

Un-Audited Statement
of Accounts
2009/2010

Devon County Council's Statement of Accounts

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Explanatory Foreword

Introduction

Welcome to the 2009/10 financial statements for Devon County Council. This year the format of our Accounts has changed to comply with the Statement of Recommended Practice (SORP) for 2009.

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

- Income and Expenditure Account, analysing the Council's day to day operations (page 32). It summarises the resources that have been generated and consumed in providing services and managing the Council. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the projected value of retirement benefits earned by employees in the year;
- Statement of the Movement on the General Fund Balance, (page 33). Appropriations to reserves and adjustments for statutory and regulatory requirements are made in the statement of movement of the general fund balance. These adjustments allow for generally accepted accounting practice to be reconciled to council tax levels;
- Balance Sheet, specifying the assets and liabilities of the Council as at 31 March 2010, excluding Pension and Trust Fund transactions (page 34). This summarises assets and liabilities outstanding at the end of the financial year measured in accordance with financial reporting standards. Accruals made to reflect the resources consumed in the income and expenditure account are included together with tangible assets and the financing used to obtain them. Net liabilities are matched by reserves generated by capital investment and revenue activities;
- Statement of Total Recognised Gains and Losses (page 35), brings together all the gains and losses for the year and shows the aggregate decrease in net worth. Gains and losses not taken to the income and expenditure account are disclosed in this statement. In addition to the surplus generated on the income and expenditure account, it includes gains and losses relating to the revaluation of fixed assets, re-measurement of the net liability to cover the cost of retirement benefits and gains and losses generated by the valuation of financial instruments;
- The Cash Flow Statement, summarising the inflows and outflows of cash arising from revenue and capital transactions (page 36). It summarises the change in liquid assets that have occurred during the year. Cash movements for revenue and capital activities are aggregated with the cash effect of financing decisions. The aggregate changes are reconciled to the movement of liquid assets shown in the balance sheet;
- The Core Accounting Statements are followed by specific notes to aid understanding and provide more detail (from page 37). The notes provide comparative figures for the previous financial year so they can be compared to performance for the reporting period; and
- Devon Pension Fund Accounts, recording the Fund Account and Net Asset Statement for the Fund (from page 100).

The Devon Pension Fund accounts, although included, are separate from the accounts of the County Council and are subject to a separate audit opinion.

Economic context

Although the recession has ended, recovery looks weak and growth prospects are uncertain. The impact of recession and the implications of fiscal recovery programmes for the public sector are profound. Concern over instability in the banking system is being replaced by a debate over the level of public sector debt and the measures that need to be taken to address it. It is certain that decisive action will be needed to reduce public spending. Commentators are agreed that public sector spending will be squeezed and that the fiscal tightening will last for some years. Running alongside the spending squeeze will be an escalation in the need to find efficiency savings. The absence of any detail means that financial planning is subject to an unprecedented degree of uncertainty.

Inflation in September 2008 reached 5.2% (CPI). By September 2009 inflation had reduced to 1.1%, but has subsequently risen to 3.7% in April 2010. CPI inflation is expected to continue to rise in the short term due to the pre-announced reversal of the cut in the VAT rate back to 17.5 per cent in January 2010 and with fuel prices above the lows of early 2009. After these temporary upward pressures have passed, inflation is forecast to fall through 2010 and in 2011, as the large negative output gap exerts downward pressure on prices.

The Bank of England has responded to recent difficulties by reducing interest rates sharply. The base rate now stands at 0.5% which is 4.5% lower than in September 2008. Whilst it would appear that the rate is unlikely to fall further, and some commentators suggest that rates may begin to rise by the end of 2010, the timing of this is far from certain. The low rate has impacted directly on the County Council's budget which in recent years has benefited from market rates of around 5%.

Employer pension contributions are strongly influenced by triennial actuarial valuations. The performance of pension fund investments over the preceding three years and the estimated level of future benefits determine the level of the liability. The result of the valuation as at 31 March 2010 will not be published until early in 2011 and if it results in an increase in employers contribution the impact will first be felt in 2011/12. This valuation follows a different methodology from the FRS17 assessment of pension liability which shows a marked deterioration. This is discussed in more detail later in the Foreword.

Property values have been affected resulting in a fall in value of £67.2 million. This impairment is partly reflected in the income and expenditure account due to the lack of cover above depreciated historic cost in the revaluation reserve.

Accounting policies and comparative information

The Director of Finance is required to certify that the accounts present a 'true and fair' view of the financial position of the Council for the first time this year. The 'true and fair' view replaces the 'presents fairly' certificate of previous periods.

There have been a number of changes to accounting policies. These include:

Accounting requirements for Private Finance Initiatives (PFI) and similar contracts are no longer based on UK accounting standards but on International Financial Reporting Standards (IFRS). The result is that PFI scheme assets and liabilities are now shown on the balance sheet where those assets are controlled by the County Council. Regulations ameliorate any impact on the funding position although some reclassification of expenditure between the income and expenditure account and the Statement of Movement on the General Fund Balance is needed. Prior period adjustments have been made as a result.

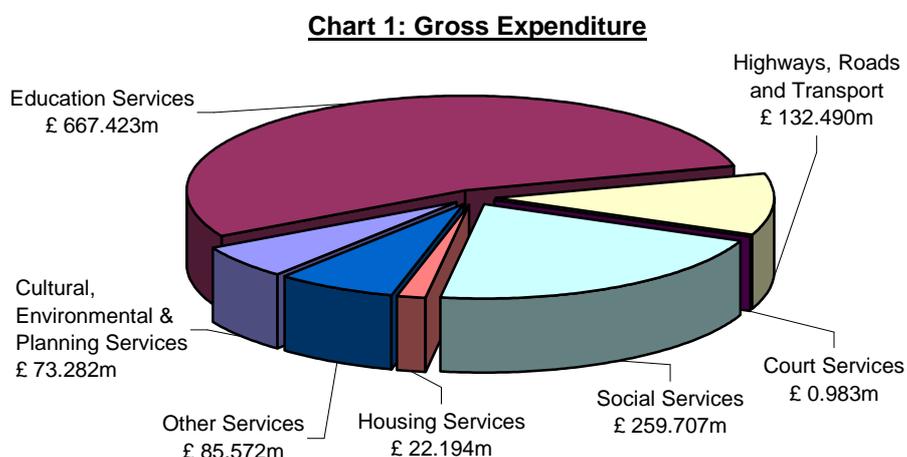
On the basis that district councils act as agents for the County Council in collecting council tax, for the first time there is a requirement to include appropriate shares of council tax debtors in the balance sheet. Again prior period adjustments affecting the income and expenditure account have been made.

A small number of notes to the accounts have been omitted as they are no longer required.

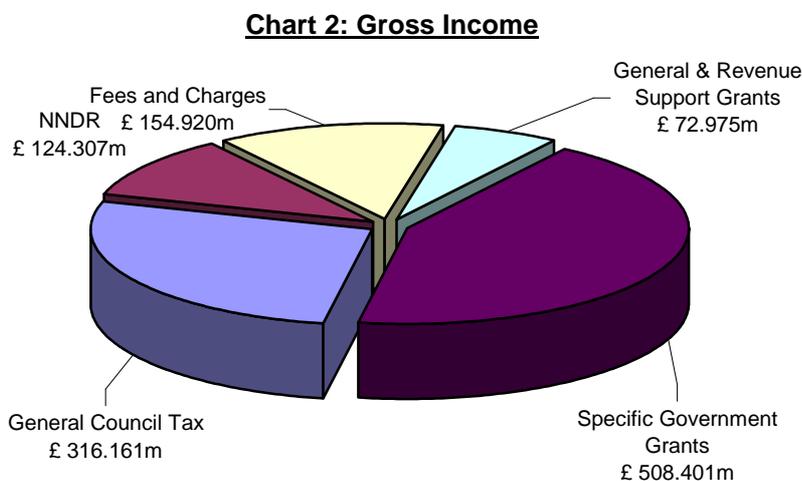
The adoption of International Financial Reporting Standards (IFRS) will require very significant changes to the financial statements for the 2010/11 financial year. The changes will be fully retrospective and will require the financial statements to be restated for 1 April 2009 and 2010. The restatement does not affect the financial statements for 2009/10 other than by anticipating the change for PFI and other contracts. Apart from this requirement no IFR Standards have been adopted for this reporting period.

Financial performance

The Income and Expenditure Account is produced in line with the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Best Value Accounting Code of Practice (BVACOP) and the 2009 Statement of Recommended Practice. This requires a standard analysis of service expenditure, to be shown at total cost, which includes charges for capital asset utilisation, apportionments of central costs, expenditure from funds and reserves and appropriate provision for pension costs. Gross expenditure totalled £1,241.651 million and Chart 1 highlights spending for each service.



Expenditure is funded from a number of sources, some within Devon and some from Central Government. Chart 2, below, highlights sources of revenue income for the County Council during the year. Total gross income of £1,176.764 million was received during the year. Chart 2 shows how this is derived.



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

Revenue Spending

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

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

Children and Young People's Services

Expenditure funded from the Dedicated Schools Grant (DSG), including schools, underspent by £13.4 million with an offsetting overspending on other services leading to a net under spending of just under £12.3 million. Legislation requires that any DSG under or overspending must be carried forward to the following financial year. Hence the sum of £13.4 million, £12.1 million relating directly to schools, is being carried forward into 2010/11.

In terms of non schools services, spending pressures were reported throughout the year on services for Children and Families. The impact of the Southwark Judgement and increased costs for child protection being the major contributing factors. These pressures translated into overspendings which have been partly counter-balanced by savings elsewhere. In particular in-year efficiencies have been found from "smarter" commissioning, home to school transport and a reduction in bed days linked to better use of placements by the Family Care Worker Scheme. Additionally the Learning and Development Partnership has returned a surplus that is being carried forward into 2010/11 to help with their planned restructuring. As a result the Directorate has ended the year with an overspending of £1,130,000.

In addition to the statutory carry forward for schools and DSG related items, carry forwards in respect of youth and community initiatives and the Safeguarding Children's Board Partnership have been approved. In total these amount to £120,000. The Directorate is also giving up £68,000 of reserves currently earmarked for children and young peoples' services which will support the overall outturn position.

Environment, Economy and Culture

Highway maintenance budgets overspent by just over £3 million and the main cause of this was sustained adverse weather conditions that led to the need for additional gritting and increased reinstatement works. This overspending was substantially offset by underspending elsewhere, principally on waste disposal. The Directorate ended the year with an overspending of just over £800,000.

In previous years it has been the policy of the Council to meet the costs for extreme weather conditions from reserves, should the budget prove insufficient. In 2009/10 it is recommended that cost of dealing with the adverse weather conditions is dealt with as part of the overall outturn position of the Directorate and that the net overspending for the Directorate is met from reserves. Carry forward requests for additional tipping away payments at Greendale Barton in 2010/11 and unspent partnership funding, totalling £442,000 have been approved.

Adult and Community Services

The Adult and Community Services Directorate recorded an overspending of £3.0m for the year. However this includes a contribution of £2.5 million to the reserve earmarked for extra care housing. Plans to use this reserve to alleviate the pressure on residential accommodation for older people are being advanced in co-operation with district councils.

There have been exceptional increases in demand for services in 2009/10, and the Directorate has taken firm action to restrain spending in all areas. This reduced, but did not eliminate, the levels of overspending projected earlier in the year by each client group. At the same time actions were taken to reduce spending on support services and to defer as much investment in transformation as possible. An underspending in supporting people services was recorded and a carry forward of £207,000 has been approved.

Office of the Chief Executive and Corporate Resources

These directorates produced a combined underspend of £1.740 million. This was principally due to a delay in implementing ICT initiatives, delayed commissioning and external income sources exceeding expectation. The combined carry forward approval of the underspending into 2010/11 is for £1.209 million. The largest element of carry forward is for the delayed implementation of the new ICT network of £731,000, but the approval also includes delayed commissioning of locality budgets and unspent partnership funding.

Other Items

Interest from investments and capital financing produced a combined underspending of £1.907 million. As stated earlier the combination of debt repayment and internal financing of the capital programme has resulted in lower investment income and substantially lower capital financing charges.

Payments for the one-off costs of successful Job Evaluation appeals have continued in 2009/10 and the provision for outstanding appeals adjusted. The impact on the income and expenditure account for the year is £816,000 after making use of a capitalisation direction for £325,000. This represents a significant reduction in expenditure over the previous year and reflects that the job evaluation process is drawing to a close. Of the outstanding appeals it is estimated that £1.864million will be paid in 2010/11. The equal pay back pay account has been adjusted accordingly.

The result of the spending and appropriations outlined is an increase in balances of £53,000. The General Fund balance at 31 March 2010 stands at £14.292 million.

Capital Spending

The 2009/10 Capital Programme represented a further major investment in the County Council's asset base. The original programme of £174.642 million was increased through slippage from 2008/09. Further in year approval re-phasing took place to give a final programme of £216.830 million. Year-end accrued spending totalled £139.502 million. £58.742 million of the slippage is being carried forward into 2010/11.

Capital Expenditure in 2009/10 resulted in major schemes being undertaken and these are shown in note 4.7.

Assets and Liabilities

Assets Acquired: This year saw the completion of the replacement primary school at Dartington and completed projects at The Castle Primary School Tiverton, Holsworthy C of E Primary School, Ottery St Mary Primary School and the establishment of a Reading Recovery unit at Sticklepath Primary School, Barnstaple. At secondary schools Tiverton High was provided with additional specialist teaching rooms and a contribution was made to the new science block at Holsworthy Community College. Work also started at Kingsbridge Community College on a new teaching block which is being partly funded from the Capital Programme with significant progress being made on construction at Bideford College.

The final Sure Start Phase 2 Children's Centre and Pre-School projects were completed and the phase 3 projects were commenced. Ivybridge Children's Centre was completed and vehicles were purchased for Bideford and Chulmleigh locality Children's Centres. Pre-school projects completed were at Manor Primary School, Bassetts Farm Primary School, Exmouth, Starcross Primary School, The Castle Primary School Tiverton, North Molton School and Ermington Primary School.

Maintenance of Devon's road network and bridges was again a prominent theme, given added focus with severe winters in both 2008/09 and 2009/10. A major scheme to repair the historic Bideford Longbridge, and install cathodic protection to prevent future deterioration, was also completed in 2009. Investment was made in improvements to highway depots, to reduce their impact on the environment, whilst a start was made on a major programme to reduce the carbon consumption of street lighting by introducing part night lighting in residential areas. Major investment was made in road safety initiatives in the area between Tiverton and Barnstaple under the "Country Mile" beacon project.

Significant progress was made in developing major transport schemes, with the public inquiry for Kingskerswell Bypass and completion of preliminaries for the major junction improvement at Junction 29 of the M5. The widening scheme at Western Way, Exeter was completed. Significant public transport schemes included re-modelling of the Sherborne Road bus station at Newton Abbot, and the introduction, in partnership with Stagecoach Devon, of a new fleet of high specification buses for the Exeter Park and Ride services.

Cycling continues to be an important part of the county's transport programme, with further major investment in the Exeter Cycle Demonstration Town project, additional sections of the "Path to Prosperity" route from Ilfracombe to Plymouth, and completion of part of the Exton to Lympstone section of the Exe Estuary Trail.

Devon's third In-vessel Composting plant, at Deep Moor, Torrington, was completed and started to receive waste during 2009, while construction started on the new Exeter recycling centre at Pinbrook.

Following successful pilot installations the previous year, self service technology was introduced at Dartmouth and at the new library in Princetown, in conjunction with enhancement and re-branding to reflect the 21st century libraries concept, while refurbishments were progressed at Pinhoe, Combe Martin, Exmouth and Okehampton.

The 2009/10 financial year has been a period of continuing progress for the Adult and Community Services (ACS) Directorate's capital programme. £2.7m was spent across 58 projects, which include the purchase of community equipment, upgrades to buildings operated by the Directorate, and IT infrastructure improvements.

