

Statement of Accounts and
Annual Governance Statement
2013/2014

Devon County Council Statement of Accounts 2013/14

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Explanatory Foreword

Introduction

Welcome to the 2013/14 financial statements for Devon County Council. The financial statements have been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting (the Code) which is based on International Financial Reporting Standards (IFRS).

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

The Annual Governance Statement is included within this publication but does not form part of Devon County Council's accounts or those of the Pension Fund.

Accounting policies and comparative information

The accounting policies on which the figures in the financial statements are based follow the financial statements (note 1 page 25). There are no significant changes in approach this year other than changes required by the Code in relation to IAS 19 Employee Benefits, termination benefits and post-employment benefits as outlined within the prior period comparative information below.

There has been ongoing discussion within CIPFA/ LASAAC Local Authority Accounting Board over the appropriate treatment of publicly funded schools within the Local Authority group boundary. Our current accounting treatment is not to recognise the assets of Voluntary Aided schools on the balance sheet as the council does not control to whom the services are provided as the Governors are the admissions authority. Voluntary Controlled schools are recognised as the council exercises sufficient control over admissions and other key issues.

Foundation or trust schools are removed from our balance sheet on the date that their legal status changes and the property transfers to the trust board. If a school's status is to change on 1st April of the next financial year we do not seek to impair or derecognise the asset as at the 31st March. As a statutory transfer, we derecognise the asset in the next financial year.

It is anticipated that the 2014/15 Code will include clarification of the accounting treatment of schools and the authority will change its approach at that time if necessary.

The prior period comparative information has been restated to take account of an Accounting Policy change as follows:

Post Employment Benefits - In the 2013/14 Statement of Accounts, the Council applied new accounting treatments to the presentation and disclosure of post employment benefits. The overall measurement of the Council's net pension liability was not changed, but there was some reclassification of the components into which year-on-year changes in the net liability were analysed. The only substantial change to the Council's financial performance came from a revision of the measurement basis for the return on pension scheme investments, which were calculated by applying the discount rate to pensions assets rather than as an expected return of the assets based on market expectations. If this treatment had been applied in 2012/13, the return on pension scheme investments would have been £7.8 millions less, increasing the Deficit on the Provision of Services to £183.334 millions. This would have been compensated for by a corresponding decrease in actuarial gains and losses in Other Comprehensive Income and Expenditure, leaving the outturn on the Comprehensive Income and Expenditure Statement unchanged.

The 2012/13 comparator has been restated on both the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement along with the relevant notes.

Termination Benefits - For the 2013/14 Statement of Accounts, the Council applied a new accounting policy for the recognition of termination benefits. Benefits were recognised when the Council could no longer withdraw an offer to pay such benefits. Previously a provision was made when the Council became demonstrably committed to terminate the employment of an employee (or groups of employees) or to provide benefits as part of an offer to encourage voluntary redundancy. If the new policy had been applied in the 2012/13 Statement of Accounts, £161,000 of termination benefits charged against the Surplus/Deficit on the Provision of Services would not have been recognised but would have been carried over to 2013/14.

As the impact of this change is trivial the 2012/13 comparator has not been restated.

Further detail is provided in note 2 on page 39.

Summary of Financial statements

The financial statements and their purpose are summarised as follows:

Movement in Reserves Statement (page 21)

This statement shows the movement in year for the reserves held by the Council analysed into useable reserves (i.e. those that can be applied to either fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to and from earmarked reserves undertaken by the Council.

The Total Authority Reserves carried forward at 31st March 2014 has decreased by £108 millions with Usable Reserves decreasing by £1 million and Unusable Reserves decreasing by £107 millions. The main reason for the movement in Unusable Reserves is the transfer of school assets, valued at £131 millions, to Academy and Co-operative Schools at no charge. Note 20, page 66, provides detailed information on our Unusable Reserves and their movement during the year. Page 18 of this foreword and note 37 on page 91 provides more information on the Pension Reserve that has increased by £24 millions.

Comprehensive Income and Expenditure Statement (page 22)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations: this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Total Comprehensive Expenditure and Income was a deficit of £87.848 millions in 2013/14 compared with a deficit of £200.501 millions in 2012/13. The decrease is a combination of many different factors. There was significantly higher spending on the social care of older people and those with learning disabilities, and on children's and education services. These increases were partly offset, however, by lower spending on highways maintenance. An increase in waste disposal costs includes the effect of a change in accounting policy affecting landfill sites while non distributed costs includes a significant increase in the actuarial charge for past service costs in relation to pensions. The reduction of £65 millions in Other Operating Expenditure is linked to the loss on disposal of school assets transferred at no charge as outlined above. Note 12 on page 46

provides detailed information on the movement in Taxation and non-specific grant income.

Balance Sheet (page 23)

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first category of reserves is useable reserves, those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations';

The authority continues to have a negative Balance Sheet as at 31st March 2014 which means that the authority's liabilities are £205 millions greater than its assets (£97 millions at 31st March 2013). Although it may appear that this is a concern it is not as the Pension Liability of £792 millions does not represent an immediate call on the authority's reserves and is a snap-shot valuation in time based on assumptions. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term. More information on Pensions is provided within this Foreword on page 18 and within Note 37 on page 91.

Other items of interest are, as explained above, the transfer of school assets valued at £131 millions at no charge. As mentioned in the Accounting Policies section of this foreword it is likely that some of the schools assets will be brought back on the authority's balance sheet in 2014/15 which should cause the value of Long Term Assets to increase. The authority's cash holdings in the form of long term investments, short term investments and cash and cash equivalents have reduced from £125 millions at 31st March 2013 to £99 millions at 31st March 2014; the underlying cause of this is the use of internal borrowing as detailed within the capital programme information below. Short term borrowing has reduced from £31 millions to £282,000 due to the repayment of a £20 million loan and loan interest due to the PWLB being paid prior to the end of the financial year.

Cash Flow Statement (page 24)

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the Council's future service delivery.

Economic context

The Government's Comprehensive Spending Review announced in the Autumn of 2010 was made in response to the Country's economic crises and signalled the start of an era of austerity in public sector funding. It indicated that Local Authorities could expect a 28% reduction in funding over a four year period from 2011/12.

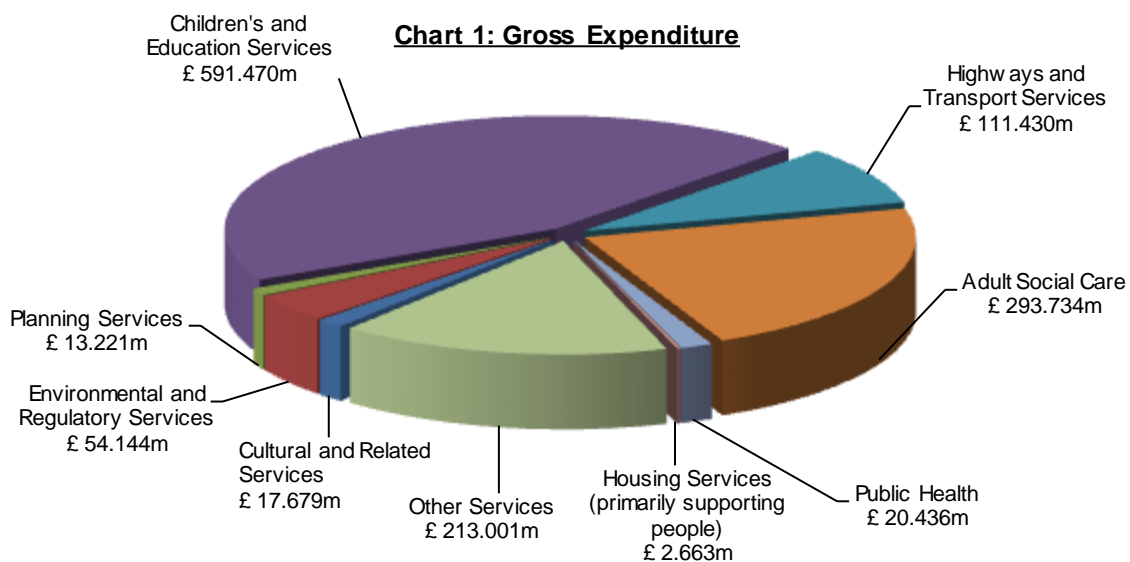
For 2013/14 the Secretary of State quoted a reduction in the authority's 'spending power' of 2.1% against an average of 1.7% nationally. The way in which 'spending power' is calculated does not give a true indication of the way Government Grant has diminished because it includes some redirected NHS money and council tax revenues. As a result it understates the real level of grant reduction. A fairer underlying measure is

how the formula grant component has reduced. On a like for like basis this has reduced by 3.6%. In order to accommodate this funding cut savings of £21.5 millions have been made.

The Chancellor's Autumn Statement in December 2013 indicated that austerity was set to continue until at least the end of the decade. Although the economic recovery is gaining momentum this is unlikely to affect the downward trajectory of local government funding. Whilst not affecting the authority's assessment of 'going concern' it is, and will continue to have, a significant impact on services.

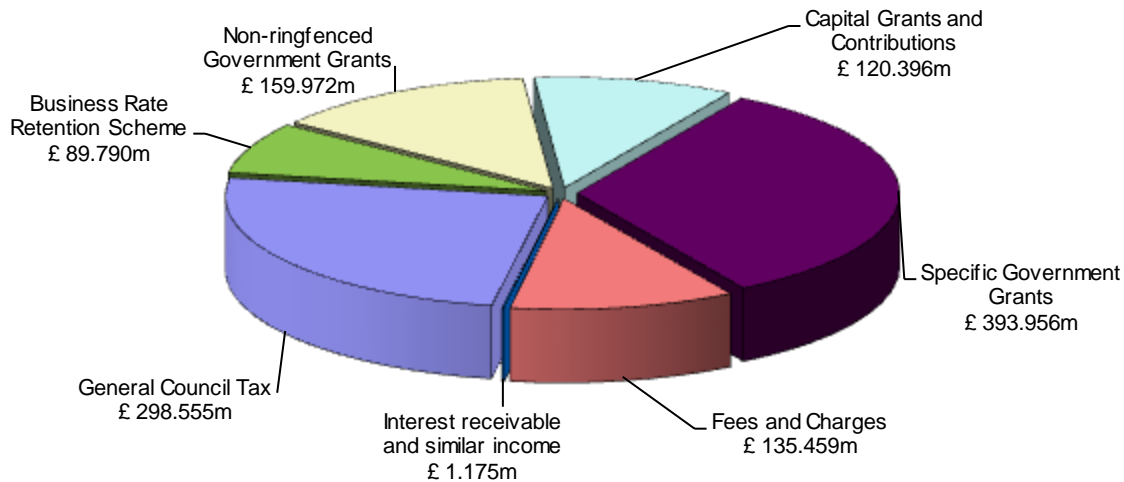
Financial performance

The Comprehensive Income and Expenditure Statement is produced in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Service Reporting Code of Practice (SERCOP) and the Code. 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 £1,318 millions 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, across the page, highlights sources of revenue income for the authority during the year. Total gross income of £1,199 millions was received during the year. Chart 2 shows how this is derived.

Chart 2: Gross Income



Whilst the published Comprehensive Income and Expenditure Statement is based on the SERCOP analysis, the Council manages the revenue budget according to Service management responsibilities, as shown below.

Revenue Spending

Revenue expenditure provides the day-to-day services of the 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, relative to budgets approved by Members is detailed below. The budget is set and monitored on a management accounting basis and does not include the statutory accounting entries that are included elsewhere within these accounts.

Regular budget monitoring reports have throughout 2013/14 identified budget pressures and risks. The most significant of these related to children's services and in late Autumn it appeared that it would be difficult to balance the budget. At the year end it is pleasing that the final position was a small underspending of £14,000 after transfers to reserves. When the 2013/14 budget was set it was anticipated there would be a need to transfer just over £6.5 millions from the Budget Management Reserve to support revenue spending. This has not been necessary and instead we have been able to transfer just over £2millions to the Budget Management Reserve.

People Services

The services that comprise People show an overspend of £1.993 millions at the end of the financial year.

Members will be aware that Children's Social Work and Child Protection suffered great pressure in the year, and despite levelling off and reducing in the final quarter, this service finished the year overspent by £5.0 millions. The pressure was caused by higher costs for children placed in care and higher numbers of assessments and referrals as well as more children needing to be placed in care than had been budgeted. In addition the costs that have arisen in response to the Ofsted inspection of children's safeguarding produced an overspend of £1.1 millions, and the Integrated Children's Service reported an overspend of £796,000.

Adult Social Care also faced great underlying pressures on spending, although these were mitigated by the application of additional funding for social care under a section 256 agreement with the health service. Nonetheless the service reports an overspend of £548,000 for the year.

