the country.

The Annual Audit Letter for 2004 did not identify any significant weaknesses in internal control arrangement. The letter was reviewed by the Overview and Scrutiny Board, which has recommended a management action plan to the Executive to implement the recommendations. The action plan is monitored by the Overview and Scrutiny Board biannually.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

As a consequence of the above reporting mechanisms, Members and Directors have been continually updated and advised on the implications of reviews of the effectiveness of the system of internal controls. Plans have been devised and put in place to ensure continuous improvement. The Council's annual review of the system of internal controls identified some areas where action is appropriate to enhance the internal control environment and ensure continuous improvement as follows: -

- Further embed risk management within departments and ensure risk registers are up to date and reviewed
- Continue the implementation of proper management review procedures of key information such as budget monitoring and review, review of performance information including PIs, local PIs, local targets
- Progress e-government and other ICT initiatives and implement further enhancements to business continuity planning
- Ensure that processes are amended to ensure all changes such as service requirements, customer base and legislation are properly dealt with and in accordance with agreed documented procedures
- Ensure all assets are properly recorded and safeguarded.

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

6. CERTIFICATION

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

Signed



Richard Painter
Chief Executive

Date: 14 July 2005

Signed



Chris Harris
Leader of the Council

Date: 14 July 2005

GLOSSARY OF TERMS

A

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

Asset Management Revenue Account - The revenue account, which contains the credit for capital charges offset by charges for depreciation and external interest payments.

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

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

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

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

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

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

B

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

C

Capital Charges - are charges made to service accounts for the use of assets. The charges consist of depreciation (where appropriate) and an interest charge, generally 3.5%, based on the valuation of the asset.

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

Capital Financing Account - this reserve contains the proportion of capital receipts and certain capital grants which have to be set aside under the Local Government and Housing Act 1989, for the redemption of debt. In addition, all capital financing transactions relating to the use of capital receipts, revenue contributions and reserves are credited to this reserve.

Capital Financing Requirement - The Capital Financing Requirement shows the underlying need to Borrow as a result of capital investment and resources set aside in the year. The CFR is a new requirement for 2004/05 introduced by the Prudential Code for Capital Finance and reflects the movement in the Balance Sheet Accounts for Fixed Assets, Capital Financing Account, Government Grants Deferred and the Fixed Asset Restatement Account.

Capital Receipts - money received from the sale of land, buildings and other assets; a proportion of which has to be set aside for loan debt redemption whilst the remainder is available for financing future capital expenditure.

Capital Receipts Deferred - money that is due under deferred purchase arrangements. This item consists mainly of Council House sales where the purchasers are buying their houses from the Council over a number of years. As the principal is repaid it becomes a true capital receipt.

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

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

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

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

D

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

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

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

Defined contribution:

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

Defined benefit:

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

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

E

Emoluments – Employees expenses allowances.

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

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

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

F

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

Finance Lease – A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Accounting guidance requires that it should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally ninety per cent or more) of the fair value of the leased asset. The present value is calculated by using the interest rate implicit in the lease.

Fixed Assets – see Assets.

Fixed Asset Restatement Account - when an asset is revalued the difference between the valuation at the beginning of the year and the new valuation is credited (increase in valuation) or debited (decrease in valuation) to this Reserve.

Formula Spending Share – The FSS is the notional amount of money the ODPM has assessed Torbay Council as needing to spend on its revenue activities within a financial year. Central Government funding from Revenue Support grant and National Non Domestic rates are based on this figure.

G

Government Grants Deferred Account - this account collates certain government grants and other contributions received in relation to capital schemes. As assets to

which these grants relate are depreciated, the corresponding amount is released from this account to the General Fund Summary.

I

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

Intangible Assets – see Assets

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

Investment Properties – Interest in land and buildings that have had development work completed and are held for its investment potential, where any rental income being negotiated at arm's length.

J

Joint Arrangement – An arrangement that is not (creating) an entity is contractual under which the participants engage in joint activities that do not create an entity because it would not carry on a trade or business of its own.

L

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

M

Minimum Revenue Provision - The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989.

N

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

Net Debt – The Authority's borrowings less cash and liquid resources.

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

O

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

P

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

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

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

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

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

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

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

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

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

PWLB – see Borrowing

R

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

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

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

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

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

S

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

Supported Borrowing - an annual amount within the Council's funding by the Office of the Deputy Prime Minister which allows a local authority to raise credit, e.g., loan, lease, etc, to finance capital expenditure

T

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

U

Unsupported Borrowing – any borrowing a Council undertakes that is over and beyond annual amount within the Council's funding by the ODPM which the Council has to fund itself.