A significant achievement within the year has been the establishment and occupation of new offices at Estuary House in Newton Abbot. This project brought together ACS, Integrated Children's Services and NHS Devon under one roof in a modern purpose built space that will advance flexible working and the sharing of resources.

There was also substantial progress towards completing several projects that will result in more efficient and effective use of the building assets held by the directorate. Notably for Learning Disability Services the Exmouth and Newholme (Honiton) Community Hubs, and also the Victory Centre in Exeter which is another example of working in partnership with colleagues in NHS Devon to provide facilities for Mental Health services. The projects mentioned are expected to complete in the 2010 financial year and will facilitate the rationalisation of properties in use.

Pensions Liability: The pension liability is based on an actuarial valuation and represents the benefits that have been accrued by members of the local government pension scheme. At the end of March 2010 the liability is estimated at just over £1,716 million which is set against estimated assets of £823 million. These estimates reflect the position as at 31 March 2010 and the conditions and actuarial assumptions prevailing at that time. The situation will change, for example, with changes in the financial performance of the Pension Fund investments or changes to the provisions of the Local Government Pension Scheme.

Changes in actuarial assumptions, has had a significant impact on the net pension liability included in the accounts. For 2009/10 the net liability has increased by just over £308 million from £586million to £894 million. This increase in net liability is despite a significant improvement in the return on investments in comparison with previous years.

The significance of the increase in the pension fund deficit is that overall the balance sheet changes from having net assets at the end of 2008/09 to having net liabilities of £272.8 million at 31 March 2010.

To interpret the importance of this change requires some understanding of the calculation behind the increased pension liability. The size of the liability is mainly based on yields from corporate bonds and inflation expectations. The key parameter is the corporate bond yield less the assumption about future inflation. These assumptions change each year and are determined by the actuary.

Where the yield on corporate bonds falls and assumptions about inflation increase at the same time the net discount rate is squeezed and the estimated liabilities, which are discounted over a long period, increase significantly. A general rule of thumb is that where the discount rate reduces by 1% the valuation of liabilities will increase by between 20% and 25%. The corporate bond yield less the inflation assumption used for these accounts has caused a reduction of 1.6% in the net discount rate, hence the increase in liability.

The pension fund deficit does not represent an immediate call on the County Council's reserves but simply provides a snapshot (at 31st March 2010), with the value of assets and liabilities changing on a daily basis. It is arguable whether the annual calculation of the pension fund deficit accurately reflects the long run position, many believe it does not. The triennial valuation undertaken by the actuary will be published in the early part of 2011. It provides an assessment on a different basis than the annual assessment and will be used to determine future contributions by the Council.

In the past valuations have been used to spread the cost of reducing deficits over a number of years by increasing employer contributions. The extent to which this will be the only corrective mechanism in future is uncertain. The Government is conducting a wide ranging review into public sector pension arrangements which may require cost sharing with employees who will ultimately benefit from the scheme. The level of employer contributions will be reviewed by the actuary, and, if changes are needed, these will take effect from 1 April 2011.

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

The principal source of borrowings in excess of one year (i.e. classified as long-term borrowing) is the Public Works Loan Board and for 2009/10 the authorised limit for external debt was set at £868.8 million.

At the year-end, long-term borrowing totalled £585.4 million. This is a decrease on the previous year due to repayment of £28 million of borrowing in the last quarter of the financial year.

Funds for Capital and Other Commitments: The capital programme required finance of £139.502 million. Borrowing was met from internal sources during 2009/10 and amounted to £68.202 million. No new long term borrowing took place during the year. Other sources of finance were grants and contributions totalling £60.925 million, capital receipts from the sale of assets contributed funding of £7.212 million and direct revenue contributions and use of reserves provided £3.163 million.

Earmarked Reserves: At the beginning of the financial year, earmarked reserves stood at £50.845 million. During the year, some budgeted and other contributions have been made to earmarked reserves and spending has taken place. The net effect has been to decrease earmarked reserves by £9.239 million.

Post Balance Sheet Events:

- St James Secondary School achieved Trust status on 19 April 2010. Control of tangible fixed assets passed to the governing body of the school on that date. A reduction of tangible fixed assets with a gross book value of £9.709m at the 31 March 2010 will be made in the 2010/11 financial statements.
- The construction of the new Dartington Church of England Primary School was completed in February 2010. The freehold of the land and buildings, except for the playing fields will transfer to the Diocese during 2010. The transfer is expected to take place in July 2010. The school is included within these accounts with a net book value of £8.015m.
- Contained within the Long Term Borrowing figures in the Balance Sheet is the sum of £33,936,862 that relates to the proportion of Devon County Council's borrowing that Plymouth City Council is responsible for following Reorganisation in 1998. Plymouth City Council has given notice that it wishes to have the outstanding debt on 25 June 2010 transferred to it. Due to repayments in April and May this figure equates to £33,665,367. The effect of this transfer will be to reduce Long Term Borrowing and Long Term Debtors.

Conclusion

There have been limited changes to the way in which the Statement of Accounts has been prepared for 2009/10. There is though a wider impact as the economy begins its recovery from recession. The impact of the economic downturn is that a significant squeeze on public expenditure, including that for local authorities, is certain. Some reductions have been announced for 2010/11 but the major impact will be felt in 2011/12 and beyond. A coalition Government is in place and it has identified ways in which the public sector deficit can be reduced. But, inevitably, there is still little in the way of detail to provide a clear indication of the exact level of financial restraint that will be required and how this will be achieved.

Careful management of the Council's resources means that a reasonable level of reserves has been maintained, leaving the County Council in a sound financial position to cope with these challenges.

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

Mary Davis

Director of Finance
17th June 2010

Statement of Accounting Policies

GENERAL CONCEPTS

Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared that provide a "true and fair" view of the financial position at the year end and the income and expenditure for the year of Devon County Council, and of group financial statements where the County Council has material interests in other organisations. These statements are prepared with due regard to the following:

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

Overriding Accounting Concepts

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

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

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

General Principles

The general principles in compiling these accounts are those recommended by CIPFA. The County Council's accounts have been prepared in accordance with the Best Value Accounting Code of Practice and Code of Practice on Local Authority Accounting – A Statement of Recommended Practice 2009 (the SORP).

The accounting convention adopted is Historic Cost modified by the revaluation of certain categories of Tangible Fixed Assets.

POLICIES

Accruals of Income and Expenditure

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

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

Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

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

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

The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy. However, statutory arrangements allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established. The provision is therefore balanced by an Equal Pay Back Pay Account that will be debited to the Statement of Movement on the General Fund Balance in future financial years as payments are made.

Contingent Assets and Liabilities

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

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

Exceptional Items and Extraordinary Items

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

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

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the net cost of services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax expenditure.

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

Government Grants and Contributions

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

Retirement Benefits

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

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

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

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

The Local Government Pension Scheme

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

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

Liabilities are discounted to their value at current prices, using a discount rate based on the iBoxx AA rated over 15 year corporate bond index.

The assets of the Devon pension fund attributable to the Council are included in the Balance Sheet at their fair value:

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

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

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

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the pension reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at year end.

Discretionary Benefits

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

VAT

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

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010 (BVACOP). The total cost absorption costing principle is used. The full cost of overheads and support services are shared between users in proportion to the benefits received with the exception of:

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

These two cost categories are defined in BVACOP and are accounted for as separate headings in the Income and Expenditure Account as part of net cost of services.

Intangible Fixed Assets

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

Tangible Fixed Assets

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

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

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

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

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

Net current replacement cost is assessed as:

- Non-specialised operational properties - existing use value
- Specialised operational properties – where market evidence of existing use value is not available, depreciated replacement cost is used
- Investment properties and surplus assets – market value.

Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

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

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

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are apportioned to the reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of Fixed Assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

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

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

Depreciation is calculated on the following bases:

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

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

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible Fixed Assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- Amortisation of Intangible Fixed Assets attributable to the service

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. It is required to make annual provision from revenue to contribute towards the reduction in the overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the authority in accordance with satisfactory guidance, or loans fund principal charges). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

Leases

Finance leases (Council as Lessor)

Land and Buildings – the Council has 9 assets that are leased to tenants that meet the definition of a Finance Lease. All of the assets are included within Fixed Assets on the Balance Sheet. The present value at 31st March 2010 of the rental payments due to the Council is £0.61m. The lease debtor is not included within the Balance Sheet as the sum is not material. The annual lease income is accounted for within the Income and Expenditure Account as it falls due.

Finance leases (Council as Lessee)

Vehicles, Plant and Equipment – the Council has no equipment on Finance Leases.

Land and Buildings – the Council has 19 assets that are held on Finance Leases. The Council's interest in the assets is included within Fixed Assets on the Balance Sheet. The value of the assets at 31st March 2010 is £6.9m. The present value of lease payments to be made over the term is estimated to be £0.18m. The lease liability is not included within the Balance Sheet as the sum is not material. The annual lease payments are accounted for within the Income and Expenditure Account as they fall due.

Operating leases

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

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

Financial instruments

Financial liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

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

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets - assets that have a quoted market price and or do not have fixed or determinable payments

Loans and receivables

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

The Council has made a small number of loans to other parties at less than market rates (soft loans). When soft loans are made a loss is recorded in the Income and Expenditure Account for the present value of the interest foregone over the life of the instrument resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from these bodies, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable in the financial year. The reconciliation of amounts debited or credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer from the Financial Instruments Adjustments Account in the Statement of Movement on the General Fund Balance.

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

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

Available for sale assets

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

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

- Instruments with quoted market prices – the market price

- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market price – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the available for sale reserve and the gain or loss is recognised in the Statement of Total Recognised Gains and Losses. The exception is where impairment losses have been incurred. These are debited to the Income and Expenditure Account, along with any net gain or loss for the asset accumulated in the reserve.

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Income and Expenditure Account along with any accumulated gains or losses previously recognised in the Statement of Total Recognised Gains and Losses.

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

Stocks and work in progress

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

Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets used under the contracts on the Balance Sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- Fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account;
- Finance cost – an interest charge of 10.31% on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income and Expenditure Account;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator; and
- Lifecycle replacement costs – recognised as fixed assets on the Balance Sheet.

Post Balance Sheet Events

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

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

Changes to policies

Changes to accounting policies are as follows:

- The adoption of accounting for PFI that is consistent with adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual (FRM)
- The adoption of accounting for collection fund transactions on an agency basis.

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

Other Changes

The principles and practices of accounting require a Statement of Accounts to be prepared that provide a "true and fair" view of the financial position at the year end and the income and expenditure for the year. The "true and fair" requirement is new for this year's accounts and is a change from "presents fairly" that has been the basis in previous years. This change has no practical effect on the way the accounts are put together or the figures contained within them, but is a recognition of the convergence of local authority accounting requirements with UKGAAP.

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that Officer is the Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Responsibilities of the Director of Finance

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

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

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

The Director of Finance has also:

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

Certificate of the Director of Finance

I hereby certify that this Statement of Accounts for the year ended 31st March 2010 has been prepared in accordance with the Accounts and Audit Regulations 2003 (as amended) and that it gives a true and fair view of the financial position of the Authority as at 31st March 2010 and its income and expenditure for the year ended 31st March 2010.

Mary Davis

Director of Finance

17th June 2010

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee as its meeting held on 24th June 2010

Signed on behalf of Devon County Council

Chairman of the Audit Committee

24th June 2010

Annual Governance Statement 2009/10

Scope of Responsibility

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

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs so as to facilitate the effective exercise of its functions and manage risk.

The County Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code can be obtained from the Director of Finance. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

Purpose of the Governance Framework

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

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

Satisfactory controls to support statements made in this Annual Governance Statement are essential and in endorsing it the Council's officers confirm that input to systems and processing of transactions is complete for the financial year in question and that there were no material or significant delays or backlogs of either input or processes that would result in financial or other records being incomplete.

The Governance Framework – The Council's Constitution

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

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

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

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

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

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

- the elements which define the Council's internal organisation, standing orders, financial regulations, schemes of delegation and terms of reference, procedures covering Cabinet and Scrutiny, Risk Management and Codes of Conduct (Parts 3–9);
- working practices which supplement these formal rules (Part 10);
- documents which focus on the Council's external operation through service delivery, community engagement and partnership working (Part 11).

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

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

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

Review of Effectiveness

The County Council's Constitution has been in force since 2002 and was last comprehensively reviewed in July 2009 and in February 2010, reflecting changes introduced following the County Council elections in 2009 and, subsequently, changes in legislation, anticipated changes or other requirements, as outlined below.

The Constitution is published on the County Council's website at <http://www.devon.gov.uk/constitution.htm> and is also available for Inspection at the Council's Offices together with the most recent Annual Report (also at <http://www.devon.gov.uk/annualreport2008>) and the Statement of Accounts for 2008/09 (also at <http://www.devon.gov.uk/statement-of-accounts0809.pdf>)

County Council elections took place in 2009/10 and resulted in a change of administration. The challenge of managing that transition at the same time as providing an effective induction, initiating the member development process as well as maintaining the effectiveness of the governance framework was nonetheless met and the transition from the old administration to the new was smooth and without significant problems.

The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including systems of internal control. This review of effectiveness is informed by the work of managers within the authority who have a responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

In addition and as part of the CAA process, the County Council undertook at the beginning of this period a revised self assessment of its Use of Resources, including KLOE 2.3 (Good Governance), which was discussed with and submitted to the Audit Commission and necessarily highlighted and reviewed many of the issues covered (if not duplicated) by this Annual Governance Statement. That self-assessment process was repeated during the latter part of 2009/10 to accommodate the Audit Commission's accelerated timetable for the 2010/11 Use of Resources Assessment; the outcome of that second self assessment was not known at the time this Statement was prepared.

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

The Constitution

The roles and responsibilities of the Council, its Cabinet and non-Cabinet Members are set out more fully in Articles 6 and 7 of the Constitution and in Part 3 (Responsibility for Functions). These were revised, as indicated below, following the County Council elections in 2009 and are themselves balanced by the Codes of Personal Conduct set out at Part 6 of the Constitution.

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

Following the elections in 2009, the Council introduced a revised Cabinet and Committee structure and restructured Directorates and organisational structures with a view to becoming more efficient while reflecting the requirements of the Councils' new Strategic Plan. While this inevitably created a number of administrative problems for the organisation and those managing the change, the Council's governance framework and standards were, it is believed, maintained at the highest possible levels. A number of Committees were abolished or merged thereby reducing costs and streamlining the system and the positions of Executive Support Members in the former administration were not re-appointed by the new Council for the same reasons.

Further amendments were made to the Constitution in February 2010 relating to:

- revised Officer Employment Procedure Rules;
- revised terms of reference of the Appointments/Remuneration Committee and Personnel Partnership;
- the Protocol for Relationships and Communications between the Cabinet and Overview and Scrutiny Committees;
- scrutiny of the Council's Treasury Management Strategy by the Policy Overview Committee prior to its adoption by the Council;

- the Procedures for Tenders and Contracts (Exemption from the Tendering Process).

The Council also acknowledged the potential impact of provisions of the Local Democracy, Economic Development & Construction Act 2009 for the Council's governance framework, when brought into force, and noted that implementation of the Duty to Promote Democracy expected in 2009/10 had been deferred by Government and would be considered as part of the next spending review. The Council had pre-empted parts of this legislation by previously including in its Constitution the designation of a *Scrutiny Officer* (to promote the role of Overview and Scrutiny) and by acknowledging in the Articles to the Council's Constitution and its Working Practices the need for a clear procedure to deal with any petitions received.

The Cabinet

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

The Overview and Scrutiny Function

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

The Overview and Scrutiny Committees continue to be Chaired by members of the largest Opposition party with Vice-Chairmen drawn from the party of the administration. These Committees continue to operate in a non-partisan way which it is believed has served both the electorate and the Council well in line with the Constitution and the Council's protocol governing relationships between the Cabinet and Overview/Scrutiny Committees. Members of the Council may place items on the agenda of any Overview/Scrutiny Committee, a right which has always effectively existed in the Constitution since it was first adopted in 2002, reflecting the requirements of the Local Government & Public Involvement in Health Act and its definition of '*any local government matter*'.