Spending in these and other areas was curtailed wherever possible and strict budget discipline was enforced. As a result, Social Care Commissioning underspent its budget by £1.5 million, and Education and Learning by £301,000. Furthermore it was decided that funding set aside for the development over several years of dementia centres of excellence would not be carried forward into next year, but instead this future need would be met from the capital programme. This gave rise to an underspend against the revenue budget of £3.7 millions.

Carry forward proposals for grants and contributions received total £31.4 million. This figure includes grants for training children's social workers (£121,000); a bequest to be spent to benefit adults with a learning disability in Tiverton (£221,000); education funds for specific uses (£759,000); the Troubled Families grant £2.2 million in relation to income received in 2013/14 to cover 2014/15; and Dedicated Schools Grant of £28.2 million. Dedicated Schools Grant funds schools and education and is ring fenced to those purposes. If underspent it must be carried forward. Of this amount £18.3 million is made up of sums carried forward by schools themselves, The remaining £9.9 million is made up of sums carried forward for Early Years and High Needs provision, and for central provision including funding for Local Learning Communities, and an allowance for the requirement for new schools which will need to be covered over several years.

Apart from carry forwards required of grants and contributions received, other carry forwards requested total only £69,000. This is because there is a proposal to carry forward overspending of £1.1 million associated with investment in the in-house fostering service under a business case set out in Cabinet Report SCP/13/1. This offsets the more normal carry forwards, the largest of which, at £585,000 relates to the need to continue with work under the Ofsted Improvement Plan. Other carry forwards requested are due to slippage of integration work in Exeter under the section 256 agreement with health (£150,000); of investment with providers to improve facilities for residential dementia care (£172,000); and of work to prevent exclusions and keep vulnerable children in mainstream schools (£250,000).

Place Services

The outturn for Place Services shows an overall net underspend of £4.145 millions after taking into account use of reserves and carry forward requests. This variation from budget mainly resulted from an underspend on Highways Maintenance, a significant increase in planning inspection fees during the final few months of the year and an underspend resulting from lower than anticipated waste tonnages.

The gross cost of storm works undertaken during the year, including 2012/13 legacy works, totalled £3.3 millions; £740,000 of this work has been funded by Central Government under the Bellwin scheme. In order to qualify for Bellwin assistance the authority has to fund works up to a specified threshold set by Central Government. For 2013/14 this threshold was reduced from £2 millions to £1 million. The storm events of 2013/14, although not as severe as 2012/13, have had a significant impact, diverting both staff time and funding away from routine activities, which has resulted in an under spend of £2.6 millions.

Underspending within Planning, Transportation and Environment resulted from increased planning inspection fees, management action to implement savings for 2014/15 and careful management of project budgets.

Unbudgeted costs for the maintenance and temporary relocation of Dartington School of £826,000 are shown within the Place Service. This cost, although not insignificant, is not as large as was feared it could be; the cost of the original capital works will not now need to be charged to the revenue budget there will however, be further revenue expenditure during 2014/15 in relation to temporary classrooms and other items. The authority is seeking to recover all costs through legal action, but until they are confirmed cannot account for them within the outturn.

The Waste Service has seen lower than budgeted growth in recycling tonnages which has resulted in an underspend of £936,000. This is offset by increased tonnages to landfill that have caused an overspend of £232,000. Public transport service implemented savings strategies for 2013/4 and in preparation for 2014/15 creating efficiency savings along with some minor delayed spend. The shared service arrangement for Trading Standards has implemented revised working arrangements earlier than planned and has secured a saving of £108,000.

In addition to the carry forward of unspent grants and contributions of £7.5m, carry forward requests totalling £1.268 millions have been approved. These requests include £337,000 for Locality and Town and Parish funds, £195,000 for the Community Impact budget as per the Cabinet report SC/14/11, £425,000 on match funding for various projects such as Broadband and £210,000 slippage on flood and renewable schemes many of which are for the benefit of individual communities.

Corporate Services

The outturn for corporate services represents a net underspend of £1.083 millions after taking into account carry forward requests.

Business Strategy and Support final outturn represents a net underspend of £380,000 including staff vacancies, savings in corporate maintenance, increased income and contract savings. Carry forward requests totalling £497,000 have been approved in relation to facilities commitments, delayed corporate infrastructure projects and costs in respect of Public Services Network. Carry forwards are also sought of grant funding in respect of 2014/15 for Construction Framework South West and Technical Support Desk.

County Solicitors show a net underspend of £57,000 with vacancy savings in Communications and Media, and increased income for Legal Services, offsetting increased costs for the Coroners Service in respect of pathology, body removal expenses and other coroners expenses.

For Human Resources the net underspend is £308,000 as a result of staff vacancies and savings in venue hire, external trainers and reduced training delivery for Workforce Development. This also includes unspent funds in respect of Training Strategy Initiative Partnership. A carry forward request is sought in respect of Skills for Care grants.

Treasurer's Service final outturn represents an underspend of £338,000, the majority of which relates to staff vacancies and additional income for finance services.

Public Health are showing a net underspend of £1.125 millions in respect of development funds, as a result of delayed projects, and reduced take-up of health checks. The Public Health service is funded by a ring-fenced grant and this underspend must therefore be carried forward for future service delivery. An earmarked reserve has been created for this purpose.

Other Items

Both Capital Financing and Interest Receivable have come in very close to budget with an under spend of £256,000 and additional income of £108,000 respectively.

The 2013/14 budget contained one-off budgets in relation to Bellwin Scheme related emergencies, infrastructure development and efficiency support. A reduction in the Bellwin Scheme threshold has enabled the Place service to cover the cost of works up to the threshold from their service budget resulting in this emergency budget being under spent. It was recommended that the remaining infrastructure development budget of £1.957 millions be carried forward to support identified projects in 2014/15 and that £89,000 of the efficiency support budget is carried forward to enable the continuation of Chapter 8 training with Parish Councils.

During the year the Government announced that the small business and empty property business rate relief schemes would be fully funded and not fall as a cost to Local Government. The authority has received £999,000 in relation to this funding and this, together with £451,000 business rates pooling gain has been set-aside as an earmarked reserve to help mitigate future business rate risk associated with backdated appeals and other losses.

General Balances

The working balance at 31st March 2013 was £14.538 millions. The review of the financial risk assessment prepared when the 2014/15 Budget was considered indicates that the Council should hold a working balance of about £14 millions. The outturn has enabled £14,000 to be added to the working balance.

Earmarked Reserves

The budget for 2013/14 incorporated a transfer from the Budget Management Reserve of £6.5 millions, due to the factors outlined above it has not been necessary to draw upon this reserve and in fact the outturn has allowed for a transfer of £2 millions to the reserve.

At the beginning of the financial year, earmarked reserves (excluding schools and non-schools carry forwards) stood at £53.9 millions. During the year earmarked reserves have increased by a net £2.6 millions to £56.5 millions. Of this increase £1.1 millions relates to the creation of the ring-fenced Public Health reserve and £1.5 millions to the business rates risk reserve outlined above.

When setting the 2014/15 Budget the County Council approved the rationalisation and refocusing of reserves to provide a sustainable strategy that will form a basis for managing financial resilience in the longer term. The first part of this strategy is the rationalisation of reserves and seven reserves have therefore been closed at the end of the financial year and their balances transferred to the Emergency and Service Transformation reserves.

Details of earmarked reserves including school and non-school carry forwards are shown in Note 8 on page 45.

In aggregate the level of reserves and balances is regarded as sufficient to meet current needs and to provide some assurance that unforeseen risks and emergencies can be managed.

Capital Spending

The original 2013/14 Capital Programme was approved at £141.465 million. The programme was increased in year by £30.818 million as a result of the previous year underspends and Members have been asked to approve a further £15.856 million for other adjustments.

The final capital programme for 2013/14 was £188.139 million and actual capital expenditure was £153.393 million. The table below summarises 2013/14 expenditure, budget and variation at year end.

	Budget £ 000's	Actual £ 000's	Variation £ 000's
Place	163,745	140,230	23,515
People	16,474	10,155	6,319
Corporate	7,920	3,008	4,912
Total	188,139	153,393	34,746

Place Services

Planning, Transportation and Environment

The preparation of schemes for future years has been the primary focus of capital investment in 2013/14. Planning, Transportation and Environment was successful in securing significant additional Government funding for Local Pinch Point Fund and Granite and Gears schemes during the year with capital funding being invested in the design of, and land acquisition for, these schemes, the majority of which will be constructed in 2014/15. Considerable investment has also been made in 2013/14 on the design and preparation of major schemes planned for implementation in the period 2015/16 to 2020/21 through the Local Growth Fund in conjunction with the LEP and Local Transport Board.

2013/14 was the third year of the 2011 – 2026 joint Local Transport Plan with Torbay. Good progress has been made on the South Devon Link Road indicating the project will be completed on or before the December 2015 completion date. A dry summer in 2013 resulted in earthworks progressing ahead of the programme with work to a number of structures continuing during the winter months. A substantial part of the works associated with the adjacent railway line was successfully constructed during the storm damaged works at Dawlish, reducing the risk and advancing flood resilience of the Project. The Crediton Link Road scheme is also progressing well with the scheme on target to open in November 2014.

The opening of the Clyst Bridge near Topsham has completed the eastern side of the Exe Estuary multi-use trail. Investment has also continued in other cycling facilities including the improved crossing facility at Denmark Road in Exeter and new cycle parking facilities at a number of schools across the County. The Dawlish Strand enhancement scheme was completed in mid-2013, providing an important boost to the local economy. The major public transport scheme implemented this year was the Exeter Central forecourt scheme providing a major improvement to this key gateway to the city centre.

Following the widespread flooding experienced across Devon during 2012/13 and 2013/14 a prioritised list of communities requiring investment has been developed. A number of flood improvement projects are now being considered using a defined prioritisation criterion and progressed in line with available resource and budget.

Working in partnership with other Risk Management Authorities some of the highest priority schemes have been delivered by the Flood Risk Management team by capitalising over £250,000 of spend from the 2013/14 budget. Such projects included works at Tiverton, Aveton Gifford, Stoke Canon, Kingsteignton, Chudleigh and Salcombe.

Highways, Capital Development and Waste management

The schools capital maintenance programme has substantially been delivered on time and within budget. 86 schools have benefited from £8.6m of investment addressing the most urgent maintenance backlog issues within the schools estate.

Significant investment on structural maintenance of the road network and bridges remains a prominent theme in ensuring that a significant proportion of A and B roads are in good condition, in line with the County's strategic plan. Whilst A and B road condition remains at the target level all other roads are deteriorating at a significant rate because overall expenditure on carriageway maintenance is running at about half that needed to keep the condition static. The Bridge Assessment and Strengthening programme continues to deliver key investment in critical areas including monies being spent on strengthening retaining walls, protecting bridges against river scour, and renewing vital bridge joints and bearings components. Further significant progress has been made on the carbon reduction programme for street lighting with over 35,000 units now converted to part-night lighting.

Repair of the 2012 embankment collapse at the Grand Western Canal was not only designed but the work completed within the financial year.

Construction of the Exeter Energy from Waste plant has progressed on programme with completion of the facility due in summer 2014. The Plymouth Energy from Waste facility, which is being delivered in partnership with Torbay Council and Plymouth City Council, is under construction and due for completion by the end of this year. The Energy from Waste facilities will recover energy from waste in the form of electricity and heat. They will enable Devon to make a significant move away from landfilling residual waste.

Emergency works were undertaken at Knapp Copse closed landfill site to restore the slope and leachate treatment system which were adversely affected by the bad weather in 2013.

The Sidmouth Recycling Centre is now complete and opened to the public in December 2013. Work is progressing on developing a new Recycling Centre site to service the Iyvalbridge area with a public consultation being planned for later this summer.

Services for the Community

The replacement library for Totnes opened on 10th June 2013 at the Mansion site. After a delayed start, the refurbishment of the 1970's Sidmouth Library building took place in 2013/14. Involving a complete re-configuration of the interior including bringing the children's library down to the ground floor, the library re-opened on 22nd October 2013.

2013/14 saw the bulk of construction work around the £4 million redevelopment of the flagship Exeter Library. As part of the redevelopment of Exeter Library, the Economy Service has been working to develop a Fab Lab, or fabrication laboratory. This is a low-cost digital workshop equipped with laser-cutters, routers, 3D scanners, 3D milling machines, and programming tools, where users can "make almost anything." The Fab Lab is utilising a ground floor room in the library, adjacent and complimentary to a new Business Support and IP (Intellectual Property) Centre. It will enable users to develop or refine a product or object from first idea to a formed and working prototype. Advice and further business support is also available to help develop the business proposal to ensure a route to market. This will include an Information and Business hub, a FabLab, a Café, a training kitchen for adults with learning disabilities and a number of rooms for hire. The building opened on 22nd May 2014.

Economy and Enterprise

A full planning application has been prepared and submitted to bring forward approximately 14 acres of much needed employment land on a development known as the East Okehampton Business Park. Capital funding is required to upgrade the existing infrastructure and prepare individual plots for development. EDG are instructed to prepare a full set of working drawings and tender the works in order to determine a precise cost.