The Council also acknowledged the need to review the roles and remits of Overview and Scrutiny Committees after the first 12 months of the new Council, which will be undertaken for the 2010/11 municipal year to ensure that they are consistent with and appropriate to the revised democratic and structural arrangements introduced in 2009/10.

The Cabinet and Corporate Leadership Team remain appreciative of the work undertaken by Overview/Scrutiny Committees and acknowledge that it has made a major contribution to the work of the Council, especially in areas where detailed objective research and analysis needed to be done.

Organisational Performance

In December 2009 the Council adopted a revised Strategic Plan for the period 2009/13 which set out the revised organisational priorities of the Council over the forthcoming 4 year period and identified the key issues facing the organisation and its desired objectives over that period (see: <http://www.devon.gov.uk/strategicplan.htm>).

In addition and in relation to the new statutory duty of economic assessment placed upon the County Council (which comes into force on 1st April 2010) the Council agreed proposals, with relevant partners, for securing a focussed, inclusive approach for economic development activity in the future (Cabinet 13 October 2009, Minute 70: Developing the Future Economy of Devon - An Inclusive Architecture)

The Council also adopted a Corporate Employment Strategy which, rather than recruiting externally automatically for all posts (but excepting jobs that were critical to the Council's business), focuses on the re-skilling and transfer of staff internally to retain the wealth of experience among and provide new opportunities for staff. In formulating that strategy, consideration was given to equality issues and engaging and retaining staff with the skills needed to deliver objectives and improving performance and productivity. This was complemented by the adoption of a revised Workforce Plan in March 2010 for the period 2010/12 which not only provided a high level view of critical workforce issues but outlined how the Council intended to manage them, within existing resources, reflecting strategic priorities, organisational/structural changes and the current economic climate to ensure the organisation was fit for purpose and provided value for public money.

The County Council has also achieved compliance with the International Standard on Information security (ISO27001) confirming it has robust policies and procedures to assure the public and partners that information it held would be kept secure. Additional security measures have also been introduced in relation to use of ICT and access to information, including encryption. All Members of the County Council were designated as Data Controllers under the Data Protection Act 1998, in relation to their undertaking casework on behalf of their constituents.

In relation to service provision generally, the County Council was praised by the Audit Commission for its use of resources and for providing high quality services at low cost, having scored 3 out of a possible 4 in the 2009 Comprehensive Area Assessment results. Devon was one of only six local authority areas of 152 nationally to have been awarded two Green Flags and no Red Flags; the Green Flags having been awarded for work on domestic violence and tackling climate change.

The County Council's Adult Social Care Services were also adjudged to be *performing well* by the Care Quality Commission in the performance assessment in 2009/10.

The Inspection by HM Inspectorate of Probation on Devon's Youth Offending Service also resulted in a positive outcome showing that the Service had developed a wide range of high quality interventions, supported by strong partnership working and that case managers had demonstrated a high level of enthusiasm and commitment to their work with the children and young people. It acknowledged the good work by the Youth Offending Service in the delivery of interventions and that engagement with partner organisations had been reflected in the positive outcomes achieved. HM Chief Inspector of Probation had concluded that '*overall, we consider this a credible set of findings*' and '*there are good prospects for improvement in the future*'.

In addition, Devon was one of the first Councils to be inspected by OFSTED under the new round of harder tests introduced on 1 June 2009 (which involved a simultaneous inspection of local authority contact, assessment and referral arrangements) regarded under the new inspection framework as the 'annual unannounced inspection'. The OFSTED Report (<http://www.devon.gov.uk/inspection-safelookedafter.htm>) indicated that Devon had been judged as *Adequate for Safeguarding* and *Good for Children in Care* which was regarded as a strong platform for future development, with the aim of being assessed, in future, as at least *Good* in all areas. The Inspection Report also acknowledged the Council's robust self-assessment that, in some areas of safeguarding, services were only just *Adequate* and recognised that at the time of the inspection steps were already being taken to improve the quality of social work and multi-agency interventions.

In relation to the Council's Constitution and the Scheme of Delegation contained therein, an Internal Audit Report, requested by the Council itself, had concluded that there were no issues arising from the examination of systems and control that would warrant inclusion in this Annual Governance Statement and that the scheme of delegation itself was felt to be clear and concise.

The Standards Committee

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

Efficient, effective and ethical governance protects the public interest and the Council itself. Members and Officers are supported by a wide range of policies and Codes of Practice enunciated in the Council's Constitution and also by a wide range of training opportunities tailored to meet their needs. The Council's Governance Framework is reviewed annually and any issues for the future governance of the Council are highlighted and addressed at that time.

However, in particular and to improve the dissemination of information about the ethical agenda, maintain high standards of conduct and improve perceptions of the Council's governance arrangements in line with previous AGS's and KLOE's steps were taken to:

- ensure that access to details of interests declared by Members was available on the web
- undertake an Ethical Governance Audit and Self Assessment Survey of elected members (the outcome of which will be considered by the Standards Committee in May 2010) to enable that Committee to assess inter alia, how the Council met the ethical agenda, what it meant to the way in which the Council worked, how the Council complied with ethical standards and whether or not any improvements might be needed.

The Standards Committee regularly receives reports on the operation of the Council's feedback/complaints systems and Reports from the Local Government Ombudsman. It is pleasing to note that in his Review Letter for 2008/09 the Ombudsman had praised the County Council on the way it dealt with complaints generally and the Council's hard work in this area of activity

The Audit Committee/ Devon Audit Partnership

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

Mindful of the importance of risk management, risks are systematically identified, assessed and managed on behalf of the Council by a named Officer. Steps were also taken to ensure that the Council's Cabinet and main Committees considered risk in their decision making and, to that end, from the beginning of 2010, all Reports were required to indicate that the policy/proposal had or would be assessed and that all necessary safeguards or action had or would be taken or included to safeguard the Council's position and where any risk(s) was identified, what they were and how they would be addressed.

The Devon Audit Partnership established by the Council in conjunction with Plymouth City and Torbay Councils came into operation on 1 April 2009 to provide shared internal audit services (as a means of improving services through joint working and maximising efficiencies and economies of scale) reporting to the new Devon Audit Partnership. Initial indications revealed that the new partnership and democratic arrangements was working well but these would continue to be monitored.

The Investment and Pension Fund Committee

Future accounting arrangements will require separate accounts to be prepared for the Devon Pension Fund. Recognising the need for clear governance arrangements for managing these Accounts the Council previously expanded the remit of the Investment & Pension Fund Committee (as it already monitored the activities of that Fund during the year) to review and approve the accounts of the Devon Pension Fund and to ensure appropriate accounting policies was introduced in the same way as the Audit Committee was responsible for monitoring and approving the Council's main accounts. Subsequently, it was agreed with the Audit Commission, that this process would be implemented for the 2009/10 accounts.

Engagement and Participation

The County Council has always prided itself on the work it does, over and above statutory consultations, to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council. Examples of this are the Council's Communications Strategy are the Devon Voice (Residents Panel), Parent/Carer Voice, and the Young Peoples' Shadow Executive, Scrutiny Forums (Hear by Right). In 2009/10, for the first time, Community ("Meet the Leader") Roadshows were held by the Leader of the Council across the County as part of a wider exercise by the County Council to consult and involve local people in determining the Council's priorities.

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

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

Similarly, the County Council visibly demonstrated its community leadership role through the development of a Short Term Support Strategy and in contributing to the work of the Devon and Torbay Post Office Task Group (http://www.devon.gov.uk/challenging_the_cuts_web.pdf) and in promoting the national, regional and local recommended actions contained therein to rebuild confidence in the Post Office Network in Devon which had been devastated by the cuts made during the previous year.

Significant Governance Issues

Following the 2009 elections, the County Council initiated a review of the governance arrangements for integrated working arrangements with Devon NHS for the delivery of adults and children's services and progress on those discussions was reported to the Council's Cabinet in March 2010 which it is anticipated will lead to the adoption of revised Partnership Framework and commissioning arrangements in due course.

In addition to considering the Ethical Governance Audit and Self Assessment referred to above, the Standards Committee will also in the forthcoming year be asked to review its role and modus operandi to enable it to place greater emphasis on monitoring the Council's ethical governance framework in general and individual members' performance in particular through, for example, the preparation of an Annual Report, Annual Meetings with Leader & Chief Executive and attendance of Independent Members at meetings of the Council and its Committees. A comprehensive refresher/training session on ethical governance and standards will also be held for all Members of the Council in May 2010 and at regular intervals thereafter.

The recent turmoil in the financial markets including the failure of Icelandic Banks has nationally focussed attention on Treasury Management Practices. The County Council's treasury management practices are soundly based on the principle that when balancing risk and return the security and liquidity of an investment is given a higher priority than the yield. Throughout the year, the Council has been active in managing investment and interest risk. In May 2009 the Council adopted a strategy that aimed to reduce counterparty risk by using cash to meet the costs of capital expenditure instead of borrowing to fund it. More significantly, and as part of the 2010/112 budget process, the Council reviews and updated its Investment Strategy and its Treasury Management Policy and Practices to ensure that they reflected best practice guidance as issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). In line with that guidance, the policies were first scrutinised - as indicated above - by an independent body (the Policy Overview Committee) prior to consideration by the Council's Cabinet.

The continuing delay, throughout the year, in the determination of proposals for the future shape of unitary local government in Devon inevitably had a deleterious effect upon all local authorities across the County of Devon and on their ability to plan strategically for the delivery of services for the people of Devon in the way they would have wished. While, for example, many excellent ideas had previously emerged (from cooperative discussions with District Councils about the future of local government in Devon) for democratic renewal based on communities and for service delivery improvement which could have formed part of the way ahead for Devon it had not been possible to pursue them because of the continued uncertainty.

Whatever the merits of the options being promoted by interested parties and despite its own stated preference the County Council was, by the end of 2009, clearly of the view that the economic climate and public spending environment did not support any reorganisation at that time.

The unexpected eleventh hour announcement by the Secretary of State to proceed on the basis of the original proposal submitted by Exeter City Council, only served to create further uncertainty. Notwithstanding the completion of the parliamentary process during March 2010 and the signing of the Order by the Secretary of State the Council's request for a Judicial Review of the process itself is due to be heard in April 2010.

Regardless of what has or may happen it is appropriate that, in this Annual Governance Statement, the Council formally place on record and express its appreciation to all of its staff for their continuing commitment to the delivery of high quality services for the people of Devon throughout that period.

Certification

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

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

Signed.....

Chairman of the Audit Committee, on behalf of Devon County Council

Signed.....

Chief Executive, on behalf of Devon County Council

24th June 2010

Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during last financial year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2008/09 Net Cost restated £000	Service Expenditure Analysis	Notes	2009/10 Gross Expenditure £000	2009/10 Gross Income £000	2009/10 Net Cost £000
General Fund continuing operations					
60,397	Cultural, Environmental, Regulatory and Planning Services		73,282	(10,222)	63,060
176,582	Children's and Education Services		667,423	(531,072)	136,351
93,325	Highways and Transport Services		132,490	(31,349)	101,141
1,109	Court Services (Coroner's Court)		983		983
192,085	Adult Social Care		259,707	(65,055)	194,652
1,450	Housing Services (primarily supporting people)		22,194	(20,760)	1,434
3,954	Corporate and Democratic Core		3,394		3,394
(2,948)	Non Distributed Costs		(5,046)		(5,046)
1,814	Central Services to the Public		3,676	(1,375)	2,301
13,382	Exceptional items not included in costs of specific services	8	816		816
541,150	Net Cost of Services		1,158,919	(659,833)	499,086
36,690	(Gain) or loss on disposal of fixed assets	4	(605)		(605)
569	Local Precepts	20	580		580
775	Trading Accounts Deficit	28	477		477
48,089	Interest payable and similar charges	13	34,941		34,941
(13,717)	Interest and investment income	14		(3,488)	(3,488)
24,960	Pensions interest cost and expected return on pensions assets	21	47,339		47,339
638,516	Net Operating Expenditure		1,241,651	(663,321)	578,330
(304,392)	General Council Tax				(316,161)
(68,059)	Government grants (not attributable to specific services)	10			(72,975)
(127,524)	Non-domestic rate distribution				(124,307)
138,541	Deficit for the year				64,887

Statement of Movement on the General Fund Balance

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

- Capital Investment is accounted for as it is financed rather than when the fixed assets are consumed;
- Retirement benefits are charged as amounts become payable to the pension fund and pensioners rather than as future benefits earned;
- The General Fund balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of resources built up in the past and contributions to reserves earmarked for future expenditure.

2008/09 Restated £000	Notes	2009/10 £000
138,541	Deficit for the year on the Income and Expenditure Account	64,887
(139,259)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(64,469)
(26,080)	General Fund Balance brought forward	(26,798)
(26,798)	General Fund Balance carried forward	(26,380)
(12,559)	Amount of General Fund Balance held by governors under schemes to finance schools	(12,088)
(14,239)	Amount of General Fund Balance generally available for new expenditure	(14,292)
(26,798)		(26,380)

Balance Sheet

Restated 2008/09 £000		Note	2009/10 £000	2009/10 £000
FIXED ASSETS				
<u>Operational Assets</u>				
82	Intangible Assets	4	662	
1,007,776	Land and Buildings	4	980,095	
322,050	Infrastructure assets	4	344,193	
24,896	Vehicles, plant, furniture and equipment	4	27,703	
<u>Non Operational Assets</u>				
14,530	Surplus Assets held for Disposal	4	6,249	
56,482	Assets under Construction	4	70,876	
1,425,816	Total Fixed Assets			1,429,778
61	Long term investment in companies		61	
5,017	Investments - maturity more than 1 year		5,000	
88,059	Long Term Debtors	16	87,099	
1,518,953	Total Long Term Assets			1,521,938
CURRENT ASSETS				
2,483	Stocks and Work in Progress	26	2,532	
78,373	Debtors	6	67,201	
6,158	Cash and Bank		7,434	
<u>Investments and Loans</u>				
187,432	Investments - maturity less than 1 year		123,421	
0	Vintage Landfill Usage Allowance	14	0	
274,446	Total Current Assets			200,588
1,793,399	Total Assets			1,722,526
LESS CURRENT LIABILITIES				
0	BMW Liability for Usage (LATS)		0	
0	Borrowing repayable on demand or within 12 months		(471)	
(110,123)	Creditors	6	(99,589)	
(1,705)	Bank Overdraft		(5,096)	
(111,828)	Total Current Liabilities			(105,156)
1,681,571	Total Assets Less Current Liabilities			1,617,370
(613,878)	Borrowing repayable within a period in excess of 12 months	7	(585,437)	
(60,393)	Deferred Liability	4	(58,204)	
(1,049)	Deferred Credit		(1,049)	
(259,418)	Government Grants & Conts - Deferred	11	(296,414)	
(24,274)	Government Grants & Conts - Unapplied	11	(36,786)	
(586,220)	Pensions Liability	21	(893,697)	
(22,739)	Provisions	23	(18,570)	
(1,567,971)	Total Long Term Liabilities			(1,890,157)
113,600	Total Assets Less Liabilities			(272,787)
FINANCED BY				
151,803	Revaluation Reserve	24	112,424	
61	Available for Sale Financial Instruments Reserve	24	61	
412,179	Capital Adjustment Account	24	377,160	
(21,381)	Financial instruments adjustment account	24	(20,079)	
2,809	Collection Fund Adjustment Account	24	2,381	
(7,084)	Equal Pay Back Pay Account	24	(1,864)	
(557,827)	Pensions Reserve	24	(861,332)	
55,397	Usable Capital Receipts Reserve	24	50,476	
<u>Fund Balances and Reserves</u>				
50,845	Earmarked Reserves	24	41,606	
14,239	Working Balances - County Fund	24	14,292	
12,559	Held by Schools under Delegated Management	24	12,088	
113,600	Total Financing			(272,787)

Statement of Total Recognised Gains and Losses

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

Restated 2008/09 £000	Notes	2009/10 £000
138,541	Deficit on the Income and Expenditure Account for the year	64,887
(13,377)	Deficit/(Gain) arising on revaluation of fixed assets	43,577
0	Deficit arising on revaluation of available- for-sale financial assets and other financial instruments	0
205,030	Actuarial (gains) and losses on pension fund assets and liabilities	277,923
330,194	Total recognised gains and losses for the year	386,387

Included within the Statement of Total Recognised Gains and Losses for 2008/09 are the cumulative effects of the prior year restatements as set out in Note 1. The Total recognised loss takes account of the adjustment to the opening balance sheet at 1st April 2008.