The Science Park Centre is now under construction and progressing well with completion anticipated in March 2015. Detailed discussions are underway with the Met Office regarding the location of a new £100m super computer and environmental collaboration centre on the Science Park. This investment has major implications for both the science park and wider economy in and around Exeter.

The Devon Work Hub Network continues to expand with a further centre opened in Barnstaple. Work hubs provide out office space for start-ups and micro enterprises and provide a valuable addition to the ladder of business accommodation. Space includes flexible hot desks which can be rented on an hourly, daily or monthly basis, and a range of office accommodation. Somerset County Council have also worked with the authority's systems and processes to establish two rural work hubs in their area, and discussions have been held with a view to developing a joint branded Devon and Somerset Work Hub Network web presence during 2014/15.

People Services

The Haven Banks Outdoor Education Centre was opened in 2013/14 and provides extensive recreation and leisure opportunities for schools and the public.

Phase One of the Care Homes Futures programme is progressing at two sites; Mapleton and Woodland Vale. The construction phase of Woodland Vale is complete with enhancements to benefit people with dementia and Mapleton is expected to complete in August 2014. Phase Two of the programme is under review.

The Stepping Stones programme which supports children with complex special educational needs is complete, having delivered enhanced facilities at several sites including Barnstaple and Ringswell, Exeter.

The Schools Devolved Formula capital programme has delivered many large and small scale projects including the remodelling of IT rooms at both Tiverton High School and Willowbrook Primary. Stokingham Primary has had a new learning resource centre and Bidwell Brook has made a successful bid to the Education Funding Agency's Demographic Growth Fund to increase capacity.

Corporate Services

Estates

Aligned to the authority's Estates Strategy, during 2013/14 further phases of work were undertaken to reconfigure office accommodation and incorporate additional staff into Strategic Centres while making more efficient and effective use of space.

A number of schemes were completed and have facilitated the closure of a number of sites. Staff and services from George Street in Exeter have been relocated which has facilitated the release of the building to achieve revenue savings and generate a capital receipt. As part of this work, and to ensure improved accessibility, the reception facility at County Hall has been remodelled to incorporate a new reception desk and a visitor meeting room.

ICT

Capital schemes have focussed around two key objectives. These are to consolidate DCC's infrastructure to provide a fit for purpose, up to date and reliable day to day ICT service, and to use technology in ways which supports the business in achieving outcomes for the public and reducing costs.

Following the Modernisation of the Desktop programme, ICT has continued to update the infrastructure to ensure compatibility of software and hardware which helps to maintain security. Upgrades to network switches and database servers formed an important part

of this work and has led to an improvement in stability and reliability of the desktop platform.

Storage requirements for documents relating to children's social care continue to grow, together with archiving requirements for Heritage and Environment work.

County Farms

The County Farms Estate Useable Capital Receipt Reserve was used in 2013/14 to fund 38 schemes, being essential infrastructure upgrades fulfil statutory obligations. Larger schemes include 'Higher Artiscombe', 'Merrifield', 'Lower Henland' and 'Higher Bradaford' which all progressed well.

Variation between the delivered Capital Programme and Budget

The 2013/14 net underspending totalled £34.746 million. It is recommended that £23.571 millions is carried forward into the 2014/15 Capital Programme, and £6.835 millions into later years. An analysis of the underspending and the carry forward request is set out in the table below:-

	Variation	Carry Forward to 2014/15	Carry Forward to later years
	£ 000's	£ 000's	£ 000's
Place	23,515	17,505	3,108
People	6,319	2,181	3,017
Corporate	4,912	3,885	710
Total	34,746	23,571	6,835

The main reasons for the underspending are explained in the following paragraphs.

Place Services

Planning, Transportation and Environment

The injection of Government funding into DCC schemes such as Local Pinch Point and Granite and Gears is one of the major factors in underspending in 2013/14. Government funding was not confirmed until later in the financial year which has required the reprofiling of the County Council's capital programme. In some cases the Government funding is restricted to the year it is awarded, again resulting the DCC funding to be rephased.

The construction of Cranbrook station near Exeter was delayed in part by Network Rail's contractor pulling out, requiring further work to appoint a new one and enabling them to allocate the necessary resources.

Whilst the long-planned development of a Jurassic Coast World Heritage Site interpretation centre in Seaton has not yet commenced, there has been significant progress in securing the outstanding funding and finalising the detailed plans. An imminent decision is awaited on the Heritage Lottery Fund grant to enable the full extent of the project to proceed, with construction due to commence during the summer of 2014.

The slippage in the education capital programme can mainly be attributed to two schemes. The replacement of Millwater Special School was delayed when finalising the

lease and legal agreements. In addition, the purchase of the new primary school site at Okehampton was not completed. The purchase is directly linked to a housing development application which has only recently been submitted for planning. It is anticipated that both projects are completed in 2014/15.

Highways, Capital Development and Waste Management

Slippage on Countess Wear - Boiler & Fenestrations, Ladysmith Infant School - HORSAs replacement, Axe Valley - Boiler & Fenestrations and Sidmouth College - replacement teaching accommodation was predominantly due to insufficient resources in the main contractors.

The contracts for the works at Rydon and Copstone highway depots were awarded later than had been anticipated.

Exeter Energy from Waste Plant and Transfer Station spend profile has been reset to reflect the latest works programme. Land ownership and technical issues continue to delay the progression of the Heathfield leachate system project.

Services for the Community

The long-overdue replacement of the Library Management System had been delayed while a complex process of specification and refinement was undertaken. This is now complete and tendering for the new system is scheduled for June with implementation over the following six to nine months.

The library modernisation programme to extend self-service to other libraries has been delayed while the County's Library Strategy is developed. There is currently a public consultation around a number of future proposals for the service including the development of further Devon Centres and a shift towards community-led libraries.

Economy & Enterprise

The completion of the planning application for the East Okehampton Business Park, has required further stakeholder engagement and a detailed review of the existing site conditions and quality of the existing infrastructure installed by the Regional Development Agency.

The Skypark land remediation contract is being externally funded through the Regional Growth Fund (RGF). The project is being coordinated by St Modwen (DCC JV partner) who has reported project slippage due to inclement weather over the winter period and a delay in receiving planning permission for the landscape masterplan. The RGF underspend related to this project will be spent in 2014/15.

The expansion of the Devon Work Hub programme has continued, although at a slower pace than anticipated.

Orders were placed for the fit out of the Fab Lab, working through Manchester Fab Lab and independent suppliers but delivery is expected in 2014/15.

People Services

The main reason for slippage in People Services Capital programme is that the Extra Care Housing programme failed to secure a partner under the initial Joint Tender Framework, so the programme has re-launched and preparations are in place to release the invitation to tender to the market. The final form of the invitation is not yet finalised. For these reasons, the expenditure profile has changed substantially and the budget for the scheme will be carried forward.

Corporate Services

The main reason for slippage in the Corporate Services Capital programme was the delay of the land purchase at Higher Winsham Farm, Braunton to the 1st of April and has now fallen into the 2014/15 financial year.

Funds for Capital and Other Commitments

The capital programme required finance of £153.393 millions. Borrowing was met from internal sources during 2013/14 and amounted to £19.041 millions. No new long term borrowing took place during the year. Other sources of finance were grants and contributions totalling £121.223 millions, capital receipts from the sale of assets contributed funding of £10.226 millions and direct revenue contributions provided £2.903 millions.

The cost of servicing the Private Finance Initiative for Exeter Schools is met annually from revenue budgets. An outstanding liability of £73.880 millions is included on the balance sheet at the 31 March 2013 and will be written down as payments are made against the contract over its remaining life. The liability has been reassessed during 2013/14 and an adjustment of £20.680 millions made in order to recognise the full extent of the authority's liability. Note 35 on page 87 provides further detail.

Borrowing

The Council borrows over 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 although some borrowing from commercial lenders has taken place. At the year-end, long-term borrowing totalled £511.511 millions. £20 millions of borrowing from commercial lenders was repaid in July 2013.

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 2014 the liability is estimated at just over £1,814 millions, which is set against estimated assets of £1,022 millions. These estimates reflect the position as at 31 March 2014 and the conditions and actuarial assumptions prevailing at that time. The situation will change, for example, with changes in the financial performance of the Pension Fund investments and changes to the provisions of the Local Government Pension Scheme.

The impact of changes to actuarial assumptions has been largely offset by the increase the Fund's invested asset, values resulting in a relatively small increase in net liabilities for the year. As a result for 2013/14 the net liability has increased by just over £30 millions from £762 millions to £792 millions.

The pension fund deficit does not represent an immediate call on the Council's reserves but simply provides a snapshot (at 31st March 2014), 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.

Note 37 on page 91 provides further information.

Conclusion

As this is the third year of CSR2010 the cumulative effect of cuts reached nearly £100 millions in 2013/14. This, coupled with in year pressures and risks in relation to children's services and Dartington School, made the year a very challenging one for the authority. Careful management has enabled the authority to not only meet these financial challenges but has allowed a contribution to reserves which together with the new approach to the use of reserves will help to strengthen the authority's financial resilience.

In spite of the economic recovery gaining momentum significant cuts to public expenditure, including local authority funding, may continue to near the end of the decade.

The preparation of these financial statements results from the painstaking effort over many months of a great many people. I would like to place on record my thanks to members and officers of the Council who have done so much to achieve this and who continue to secure the financial health of the Council.

Mary Davis

County Treasurer

17th September 2014

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

Responsibilities of the County Treasurer

The County Treasurer 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 County Treasurer 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 County Treasurer 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 County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31st March 2014 has been prepared in accordance with the Accounts and Audit (England) Regulations 2011 and that it gives a true and fair view of the financial position of the Authority as at 31st March 2014 and its income and expenditure for the year ended 31st March 2014.

Mary Davis

County Treasurer

17th September 2014

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 25th September 2014

Chairman of the Audit Committee

25th September 2014

Movement in Reserves Statement

This statement shows the movement in the year on various reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus or (deficit) on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net increase/decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves made by the Council. The General Fund Balance includes reserves held by schools (School carry forwards); details are included within Note 8.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Grants Unapplied £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1st April 2012	(29,895)	(78,026)	(18,137)	(36,227)	(162,285)	58,289	(103,996)
<u>Movement in reserves during 2012/13 - Restated (Note 2)</u>							
(Surplus)/deficit on the provision of services Other Comprehensive Income & (Expenditure)	183,334				183,334		183,334
					0	17,167	17,167
Total Comprehensive Income & Expenditure	183,334	0	0	0	183,334	17,167	200,501
Adjustments between accounting basis & funding basis under regulations (Note 7)	(182,911)		(46)	5,539	(177,418)	177,418	0
Net Increase/Decrease before Transfers to Earmarked Reserves	423	0	(46)	5,539	5,916	194,585	200,501
Transfers from Earmarked Reserves (Note 8)	(1,931)	1,931			0		0
(Increase)/Decrease in 2012/13	(1,508)	1,931	(46)	5,539	5,916	194,585	200,501
Balance at 31st March 2013 Carried Forward	(31,403)	(76,095)	(18,183)	(30,688)	(156,369)	252,874	96,505
<u>Movement in reserves during 2013/14</u>							
Recognition of the PFI liability with regard to VA school / St Peters						20,480	20,480
(Surplus)/deficit on the provision of services Other Comprehensive Income & (Expenditure)	118,475				118,475		118,475
					0	(30,627)	(30,627)
Total Comprehensive Income & Expenditure	118,475	0	0	0	118,475	(30,627)	87,848
Adjustments between accounting basis & funding basis under regulations (Note 7)	(124,957)		1,156	6,369	(117,432)	117,432	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(6,482)	0	1,156	6,369	1,043	86,805	87,848
Transfers to Earmarked Reserves (Note 8)	5,066	(5,066)			0		0
(Increase)/Decrease in 2013/14	(1,416)	(5,066)	1,156	6,369	1,043	86,805	87,848
Balance at 31st March 2014 Carried Forward	(32,819)	(81,161)	(17,027)	(24,319)	(155,326)	360,159	204,833

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulation this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2012/13 Gross Expenditure	2012/13 Gross Income	2012/13 Net Expenditure		Notes	2013/14 Gross Expenditure	2013/14 Gross Income	2013/14 Net Expenditure
Restated £000	Restated £000	Restated £000			£000	£000	£000
General Fund continuing operations							
18,928	(3,040)	15,888	Cultural and Related Services		17,679	(2,889)	14,790
40,879	(3,639)	37,240	Environmental and Regulatory Services		54,144	(5,466)	48,678
11,510	(4,008)	7,502	Planning Services		13,221	(5,995)	7,226
583,530	(419,590)	163,940	Children's and Education Services		591,470	(405,109)	186,361
128,808	(14,415)	114,393	Highways and Transport Services		111,430	(13,978)	97,452
279,887	(79,709)	200,178	Adult Social Care		293,734	(72,158)	221,576
			Public Health		20,436	(21,476)	(1,040)
2,942	(58)	2,884	Housing Services (primarily supporting people)		2,663	(73)	2,590
4,154	(147)	4,007	Corporate and Democratic Core		5,312	(349)	4,963
(12,979)	(66)	(13,045)	Non Distributed Costs		4,724	0	4,724
3,581	(1,648)	1,933	Central Services to the Public		3,784	(1,922)	1,862
1,993		1,993	Exceptional items not included in costs of specific services				0
1,063,233	(526,320)	536,913	Cost of Services	22	1,118,597	(529,415)	589,182
199,139		199,139	Other Operating Expenditure	5, 10	133,670		133,670
64,861	(1,766)	63,095	Financing and Investment Income and Expenditure	11	65,511	(1,175)	64,336
	(615,813)	(615,813)	Taxation and Non-specific Grant Income	12		(668,713)	(668,713)
1,327,233	(1,143,899)	183,334	Surplus or Deficit on Provision of Services		1,317,778	(1,199,303)	118,475
		(13,720)	(Surplus) or deficit on revaluation of Property, Plant and Equipment				(14,401)
		0	(Surplus) or deficit on revaluation of available for sale financial assets				0
		30,887	Remeasurements of the net defined benefit liability	37			(16,226)
		17,167	Other Comprehensive Expenditure & Income				(30,627)
		200,501	Total Comprehensive Expenditure & Income				87,848

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31st March 2013		Notes	31st March 2014	
£000			£000	£000
1,160,056	Property, Plant & Equipment	13	1,092,087	
440	Intangible Assets		1,011	
2,399	Heritage Assets		2,411	
5,000	Long Term Investments	15	0	
372	Investments in Associates & Joint Ventures	15	1,678	
<u>28,221</u>	Long Term Debtors	14	<u>33,668</u>	
1,196,488	Long Term Assets			1,130,855
57,405	Short Term Investments	15	50,190	
1,756	Inventories		1,545	
77,685	Short Term Debtors	16	80,696	
62,685	Cash and Cash Equivalents	18	48,428	
<u>6,970</u>	Assets held for sale	19	<u>5,402</u>	
206,501	Current Assets			186,261
(4,374)	Provisions		(5,344)	
(31,431)	Short Term Borrowing	15	(282)	
(880)	Revenue Grants Receipts in Advance	32	(647)	
<u>(108,485)</u>	Short Term Creditors	16	<u>(106,978)</u>	
(145,170)	Current Liabilities			(113,251)
(10,642)	Provisions	17	(15,415)	
(511,569)	Long Term Borrowing	15	(511,511)	
(813,228)	Other Long Term Liabilities	21	(862,666)	
(2,624)	Revenue Grants Receipts in Advance	32	(2,275)	
<u>(16,261)</u>	Capital Grants Receipts in Advance	32	<u>(16,831)</u>	
(1,354,324)	Long Term Liabilities			(1,408,698)
(96,505)	Net Assets/(Liabilities)			(204,833)
(156,369)	Usable Reserves			(155,326)
252,874	Unusable Reserves	20		360,159
96,505	Total Reserves			204,833

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

2012/13 Restated £000		Note	2013/14	
			£000	£000
183,334	(Surplus) or Deficit on the Provision of Services			118,475
(283,420)	Adjustments for -			
	Non cash movements	23	(250,831)	
4,050	Investing and financing activities	24	3,736	
<u>(279,370)</u>				<u>(247,095)</u>
(96,036)	Net cash flows from operating activities	25		(128,620)
124,116	Investing activities	26		122,602
1,961	Financing activities	27		20,275
				<u></u>
30,041	Net (increase)/decrease in cash and cash equivalents			14,257
92,725	Cash and cash equivalents at 1 April 2013			62,684
<u>62,684</u>	Cash and cash equivalents at 31 March 2014	18		<u>48,427</u>

1. Statement of Accounting Policies

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31st March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

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, holiday pay, flexi leave and time off in lieu earned but unpaid at the year-end;
- Supplies and services are recorded as expenditure when they are consumed or received. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet;
- Interest payable on borrowings and receivable on investments is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by contract; and
- Where revenue 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.

Carbon Reduction Commitment Scheme

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31st March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date and is included as a provision on the authority's balance sheet. The cost to the authority is recognised and reported in the

costs of the authority's services and is apportioned to services on the basis of energy consumption.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 90 days or less from date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and Impairment losses on assets used by a service where there are none or insufficient accumulated gains in the revaluation reserve against which they can be written-off; and
- Amortisation of intangible assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation, impairment losses or amortisation. It is, however, required to make an annual contribution from revenue 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 statutory guidance, or loans fund principal charges). Depreciation, revaluation, impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP or loans fund principal) by way of an adjusting transaction with the Capital Adjustment Account in the movement in reserves statement for the difference between the two.

Contingent Assets

Contingent assets are disclosed by way of note where it is probable that there will be an inflow of economic benefits or service potential.

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent 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.

Employee Benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes

the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before normal retirement date (or an officer's decision to accept voluntary redundancy) and are charged on an accruals basis to the appropriate service or where applicable Non distributable cost line in the comprehensive income and expenditure statement, at the earlier of when the authority can no longer withdraw an offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserves to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but un-paid at the end of the year.

Post-Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department of Education (DfE),
- The NHS Pension Scheme, administered by the NHS Business Service Authority; and
- The Local Government Pension Scheme, administered by Devon County Council.

All schemes provide defined benefits to members (retirement Lump sums and Pensions), earned as employees work for the Council.

The arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the balance sheet. The Children's and Education services and Public Health lines in the comprehensive income and expenditure statement are 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 earnings for current employees.

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

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

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

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

- Current service cost – the increase in liabilities as a result of years of service earned this year and allocated in the comprehensive income and expenditure statement to the services for which the employee worked;
- Past service cost – the increase in liability arising from current year decisions which relate to years of service earned in earlier years - debited to the surplus or deficit on the provision of service line in the comprehensive income and expenditure statement as part of non-distributed costs;
- Net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the Devon Pension Fund- Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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.

Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified: 'those that provide evidence of conditions that existed at the end of the reporting period', where the Statement of Accounts is adjusted to reflect such events, and 'those that are indicative of conditions that arose after the reporting period', where the Statement of Accounts is

not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance

Financial instruments

Financial liabilities

Financial liabilities are recognised on the balance sheet when the Council becomes a party of the contractual provision of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the in the comprehensive income and expenditure statement 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 comprehensive income and expenditure statement 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 comprehensive income and expenditure statement, 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 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 comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Financial Guarantees

Is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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; and
- 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 financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable and interest credited to the comprehensive income and expenditure statement 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 comprehensive income and expenditure statement 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 to the financing and investment income and expenditure line in the comprehensive income and expenditure statement 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 comprehensive income and expenditure statement to interest credited to the general fund balance is accounted for by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Where assets are identified as impaired because of the 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 comprehensive income and expenditure statement.

The impairment Loss is measured as the difference between the carrying amount and present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on derecognition of assets are credited or debited to the comprehensive income and expenditure statement.

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 financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate for the instrument. Where there are no fixed or determinable payments, income is credited to the comprehensive income and expenditure statement 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 surplus or deficit on the revaluation of available for sale financial asset. The exception is where impairment losses have been incurred. These are debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any net gain or loss for the asset accumulated in the available for sale reserves.

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 or fair value falls below cost, the asset is written down and a charge made to financing and investment income and expenditure line in the comprehensive income and expenditure statement.

If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement along with any accumulated gains or losses previously recognised in the available for sale reserve.

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

Foreign Currency Translation

Where Devon County Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that the Authority will comply with the conditions attached to the payments, and the grants or contributions will be received. Amounts recognised as due to the Council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations which specify that the future economic benefits or service potential embodied in the asset in the form of the grant or condition are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions when conditions have not been satisfied are carried in the balance sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line if ('Attributable revenue grants and contributions') or taxation and non-specific grant income (if 'Non ring-fenced revenue grants and all capital grants') in the comprehensive income and expenditure statement.

Whereas capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement of reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied it is posted to the Capital adjustment Account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

Heritage Assets

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge or culture. Heritage Assets are recognised and measured in accordance with the Authority's accounting policies on property, plant and equipment with only assets above a £12,000 de-minimis limit recognised. The Authority's collections of heritage assets are accounted for as follows:

- **Artefacts held at the Devon Records Office:** The Authority's Record Office holds a number of artefacts with a large proportion falling below the de-minimis threshold. There is no insurance held for the archive collection which is standard practice for this type of service. The more significant collections have been subject to an external valuation and are reported in the balance sheet at market value;
- **Artefacts held by Devon Libraries:** The Devon Library Service securely holds a number of heritage assets in the 'Stack' at Exeter Central Library, and are accessible by the public upon request. These items are reported in the balance sheet at insurance valuation. These insurance valuations are updated on an annual basis.
- **Art Collection:** The Art Collection includes paintings (both oil and watercolour) and is reported in the balance sheet at market value.

The Authority's heritage asset collection is relatively static and acquisitions or donations are rare. When they do occur acquisitions are initially recognised at cost and donations are recognised at valuation, with valuations provided by an external valuer.

For assets recently purchased or where insurance valuations are available it is the Authority's policy to recognise the assets using these bases; obtaining an external valuation would involve a disproportionate cost in relation to the benefits to users of the financial statements.

The carrying amounts of heritage assets are reviewed annually where there is evidence of impairment. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. It is the Authority's policy not to dispose of assets under its ownership, as many of these assets have grant conditions attached to their funding which prohibit sale.

The Authority's heritage assets are deemed to have indeterminate lives and therefore the Authority does not consider it appropriate to charge depreciation.

Intangible Assets

Expenditure on non-monetary assets that do not have a physical substance but are controlled by the Authority as a result of past events is capitalised when it is expected that future economic benefits or service potential will flow from the intangible assets to the Authority 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.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Councils goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the asset held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion and are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the comprehensive income and expenditure statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any losses recognised are posted to the relevant service line in the comprehensive income and expenditure statement. Any gain or loss arising on the disposal or abandonment of an intangible asset appears as 'Other operating expenditure' in the comprehensive income and expenditure statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement of reserves statement and posted to the capital adjustment account and (for any sales proceeds greater than £10,000) the capital receipts reserve.

Inventories

Inventories 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. The cost of inventories is assigned using the First In First Out costing formula.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification purposes.

Leases that do not meet the definition of Finance Leases are accounted for as Operating Leases. Rentals payable are charged to the comprehensive income and expenditure statement 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 cost of services in the comprehensive income and expenditure statement on a straight-line basis over the term of the lease, generally meaning that rentals are credited when they are due.

Finance leases (Council as Lessor)

The Authority does not include a lease debtor within the balance sheet as the sum is not material. The annual lease income is accounted for within the comprehensive income and expenditure statement as it falls due.

Finance leases (Council as Lessee)

The Authority does not include a lease liability within the balance sheet as the sum is not material. The annual lease payments are accounted for within the comprehensive income and expenditure statement as they fall due.

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 Service Reporting Code of Practice 2012/13 (SeRCOP). The total absorption costing principle is used. The full cost of overheads and support services are shared between users in proportion to the benefits received with the exception of:

- Corporate and democratic core – costs relating to the Council's status as a multi functional, democratic organisation;
- Non distributed costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets Held For Sale.

These two cost categories are defined in SeRCOP and are accounted for as separate headings in the comprehensive income and expenditure statement as part of net expenditure on continuing services.

Private Finance Initiative

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, plant and equipment (PP&E) 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 PP&E will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its balance sheet as part of PP&E.

The original recognition of these assets at fair value (based on the cost to purchase the PP&E) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as PP&E 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 comprehensive income and expenditure statement;
- Finance cost – an interest charge of 10.31% on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- Payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- Lifecycle replacement costs – a proportion of the amounts payable is posted to the balance sheet as a prepayment and then recognised as additions to PP&E when the relevant works are actually carried out.

Prior Period Adjustments, Changes to Accounting policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or in order to correct a material error. Changes in accounting estimates are accounted prospectively, i.e., in the current and future years affected by the change and do not give rise to prior period adjustments.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Property, Plant and Equipment

Property, plant and equipment (PP&E) are assets that have physical substance and are held for the provision of services or for administrative purposes for more than one financial year.

Recognition: Expenditure on the acquisition, creation or enhancement of PP&E is capitalised on an accruals basis, provided that it is probable that future economic benefits or services potential associated with the item will flow to the authority and cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential is charged as an expense when it is incurred.

Expenditure below £50,000 for property and £12,000 for plant, vehicles and equipment is treated as revenue (de minimis) expenditure. Subsequent expenditure below these initial recognition amounts may be capitalised once the asset has been recorded on the fixed asset register. In the context of schools' plant, vehicle and equipment assets, a de-minimis is not applied.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be their fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority. Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement. Assets are then carried in the balance sheet using the following

Componentisation: The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure incurred, and to revaluations carried out, from 1 April 2010.