Cash Flow Statement

2008/09 £'000	CASH FLOW STATEMENT	2009/10 £'000	£'000
(18,026)	Net revenue activities cash flow		(37,282)
	Return on Investments and Servicing of Finance		
	Cash Outflows:		
27,082	Interest paid	28,486	
6,625	Interest element of finance lease rental payments	6,425	
	Cash Inflows:		
(14,081)	Interest received	(7,259)	
19,626			27,652
	Capital Activities		
	Cash Outflows:		
130,143	Purchase of fixed assets	121,339	
1,400	Other capital cash payments	198	
	Cash Inflows:		
(5,248)	Sale of fixed assets	(2,292)	
(56,956)	Capital grants received	(72,481)	
(5,237)	Other capital cash income	(4,773)	
64,102			41,991
65,702	Net cash outflow / (inflow) before financing		32,361
	Management of Liquid Resources		
(64,750)	Net increase/(decrease) in cash value of investments		(60,175)
	Financing		
	Cash outflows:		
0	Repayments of amounts borrowed	28,000	
1,941	Capital element of finance lease rental payments	1,929	
1,941			29,929
2,893	Net Decrease / (Increase) in cash		2,115

1 Adjustments to the Prior Period

	2009 as reported £000	Collection Fund Agency £000	Private Finance Initiative £000	2009 as restated £000
Income and Expenditure Account				
Children's and Education Services	182,828		(6,246)	176,582
Net Cost of Services	547,396	-	(6,246)	541,150
Interest Payable & Similar Charges	26,857		21,232	48,089
Net Operating Expenditure	623,530	-	14,986	638,516
General Council Tax	(305,492)	1,100	-	(304,392)
Government Grants (not attributable to specific services)	(53,762)		(14,297)	(68,059)
Deficit for the year	136,752	1,100	689	138,541
Statement of the Movement on the General Fund Balance				
Deficit for the year on the Income and Expenditure Account	136,752	1,100	689	138,541
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	(194,142)	(1,100)	(3,362)	(198,604)
Contribution to Exeter PFI deferred assets	1,727		(6,832)	(5,105)
Statutory provision for repayment of debt	23,584		9,481	33,065
Capital expenditure charged to the general fund balance	1,549		24	1,573
General Fund Balance carried forward	(26,798)	-	-	(26,798)
Statement of Total Recognised Gains and Losses				
Opening Net Worth	439,885	(3,909)		435,976
Deficit on the Income and Expenditure Account for the year	136,752	1,100	689	138,541
(Surplus)/Deficit on revaluation of fixed assets	(8,484)		(4,893)	(13,377)
Total Recognised Gains and Losses for the year	333,298	(2,809)	(4,204)	330,194
Balance Sheet				
Fixed Assets - Land and Buildings	934,418		73,358	1,007,776
Long Term Debtors	94,891		(6,832)	88,059
Total Long Term Assets	1,452,427	-	66,526	1,518,953
Debtors	71,145	7,228		78,373
Total Assets	1,719,645	7,228	66,526	1,793,399
Creditors	(103,775)	(4,419)	(1,929)	(110,123)
Lease Liability	-		(60,393)	(60,393)
Total Assets less Liabilities	106,587	2,809	4,204	113,600
Revaluation Reserve	146,994		4,809	151,803
Collection Fund Adjustment Account	-	2,809		2,809
CAA	412,784		(605)	412,179
Total Financing	106,587	2,809	4,204	113,600

Prior period adjustments have been made to take account of changes required by the SORP to our Accounting Policies in the reported position as at 31st March 2010. The changes are shown in the table above and are described on page 21 of the Accounting Policies within this document.

2 Authorised for Issue

Mary Davis the Director of Finance has authorised the 2009/10 Statement of Accounts for issue on 17th June 2010. Events after the balance sheet date have been considered up to the 17th June 2010

3 Audit Fees

In 2009/10 the County Council incurred the following fees relating to the external audit and inspection:

2008/09 £000	Fees Payable to the Audit Commission	2009/10 £000
223	With regard to the external services carried out by the appointed auditor under the Audit Commissions Code of Audit Practice in Accordance with section 5 of Audit Commission Act 1998.	246
15	In respect of statutory inspection under section 10 of the Local Government Act 1999	17
12	For the certification of grant claims and returns by the appointed auditor under section 28 of the Audit Commission Act 1998.	9
0	In respect of other services provided	0
250		272

4 Capital and Fixed Assets

4.1 Movement on Fixed Assets

Note 4 shows how the total value of fixed assets has moved between the position at the start of the financial year and the position at the end of the year. Movements on fixed assets are caused by depreciation, the addition of new assets, expenditure on existing assets, revaluations, impairments and disposals.

The format of this note was remodelled for 2008/09 to bring it into line with the format used by HM Treasury in Whole of Government Accounts. There has been no change to the underlying requirements of the SORP 2009 though there are new disclosures in 4.10 relating to the Exeter Schools PFI scheme.

The treatment of Tangible Fixed Assets in the accounts is covered in the Statement of Accounting Policies which begins on page 11.

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

- Operational Assets; and
- Non-Operational Assets.

Fixed Asset Measurement

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

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

Net current replacement cost is assessed as:

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

Restatement of opening balance

For 2009/10 there has been an adjustment to the opening balance on Fixed Assets as schools in Exeter that are being financed via the a Private Finance Initiative scheme come 'on Balance Sheet'.

Reclassification of assets

Reclassification of assets results from one of two activities:

- Assets Under Construction in 2008/09 becoming operational during 2009/10; or
- Operational Assets becoming surplus during 2009/10.

The net effect of reclassification of assets is nil.

Depreciation and amortisation

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

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

The Authority defines the Estimated Useful Life of depreciable assets as follows:

Asset Type	Estimated Useful Life
Intangible Assets	3 - 5 Years
Education - Schools	30 - 100 Years
Education - Non Schools	30 - 60 Years
Libraries	30 - 60 Years
Social Services	50 - 60 Years
Highways Depots	50 Years
Waste Disposal	50 Years
Farm Land	Indefinite
Farm Buildings	50- 60 Years
Offices	50 - 60 Years
Care Homes	50 - 60 Years
Infrastructure	10 to 40 years

Fixed asset additions

The value of fixed asset additions results from capital expenditure investment incurred during 2009/10.

Revaluations and impairment

The revaluation gains and impairment losses result from the 2009/10 formal valuation exercise undertaken by our valuers NPS South West Ltd. Revaluation gains are taken to the Revaluation Reserve, or offset against previous impairment charged to the Income & Expenditure Account. Impairment losses are written off to accumulated revaluation gains, with any excess charged to the Income & Expenditure Account.

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

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

The valuer has confirmed that no examples have been identified of assets where there has been a clear consumption of economic benefits in 2009/10. As a consequence of the 20% cross section of asset valuations undertaken during 2009/10 the valuer has determined that movement in asset values are below a materiality threshold which would require 100% of all such property types to be revalued in order that the accounts are not misstated. Due regard has been given to the current economic climate and implications for site and building values.

<u>Operational Assets</u>	Land and Buildings £000	Vehicles, plant, etc £000	Infra-structure £000	Intangibles £000	Total £000
Cost or Valuation					
At 1 April 2009	1,012,674	55,772	429,251	82	1,497,779
Adjustments to opening balance	0	295	48	0	343
Additions	28,918	10,609	45,647	519	85,693
Donations	0	0	0	0	0
Disposals	(4,130)	0	0	0	(4,130)
Reclassifications	14,221	852	10,195	86	25,354
Revaluations	(64,307)	0	0	0	(64,307)
At 31 March 2010	987,376	67,528	485,141	687	1,540,732
Depreciation and Impairments					
At 1 April 2009	(4,898)	(30,876)	(107,201)	0	(142,975)
Adjustments to opening balance	3	(1,667)	(4,394)	0	(6,058)
Charge for 2009/10	(13,358)	(7,282)	(29,353)	(25)	(50,018)
Disposals	56	0	0	0	56
Reclassifications	104	0	0	0	104
Revaluations	10,812	0	0	0	10,812
At 31 March 2010	(7,281)	(39,825)	(140,948)	(25)	(188,079)
Balance Sheet amount at 31 March 2010	980,095	27,703	344,193	662	1,352,653
Balance Sheet amount at 31 March 2009	1,007,776	24,896	322,050	82	1,354,804

<u>Nature of Asset Holding</u>	Land and Buildings £000	Vehicles, plant, etc £000	Infra-structure £000	Intangibles £000	Total £000
Owned	905,466	27,703	344,193	662	1,278,024
Finance Lease	6,997	0	0	0	6,997
PFI	67,632	0	0	0	67,632
	980,095	27,703	344,193	662	1,352,653

<u>Non-Operational Assets</u>	Surplus Assets £000	Assets Under Construction & WIP £000	Total £000
Cost or Valuation			
At 1 April 2009	14,530	56,482	71,012
Adjustments to opening balance	37	0	37
Additions	131	37,266	37,397
Donations	0	0	0
Disposals	(1,115)	(1,933)	(3,048)
Reclassifications	(4,414)	(20,939)	(25,353)
Revaluations	(2,920)	0	(2,920)
At 31 March 2010	6,249	70,876	77,125
Depreciation and Impairments			
At 1 April 2009	0	0	0
Adjustments to opening balance	0	0	0
Charge for 2009/10	0	0	0
Disposals	0	0	0
Reclassifications	(104)	0	(104)
Revaluations	104	0	104
At 31 March 2010	0	0	0
Balance Sheet amount at 31 March 2010	6,249	70,876	77,125
Balance Sheet amount at 31 March 2009	14,530	56,482	71,012

<u>Nature of Asset Holding</u>	Surplus Assets £000	Assets Under Construction & WIP £000	Total £000
Owned	6,249	70,876	77,125
Finance Lease	0	0	0
PFI	0	0	0
	6,249	70,876	77,125

4.2 Gains and Losses on Disposal

2008/09 £'000	2009/10 £'000
76 Costs of Disposal	26
36,614 (Gains) / Losses on Disposal	(631)
36,690 (Gains) / Losses on Disposal	(605)

The losses on disposal shown above are the result of the disposal of surplus assets of the Council. The gain on disposal is credited to the income and expenditure Account.

4.3 Summary of Capital Expenditure and Sources of Finance

	2008/09 Restated £000	2009/10 £000
Opening Capital Financing Requirement	554,246	659,334
Adjustment to opening position		1,572
		660,906
Capital Investment		
Tangible Assets - Operational	76,648	85,175
Tangible Assets - Non Operational	51,425	37,398
PFI Related Investment	71,827	0
Intangible Assets	82	518
Revenue Expenditure Funded from Capital under Statute (REFCUS)	11,011	16,411
Externally Financed REFCUS	(4,200)	(9,699)
Sources of Finance		
Capital Receipts	(7,386)	(7,212)
Government Grants and other Contributions	(58,332)	(51,226)
Funds set aside from Revenue (NB: includes direct revenue financing, repay borrowing and reduction to other liabilities)	(35,987)	(32,309)
Closing Capital Financing Requirement	659,334	699,962
Explanation of Movements in Year		
Increase in underlying need to Borrow (supported by government financial assistance)	48,508	48,787
Increase in underlying need to Borrow (unsupported by government financial assistance)	19,191	19,415
Increase in PFI Liabilities	62,322	
Reduction in CFR due to reduction of liability		(1,929)
Reduction in CFR due to repayment of borrowing	(24,933)	(27,217)
Increase/(decrease) in Capital Financing Requirement	105,088	39,056

4.4 Revenue Expenditure funded from Capital under Statute

Capital Expenditure Funded from Revenue Under Statute represents expenditure where the Council has not retained ownership of any Fixed Asset. This expenditure is no longer capitalised but is charged direct to the Income and Expenditure Account.

The charges in 2009/10 are as follows:

	Charge to Income & Expenditure Account £000
Public Transport Contributions	1,003
IID Schemes - RHS Rose Learning Centre	500
Kingsbridge Community College Accommodation Improvements	496
IID Schemes - Okehampton Sports & Activity Hub	346
Job Evaluation Capitalisation	325
IID Schemes - Ruby Way	272
Kingsbridge CC Additional Accommodation	217
Oaklands Court Childrens Centre	206
IID Schemes - Haldon Forest Trails	200
Newton Abbot Youth Enquiry Centre	200
Grants for Renewable Energy Installations	177
Assisted Purchases for Foster Carers Homes	161
IID Schemes - Colyton Integrated Youth Provision	145
IID Schemes - Blackdown Hills Healthy Living Centre	136
Grants for Adaptions for Children with Specific Needs	130
Uffculme School Accommodation Improvements	119
IID Schemes - Courtney Centre Improvements	113
IID Schemes - Topsham Matthews Hall Refurbishment	100
Miscellaneous Schemes < £100,000	1,865
	6,711

4.5 Direct Revenue Financing of Capital Expenditure

Direct revenue financing of capital expenditure represents contributions from the 2009/10 revenue account towards capital expenditure. In addition to the £0.012 million contribution from service revenue budgets and £1.345m from revenue reserve funds (a total of £0.083 million in 2008/09), schools contributed £1.806 million from their delegated budgets (£1.490 million in 2008/09).

4.6 Capital Commitments

Contract Name	Project Purpose	2010/11 (£000)	2011/12 (£000)	2012/13 (£000)	Total Commitment 2010/11 onwards (£000)
Bideford Community College	New School	6,775	4,595	13	11,383
East of Exeter (Pinbrook) Recycling Centre	Provision of Recycling Centre	2,353			2,353
New Cheriton Fitzpaine Community Primary Sch	New School	1,888	49		1,937
Dawlish Oaklands Park School	Phase 11 Extension	1,899	30		1,929
Dawlish Oaklands Park School	Respite & Residential Accommodation	1,769	30		1,799
The Strand, Exmouth	Enhancement of Exmouth Town Centre	838			838
Dawlish Youth Centre	New Facility	619	28		647
M5 Junction 30 Ph 4 & 5 - A379 Widening	Increase Capacity of M5 Junction 30	560			560
A361 Dean Cross to Score Layby	Extend Life of this stretch of the highway	400			400
A3123 Lynton Cross to Berry Down Cross	Extend Life of this stretch of the highway	390			390
A399 Four Cross Way to Mockham Down Gate	Extend Life of this stretch of the highway	350			350
A3121 Kitterford Cross to Haredon Cross	Extend Life of this stretch of the highway	330			330
Exeter St Michaels C of E VA Primary Sch	New Elliott Building for Pre-School	290	4		294
Exe Estuary Trail-Lympstone Station to Nutwell	Further Section of Exe Estuary Cycle Trail	250			250
Dawlish Tinkys at Gatehouse	Pre-School	238	6		244
Newholme Community Hub	Community Based Learning Disability Support	227	5		232
Connect 2 Cycle Route Phase 2 N Abbot Station To Penn Inn	Extension of Footway / Cycleway	220			220
		19,396	4,747	13	24,156

4.7 Major Capital Schemes in 2009/10

Children and Young Peoples service	£'000
Bideford Community College	21,625
Devolved Formula Capital Spend	13,659
Dartington Primary School	3,593
Harnessing Technology	2,598
Ottery St Mary Primary School	2,140
Clyst Vale Community College	1,702
Cheriton Fitzpaine	1,621
Dawlish Integrated Youth Centre	1,414
Better Buildings	1,378
Kingsbridge Community College	1,311
Queen Elizabeth Community College Crediton	891
Children's Centres	872
Extended Schools Dartington	741
Holsworthy Primary	711
Montgomery Primary	627
Tiverton High	614
Holsworthy Community College	450
Dawlish Oaklands	449
Okehampton College	414
Teign School	390
Chumleigh Community College	382
Other Programmes	14,333
	71,915
Adult and Community Services	£'000
Learning Disabilities Facilities	998
Mental Health Facilities	511
Other Programmes	1,234
	2,743
Chief Executive's Office	£'000
Purchase Land at Pynes Farm Ide Exeter	525
RHS Garden Rosemoor Learning Centre	500
Okehampton Sport & Activity Hub	346
Job Evaluation Capitalisation Directive	325
Rockbeare New Ford Farm-land purchase	275
County Hall Green Travel Plan	263
Safer Devon Partnership	214
Other Programmes	2,974
	5,422
Environment, Economy and Culture	£'000
Structural Maintenance	23,047
New Construction / Improvement Of Roads	10,715
Cycling Schemes	7,283
Public Passenger Transport	3,064
Expenditure On Bridges	2,927
Waste Disposal	2,456
Depots	1,827
Road Safety	1,716
Science Park Development	996
Land Drainage And Flood Prevention - Culverts	940
Waste Collection	609
Waste To Energy Plants	607
Other Programmes	2,971
	59,158
Corporate Resources Directorate	£'000
ICT - Infrastructure Network	222
Other Programmes	41
	263
Total	139,501

4.8 Analysis of Fixed Assets

2008/09		Notes	2009/10
Hectares	Land		Hectares
53	Industrial Estates	1	53
4,031	County Farms	2	4,069
Number	Buildings		Number
2008/9			2009/10
91	Administrative		93
79	Adult, Community amenities and woodland, and social centres		77
25	Childrens Centre and Family Centres	3	36
63	Day Care facilities		56
2	Quarry		2
27	Highway Depots		24
50	Libraries		50
16	Gypsy Sites+Roads Men Houses		16
1	Road safety unit		1
6	Outdoor Education Centres		6
315	Primary Schools	4	314
2	Post 16 Skills Centre		1
38	Redevelopment Properties		21
17	Registrars Offices and Appointment offices		16
32	Residential Care		30
25	Secondary Schools	4	24
24	Small Indust. Units		24
22	Special Schools	5	23
33	Surplus Prtoperty		37
16	Tourist Parking / Park & Rides		16
42	Waste disposal, waysoil and inert facilities		44
10	Workshops & Stores		8
Number	Vehicles, Plant, Etc.		Number
743	Light Vehicles & Plant including Pool Fleet	6	749
124	Heavy Vehicles & Plant		104
22	Antique Items		22
£ Million	Insured Value of Council Assets		£ Million
1,134	Buildings		1,149
113	General Contents of Buildings		114
17	Library Stocks		17
Km	Infrastructure		Km
967	Principal Roads	7	967
11,479	Other County Roads		11,483
385	Green Lanes		385
12,831	Total Roads		12,835
2,581	(Urban roads included in total)		2,585

- (1) Skypark, Roundswell and Mullacott Cross
- (2) This figure includes 82 residential small holdings. The purchase of land at Pynes and at Marsh Green and the sales of West Ford Farm, Drewsteignton; Uppacott Farm, Mariansleigh; and Ley Farm Barns, Yarnscombe.
- (3) 33 Childrens Centres, 3 Family Centres, Excluding 9 non DCC.
- (4) Excludes PFI - Primary 1, Secondary 5, Foundation Secondary 8, and Trust Secondary 1.
- (5) Includes 10 Pupil Referral units, 1 Special unit
- (6) Includes 111 contract hire vehicles.
Schools are now placing their vehicles on the fleet register.
- (7) Previously this length has included slip roads(maintained by DCC), current thinking is this figure should be excluded

In addition to the above, the authority owns various small parcels of land which in total amount to approximately 48 hectares.

4.9 Community Assets

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

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

4.10 PFI Scheme

The Exeter School Private Finance Initiative began in 2005/06. Up to and including the financial year 2008/09, it was only the land associated with the PFI scheme that was included within the figures on the balance sheet. From 2009/10 onwards, due to a change in accounting policy, the land and buildings of the non Voluntary – Aided PFI schools in Exeter are included within the fixed assets on the balance sheet. The corresponding liabilities are included within short and long term liabilities on the balance sheet.

Value of Assets held under PFI contracts

2008/09	2009/10
£000	£000
74,639 Opening Net Book Value	73,358
(1,281) Depreciation	(1,281)
0 Revaluations	(4,445)
73,358 Closing Net Book Value	67,632

Value of Liabilities held under PFI contracts

2008/09	2009/10
£000	£000
64,262 Opening Liability	62,322
1,940 Repayment of Liability	1,929
62,322 Closing Liability	60,393

The assets and liabilities associated with the Voluntary Aided school within the Exeter Schools PFI scheme, St Peters, are not included in the financial statements.

Payments due to be made under the PFI Contract for Assets held on Balance Sheet include a service element for the schools' premises costs and capital financing payments that relate to the reduction of liability and an amount for interest. The figures shown in the table below do not include any adjustments for inflation.

	Repayments of Liability	Interest Charges	Service Charges	Other Cash Charges	Total Payments
	£000	£000	£000	£000	£000
Within 1 year	2,189	6,226	1,986	332	10,733
Within 2 - 5 years	9,231	22,588	8,493	1,867	42,179
Within 6 - 10 years	12,398	22,692	12,036	5,155	52,281
Within 11 - 15 years	14,113	15,823	13,850	7,213	50,999
Within 16 - 20 years	12,483	8,856	15,960	11,945	49,244
Within 21 - 25 years	9,978	2,534	12,281	7,477	32,270

4.11 Valuation Information

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

	Land and Buildings £000	Infrastructure £000	Plant, Vehicle, Furniture and Equipment £000	Surplus Assets £000	Assets under construction £000	Intangibles £000	Total £000
Valued at Historical Cost	6,078	485,141	67,528	2	70,876	687	630,312
Valued at Current Value in:							
2009/10	625,165			5,872			631,037
2008/09	282,887			375			283,262
2007/08	29,115						29,115
2006/07	43,763						43,763
2005/06	368						368
Total	987,376	485,141	67,528	6,249	70,876	687	1,617,857

4.12 Net Assets

	2008/09 Restated £'000	2009/10 £'000
General Fund	115,424	(269,328)
Trading activities	(1,824)	(3,459)
	113,600	(272,787)

5 Contingent Liabilities

New Street Works

No provision is made for accrued interest on New Street Works Advance Payments Deposits and S38 agreements. The capital value for this was approximately £0.935 million at 31 March 2010 (£0.963 million at 31 March 2009).

Exeter and Devon Airport Limited

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

- a maximum of £200,000 for construction and equipment costs should the engine testing area be relocated,
- claims under commercial warranties which total more than £500,000 for either a single claim, or a series of related claims. The time limit on these claims is the second anniversary of completion for those commercial warranties which do not relate to taxation, and the seventh anniversary for those that do,
- losses in connection with claims under the SWERDA agreement (relating to the Flybe hanger development) in excess of £1,920,000,
- legitimate claims or demands from specified contractors for any sum owing to them,
- losses that result in breaches of the covenants existing with the Church Commissioners' Properties which may have resulted from the sale to a maximum of £300,000,
- provable losses resulting from disruption or damage to the instrument landing system including any consequent disruption to the operation of business in connection with the widening of the Clyst Honiton bypass,
- losses arising from disruption resulting from the failure of the concrete used to construct the apron area for the Flybe Hanger 1 and 2 until 2016/17 to a maximum of £125,000.

Morwellham and Tamar Valley Trust

Following the dissolution of the Trust and the sale of Morwellham Quay by the Administrator to a private concern, there is a potential liability relating to the repayment of a proportion of grants provided to the Trust by the Heritage Lottery Fund. The grants were guaranteed jointly by Devon County Council and West Devon Borough Council. Devon County Council's maximum liability is £1.3m

Barnstaple Western Bypass

The Council has appealed against the granting by North Devon District Council of a Certificate of Alternative Appropriate Development under section 17 of the Land Compensation Act. If the appeal is unsuccessful the Council could be liable for an additional compensation payment of approximately £5.0m.

Guarantees

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

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

6 Creditors and Debtors

6.1 Creditors

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

6.2 Debtors

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

2008/09		2009/10	
Creditors Restated	Debtors Restated	Creditors	Debtors
£000	£000	£000	£000
Revenue Activities			
(22,084)	62	(21,307)	30
(63,605)	4,436	(45,011)	6,629
0	15	0	0
(7,411)	6,661	(3,578)	2,551
(11,826)	67,778	(22,920)	58,844
(104,926)	78,952	(92,816)	68,054
Capital Activities			
(5,022)		(6,773)	
	3,557		4,513
(175)	36		
(5,197)	3,593	(6,773)	4,513
	(4,172)		(5,366)
(110,123)	78,373	(99,589)	67,201
		Total	

7 Long Term Debt

7.1 Borrowing repayable within a period in excess of 12 months

2008/09 £000		2009/10 £000
518,139	Public Works Loan Board	490,139
95,739	Other Lenders	95,298
613,878		585,437
Payable in:		
	1 to 2 years	
20,217	2 to 5 years	20,000
	5 to 10 years	
593,661	over 10 years	565,437
613,878		585,437

8 Exceptional item

Payments for equal pay compensation under the job evaluation scheme have been made during 2009/10. A further provision for payments due to be made in 2010/11 has been established. In total, exceptional expenditure of £816,000 has been incurred and shown on the face of the income and expenditure account.

Regulations allow for the financing required for payments to be made in 2010/11 to be met in that year. In order to achieve this, £1.864m to be financed in 2010/11 is held in the equal pay back pay account which is shown in the financing section of the balance sheet.

9 Financial Instruments

9.1 Financial instruments balances

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

	Long-Term		Short-Term	
	31/03/2009 £000	31/03/2010 £000	31/03/2009 £000	31/03/2010 £000
Financial liabilities at amortised cost				
PWLB	518,139	490,139	0	0
Other Sources	95,739	95,298	0	471
Total Borrowings	613,878	585,437	0	471
Loans and receivables	5,017	5,000	187,432	123,421
Available-for-sale financial assets	61	61	0	0
Total Investments	5,078	5,061	187,432	123,421

PWLB loans are at a fixed rate of interest for the duration of the loan. No additional loans have been taken out during the year and £28 million has been repaid.

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

The decrease in both Long Term Investments and Short Term Investments reflects that no long term borrowing was taken in 2009/10.

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

9.2 Financial instruments gains and losses

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

<u>2009/10</u>	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost £000	Loans and receivables £000	Available-for sale assets £000	£000
Interest expense - Note 12	34,941	0	0	0
Losses on derecognition	0	0	0	0
Impairment losses	0	4,701	0	4,701
Interest payable and similar charges	34,941	4,701	0	4,701
Interest Income - Note 13	0	(3,488)	0	(3,488)
Gains on derecognition	0	0	0	0
Interest and investment income	0	(3,488)	0	(3,488)
Gains on revaluation	0	0	0	0
Losses on revaluation	0	0	0	0
Loss on reclassification of Deferred Premiums	0	0	0	0
Surplus arising on revaluation of financial assets	0	0	0	0
Net gain/(loss) for the year	34,941	1,213	0	1,213

2008/09	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for sale assets	
	£000	£000	£000	£000
Interest expense	48,089	0	0	0
Losses on derecognition	0	0	0	0
Impairment losses	0	34	0	34
Interest payable and similar charges	48,089	34	0	34
Interest Income	0	(13,717)	0	(13,717)
Gains on derecognition	0	0	0	0
Interest and investment income	0	(13,717)	0	(13,717)
Gains on revaluation	0	0	0	0
Losses on revaluation	0	(485)	0	(485)
Loss on reclassification of Deferred Premiums	0	0	0	0
Surplus arising on revaluation of financial assets	0	(485)	0	(485)
Net gain/(loss) for the year	48,089	(14,168)	0	(14,168)

9.3 Fair value assets and liabilities carried at amortised cost

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

- The Public Works Loans Board (PWLB) figures have been calculated by reference to the 'premature repayment' set of rates in force on 31st March 2010 and 2009.
- Loans from other sources and investments have been valued by reference to the set of interest rates in force on 31st March 2010 and 2009.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31st March 2009		31st March 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial Liabilities				
PWLB	518,139	595,460	490,139	543,176
Other Loans	95,739	117,907	95,298	112,214

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

	31st March 2009		31st March 2010	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and Receivables				
Long Term Investments	5,017	5,017	5,000	5,026

The fair value is higher than the carrying amount at 31st March 2009 because the authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar investments at the balance sheet date. This guarantee to receive interest above current market rates increases the amount the authority would receive if it agreed to early repayment of the investments.

The fair value is equal to the carrying amount at 31st March 2010 as this investment is variable rate linked to LIBOR (London Inter-Bank Offer Rate).

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

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by a central treasury team under policies approved for overall risk management as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

The County Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Treasury Management Policy Statement together with the Statement of Treasury Management Practices (TMPs) was formally adopted by the County Council on 14th February 2010. The County Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs.

Investment Strategy 2009/10 – 2013/14

Prudence

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

Specified Investment

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

Non-specified Investment

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

Credit Ratings

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

Liquidity of Investments

Surplus funds may be earmarked for specific purposes or may be general balances and as such may be available for quite long periods or very short periods. When investing cash flow forecasts will be used to judge for how long cash will be available and a margin will be allowed for unexpected cash requirements. At least 15% will be realisable within one month. All known short-term commitments will be covered before lending for over 1 month.

Performance Targets

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

Prudential Indicators

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

The Council's policy is generally to borrow at fixed rates of interest for as long as possible when rates are considered attractive. This has worked well over recent years but the flexibility to adapt to changing interest rate environments must be retained. The following table sets out the Prudential Indicators approved for 2009/10:

Prudential Limits

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

Credit Risk

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

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

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

	Amount at 31/03/10	Historic experience of default	Historic experience adjusted for market conditions at 31/03/09	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	135,855	0	0.0283%	39
Bonds	0	0	0	0
Customers	154,300	0.11%	3.4779%	5,366
				<u>5,405</u>

	£000
Less than three months	64,834
Three to six months	1,956
Six months to one year	2,023
More than one year	<u>3,754</u>
	72,567
Provision for bad debts	(5,366)
Long Term Debtors not yet due	<u>87,099</u>
	<u>154,300</u>

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

In recent years the Council has given loans totalling £1,094,093 to The Morwellham and Tamar Valley Trust. During 09/10 the Trust went into administration and has been dissolved. The Administrator has indicated that the council will receive £435,000. The loan has been impaired to this value.

Liquidity Risk

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

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

The maturity analysis of borrowing is as follows:

	£000
Less than one year	0
Between one and two years	0
Between two and five years	20,000
More than five years	<u>565,437</u>
	<u>585,437</u>

All trade and other payables (£99.589m) are due to be paid in less than one year.

Market Risk

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

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

Each of the risks is discussed in more detail below.

Interest Rate Risk

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

- Borrowing at fixed rate – the fair value of the borrowings will fall
- Investments at variable rate – the interest income credited to the income and expenditure account will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the income and expenditure account or the statement of total recognised gains and losses. However, changes in interest receivable on variable rate investments will be posted to the income and expenditure account and affect the general fund balance.