The Authority has voluntarily applied component accounting to all relevant assets from 1 April 2010. It is the Council's current policy to apply component accounting to its schools asset base as it is only here that componentisation has a material impact on the amount of depreciation charged.

The Valuer has assigned to each school a group of significant common components based upon indices collected by the Royal Institution of Chartered Surveyors (RICS). Each component represents a percentage of the overall asset value and a specific useful economic life. The following standard components and asset lives have been determined:

Component category Percentage (%) Asset Life (Years)

Primary Schools

Sub & Super Structure	54.0	60.0
Services	31.0	20.0
Fittings	5.0	10.0
Finishes	10.0	10.0

Secondary Schools

Sub & Super Structure	55.0	60.0
Services	30.0	20.0
Fittings	5.0	10.0
Finishes	10.0	10.0

Special Schools

Sub & Super Structure	52.5	60.0
Services	33.0	20.0
Fittings	4.5	10.0
Finishes	10.0	10.0

Where a component is replaced or restored, the carrying amount of, the old component is derecognised and the new component reflected in the assets carrying amount, subject to the recognition principles of capitalising expenditure.

More information on accounting for school assets is contained within the Explanatory Foreword on page 5.

Measurement after recognition: Assets are initially measured at cost, comprising any costs that are directly attributable to bringing the asset into working condition for its intended use.

Infrastructure, community assets and assets-under-construction are measured at historical cost; all other classes of asset are measured at fair value. If there is no market-based evidence of fair value because of the specialist nature of the asset and the

asset is rarely sold, fair value is estimated by using a Depreciated Replacement Cost (DRC) approach. Where non-property assets have short useful life or low value (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the balance sheet at fair value should be revalued sufficiently regularly (as a minimum every five years) to ensure that their carrying amount is not materially different from their fair value at the year end. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. To the extent that revaluation gains reverse a loss previously charged to a service, that service is credited in the Surplus or Deficit on the Provision of Services. Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement

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: Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

When impairment losses are identified, they are accounted for in the following way:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement;

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

When a school becomes an academy trust the Authority is obliged to grant a 125 year lease for the school land and buildings. The buildings are removed from the Authority's balance sheet in line with proper accounting practices, as the building lease meets the definition of a finance lease. The land however, due to its indefinite life, does not meet the definition of a finance lease and therefore remains on the Authority's balance sheet. The Authority does not impair the value of the land as children continue to be educated at the school and its service potential is unaffected.

Non-current assets-held-for-sale: When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset-held-for-sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the 'Other Operating Expenditure' line in the comprehensive income and expenditure statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the 'Surplus or Deficit on Provision of Services'. Depreciation is not charged on assets-held-for-sale.

If assets no longer meet the criteria to be classified as assets-held-for-sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held-for-sale (adjusted for the depreciation, amortisation or revaluation that would have been recognised had they not been classified as held-for-sale) and their recoverable amount at the date of the decision not to sell.

Disposals: Assets that are to be abandoned or scrapped are not reclassified as assets-held-for-sale. When an asset is disposed of, decommissioned or transferred to a third party, the carrying amount of the asset in the balance sheet is written-off to the 'Other Operating Expenditure' line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Receipts from disposals are credited to the comprehensive income and expenditure statement 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. A proportion of receipts relating to Housing disposal is payable to the government. 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 Authority's underlying need to borrow. Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

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 General Fund Balance in the movement in reserves statement.

Plant, vehicles, furniture and equipment assets are decommissioned at the point the useful economic life expires, with the following modifications:

- The existence of individual items with a purchase cost exceeding £50,000 is verified and retained on the balance sheet where they remain in-use;
- The existence of fleet items (vehicles) is verified and retained on the balance sheet where they remain in use

Depreciation: depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (e.g. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is not charged in the year of acquisition, and is charged up to the point of disposal.

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer
- Vehicles, plant, furniture and equipment – straight line over the life of the asset
- Infrastructure – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer

Where an item of property, plant and equipment asset has significant 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.

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic

benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged to the appropriate service line in the comprehensive Income and Expenditure statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. 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 less than probable that a transfer of economic benefits will be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from 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.

Reserves

Usable Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement. 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 surplus or deficit on provision of services in the comprehensive income and expenditure statement. The reserve is then appropriated back into the General Balance Fund in movement in reserves statement so that there is no net charge against council tax expenditure.

Unusable Reserves

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits that do not represent usable resources for the Council. These reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

Revenue Recognition

Council tax and Non Domestic rates

Revenue is recognised when the following conditions have been satisfied:

- a) the amount of revenue can be measured reliably and
- b) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority

There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, ie revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable.

The Collection Fund Adjustment Account records the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Funds administered by the Billing Authorities.

Value Added Tax (VAT)

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

2. Prior Year Adjustment

Change of Accounting Policy

IAS 19 Employee Benefits

Post Employment Benefits

In the 2013/14 Statement of Accounts, the Council applied new accounting treatments to the presentation and disclosure of post employment benefits. The overall measurement of the Council's net pension liability was not changed, but there were some reclassification of the components into which year-on-year changes in the net liability were analysed. The only substantial change to the Council's financial performance came from a revision of the measurement basis for the return on pension scheme investments, which were calculated by applying the discount rate to pensions assets rather than as an expected return of the assets based on market expectations. If this treatment had been applied in 2012/13, the return on pension scheme investments would have been £7.8 millions less, increasing the Deficit on the Provision of Services to £183.332 millions. This would have been compensated for by a corresponding decrease in actuarial gains and losses in Other Comprehensive Income and Expenditure, leaving the outturn on the Comprehensive Income and Expenditure Statement unchanged.

The 2012/13 comparator has been restated on both the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement along with the relevant notes.

Termination Benefits

From the 2013/14 Statement of Accounts, the Council applied a new accounting policy for the recognition of termination benefits. Benefits were recognised when the Council could no longer withdraw an offer to pay such benefits. Previously a provision was made when the Council became demonstrably committed to terminate the employment of an employee (or groups of employees) or to provide benefits as part of an offer to encourage voluntary redundancy. If the new policy had been applied in the 2012/13 Statement of Accounts, £161,000 of termination benefits charged against the Surplus/Deficit on the Provision of Services would not have been recognised but would have been carried over to 2013/14.

As the impact of this change is trivial the 2012/13 comparator has not been restated.

3. Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1 the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are as follows:

- These accounts have been prepared on a going concern basis. The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Although Central Government funding is being cut significantly this will have no effect on Devon County Council being a going concern;
- Note 15 Financial Instruments details the authority’s Investment Strategy and approach to managing risk. None of the authority’s investments are impaired;
- The authority has relationships with several Companies, details are provided in note 34. The authority’s interests have been assessed and judged to be associates and jointly controlled entities. Group Accounts have not been prepared on the grounds of materiality; and
- The authority’s significant contracts have been reviewed and no embedded finance leases or service concessions found. The authority has one Private Finance Initiative contract for the provision of schools, note 35 provides detail.

4. Assumptions made about the future and other major sources of estimation uncertainty

The Statements of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the authority’s Balance Sheet at 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation charges increase and the carrying amount of the assets fall. It is estimated that the annual depreciation charges for buildings and infrastructure would be £1.789m and £7.332m respectively for every year that useful lives have to be reduced.
Provisions	The authority has made a provision of £12.376m in relation to self insurance liabilities and £263,000 in relation to the corporate restructure. These provisions are estimates of the potential liability and the final costs may be more or less.	The difference between the amounts provided for and the final costs will be charged or credited to the cost of services when they are incurred.

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting Actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.</p> <p>Amounts charged to and income credited in the Comprehensive Income and Expenditure Statement and the valuation of the pension reserve in the Balance Sheet in respect of employee pension benefits are heavily influenced by the estimated future inflation and earnings on investments. The assumptions made in making these estimates are set out in note 37. The value of pension assets is estimated based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets, but this difference is not considered to be material.</p>	<p>The effects of the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £30.969m. However, the assumptions interact in complex ways. During 2013/14, the authority's actuaries advised that due to estimates being corrected (as a result of experience) the net pensions liability had decreased by £78.954m and increased by £42.390m due to updating of the assumptions.</p> <p>The impact is not expected to be material.</p>
Debtors	<p>At 31st March 2014, the authority had a balance of sundry debtors of £81m which included an impairment for doubtful debts of £5m. A review of significant balances suggested that this was appropriate. However, in the current economic climate it is not certain that such an allowance will be sufficient.</p>	<p>If collection rates were to deteriorate, every 1% deterioration would require an additional impairment provision of £860,000.</p>

5. Material items of Income and Expenditure

During 2013/14 the following material item was included in the comprehensive income and expenditure statement: disposal of property, plant and equipment assets attributable to schools transferring to co-operative (foundation) or academy trust status. These assets were derecognised in accordance with proper accounting practices with nil sale proceeds, resulting in a loss on disposal of £130.724m, recognised within 'Other Operating Expenditure'.

6.Events after the Balance Sheet Date

The following events are non-adjusting events.

Academy Schools

Since 1st April 2014 the following schools have become Academies:

- St Mary's Catholic Primary School, Axminster
- St Joseph's Catholic Primary School, Exmouth
- Our Lady's Catholic Primary School, Barnstaple
- St Mary's Catholic Primary School, Buckfast
- St John The Baptist Roman Catholic Primary School, Dartmouth
- St Joseph's Catholic Primary School, Newton Abbot
- Our Lady & St Patricks Roman Catholic School, Teignmouth
- St john's Catholic Primary School, Tiverton
- Blackawton Primary School
- East Allington Primary School
- Stoke Fleming Community Primary School
- Moretonhampstead Primary School

Academies are independent and Devon County Council has ceased to be the maintaining authority from the date of transfer. All running costs and income relating to these schools will no longer be part of the Council's accounts and it is estimated that the Council's Gross Expenditure and Income will reduce by £4.269 millions per annum.

Devon County Council will continue to own Blackawton, East Allington, Stoke Fleming and Moretonhampstead Primary schools land and buildings and will grant a 125 year lease to the Academies to occupy the site. As the Building element of the lease meets the definition of a finance lease the buildings will no longer be included within the Council's Balance Sheet. The Net Book Value of the Buildings at 31st March 2014 was £5.409 millions.

All of the above Catholic schools are owned by the Diocese and therefore DCC did not recognise the Land and Building within its balance sheet.

Equipment with a Net Book Value of £68,000 has also transferred to the Academy schools

Co-operative Trust Schools

Since 1st April 2014 the following school has become co-operative trust schools:

- Hawkchurch Church of England School

Co-operative trust schools are maintained schools supported by a charitable foundation. Once set up the Trust is responsible for the land and buildings only. All revenue costs and income relating to these schools will continue to be part of the Council's accounts, however as ownership of the buildings and Land is transferred to the Trustees these will no longer be included within the Council's Balance Sheet. The Net Book Value of the Land and Buildings at 31st March 2014 was £509,000.

Equipment with a Net Book Value of £14,000 has also transferred to the Co-operative Trust schools.

7. Adjustments between accounting basis and funding basis under regulations

The total comprehensive income and expenditure recognised by the authority in the year is in accordance with proper accounting practice. This note details the adjustments to comprehensive income and expenditure that are required by Statute.