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

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

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

Price Risk

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

Foreign Exchange Risk

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

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

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

10 Government Grants

10.1 General Government Grants

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

Restated 2008/09 £'000		2009/10 £'000
17,752	Revenue Support Grant	28,691
35,129	Area Based Grant	36,759
580	Local Authority Business Growth Incentives Scheme	343
301	Local Public Service Agreement Reward Grant	2,955
14,297	PFI Unitary Grant - Interest	4,227
68,059		72,975

10.2 Specific Government Grants

Government grants of £508.401 million (£490.991 million in 2008/09) were received in aid of specific services. An analysis of all government grants (both capital and revenue) is given below:

2008/09		2009/10	
£'000	Revenue:	Awarding Body	£'000
493	Animal Movement Licences	DEFRA	501
893	Parks, SW Coastpath and AONB	Natural England	711
2	Waste Performance and Efficiency Grant	DCSF	
1,101	Other Economic and Community Grants	Various	1,290
	Renewable Energy for Devon	Various	
	Blackdown Hills	Various	
1,416	Sidmouth (Addington) Papers	HLF	
334	Other (10 grants)	Various	104
4,239	Cultural, Environmental and Planning Services:		2,606
348,214	Dedicated Schools Grant	DCSF	359,179
13,505	Early Years (Sure Start)	DCSF	14,706
55,376	Schools Standards Grant	DCSF	55,180
417	Higher Education Funding Council	DCSF	483
27,301	Learning & Skills Council	DCSF	27,961
8,665	Private Finance Initiative	DCSF / CLG	8,889
714	Teachers' Training Agency	DCSF	1,128
197	Contact Point	DCSF	242
401	Young People Substance Misuse	DH	
	Childrens Services	Various	3,536
341	Youth Opportunity Fund	DCSF	306
718	Youth Offending Teams Grant	HO	579
589	Youth Offending Partnership	YJB	
300	Pst 16 Pathfinder Grant	DCSF	
66	Neighbourhood learning in Deprived communities	DIUS	13
1,545	PCDL Income	DIUS	1,153
433	First Steps	DIUS	563
134	Family Learning Income	DIUS	160
1,692	LSC Adults 19+ Adult Learner Responsive	DIUS	3,974
	Adult and Community Learning from LSC	BIS	2,255
	LSC Skills for Life	LSC	439
68	LSC Young People 16-18	DCSF	
94	LSC Additional Learning Support	DCSF	47
196	LSC Employer Responsive - FE Workplan NVQ	DIUS	452
259	Specific Grants (FLLN)	DIUS	174
52	Other Adult & Community Learning	DCSF	50
540	Children - other	Various	631
461,817	Children's and Education Services		482,100

2008/09		2009/10	
£'000	Revenue continued:	Awarding Body	£'000
111	Bus Challenge	DfT	4
434	Road Safety	DfT	759
150	Traffic Asset Management Plan	DfT	
	Other		
695	Highways, Roads and Transport:		763
91	Magistrates' courts	DCA	
38	Probation	DfJ	
129	Court Services:		0
2,836	Partnership for Older People	DH	
	Access and Systems Capacity	DH	
	Delayed Discharges	DH	
	Mental Capacity	DH	
	Mental Health	DH	
	Training Support	DH	
	Carers	DH	
	Preserved Rights	DH	
	Minor Repairs & Adaptations 'Handyperson'	CLG	150
1,230	Social Care Reform	DH	2,721
131	Delivering Stroke Care for Adults	DH	131
93	Other	DH	74
4,290	Adult Social Care		3,076
19,821	Supporting People	CLG	19,856
19,821	Housing Services:		19,856
490,991	Government Grants: Revenue		508,401
Capital:			
35,906	Standards Fund / Capital Grants for Schools	DCSF	54,235
3,339	Highways	DfT	3,637
2,759	Local Transport Plan	DfT	2,747
7,431	Rural Development Agency	RDA	996
1,292	Dept of Environment, Farming and Rural Affairs	DEFRA	1,300
904	Department of Health	DH	910
4,130	Communities and Local Government specific	DCLG	3,173
4,533	Other Grants	Various	1,813
60,294	Government Grants: Capital		68,811

10.3 Details of the deployment of DSG receivable for 2009/10 are as follows:

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

Details of the deployment of DSG receivable for 2009/10 are as follows:

2008/09 Restated £'000	2009/10		
	Central Expenditure £'000	ISB £'000	Total £'000
348,214 Final DSG	39,082	320,097	359,179
0 Brought forward	1,020	0	1,020
0 Carry forward agreed in advance	0	0	0
348,214 Agreed budgeted distribution	40,102	320,097	360,199
(34,988) Actual central expenditure	(38,796)		(38,796)
(313,006) Actual ISB deployed to schools		(320,897)	(320,897)
800 Local authority contribution		800	800
1,020 Carry forward	1,306	0	1,306

11 Government Grants and Contributions – Deferred and Unapplied

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

GOVERNMENT GRANTS AND CONTRIBUTIONS - DEFERRED

2008/09 £000		2009/10 £000
(207,175)	Balance at 1 April	(259,418)
	Applied in year	
(58,332)	To capital spend	(51,226)
273	Fixed Asset Disposal	18
	Derecognition of grants	5,528
5,816	Offset against depreciation	8,684
(52,243)		(36,996)
(259,418)	Balance at 31 March	(296,414)

GOVERNMENT GRANTS AND CONTRIBUTIONS - UNAPPLIED

Restated 2008/09 £000		2009/10 £000
(23,156)	Balance at 1 April	(24,274)
	Applied in year	
(63,650)	Received in Year	(73,437)
58,332	Applied to Spend	51,226
4,200	Applied to REFCUS expenditure	9,699
(24,274)	Balance at 31 March	(36,786)

12 Interest Payable and Similar Charges

2008/09		2009/10
Restated		
£000		£000
30,947	External Interest Payable	31,472
(3,071)	Acquiring Authorities Interest Payable	(2,983)
(1,019)	Other Adjustments	27
21,232	Amounts payable under Finance Leases	6,425
48,089		34,941

13 Interest and Investment Income

2008/09		2009/10
£000		£000
(13,577)	Interest from Lending	(3,383)
(140)	Other Adjustment	(105)
(13,717)		(3,488)

14 Landfill Allowances Trading Scheme

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

LATS is a 'Cap and Trade' Scheme whereby Landfill Vintage Allowances are allocated free of charge to authorities. These allowances can then be traded with other WDA's depending on the needs of each authority. The County Council undertook no trading of allowances in 2009/10.

The County Council is required to account for the use made of the LATS allowance in 2009/10, based on a notional allowance value. This value is subject to evaluation by individual local authorities. The value assigned at the balance sheet date is £0 per tonne as local experience indicates that, in practice, the allowances cannot be traded. No transactions or balances relating to LATS are included within these accounts.

15 Operating Lease and Contract Hire

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

	Property	Equipment	Contract Hire	Total
	£000	£000	£000	£000
Payments in the current year	1,196	385	340	1,921
Commitments expiring within 1 year	461	48	93	602
Commitments expiring in 2 - 5 years	399	237	112	748
Commitments expiring in more than 5 years	336	15		351
Total commitment	1,196	300	205	1,701

The rental received for operating property leased to third parties for the year is £1,549,000, of which £832,000 relates to smallholdings. The gross value of smallholdings at 31 March 2010 is £15.86 million. Property leases are often for parts of assets for which individual valuations are not maintained and therefore an exact valuation is not provided.

16 Long Term Debtors

2008/09		2009/10
Restated		
£000		£000
91	Car Loans to Employees	129
147	East Devon College	114
867	Exeter and Devon Airport (EDAL)	929
0	Exeter Schools	0
4	Foster Carer loans	1
6	Housing Advances	5
4	Industrial Loans	4
346	Morwellham Quay	0
691	Magistrates	549
441	PLUSS	396
56,741	Plymouth & Torbay Councils	52,293
28,393	Plymouth & Torbay Unfunded pensions	32,365
278	Probation	314
50	Sustrans	0
88,059		87,099

17 Members' Allowances

The authority pays its elected members basic allowances, special responsibility allowances and travel and subsistence. During 2009/10 £1,011,173 was paid (£1,098,973 in 2008/09).

18 Movement in Cash and Other Financial Resources

18.1 Movement in Cash, Liquid Resources and Long Term Borrowing

As at 31/03/09 £'000		As at 31/03/10 £'000	Movement £'000
	Movement in -		
6,158	Cash balance including cash in transit	7,434	1,276
(1,705)	Cash (Overdrawn)	(5,096)	(3,391)
4,453	Cash and equivalents	2,338	(2,115)
187,789	Investments	127,614	(60,175)
192,242	Liquid resources	129,952	(62,290)

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

	Movement in -		
(518,139)	Public Works Loans Board	(490,139)	28,000
(62,322)	Finance lease obligations	(60,393)	1,929
(91,500)	Other Lenders	(91,500)	0
(671,961)	Cash value of long term borrowing	(642,032)	29,929
(479,719)	Total Net Debt	(512,080)	(32,361)

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

As at 31/03/09 £'000		As at 31/03/10 £'000	Movement £'000
	Movement in Other Current Assets / Liabilities		
2,483	Stock and Work in Progress	2,532	49
78,373	Debtors	67,201	(11,172)
(110,123)	Creditors	(99,589)	10,534
(29,267)		(29,856)	(589)

£'000	Reconciliation of net cash flow to movement in net debt	£'000
	(Increase) / decrease in net debt from:	
18,026	Net revenue activities cash flow	37,282
(19,626)	Net Interest Payments	(27,652)
(64,102)	Capital Activities cash flow	(41,991)
(65,702)	Movement in net debt in the period	(32,361)
(414,017)	Net debt at 1 April 2009	(479,719)
(479,719)	Net debt at 31 March 2010	(512,080)

18.3 Reconciliation of Revenue Cash flow

2008/09 £'000		2009/10 £'000	£'000
(14,196)	Opening General Fund Balance	(14,239)	
(14,239)	Closing General Fund Balance	(14,292)	
(43)	(Surplus) / Deficit for Year		(53)
	Adjustment for non-cash items:		
	Contributions (to) / from Earmarked and Schools Reserves	9,710	
4,099			
7,084	Transfer to Equal Pay Back Pay Account	(5,220)	
(25,294)	Capital and funding (charges)/credits	(18,667)	
(8,501)	(Increase) / Decrease in Provisions	4,169	
(22,612)			(10,008)
	Movement in other assets/liabilities		
(40)	Increase / (Decrease) in Stock	49	
6,632	Increase / (Decrease) in Debtors	(11,172)	
14,773	(Increase) / Decrease in Creditors	10,534	
2,890	Increase / (Decrease) in Capital items	1,020	
24,255			431
(19,626)	Net Interest Payments		(27,652)
(18,026)	Net revenue activities cash flow		(37,282)

19 Officer Remuneration

19.1 Senior Officers Remuneration

Senior Officers earning over £150,000

The County Council is now required to name all officers that earn over £150,000 per annum for all or part of a year and show a comparison with 2008/09.

2008/09

Post Holder Information (post title and name)	Salary (including fees & Allowances) £	Expense Allowances £	Benefits in Kind (e.g Car Allowances) £	Total remuneration excluding pension contributions 2008/09 £	Pension Contributions £	Total Remuneration including pension contributions 2008/09 £
Chief Executive - P Norrey	157,477	849		158,326	31,102	189,428
Head Teacher - G Rees	153,494	9,306	1,388	164,188	21,671	185,859
	310,971	10,155	1,388	322,514	52,773	375,287

2009/10

Post Holder Information (post title and name)	Notes	Salary (including fees & Allowances) £	Expense Allowances £	Total remuneration excluding pension contributions 2009/10 £	Pension Contributions £	Total Remuneration including pension contributions 2009/10 £
Head Teacher - A Alexander		165,266		165,266	23,303	188,569
Chief Executive - P Norrey	1	118,108	680	118,788	23,326	142,114
Head Teacher - G Rees	2	119,614	8	119,622	16,923	136,545
		402,988	688	403,676	63,552	467,228

Note 1: This Figure is P Norrey's salary for the period April 2009 to December 2009 and is equivalent to an annual salary of £157,476. In January 2010 P Norrey voluntarily reduced his pay by 5% so the salary for the remainder of the year is shown in the £50,000 to £150,000 table.

Note 2: Head Teacher G Rees left Devon County Council on 15th January 2010. His Annual Salary would have been £153,636

Senior Officers earning between £50,000 and £150,000

The County Council is now required to list all post holders who earn between £50,000 and £150,000 for all or part of a year and who also fit the following criteria:

- They report directly to the Chief Executive, or;
- They are part of the Councils Senior Management Team, or;
- They hold posts required by statute (the Chief Finance Officer and the Monitoring Officer)

A comparison is also required with 2008/09

2008/09

Post Holder Information (post title)	Notes	Salary	Expense	Benefits in	Total remuneration	Pension	Total
		(including fees & Allowances) £	Allowances £	Kind (e.g Car Allowances) £	excluding pension contributions 2008/09 £	Contributions £	Remuneration including pension contributions 2008/09 £
Executive Director of Environment Economy & Culture and Deputy Chief Executive		141,046		2,290	143,336	27,857	171,193
Executive Director of Personnel & Performance		129,700	41		129,741	25,616	155,357
Executive Director of Children & Young People's Services		129,896			129,896	25,616	155,512
Executive Director of Adult & Community Services		129,700	717		130,417	25,616	156,033
County Solicitor		128,947	31		128,978	25,616	154,594
Executive Director of Finance & IT		128,875			128,875	25,453	154,328
Head of Finance	1	110,076	3		110,079	21,740	131,819
		898,239	792	2,290	901,321	177,514	1,078,835

Note 1: The Head of Finance undertook the role of Executive Director of Finance, IT and Trading for most of the year due to illness of the permanent postholder.

In 2009/10 there were changes to the Senior Management structure of the Council. At the end of 2009/10 the following staff met the criteria given overleaf.

2009/10

Post Holder Information (post title)	Notes	Salary (including fees & Allowances) £	Expense Allowances £	Total remuneration excluding pension contributions 2009/10 £	Pension Contributions £	Total Remuneration including pension contributions 2009/10 £
Chief Executive	1	37,499	227	37,726	7,406	45,132
Deputy Chief Executive	2	132,893	16	132,909	26,246	159,155
Executive Director of Children & Young People's Services		129,700	523	130,223	25,616	155,839
Interim Executive Director of Adult & Community Services	3	86,467	604	87,071	17,077	104,148
Interim Executive Director of Environment Economy & Culture	4	0	0	0	0	0
County Solicitor	5	26,026	10	26,036	5,140	31,176
Director of Finance		107,751	4	107,755	21,281	129,036
Head of the Office of the Chief Executive		74,057	110	74,167	14,764	88,931
		594,393	1,494	595,886	117,530	713,416

Note 1: The figure represents the Chief Executive salary for the period January 2010 to March 2010 after taking a voluntary pay reduction of 5%. This is equivalent to annual salary £149,995.

Note 2: At the start of the year the previous Executive Director of Personnel & Performance took on additional responsibilities and the title of Executive Director of Corporate Resources. In November 2009 the postholder also assumed the role of Deputy Chief Executive. Part of the figure given relates to the period April to November 2009 and is equivalent to an annual salary of £129,700; part of this figure relates to the remaining part of the year and is equivalent to a salary of £137,574.

Note 3: Interim Executive Director of Adult & Community Services commenced in this post on 1st August 2009 Annual Salary would have been £129,700. Interim arrangements were entered into due to uncertainty regarding Local Government Re-organisation.

Note 4: The Interim Executive Director of Environment Economy & Culture started on 25th October 2009. Figures are not given for this post as the post holder is not directly employed by the Council and does not fall within the given criteria. The post holder's services are obtained through Capita Group plc at a cost of £63,687 for the financial year. This arrangement has been required due to uncertainty of Local Government Re-organisation.

Note 5: County Solicitor started 4th January 2010. Annual Salary would have been £107,573

During the year the following people left the Council

2009/10

Post Holder Information (post title)	Notes	Salary (including fees & Allowances) £	Expense Allowances £	Compensation for loss of office £	Total remuneration excluding pension contributions 2009/10 £	Pension Contributions £	Total Remuneration including pension contributions 2009/10 £
Executive Director of Environment Economy & Culture and Deputy Chief Executive	1	83,844	155		155	16,559	16,714
Executive Director of Adult & Community Services	2	32,425	208		208	6,404	6,612
Executive Director of Finance & IT	3	1,081	0	32,425	32,425	213	32,638
County Solicitor	4	91,889	47		47	18,162	18,209
		209,239	410	32,425	32,835	41,338	74,173

Note 1: Executive Director of Environment Economy & Culture and Deputy Chief Executive left Devon County Council on 4th November 2009. Annual Salary for 2009/10 would have been £141,046.