2013/14

	General Fund £000	Capital grants Unapplied £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(65,716)			65,716
Revaluation Losses on Property Plant & Equipment	(18,115)			18,115
Amortisation of intangible assets	(174)			174
Capital grants and contributions	120,397	(120,397)		
Revenue expenditure funded from capital under statute	(22,030)			22,030
Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal	(136,285)			136,285
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	28,832			(28,832)
Capital Expenditure charged to the General Fund Balance	2,903			(2,903)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal	3,858		(3,858)	
Use of the Capital Receipts Reserve to finance new capital expenditure			10,227	(10,227)
Adjustments involving the Deferred Capital Receipts Reserve:				
Transfer of movement in deferred proceeds credited/debited as part of the gain/loss on disposal	(578)			578
Adjustments involving the Capital Grants Unapplied Reserve:				
Use of the Capital Grants Unapplied Reserve to finance capital expenditure			121,553	(121,553)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 37)	(91,188)			91,188
Employer's pensions contributions and direct payments to pensioners payable in the year	50,565			(50,565)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	2,654			(2,654)
Amount by which business rate retention scheme income credited to the Comprehensive Income and Expenditure Statement is different from business rate retention scheme income calculated for the year in accordance with statutory requirements	(1,158)			1,158
Adjustments involving the Financial Instruments Adjustment Account:				
Difference between amounts debited/credited to the Comprehensive Income and Expenditure Statement 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.	766			(766)
Adjustment involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Expenditure and Income Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	312			(312)
Total Adjustments	(124,957)	1,156	6,369	117,432

2012/13 Restated

	General Fund £000	Capital grants Unapplied £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(66,978)			66,978
Revaluation Losses on Property Plant & Equipment	(15,371)			15,371
Amortisation of intangible assets	(255)			255
Capital grants and contributions	90,480	(90,480)		
Revenue expenditure funded from capital under statute	(10,049)			10,049
Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal	(202,560)			202,560
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	31,562			(31,562)
Capital Expenditure charged to the General Fund Balance	1,424			(1,424)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal	4,050		(4,050)	
Use of the Capital Receipts Reserve to finance new capital expenditure			9,589	(9,589)
Adjustments involving the Capital Grants Unapplied Reserve:				
Use of the Capital Grants Unapplied Reserve to finance capital expenditure		90,434		(90,434)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 37)	(60,837)			60,837
Employer's pensions contributions and direct payments to pensioners payable in the year	44,359			(44,359)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(47)			47
Adjustments involving the Financial Instruments Adjustment Account:				
Difference between amounts debited/credited to the Comprehensive Income and Expenditure Statement 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.	775			(775)
Adjustment involving the Accumulating Compensated Absences				
Amount by which officer remuneration charged to the Comprehensive Expenditure and Income Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	536			(536)
Total Adjustments	(182,911)	(46)	5,539	177,418

8. Transfers (to)/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet expenditure in year.

	Balance at 31st March 2012 £000	Transfers out 2012/13 £000	Transfers in/within 2012/13 £000	Balance at 31st March 2013 £000	Transfers out 2013/14 £000	Transfers in/within 2013/14 £000	Balance at 31st March 2014 £000
Affordable Housing	(570)	27		(543)	8	10	(525)
Budget Management	(9,500)			(9,500)		(2,030)	(11,530)
Business Rate Risk Management						(1,451)	(1,451)
Building Maintenance	(659)	272	387				
Energy & Water Efficiency	(64)		64				
Emergency						(15,000)	(15,000)
European Matched Funding	(1,445)	316		(1,129)	323	806	
Extra Care Housing	(8,075)	600	(2,500)	(9,975)		9,975	
General	(15,176)			(15,176)		15,176	
Local Authority Business Grant	(2,008)	353		(1,655)	134	1,521	
Local Initiatives	(104)	65	39				
On Street Parking	(1,810)		(131)	(1,941)	(572)		(2,513)
PFI Sinking Fund	(1,656)	1,656					
Public Health						(1,125)	(1,125)
Redundancy	(4,040)	2,810	(1,714)	(2,944)	1,308	1,636	
Roads Emergency	(3,651)	3,651					
Service Development	(8,837)	572	(2,120)	(10,385)	772	9,613	
Service Transformation						(24,330)	(24,330)
Systems Development Fund	(186)	130	56				
Waste Management Fund	(806)	122		(684)	90	594	
Total before Carry Forwards	(58,587)	10,574	(5,919)	(53,932)	2,063	(4,605)	(56,474)
Directorate Budget Carry Forwards	(19,437)	19,437	(22,163)	(22,163)	22,163	(24,687)	(24,687)
Total excluding schools	(78,024)	30,011	(28,082)	(76,095)	24,226	(29,292)	(81,161)
School Carry Forwards (included within General Fund Balance) See Note 9	(15,425)	15,425	(16,865)	(16,865)	16,865	(18,267)	(18,267)

9. General Fund Balance

31st March 2013 £000		31st March 2014 £000
(16,865)	Schools Carry Forwards	(18,267)
(14,538)	Non Schools working balance	(14,552)
<u>(31,403)</u>	Total General Fund Balance	<u>(32,819)</u>

10. Other Operating Expenditure

2012/13	2013/14
£000	£000
198,498 (Gains)/losses on the disposal of non current assets	132,983
641 Levies	687
<u>199,139</u>	<u>133,670</u>

11. Financing and Investment Income and Expenditure

2012/13	2013/14
£000	£000
32,848 Interest payable and similar charges	32,664
32,013 Pensions interest cost and expected return on pensions	32,847
(1,766) Interest receivable and similar income	(1,175)
<u>63,095</u>	<u>64,336</u>

12. Taxation and Non Specific Grant Income

2012/13	2013/14
£000	£000
(328,097) Council tax income	(298,555)
(175,973) Non domestic rates	0
0 Business Rates Retention Scheme	(89,790)
(21,263) Non-ringfenced government grants	(159,972)
(90,480) Capital grants and contributions	(120,396)
<u>(615,813)</u>	<u>(668,713)</u>

13. Property Plant and Equipment

Movements in 2013/14:

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation							
At 1st April 2013	706,028	41,869	660,812	0	3,621	38,361	1,450,691
Additions	26,557	3,007	50,420	1,802		54,390	136,176
Donations							0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,370						4,370
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of Services	(23,706)						(23,706)
Derecognition - Disposals	(139,537)	(5,722)				(1,474)	(146,733)
Derecognition - Other							0
Assets reclassified (to)/from Held for Sale	(670)						(670)
Other movements in cost or valuation	3,610		299	135	4,601	(8,645)	0
At 31st March 2014	576,652	39,154	711,531	1,937	8,222	82,632	1,420,128
Accumulated Depreciation and Impairment							
1st April 2013	(18,119)	(26,199)	(246,317)	0	0	0	(290,635)
Depreciation Charge	(18,343)	(5,828)	(40,403)				(64,574)
Depreciation written out to the Revaluation Reserve	10,031						10,031
Depreciation written out to the Surplus/Deficit on the provision of services	3,307						3,307
Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services	1,142						1,142
Derecognition - Disposals	8,447	4,241					12,688
At 31st March 2014	(13,535)	(27,786)	(286,720)	0	0	0	(328,041)
Net Book Value							
At 31st March 2014	563,117	11,368	424,811	1,937	8,222	82,632	1,092,087
At 31st March 2013	687,909	15,670	414,495	0	3,621	38,361	1,160,056

Movements in 2012/13:

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation							
At 1st April 2012	898,067	47,531	596,383	0	4,406	27,351	1,573,738
Additions	20,858	3,713	55,181			27,484	107,236
Revaluation increases/(decreases) recognised in the Revaluation Reserve	3,981						3,981
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of Services	(20,707)						(20,707)
Derecognition - Disposals					(648)		(648)
Derecognition - Other	(201,761)	(9,375)	(13)			(318)	(211,467)
Assets reclassified (to)/from Held for Sale	(1,442)						(1,442)
Other movements in cost or valuation	7,032		9,261		(137)	(16,156)	0
At 31st March 2013	706,028	41,869	660,812	0	3,621	38,361	1,450,691
Accumulated Depreciation and Impairment							
1st April 2012	(17,021)	(25,060)	(208,204)	0	(3)	0	(250,288)
Depreciation Charge	(21,996)	(6,867)	(38,115)				(66,978)
Depreciation written out to the Revaluation Reserve	9,739						9,739
Depreciation written out to the Surplus/Deficit on the provision of services	5,336						5,336
Impairment losses/(reversals) recognised in the Revaluation Reserve							0
Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services							0
Derecognition - Disposals					3		3
Derecognition - Other	5,823	5,728	2				11,553
Other movements in depreciation and impairment	0						0
At 31st March 2013	(18,119)	(26,199)	(246,317)	0	0	0	(290,635)
Net Book Value							
At 31st March 2013	687,909	15,670	414,495	0	3,621	38,361	1,160,056
At 31st March 2012	881,046	22,471	388,179	0	4,403	27,351	1,323,450

Depreciation

The following useful lives have been used in the calculation of depreciation:

Asset Type	Estimated Useful Life
Care Homes	50 to 60 Years
Education – Non Schools	30 to 60 Years
Education – Schools	10 to 60 Years
Farm Buildings	50 to 60 Years
Farm Land	Indefinite
Heritage Assets	Indefinite
Highways Depots	50 Years
Infrastructure	10 to 40 Years
Intangible Assets	3 to 5 Years
Libraries	30 to 60 Years
Offices	50 to 60 Years
Vehicles, Plant, Furniture	3 to 15 Years
Social Services	50 to 60 Years
Waste Disposal	50 Years

Capital Commitments

This statement contains details of major capital contracts with significant commitment costs flowing into future financial years.

Contract Name	Project Purpose	2014/15 £000	2015/16 £000	Total Commitment 2014/15 Onwards £000
A380 South Devon Link Road	Bypass for Kingskerswell	37,802	3,333	41,135
Honiton Millwater	Proposed replacement school	4,695	101	4,796
Devon Surface Dressing Contract 2014	Highway structural maintenance	3,014		3,014
Crediton Link Road	Industrial estate link road	1,912		1,912
Exe Estuary Trail-Turf to Powderham	Creation of cycling and walking route	1,572		1,572
Newton abbot Bradley Barton Primary School & Nursery	Expansion to 420 pupil places	1,523	23	1,546
Honiton Millwater	Sports Hall	1,366	21	1,387
The Rushbrook Centre, Totnes	Community Hub Development	1,290	27	1,317
Dartmouth Academy	Technical advisors	1,121	112	1,233
Exeter Ladysmith Infant School	HORSA replacement	1,180	21	1,201
Exeter Central Library	Alterations	685	56	741
Sidmouth College	Replace Blocks 04, 05, 06, 07	669	12	681
A39 Roundswell Roundabout	Additional lanes at roundabout	673		673
Newton Abbot Mapleton Elderly Persons Home	Care Homes Programme	517	23	540
A358 Agri Centre Roundabout, Holsworthy	Access to Agri Centre	524		524
Exeter Haven Banks Outdoor Education Centre	Proposed relocation	453	69	522
Marland School	Replacement sports hall	487	7	494
Exminster Primary School	New accomodation	284	10	294
Tavistock Whitchurch Primary School	S106 Remodelling works	234	7	241
		60,001	3,822	63,823

Effects of Changes in Estimates

In 2013/14, the Authority made no material changes to its accounting estimates for Property, Plant and Equipment.

Componentisation policy

In accordance with the Authority's accounting policy for componentisation only building assets within the schools portfolio have been componentised.

Removal, dismantling and restoration costs

An initial estimate of the costs of landfill decommissioning and aftercare are recognised within the measurement of landfill assets in accordance with the CIPFA Code.

Unavoidable statutory obligations to prevent redundant landfill sites damaging the environment will exist for a further forty years. The costs have been provided for in these accounts and recognised in 2013/14. That element falling due within one year is included as a provision in current liabilities while the remainder is similarly included in long term liabilities.

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. 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. All valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Planning

It is assumed that all buildings and/or sites have either been constructed or are used in accordance with valid Town Planning Consents and Building Regulations Approval, and that they comply with all relevant statutory and any other requirements in connection with the properties and their present use.

De Minimis Assets

In accordance with the Conditions of Engagement, valuations have not been carried out in cases where the Valuer considers that the value is less than £50,000 such properties having been entered accordingly on the schedule of valuations at a nominal amount of £1.

Valuation Assumptions

It is assumed that no high alumina cement concrete, calcium or chloride additive or any other deleterious material is present in the buildings.

No regard has been taken of any possible contamination, and the effect of the Environment Protection Act 1990 and the Environment Act 1995, or any subsequent environment legalisation so far as it relates to any asset, as no information has been made available within the context of these valuations.

It is assumed that the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of a register and that the use and occupation is lawful.

Tenure

Title Deeds have not been inspected and freehold interests have been deemed unencumbered and free from unduly onerous or unusual restrictions or conditions materially affecting value.

Taxation

The valuations have not taken into account any liability for taxation which may arise upon disposal of any assets. Value Added Tax on construction costs has not been included in DRC valuations.

Measurement Bases

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:

- 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 and net realisable value in existing use
- Infrastructure assets and community assets – depreciated historical cost

Net current replacement cost is assessed as follows:

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

The effective date for all valuations is 31 March 2014 for the financial year 2013/14.

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under construction £000	Total £000
Valued at Historical Cost:		39,154	711,531	1,937		82,632	835,254
Valued at Current Value in:							
2013/14	308,688				8,222		316,910
2012/13	123,634						123,634
2011/12	90,069						90,069
2010/11	54,261						54,261
Total	576,652	39,154	711,531	1,937	8,222	82,632	1,420,128

Derecognitions and disposals

The Authority derecognised in 2013/14 property, plant and equipment assets with a carrying value of £136.282 millions, which are analysed as follows:

Derecognition category	Carrying value £000	Proportion %
Transfers to co-operative trust status	104,604	77%
Transfers to academy school status	26,120	19%
Disposals with proceeds	3,919	3%
Community asset transfers	615	0%
Other disposals	1,024	1%
Total	136,282	100%

14. Long Term Debtors

31st March 2013 £000	31st March 2014 £000
79 Car Loans to Employees	95
65 Skills Funding Agency	49
1,049 Regional City Airports Ltd	0
0 Academy Schools	121
325 Skypark LLP	796
3 Housing Advances	3
4 Industrial Loans	4
319 Magistrates	257
265 PLUSS	226
26,069 Unfunded pensions	32,076
43 Probation	41
<u>28,221</u>	<u>33,668</u>

15. Financial Instruments

15.1 Financial instrument balances

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

	Long-Term		Current	
	31/03/2013	31/03/2014	31/03/2013	31/03/2014
	£000	£000	£000	£000
Financial liabilities at amortised cost:				
Loans and receivables	5,000	0	57,405	50,190
Cash flow investments (cash equivalents)	0	0	83,300	72,396
Cash	0	0	(20,615)	(23,968)
Available-for-sale financial assets	372	1,678	0	0
Total Investments	5,372	1,678	120,090	98,618
Debtors	676	774	55,104	56,499
Total Financial Assets	6,048	2,452	175,194	155,117
Financial liabilities at amortised cost:				
PWLB	(436,349)	(436,349)	(10,896)	0
Other Sources	(75,220)	(75,162)	(20,535)	(282)
Total Borrowings	(511,569)	(511,511)	(31,431)	(282)
Creditors	0	0	(93,178)	(91,356)
Financial liabilities at amortised cost:				
Other Long term Liabilities	(51,225)	(70,258)	0	0
Total Financial Liabilities	(562,794)	(581,769)	(124,609)	(91,638)

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.

During 2013/14 the Council entered into a financial guarantee of £98,000 in relation to Exeter Science Park, guaranteeing 50% of a loan of £5.304 millions from the Local Enterprise Partnership. The financial guarantee liability is carried at amortised cost and is calculated using the amount of the loan drawn down in 2013/14 and the likelihood of the guarantee being called.

Some of the borrowings from other sources are 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, but a loan of £20 millions was repaid during 2013/14 and has been shown under Current Borrowing.

The decrease in Current Investments reflects the use of internal resources to finance capital expenditure.

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 2011 at a Fair Value of £247,000 and included above as available for sale financial assets.

During 2010/11 the Council made an equity investment of £83,600 in Exeter Science Park Ltd. The Council has a forty-nine percent interest. The Science Park Company operates under 'de minimis' State Aid regulations with the intention of promoting Exeter

Science Park. The Council's shareholding has been independently valued at 31st March 2011 at a Fair Value of £nil. The Council made additional equity investments of £124,750 during 2012/13 and £1,305,604 during 2014/15.

In June 2013 Regional and City Airports (Exeter) Ltd went into liquidation with insufficient funds for a distribution to be made to its unsecured creditors. As a result both the long term debtor and the deferred capital receipt of £1.049 millions are no longer shown within the balance sheet.

15.2 Financial instruments gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

<u>2013/14</u>	Financial Liabilities	Financial Assets	Cash flow investments (cash equivalents)	Total
	Liabilities measured at amortised cost	Loans and receivables	£000	£000
	£000	£000	£000	£000
Interest expense	32,664	0	0	0
Impairment losses	0	1,210	0	1,210
Interest payable and similar charges	32,664	1,210	0	1,210
Interest Income	0	(705)	(470)	(1,175)
Interest and investment income	0	(705)	(470)	(1,175)
Net gain/(loss) for the year	32,664	505	(470)	35

<u>2012/13</u>	Financial Liabilities	Financial Assets	Cash flow investments (cash equivalents)	Total
	Liabilities measured at amortised cost	Loans and receivables	£000	£000
	£000	£000	£000	£000
Interest expense	32,848	0	0	0
Impairment losses	0	809	0	809
Interest payable and similar charges	32,848	809	0	809
Interest Income	0	(1,297)	(469)	(1,766)
Interest and investment income	0	(1,297)	(469)	(1,766)
Net gain/(loss) for the year	32,848	(488)	(469)	(957)

15.3 Fair value assets and liabilities carried at amortised cost

Loans and receivables, total borrowing and long term creditors are carried in the Balance Sheet at amortised cost. The fair value is 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 2013 and 2014.
- Loans from other sources and investments have been valued by reference to the set of interest rates in force on 31st March 2013 and 2014.
- No early repayment or impairment is recognised.
- The PFI figures have been calculated based on the 'premature repayment' set of rates in force on 31st March 2013 and 2014.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of short term debtors/creditors is the invoiced or billed amount.

The fair values calculated are as follows:

	31st March 2013		31st March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial Liabilities				
PWLB	(436,349)	(603,755)	(436,349)	(565,304)
Other Loans	(75,220)	(93,334)	(75,162)	(87,985)
PFI	(53,647)	(99,710)	(73,880)	(115,473)
	31st March 2013		31st March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and Receivables				
Long Term Investments	5,000	5,078	0	0

The fair value of the loans is in both 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. The fair value of the PFI liability is higher than the amount that is carried in the balance sheet. This is due to current loan rates being lower than the interest rate implied within the PFI contract.

15.4 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 Public Services. The Treasury Management Policy Statement together with the Statement of Treasury Management Practices (TMPs) was formally adopted by the

County Council on 16th February 2012. TMPs set out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. 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 2013/14 – 2015/16

The County Council adopts a very prudent approach to its cash investments. Events since 2008/09 have proved the value of this approach. It must be borne in mind that as the current low interest environment is outside the Council's control, this will impact on both borrowing and investment receipts budgets. The Treasury Management Strategy will continue to be set to ensure a prudent and secure approach.

The County Council is required under the guidance in the CIPFA Treasury Management Code of Practice to approve an Annual Investment Strategy.

The overall aims of the Council's strategy continue to be to:

- Limit the risk to the loss of capital;
- Ensure that funds are always available to meet cash flow requirements;
- Maximise investment returns, consistent with the first two aims; and
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

The overriding objective will be to invest prudently, with priority being given to security and liquidity before yield.

Security is achieved by the creation of an 'Approved List of Counterparties'. These are the banks, building societies, money market funds and other public bodies with whom we are prepared to deposit funds. In preparing the list, a number of criteria is used not only to determine who is on the list, but also to set limits as to how much money can be placed with them, and how long that money can be placed for.

Banks are expected to have a high credit rating. The Council uses the ratings issued by all three of the major credit rating agencies, Fitch, Moody's and Standard & Poor's, made available to the Council through its external Treasury Advisors – Sector. These are monitored daily.

The lowest rating published by any of the agencies is used to decide whether an institution is eligible for inclusion. This rating also determines the maximum amount which can be loaned to an individual counterparty. Additionally, any bank in which the UK Government has in excess of a 30% shareholding will be considered to be a safer investment. Non-Eurozone overseas banks that meet the criteria are included from countries with a high Sovereign rating.

The time length of all deposits with financial institutions will be managed prudently, taking account of the latest advice from the Council's external advisors (Sector).

Money Market Funds must have an 'AAA' rating, but are not currently being used.

Other public sector bodies are principally arms of Government, or other local authorities, and although not rated are deemed suitable counterparties because of their inherent low risk.

The 'Approved List of Counterparties' specifies individual institutions, and is formally reviewed at least monthly. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended. The table below summarises the current 'Approved List' criteria.

Counterparty Type	Fitch	Moody's	Standard & Poor's	Credit Limit
UK Banks with >30% UK Government ownership				
not below	A- & F1	A3 & P-1	A- & A-1	£50 million
Other UK Banks				
not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Building Societies				
not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
not below	A- & F1	A3 & P-1	A- & A-1	£30 million
Non-Eurozone Overseas Banks				
Sovereign Rating of	AAA	Aaa	AAA	
and not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
and not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Public Bodies				
Central Government				
				– Debt Management Office
				Unlimited
Local Government				
				– County Councils
				£10 million
				– Metropolitan Authorities
				£10 million
				– London Boroughs
				£10 million
				– English Unitaries
				£10 million
				– Scottish Authorities
				£10 million
				– English Districts
				£5 million
				– Welsh Authorities
				£5 million
Fire & Police Authorities				
				£5 million
Money Market Funds	AAA	Aaa	AAA	Not in use

The credit ratings shown in the table for banks and building societies allow for greater sensitivity in recognising counterparty risk. Liquidity in investments is the second key factor in determining our strategy. Funds may be earmarked for specific purposes or may be general balances, and this will be a consideration in determining the period over which the investment will be made.

The Council has a self-imposed limit of ensuring that at least 15% of deposits will be realisable within one month.

A requirement of the Prudential Code is to establish an indicator of the total principal sum invested for a period longer than 364 days, and to state the basis used in determining the amount. The purpose of this indicator is to help the Council to contain its exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

The limit on investments over 364 days will be set at no more than 20% of the total loans outstanding at any time or £30m whichever is the lower.

For the period 2013/14 – 2015/16 it has been assumed that the interest rate earned on short-term lending will be 1.0% p.a. throughout the three years. The addition of overseas counterparties to the list has provided greater flexibility, but the rates offered by a number of banks have reduced over the last year. The target we have set is thought to be one that is achievable.

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. Where there are comparative statistics available for individual aspects of the Strategy (e.g. the CIPFA Treasury Management Statistics) these will be used to monitor performance.

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 means that there is a risk of missing possible opportunities to borrow at even lower rates in the medium term.

Variable rate borrowing can be advantageous when rates are falling, but also means that there is a risk of volatility and a 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 has been to borrow at fixed rates of interest when rates are considered attractive.

The proposed Prudential Indicators for 2013/14 and beyond are set out in the table below:

	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	20	0
12 Months to within 24 months	25	0
24 Months to within 5 Years	30	0
5 years and within 10 Years	35	0
10 years and within 20 years	45	0
20 years and within 30 years	55	0
30 years and within 40 years	65	0
40 years and within 50 years	75	20

The limits have been set taking into account the CIPFA Code of Practice which requires that the maturity date for LOBO (Lender Option Borrower Option) loans is assumed to be the next call date, rather than the total term of the loan. This will apply to the Council's Money Market loans.

Limits to Debt

The Authorised Limit represents the level at which the council is able to borrow and enter into other long term liabilities. Additional borrowing beyond this level is prohibited unless the limit is revised by the Council. The table below details the recommended Authorised Limits for 2012/13-2016/17.

	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Authorised Limits for Borrowing	671,235	661,983	639,009	614,836	591,041
Authorised Limit for other Long- Term Liabilities	51,225	93,736	91,360	89,719	87,108
Authorised limit for External Debt	722,460	755,719	730,369	704,555	678,149

The Operational Boundary is based on the anticipated level of external debt and other long term liabilities during the year. Variations in cash flow may lead to occasional, short term breaches of the Operational Boundary that are acceptable. Sustained breaches would be an indication that there may be a danger of exceeding the Authorised Limits. The table below details the recommended Operational Boundaries for 2013/14 and following years.

	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Operational Limits for Borrowing	646,235	636,983	614,009	589,836	566,041
Operational Limit for other Long- Term Liabilities	51,225	93,736	91,360	89,719	87,108
Operational limit for External Debt	697,460	730,719	705,369	679,555	653,149

The Council also needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement. The table below details the Capital Financing Requirement against the total gross debt plus other long term liabilities.

	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Capital Financing Requirement	682,460	715,719	690,369	664,555	638,149
Gross Borrowing and other Long- Term Liabilities	559,075	601,586	599,210	597,569	594,958
Under/ (over) Borrowing	123,385	114,133	91,159	66,986	43,191

The debt management strategy and borrowing limits for the period 2013/14 to 2017/18 have been set to ensure that over the medium term net borrowing will only be for capital purposes.

Monitoring the Indicators

It is important to monitor performance against forward looking indicators and the requirement that borrowing should only be for capital purposes. The total level of borrowing will be monitored daily against both the operational boundary and the authorised limit. If monitoring indicates that the authorised limit will be breached, a report will be brought to the Cabinet outlining what action would be necessary to prevent borrowing exceeding the limit and the impact on the revenue budget of breaching the limit. It will be for the Cabinet to make recommendations to the County Council to raise the limit if it is felt appropriate to do so.

The indicators for capital expenditure, capital financing requirement, capital financing costs and the treasury management indicators will be monitored monthly. Any significant variations against these indicators will be reported to the Cabinet.

Liquidity Risk

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business and service objectives.

The daily cash flow is managed by officers in order to 'smooth' the flow of funds into and out of the Council, ensuring best returns on surplus funds, whilst minimising borrowing

costs on days where there is a shortage. Borrowing and lending is generally undertaken in periods of under one month to ensure as far as is possible that on no one day should there be a requirement to have to fund shortages in excess of £1 million. Days when it is known that large outflows of money will take place e.g. payroll dates, are obvious dates to ensure there is sufficient liquidity.

Balances that are identified as not being for immediate use, say within the next few months may be invested for longer periods.

The maturity analysis of borrowing is as follows:

	£000
Less than one year	(282)
Between one and two years	0
Between two and five years	0
Between five and ten years	0
Between ten and fifteen years	(39,610)
Between fifteen and twenty years	(8,903)
Between twenty and twenty-five years	(103,680)
Between twenty-five and thirty years	(50,403)
Between thirty and thirty-five years	(8,903)
Between thirty-five and forty years	(84,574)
Between forty and forty-five years	(113,625)
Between forty-five and fifty years	(98,151)
	<u>(508,131)</u>

Short term creditors (£106.978 millions) are due to be paid in less than one year.