Note 2: Director Adult & Community Services left Devon County Council on 30th June 2009. Annual Salary would have been £129,700.

Note 3: Director Finance & IT left Devon County Council on 3rd April 2009. Annual Salary would have been £129,700.

Note 4: County Solicitor left Devon County Council on 13th December 2009. Annual Salary would have been £129,700.

19.2 Officers Remuneration

The number of employees whose remuneration exceeded £50,000 during 2009/10, excluding pension contributions, is set out below. This table includes those Officers disclosed in 19.1

2008/09				Emoluments £	2009/10			
Schools Staff	Other Staff	Total	Left in Year		Schools Staff	Other Staff	Total	Left in Year
135	60	195	2	50,000 - 54,999	157	67	224	5
62	36	98		55,000 - 59,999	74	48	122	7
29	5	34		60,000 - 64,999	37	13	50	1
12	1	13	1	65,000 - 69,999	17	5	22	2
8	9	17	1	70,000 - 74,999	9	7	16	1
7	3	10		75,000 - 79,999	10	2	12	2
7		7		80,000 - 84,999	7	2	9	1
4		4		85,000 - 89,999	4	2	6	1
	1	1		90,000 - 94,999	5	1	6	1
2	2	4	1	95,000 - 99,999	1	2	3	1
				100,000 - 104,999		1	1	
	1	1		105,000 - 109,999		3	3	
2	1	3		110,000 - 114,999		1	1	
1		1		115,000 - 119,999	2		2	1
				120,000 - 124,999	1		1	
	4	4		125,000 - 129,999				
	1	1		130,000 - 134,999		2	2	
				135,000 - 139,999				
2	1	3		140,000 - 144,999				
				145,000 - 149,999				
				150,000 - 154,999	1		1	
	1	1		155,000 - 159,999		1	1	
1		1		160,000 - 164,999				
				165,000 - 169,999	1		1	

20 Partnerships and Related Party Transactions

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

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

Members of the Council have direct control over the Council's financial and operating policies. The Council's constitution requires members to declare their interests in related parties in a register of interests. In addition members are asked to declare separately any transactions with the authority. Transactions which require disclosure are in respect of one member who has interests in a company which has received in total £14,803 from the Council during the year. These transactions were entered into in full compliance with the County Council's Financial Regulations and Code of Business Conduct.

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

20.1 Local Precepts

The following precepts were paid during the year:

	£000
Environment Agency	226
Devon Sea Fisheries	354

For the financial year 2009/10, the Council's Director of Finance also acted as the Chief Finance Officer for the Dartmoor National Park Authority and the Devon Sea Fisheries Committee. The Council received payments from these bodies for services provided as follows:

	£000
Dartmoor National Park	114
Devon Sea Fisheries	7

The Council gave grants to Dartmoor National Park Authority of £80,000 principally for the maintenance of footpaths, bridleways and footbridges and received grants of £18,000 mainly for the support of public rights of way.

20.2 Other public sector bodies

Devon Primary Care Trust has provided £85.358 million of income to the County Council and received payments of £6.118 million during the year. The income is primarily for funded nursing care payments that are administered by the County Council on behalf of the Trust and other healthcare partnership agreements.

20.3 Transaction with the Pension Fund

The Council charged the fund £1.625 million for expenses incurred in administering the fund.

20.4 Assisted Organisations

The Council has provided significant contributions to the following bodies:

- Seven District Councils in Devon a total of £0.660 million conditional on long term agreements for the daytime use of pools and dual use sports halls by schools, without charge.
- Citizens Advice Bureaux in Devon have received £0.477 million and the Council for Voluntary Services £0.749 million from the Council conditional on long term agreements for the provision of services.
- The Community Council of Devon, The Devon Council for Racial Equality, Devon Historic Buildings Trust, Southwest Pound, the Senior Council for Devon and Exeter Cathedral have received grants of £0.422 million, £0.106 million, £0.005 million, £0.275 million, £0.152 million and £0.007 million respectively.
- Devon Authorities Waste Reduction and Recycling Joint Committee receive £0.073m as a contribution towards its funding.

20.5 Partnerships

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

Reference - see below		Income £'000	Expenditure £'000	Net Expenditure £'000
Health - Section 75 partnerships				
a	Joint Equipment Store	(1,265)	2,568	1,303
b	Integrated Health and Social Care	(151)	1,130	979
Other partnerships				
c	Against Domestic Violence & Abuse	(403)	1,416	1,013
d	Devon Audit Partnership	(1,345)	1,772	427
e	Devon Partnership Trust	(158)	1,625	1,467
f	Electronic Single Assessment	(607)	663	56
g	Safer Devon Partnership	(283)	742	459
h	South West Devon Waste Partnership	0	263	263
i	Speed Camera Partnership	0	682	682
j	Supporting People	(20,611)	21,189	578
k	Youth Offending Team	(922)	746	(176)

- The Council operates a pooled budget in conjunction with Devon Primary Care Trust and North Devon Health Care Trust under the terms of Section 75 of the Health Act 2006, which covers the provision of a Joint Community Equipment Store. Gross expenditure is £2.568 million (£2.760 million in 2008/09). The Council's net contribution to the pool is £1.303 million (£1.589 million in 2008/09). The Council's share (50%) of the stock and liabilities are held on the Council's balance sheet.
- The integrated health and social care management structure is a partnership arrangement under the terms of section 75 of the Health Act 2006, but is not a pooled budget. Instead, staff are employed either by, Devon CC, Devon PCT or

North Devon Healthcare Trust, with agreed proportions of the cost of these staff being shared with other partners to the arrangement.

- c. The Against Domestic Violence & Abuse Partnership includes the County Council, Devon & Cornwall Police Authority, the National Probation Service, Devon Primary Care Trust, and the Department of Communities and Local Government. Additional funding is allocated from the Safer Devon Partnership (see g below). Expenditure includes grant payment to three women's aid organisations totalling £1,042,000.
- d. Devon Audit Partnership is a Joint Committee formed by Devon County Council, Plymouth Council and Torbay Council. The partnership provides an Internal Audit service to the three Councils.
- e. The Devon Health & Social Care Partnership Trust manages the provision of services for people with learning difficulties and mental health needs on behalf of the County Council and the Primary Care Trusts operating in Devon. The spending shown above represents the County Council's contribution to the joint working arrangement.
- f. The County Council manages the development of the Electronic Single assessment Process (ESAP) on behalf of 13 local authorities in the South West.
- g. The Safer Devon Partnership includes the County Council, Devon and Cornwall Police Authority, Devon Combined Fire & Rescue Authority, and Devon Primary Care Trust. Funding is received from all the partner organisations. Funding is allocated to projects selected by the Safer Devon Partnership to deal with local and county-wide crime and disorder issues.
- h. The South West Devon Waste Partnership is an equal partnership between Devon County Council, Plymouth City Council and Torbay Council which is establishing arrangements to convert waste into energy.
- i. The Speed Camera Partnership has a membership that includes highways authorities in Devon and Cornwall, Devon and Cornwall Police Authority and the Highways Agency. Its purpose is to reduce road casualties by deterring and detecting speeding and traffic light offences. Funding is drawn from Road Safety Grant.
- j. The County Council is the Administering Authority for grant-funding allocated to the Supporting People initiative on behalf of a Joint Commissioning Body comprising senior representatives of the County Council, District Councils, the Primary Care Trust and the Devon & Cornwall Probation service. This funding provides a variety of housing-related support services.
- k. The Youth Offending Team is a statutory partnership funded by contributions from the County Council, Devon & Cornwall Police Authority, Devon Primary Care Trust and the National Probation Service, as well as a combination of government grant. The initiative provides programmes to reduce youth re-offending and youth crime prevention programmes to reduce first time offending.

20.6 Subsidiary and Associated Companies and joint ventures

The PLUS Organisation Ltd. [registered company no. 05171613]

The company is limited by guarantee, with no share capital. The principal activity of the company is the provision of employment and work-related services for people with disabilities. Four local authorities, Devon County Council, Plymouth City Council, Torbay Council and Somerset County Council have equal voting rights. The members of the Company have no right to share in the net assets of the Company should it be dissolved. Profits and losses are retained by the company. The Company's performance during 2009/10 is as follows:

2008/09		2009/10
£000		£000
312	Operating profit/(loss) for the year	(172)
(2,186)	Net assets at the balance sheet date	(3,855)
5,343	Net transactions with the Council during the year	5,375

A loan arrangement with the Company is disclosed in Note 16 and a guarantee for pension liabilities is disclosed at Note 5.

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

NPS South West Ltd [registered company no. 06078903]

The Company was established on 1 April 2007 to provide property management services. The Council has a 20% equity holding in the Company and appoints two members to its Board that comprises six members in total. Pre-tax profits are shared equally between the Council and NPS (SW) Ltd, the Council's share being used to discount the payments it makes to the company for property management services provided to it. The Company's performance during 2009/10 is as follows:

2008/09		2009/10
£000		£000
13	Operating profit for the year	366
371	Net assets at the balance sheet date	560
7,694	Net transactions with the Council during the year	7,748

A guarantee for premises liabilities is disclosed at Note 5.

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

Careers South West Ltd (previously Connexions Cornwall and Devon Ltd) [registered company no. 3029947]

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

2008/09		2009/10
£000		£000
306	Surplus for the year	593
1,008	Net assets at the balance sheet date	1,584
5,223	Net transactions with the Council during the year	5,247

A guarantee for pension liabilities is disclosed at Note 5.

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

South West Forest Ltd [registered company no. 06600851]

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

Exeter Skypark Ltd [registered company no. 02021631]

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

Skypark Development Partnership LLP [registered company no. OC343583]

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

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

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

20.7 Combined interest

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

21 Pensions

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

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

21.1 Local Government Pension Scheme

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

21.2 Transactions relating to Retirement Benefits

The County Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the council tax is based on the cash payable in the year, so the real cost of retirement benefit is reversed out in the statement of movement in the general fund balance.

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

Local Government Pension Scheme	Total Liabilities			
	2008/09	2009/10		
Income and Expenditure Account	£000	£000		
Net Cost of Services:				
Current service cost	28,180	28,367		
Past service cost	750	0		
Curtailments/settlements	(1,420)	1,031		
Net Operating Expenditure:				
Interest cost	77,380	80,212		
Expected return on assets in the scheme	(52,420)	(32,873)		
Contribution to pre 1/4/98 unfunded benefits	32	(3,972)		
Net Charge to the Income and Expenditure Account	52,502	72,765		
Statement of Movement in the General Fund Balance				
reversal of net charges made for retirement benefits in accordance with FRS17 (Note 29)	(52,502)	(72,765)		
Actual amount charged against the General Fund Balance for pensions in the year:				
	Funded Liabilities		Unfunded Liabilities	
	2008/09	2009/10	2008/09	2009/10
Employers contributions payable to scheme	36,080	38,748	0	0
Retirement benefits payable to pensioners (net)	0	0	8,280	8,435
	36,080	38,748	8,280	8,435

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £277.923m (£205.030m 2008/9) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is a loss of £380.843m.

21.3 Assets and Liabilities in relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

Local Government Pension Scheme	Total Liabilities	
	2008/09 £000	2009/10 £000
1st April	(1,138,920)	(1,201,750)
Current Service Cost	(28,180)	(28,367)
Interest Cost	(77,380)	(80,212)
Contributions by scheme participants	(11,790)	(12,611)
Curtailments and settlements	8,620	902
Actuarial gains/(losses)	4,100	(444,630)
Benefits paid	42,550	50,235
Past service costs	(750)	0
Total (Liability)	(1,201,750)	(1,716,433)

	Unfunded Liabilities	
	2008/09 £000	2009/10 £000
Present Value of Unfunded Obligation	(115,920)	(132,671)
	(115,920)	(132,671)

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme	Assets	
	2008/09 £000	2009/10 £000
1st April	765,840	615,530
Expected rate of return	52,420	32,873
Actuarial gains/(losses)	(209,130)	166,707
Employer contributions	36,080	38,748
Contributions by scheme participants	11,790	12,611
Settlements	(7,200)	(1,933)
Benefits paid	(34,270)	(41,800)
Total Assets	615,530	822,736

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2009 for the year to 31 March 2010). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2010.

The actual return on scheme assets in the year was £199.58m (2008/09: £(156.71m)).

21.4 Scheme History

	2005/06* £'000	2006/07 £'000 As Restated	2007/08 £'000 As Restated	2008/09 £'000	2009/10 £'000
Present value of Liabilities					
Funded Liabilities	(1,025,490)	(1,105,870)	(1,026,730)	(1,085,830)	(1,583,762)
Unfunded Liabilities	(114,640)	(117,370)	(112,190)	(115,920)	(132,671)
	<u>(1,140,130)</u>	<u>(1,223,240)</u>	<u>(1,138,920)</u>	<u>(1,201,750)</u>	<u>(1,716,433)</u>
Fair value of assets	716,500	787,180	765,840	615,530	822,736
Surplus / (deficit) in the scheme	<u>(423,630)</u>	<u>(436,060)</u>	<u>(373,080)</u>	<u>(586,220)</u>	<u>(893,697)</u>

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

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £894 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet.

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

The pension fund deficit at 31 March 2010 has increased by £307.477m from 31 March 2009. Despite very good returns on the assets the liabilities have increased by even more due to lower corporate bond yields (which the actuaries are required to use to measure FRS17 liabilities) and higher expected inflation.

The regular contributions to the Fund for the accounting period 31 March 2011 are estimated to be £40.782m.

21.5 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The County Council Fund liabilities have been assessed by Barnett Waddingham LLP, an independent partnership of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme, undertaken by Hewitt Associates Ltd as at 1 April 2007.

Basis for Estimating Assets and Liabilities

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

	Funded		Unfunded	
	2008/09	2009/10	2008/09	2009/10
Long-term expected rate of return on assets in the scheme:				
Equity Investments	7.0%	7.5%		
Corporate Bonds	5.8%	5.5%		
Government Bonds	4.0%	4.5%		
Property	6.0%	6.5%		
Other	1.6%	3.0%		
Absolute Returns Fund	0.0%	5.0%		
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
Men	23.1	23.1	23.1	23.1
Women	25.0	25.0	25.0	25.0
Longevity at 65 for future pensioners:				
Men	25.4	25.4		
Women	27.3	27.3		
Rate of Inflation	3.4%	3.9%	3.4%	
Rate of increase in salaries	4.9%	5.4%		
Rate of increase in pensions	3.4%	3.9%	3.4%	
Rate of discounting scheme liabilities	6.7%	5.5%	6.7%	
Take-up of option to convert annual pension into retirement lump sum	50 / 75*	50 / 75*		

* Pre 2008 service / post 2008 service.

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

Local Government Pension Scheme	Assets	
	31-Mar-2009	31-Mar-2010
	%	%
Equity Investments	53.7	69.0
Government Bonds	21.6	17.0
Other Assets	16.6	7.0
Property	7.0	6.0
Corporate Bonds	1.1	0.0
Absolute Returns Fund	0.0	1.0
Net Asset / (Liability)	100.0	100.0

21.6 History of experience Gains and Losses

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

	2005/06*		2006/07 #		2007/08 As Restated		2008/09		2009/10	
	£m	%	£m	%	£m	%	£m	%	£m	%
Difference between expected and actual return on assets	100.87	14.10	9.41	1.20	(88.50)	(11.56)	(209.13)	(33.98)	166.71	20.26
Experience gains (losses) on liabilities	(0.92)	(0.10)	0.04	0.00	10.55	1.03	(8.55)	(0.79)	0.00	0.00

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

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

21.7 Teachers Pension Scheme

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

In 2009/10, the County Council paid £28,152 million (£27.630 million in 2008/09) to Capita Hartshead on behalf of the Teachers Pensions Agency, in respect of Teacher's pension costs. For 2009/10 this represented 14.1% (14.1% in 2007/08) of teachers' pensionable pay.

The Scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pension liability described in this note. During 2009/10 enhanced lump sum payments of £177,456 and additional annual enhanced payments of £655,345 were made.

22 Post Balance Sheet Events

St James Secondary School achieved Trust status on 19 April 2010. Control of tangible fixed assets passed to the governing body of the school on that date. A reduction of tangible fixed assets with a gross book value of £9.709m at the 31 March 2010 will be made in the 2010/11 financial statements.

The construction of the new Dartington Church of England Primary School was completed in February 2010. The freehold of the land and buildings, except for the playing fields will transfer to the Diocese during 2010. The transfer is expected to take place in July 2010. The school is included within these accounts with a net book value of £8.015m.

Contained within the Long Term Borrowing figures in the Balance Sheet is the sum of £33,936,862 that relates to the proportion of Devon County Council's borrowing that Plymouth City Council is responsible for. (There is a corresponding entry on Long term Debtors). As of 2 June 2010 we were formally told by Plymouth that they wish to take direct responsibility for this borrowing. They have therefore put in a request to the Debt Management Office to have their proportion of the loans transferred to them as of 25 June 2010. Due to repayments in April and May this figure equates to £33,665,367. The effect of this transfer will be to reduce Long Term Borrowing and Long Term Debtors.

23 Provisions

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

2008/09		Increase/ (Decrease)	Utilised	2009/10
£'000		£'000	£'000	£'000
529	Insurance Fund prior to 01/04/98	23		552
11,142	Insurance Fund from 01/04/98	3,880	(3,950)	11,072
173	Out of date cheques	101	(88)	186
90	ACC Pensions			90
8,846	Job Evaluation Single Status	1,257	(5,645)	4,458
35	Economy	(29)	(6)	0
145	Social Care	605	(14)	736
658	Property Related	(640)	(2)	16
302	Waste Management	935	(39)	1,198
717	Trading Accounts	(267)	(338)	112
102	Youth Offending Training Service	(102)		0
0	Green Travel Salary Sacrifice	150		150
22,739	Total	5,913	(10,082)	18,570

23.1 Insurance Provision

The Council's Insurance provision enables it to carry some of its insurable risks in-house, achieving significant savings in external premiums. It covers Public Liability, Professional Indemnity, Employers Liability and vehicles, but excludes theft and accidental damage. The insurance provision established for the period prior to 1 April 1998 covers claims arising from events prior to Local Government re-organisation on that date. A separate provision has been created for the period after 1 April 1998. Both provisions are currently sufficient to meet registered claims as at 31 March 2010. These claims plus any new claims will be paid in future years. Payments from the provision are dependent on claim settlement. Expectation is that in normal circumstances payments from the provision for current claims would be made within twelve months however claims can be settled over much longer periods.

23.2 Out of Date Cheques

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

23.3 Association of County Council's Pensions

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

23.4 Single Status Job Evaluation

Some appeals relating to single status job evaluation have yet to be settled. An estimate of the impact has been made and the provision updated. It is anticipated that payments resulting from appeals will be made during the 2010/11 financial year.

23.5 Social Care

Additional provision is required in connection with restructuring programmes.

23.6 Property Related

A number of provisions have been written back in accordance with FRS 12 and the respective commitments earmarked in reserves.

23.7 Waste Management

Provisions are required in respect of operating and other ongoing contractual matters.

23.8 Trading Accounts

Some provision remains following the closure of Devon Design and Print.

23.9 Green Travel Salary Sacrifice

The Authority has been advised that tax liabilities may arise from these arrangements which affect participating members of staff.

24 Reserves

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

Reserve	Balance 1 April 2009 £000	Net Movement in Year £000	Balance 31 March 2010 £000	Purpose of Reserve	Further Details of Movements
Usable Capital Receipts Reserve	55,397	(4,921)	50,476	Proceeds of fixed asset sales available to meet future capital investment	(a) below
Revaluation Reserve	151,803	(39,379)	112,424	Store of gains on revaluation of fixed assets not yet realised through sales	(b) below
Capital Adjustment Account	412,179	(35,019)	377,160	Store of capital resources set aside to meet past expenditure	(c) below
Collection Fund Adjustment Account	2,809	(428)	2,381	Balancing account to allow for differences in statutory requirements and proper accounting	(d) below
Financial Instrument Adjustment Account	(21,381)	1,302	(20,079)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	(e) below
Available for Sale Financial Instrument Reserve	61	0	61	Store of gains on revaluation of investments not yet realised through sales	(f) below
Equal Pay Back Pay Account	(7,084)	5,220	(1,864)	Account to allow back pay provisions to be financed in the year in which payments are made	(g) below
Pensions Reserve	(557,827)	(303,505)	(861,332)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 21
General Fund	14,239	53	14,292	Resources available to meet future running costs for services	Statement of Movement on the General Fund, page 33
School Balances	12,559	(471)	12,088	Reserve available to meet future schools running costs	Statement of Movement on the General Fund, page 33
Earmarked Reserves	50,845	(9,239)	41,606		Note 24.1
Total	113,600	(386,387)	(272,787)		

Further Details**Usable Capital Receipts Reserve**

	£000
(a) Opening Balance	55,397
Capital receipts received during the year	2,292
Capital receipts applied to finance capital expenditure	<u>(7,213)</u>
Closing Balance	<u>50,476</u>

Revaluation Reserve

	£000
(b) Opening Balance	151,803
Disposal of fixed assets	(700)
Depreciation Adjustments	(1,702)
Revaluations	<u>(36,977)</u>
Closing Balance	<u>112,424</u>

Capital Adjustment Account

	£000
(c) Opening Balance	412,179
Adjustments - Opening Balances	(6,600)
Depreciation, impairment and amortisation	(73,803)
Amortisation of Government Grants	14,212
Depreciation Adjustment transfer Revaluation Reserves	1,702
Revenue expenditure funded from capital under statute	(6,711)
Contribution to the repayment of debt	26,766
Capital expenditure met from revenue sources	3,163
Capital expenditure met from capital receipts	7,213
Fixed Asset Disposals	<u>(961)</u>
Closing Balance	<u>377,160</u>

Collection Fund Adjustment Account

(d) Opening Balance	2,809
Movement during the year	<u>(428)</u>
Closing Balance	<u>2,381</u>

Financial Instrument Adjustment Account

	£000
(e) Opening Balance	(21,381)
Loan premiums taken into account	702
Impact of soft loan arrangements undertaken in 2009/10	0
Write down of existing adjustments over the life of the financial instruments	<u>600</u>
Closing Balance	<u>(20,079)</u>

Available for Sale Adjustment Account

	£000
(f) Opening Balance	61
Movement during the year	<u>0</u>
Closing Balance	<u>61</u>

Equal Pay Back Pay Account

	£000
(g) Opening Balance	(7,084)
Deferred financing of the provision to meet cost of equal pay awards falling in the 2009/10 financial year	<u>5,220</u>
Closing Balance	<u>(1,864)</u>

24.1 Earmarked Reserves

Balance 2008/09 £000	Reference		Contribs to / (from) Reserves £000	Expenditure £000	Balance 2009/10 £000
Contingency Reserves					
0	1	Roads Emergency	651		651
479	2	Reinstatement of Existing Landfill Sites	(215)	1	265
3,691	3	Redundancy	1,000	(1,112)	3,579
100	4	Prior Year Tax	(100)		0
78	5	Inspection / Implementation	(78)		0
439	6	New Road & Street Works Act Fund		(20)	419
200	7	Blighted Properties			200
2,036	8	Waste Management Fund	(394)	(305)	1,337
4,000	9	Insurance	(2,000)	(142)	1,858
Reserves for Planned Developments					
128	10	Local Initiatives	341	(35)	434
511	11	European Matched Funding	350	258	1,119
136	12	Systems Development Fund		(22)	114
216	13	Procurement Initiative	(9)	(56)	151
102	14	Emergency	(77)	(25)	0
60	15	Energy & Water Efficiency		4	64
416	16	Customer Access Strategy	37	(264)	189
0	17	Lets Get Devon Moving	500	(257)	243
439	18	Financing Fund	1,035	(1,474)	0
2,408	19	Modernisation Fund	2,550	(1,584)	3,374
1,229	20	Affordable Housing		(157)	1,072
2,150	21	Development Fund	(1,640)		510
819	22	LPSA1 Reward	(622)	(197)	0
3,873	23	LPSA2 Reward	2,955	(1,106)	5,722
1,499	24	PFI Sinking Fund		(933)	566
3,418	25	Local Authority Business Grant	343	(876)	2,885
8,964	26	Extra Care Housing	(2,435)	(100)	6,429
6,500	27	Service Development	(1,922)	(411)	4,167
200	28	Energy Conservation	(200)		0
847	29	Devon Cleaning & Catering		(561)	286
100	30	Integrated Youth Support		(19)	81
1,292	31	Invest to Save	(120)	(286)	886
1,129	32	On Street Parking	(168)	(67)	894
Trading Accounts Reserves					
2	33	Trading Accounts	(2)		0
434	34	Building Maintenance	411	(18)	827
Budget Management Reserves					
2,950	35	Directorate Budget Carry Forwards	3,284	(2,950)	3,284
12,559	36	Schools Carry Forwards	12,088	(12,559)	12,088
63,404	Total		15,563	(25,273)	53,694

See next page for reference details.

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

25 Schemes under the Transport Act 2000

Devon County Council did not operate any schemes under this act in 2009/10.

26 Stock and Work In Progress

2008/09		2009/10
£'000		£'000
311	Children & Young Peoples' Service	305
748	Adult & Community Services	939
517	Environment, Economy and Culture	471
853	Corporate Resources	765
54	Office of the Chief Executive	52
2,483	Total Stocks and Work in Progress	2,532

27 The General Fund

27.1 Statement of Movement on the General Fund Balance

Restated 2008/09	Notes	2009/10
£000		£000
(107,707) Depreciation and impairment of fixed assets		(73,803)
5,816 Government Grants Deferred amortisation matching depreciation and impairments	11	14,212
(6,811) Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute (ie revenue expenditure funded from capital under statute)	4.4	(6,711)
(36,614) Net gain or loss on sale of fixed assets	4.2	631
314 Differences between amounts debited / credited to the income and expenditure account and amounts payable / receivable to be recognised under statutory provisions relating to soft loans, stepped interest rate borrowing and premiums on the early repayment of debt	26e	1,302
(52,502) Amount by which pension costs calculated in accordance with the SORP (ie in accordance with FRS 17) are different from the contributions due under the pension scheme regulations	21	(72,765)
(1,100) Amount by which Council Tax Income included within the Income and Expenditure Account is different from the amount taken to the General Fund in accordance with regulation		(428)
(198,604) Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		(137,562)
34,414 Provision for repayment of debt	4	29,146
(4,039) Contribution to the repayment of debt from third parties		(2,380)
1,573 Capital expenditure charged to the General Fund Balance	4.5	3,163
(5,105) Contribution to Exeter PFI deferred assets	16	0
44,360 Employer's contribution payable to the Devon Pension Fund and retirements benefits payable to pensioners	21	47,183
71,203 Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		77,112
(4,774) Net transfer to (or from) earmarked reserves	24	(9,239)
(7,084) Transfer to (or from) the Equal Pay Back Pay Adjustment Account		5,220
(11,858) Transfers to (or from) the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		(4,019)
(139,259) Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (shown on the face of the SMGFB)		(64,469)

28 Trading Accounts

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

2008/09		2009/10	
£'000		£'000	£'000
(3,208)	Supply Zone is the procurement trading	Turnover - External	(2,481)
(2,576)	unit for the Authority	Turnover - Internal	(2,645)
5,955		Expenditure	5,473
171		(Surplus) / Deficit	347
(122)	Devon Design and Print provides the	Turnover - External	(59)
(994)	services of a printshop for the Authority	Turnover - Internal	(348)
1,720		Expenditure	537
604		(Surplus) / Deficit	130
775	Net (Surplus) / Deficit on trading accounts		477

During 2009/10, Supply Zone continued to operate independently of the Corporate Procurement Unit. The increased deficit reflects the lower margins achievable by the establishment facing reduced business activity.

Devon Design and Print ceased trading during the year. No exceptional costs are attributable to the closure is beyond those already provided for in 2008/09 in respect of the restructure.

Glossary of Terms

ACCOUNTING POLICIES

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

ACCRUALS

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

ACTUARY

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

AMORTISATION

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

APPROPRIATION

Amounts transferred between the Income and Expenditure Account and reserves.

ASSOCIATE

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

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

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

BALANCE SHEET

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

BUDGET

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

CAPITAL CHARGE

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

CAPITAL EXPENDITURE

In most circumstances, "capital expenditure" relates to the acquisition of a fixed asset (land, buildings, vehicles, plant and machinery), or expenditure which adds to, and not merely maintains, the value of a fixed asset. Other items of expenditure are also classified as capital expenditure in local authority accounts, such as expenditure on fixed assets owned by other bodies, or grants awarded to other bodies towards the cost of capital works on their own assets. In exceptional circumstances, the Secretary of State may also issue directions to treat items as if they were capital expenditure, even though they do not fall within the usual definition.

CAPITAL ADJUSTMENT ACCOUNT

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

CAPITAL RECEIPTS

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

CASHFLOW STATEMENT

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

CIPFA

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

CONTINGENT LIABILITIES

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

COUNTY (GENERAL) FUND

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

CREDITORS

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

CURRENT ASSETS/LIABILITIES

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

DEBTORS

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

DEPRECIATION

Depreciation is the measure of the cost or re-valued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time, or obsolescence – which may result from either changes in technology or demand for the goods and services produced by the asset.

DIRECT REVENUE FINANCING

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

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

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

FINANCIAL REPORTING STANDARDS (FRS)

These standards are set nationally by the Accounting Standards Board.

FIXED ASSETS

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

GOVERNMENT GRANTS

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

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

- CLG = (Department of) Communities & Local Government
- DCMS = Department for Culture, Media & Sport
- DCFS = Department for Children, Families and Schools
- DEFRA = Department of the Environment & Rural Affairs
- DfT = Department for Transport
- DH = Department of Health
- DIUS = Department for Innovation, Universities and Skills
- DTI = Department of Trade & Industry
- DWP = Department of Work & Pensions
- EN = English Nature
- EU = European Union
- GOSW = Government Office South West
- HEFCE = Higher Education Funding Council for England
- HLF = Heritage Lottery Fund
- HO = Home Office
- LSC = Learning Skills Council
- PSA = Public Service Agreement

- RDA = Regional Development Agency
- SWRDA = South West Regional Development Agency
- TDA = Training and Development Agency
- YJB = Youth Justice Board

IMPAIRMENT

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

INCOME AND EXPENDITURE ACCOUNT

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

INFRASTRUCTURE ASSETS

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

INTANGIBLE ASSETS

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

JOINT VENTURES

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

LANDFILL ALLOWANCES TRADING SCHEME (LATS)

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

LENDERS' OPTION/BORROWERS' OPTION (LOBO)

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

LOANS OUTSTANDING

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

MARKET VALUE

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

MINIMUM REVENUE PROVISION

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

NET BOOK VALUE

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

OUTTURN

The final actual expenditure and income in a given period

PRECEPTS/LEVIES

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

PRIVATE FINANCE INITIATIVE (PFI)

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

REVALUATION RESERVE

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

PRIOR PERIOD ADJUSTMENTS

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

PROVISIONS

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

PUBLIC WORKS LOAN BOARD

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

RELATED PARTY

Related parties of a local authority might include:

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

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

- Details of significant government grants and the awarding bodies;
- Transactions with subsidiary and associated companies;

- Transactions with the Pension Fund.
- The aim of the disclosure is to identify those bodies who may exercise an element of influence or control over the financial and operating policies of an Authority.

RELATED PARTY TRANSACTIONS

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

Examples where actions between related parties occur:-

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

REPLACEMENT COST

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

RESERVES

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

REVENUE EXPENDITURE

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

SECTION 151 OFFICER

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

SINKING FUND

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

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE (SMGFB)

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

STATEMENT OF RECOGNISED GAINS AND LOSSES (STRGL)

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

STATEMENT OF RECOMMENDED PRACTICE (SORP)

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

SUBSIDIARY

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

TEMPORARY BORROWING

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

Pension Fund Statement of Accounts 2009/10 to follow.