Interest Rate Risk

The Council manages its exposure to fluctuations in interest rates with a view to containing its net interest costs, or achieving its interest revenues, as set out in the Revenue Budget.

It achieves these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

The level of exposure to Interest Rate Risk depends on the balance of fixed to variable monies. Here the risk is twofold. Being locked in to fixed funding when rates are falling, or failing to take advantage at a time when rates are perceived as low, or are forecast to rise; conversely, being locked into investments when rates are rising, and being unable to take advantage of this situation.

The Council has had, for a number of years, the policy of borrowing the fixed rate long-term element of its loans portfolio with loans from the Public Works Loan Board (PWLB) or the Money Market. This policy is reassessed annually as part of the adoption of the Treasury Policy Statement.

Interest Rate Risk is not increased by this policy as it is still possible to manage by switching existing loans from fixed to variable or vice versa, or re-scheduling existing debt, i.e. repaying existing debt, and re-borrowing over a shorter, or perhaps longer period. However, the existing arrangements operated by the Board of different rates for repaying loans as to those applied to new advances, mean that such changes are often uneconomic. Regard must always be had of the potential costs of any re-scheduling, as often they will attract a premium payable to the lender. This point is also referred to later under 'Re-financing Risk.'

Market Loans, usually in the form of Lender's Option Borrower's Option (LOBOs), offer an alternative to borrowing from the PWLB. Here money is borrowed for an initial period

against the issue of a Bond, and gives the Lender the Option of varying the rate at the end of the period. If this Option is taken, the Council as Borrower can in turn agree to the new rate, or repay the loan without penalty. The flexibility offered by such loans can be a great help in managing this type of risk. The lender, who has the choice to (or not to) exercise the first option, has to be seen as having the greater control of the arrangement.

On the investment side, the use of Call Accounts, Notice Money, Money Market Funds, and Callable Deposits all introduce a degree of flexibility not offered by fixed term 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 statement 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 statement. However, changes in interest receivable on variable rate investments will be posted to the income and expenditure statement and affect the general fund balance.

As the PFI Deferred Liability and 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 £723,960 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 at least one year ahead 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.

Exchange Rate Risk

The Council manages its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

It achieves this objective by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of exchange rates. The above is subject at all times to the consideration and, if required, Council approval of any policy or budgetary implications.

The risk from fluctuating exchange rates is not material as far as the Council is concerned, as there is currently very little of either income or expenditure transacted in currencies other than Sterling.

Inflation Risk

The effects of varying levels of inflation will be considered by the Council as an integral part of its strategy for managing its overall exposure to risk.

During the current period of low and stable inflation, there is little requirement for active consideration of its impact. The key objectives are that investments reap the highest real rate of return, with debt costing the lowest real cost. Should this change, projections of

inflation will become part of the debt and investment decision-making criteria, both strategic and operational.

Credit and Counterparty Risk

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and limits its investment activities to the instruments, methods and techniques referred to in TMP4 'Approved Instruments, methods and techniques'. It also recognises the need to have, and maintain, a formal counterparty policy in respect of those organisations with whom it may enter into financing arrangements.

The County Council's arrangements are formulated to restrict the exposure to risk by taking account of the credit standing of counterparties, and setting limits to different types of borrowers.

The credit ratings of all three major rating agencies (Fitch, Moody's and Standard & Poor's) will be used to ensure that commercial institutions satisfy the requirements of the current policy. In essence the County looks for the highest rating from banks and sets lending limits against each one. Banks and UK Building Societies that do not attract these ratings are not considered at all. The actual ratings sought by the Council may be varied as part of the regular review of lending policy and counterparties.

Lending to other Local Authorities, and Public Bodies is allowed, with differing credit limits according to the type of institution.

The List of Approved Counterparties is kept under close review and is subject to amendment in the light of changes to credit ratings, takeovers and mergers, or changes to the type of institution.

Approved institutions are placed on the lending list, deposits may not be made to any institution, which does not conform to the requirements of the Lending List, nor is any transaction allowed to be entered into through any money broker not featuring on the approved list. The financial press and other sources are monitored with a view to discovering cases where an institution on the List is in any difficulty, financial or otherwise. If appropriate, any organisation will be immediately suspended from the list until such time that they demonstrate their creditworthiness. The decision to suspend a counterparty is made by the Investment Manager, and notified to other officers by the issue of a revised Approved List.

Funds available to the County for investment are substantial, and the current lending policies ensure a balance of there being no difficulty placing funds, whilst at the same time the credit risk is minimised.

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

Credit Risk

	Amount at 31/03/14	Historic experience of default	Historic experience adjusted for market conditions at 31/03/14	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	98,618		0.0851%	84
Bonds				
Customers	114,240	0.16%	4.5238%	5,168
				<u>5,252</u>
	£000			
Less than three months	74,764			
Three to six months	1,892			
Six months to one year	2,786			
More than one year	<u>6,422</u>			
	85,864			
Provision for bad debts	(5,168)			
Long Term Debtors not yet due	<u>33,668</u>			
	<u>114,364</u>			

Refinancing Risk

The Council ensures that its borrowing arrangements are structured, and managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It actively manages its relationships with its counterparties in these transactions in such a manner as to secure this objective, and avoids over-reliance on any one source of funding if this might jeopardise its achievement.

External long term funding is arranged by the Treasury staff in accordance with the Treasury Strategy, which is adopted by the Council's members before the start of each financial year. All borrowings are with either the Public Works Loan Board or a major bank as lender.

Loans are offered by the Board over periods of one to fifty years and can be either at fixed or variable rates. There are also three methods of repaying loans; Maturity, by Equal Instalments of Principal (EIP), or as Annuity loans. The Council currently uses only the first type, and pays interest half-yearly in September and March. These payments are made by Direct Debit.

PWLB loans are fairly flexible; variable loans can be converted to fixed loans and vice versa, debt can be re-scheduled over different periods. Re-scheduling existing fixed rate debt however introduces an element of refinancing risk, which is increased in re-scheduling loans with long maturity profiles. The penalty (or premium) payable is dependent on the relationship between the loan rate and the current repayment rate for loans of a period equal to the unexpired term. As PWLB rates are reviewed daily, the timing of the rescheduling exercise is important if the costs of any penalties are not to cause problems to budgeted expenditure levels.

Market Risk

The Council seeks to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

All lending is in the form of cash deposits. There are no investments whose capital value may fluctuate, for example Gilts or Certificates of Deposit (CDs).

If Gilts were to be used, it would be on the basis of holding them to maturity so as not to introduce any element of risk

Price Risk

The authority does not generally invest in equity shares but does have two £1 shares in NPS (SW) Ltd and has an £1,513,934 equity investment in Science Park Ltd. These shares have a fair value of £1,677,604. Price is therefore not a significant risk for the authority.

16. Creditors and Debtors

16.1 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.

31st March 2013 £000		31st March 2014 £000
(7,062)	Central Government	(7,103)
(3,426)	Other Local Authorities	(4,511)
(1,490)	NHS Bodies	(2,820)
(28)	Public Corporations & Trading Funds	(30)
(96,479)	Other Entities & Individuals	(92,514)
(108,485)	Total	(106,978)

16.2 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 for payments in advance by the County Council.

31st March 2013 £000		31st March 2014 £000
23,533	Central Government	26,771
3,549	Other Local Authorities	8,015
624	NHS Bodies	4,928
16	Public Corporations & Trading Funds	333
49,963	Other Entities & Individuals	40,649
77,685	Total	80,696

17. Provisions (Long Term Liabilities)

Provisions are set up to meet known liabilities where the exact amount is not known when the accounts are prepared. They represent amounts already charged in the respective year in which the chargeable event took place.

Provisions estimated to be utilised after more than one year	As at 31/03/12	Amounts released	Amounts utilised	Provided in year	As at 31/03/13	Amounts released	Amounts utilised	Provided in year	As at 31/03/14
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Insurance Fund prior to 01/04/98	(511)	55	80		(376)		376	(75)	(75)
Insurance Fund from 01/04/98	(8,599)			(1,667)	(10,266)		1,583	(356)	(9,039)
Landfill aftercare								(6,301)	(6,301)
Total	(9,110)	55	80	(1,667)	(10,642)	0	1,959	(6,732)	(15,415)

Insurance provisions

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. A separate provision has been created for the period prior to 1 April 1998 which covers events prior to local government reorganisation on that date. Both provisions, taken together are currently sufficient to meet registered claims as at 31 March 2013. The timing of the settlement of the provisions above is uncertain but could occur over many years. The value of the provision has not been discounted but is reviewed annually and assessed on a triennial basis by Marsh Ltd

Landfill aftercare

The Council is responsible for ensuring that landfill sites do not pose a risk to the environment. During the final, aftercare phase, regular monitoring for leachate and gas emissions must be carried out and appropriate remedial action taken where necessary. A programme of estimated expenditure extending over forty years has been provided for in these accounts. That element falling due within one year is included as a provision in current liabilities while the remainder is similarly included in long term liabilities.

18. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31st March 2013	31st March 2014
£000	£000
(20,615) Bank Current Accounts	(23,968)
83,300 Investments less than 90 days	72,396
62,685	48,428

19. Assets Held for Sale

The movement on Assets Held for Sale balances during the year is as follows:

2012/13 £000	2013/14 £000
7,542 Balance outstanding at start of year	6,970
Assets newly classified as held for sale:	
1,442 Property, Plant and Equipment	670
Assets declassified as held for sale:	
Property, Plant and Equipment	
(2,014) Assets sold	(2,238)
<u>6,970</u> Balance outstanding at year-end	<u>5,402</u>

20. Unusable Reserves

2012/13 £000		2013/14 £000
(122,982)	Revaluation Reserve	(123,465)
(163)	Available for sale FI reserve	(163)
(381,591)	Capital Adjustment Account	(296,224)
17,787	Financial Instruments Adj Account	17,021
735,934	Pensions Reserve	760,331
(3,628)	Collection Fund Adjustment Account	(5,124)
8,566	Accumulated Absences Account	8,254
(1,049)	Deferred Capital Receipts Reserve	(471)
<u>252,874</u>		<u>360,159</u>

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

2012/13	2013/14
£000	£000
(127,568) Balance at 1st April	(122,982)
(20,681) Upward revaluation of assets	(24,499)
6,961 Downward Revaluation of assets and impairment losses not charged to the Surplus/Deficit on the provision of services	10,098
<hr/>	<hr/>
(141,288) Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(137,383)
2,642 Difference between fair value depreciation and historical cost depreciation	2,926
<hr/>	<hr/>
15,664 Accumulated gains on assets sold or scrapped	10,992
18,306 Amount written off to the Capital Adjustment Account	13,918
<hr/>	<hr/>
(122,982) Balance at 31st March	(123,465)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisitions, construction or enhancement of those assets under statutory provision. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2012/13		2013/14
£000		£000
(525,489)	Balance 1st April	(381,591)
	recognition of the PFI liability with regard to VA school / St Peters	20,680
	Adjustment to opening position - Loan to Academy schools	(200)
(525,489)	Adjusted opening position	(361,111)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
66,978	- Charges for depreciation and impairment of non-current assets	65,716
15,371	- Revaluation losses on Property Plant and Equipment	18,115
255	- Amortisation of intangible assets	174
10,049	- Revenue expenditure funded from capital under statute	22,030
202,560	- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	136,285
295,213		242,320
(18,306)	Adjusting amounts written out of the Revaluation Reserve	(13,918)
276,907	Net written out amount of the cost of non-current assets consumed in the year	228,402
	Capital financing applied in the year:	
(9,589)	- Use of the Capital Receipts Reserve to finance new capital expenditure	(10,226)
(90,434)	- Application of grants to capital financing from the Capital Grants Unapplied Account	(121,553)
(31,562)	- Statutory provision for the financing of capital investment charged against the General Fund	(28,833)
(1,424)	- Capital expenditure charged against the General Fund	(2,903)
(133,009)		(163,515)
(381,591)	Balance 31st March	(296,224)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31st March 2011 will be charged to the General Fund over the next 30 years.

2012/13 £000	2013/14 £000
18,562 Balance 1st April	17,787
(702) Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(690)
(73) Adjustments to softloans given by the Authority	(76)
(775) Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements.	(766)
17,787 Balance 31st March	17,021

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for past employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by the employees accruing years of services, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2012/13 £000 restated	2013/14 £000
688,569 Balance 1st April	735,934
30,888 Actuarial gains or (losses) on pensions assets and liabilities	(16,226)
60,836 Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	91,189
(44,359) Employer's Pensions contributions and direct payments to pensioners payable in the year	(50,566)
735,934 Balance 31st March	760,331

21. Other Long Term Liabilities

2012/13 £000	2013/14 £000
(762,003) Pensions Liability	(792,408)
(51,225) Private Finance Initiative Liability	(70,160)
0 Financial Guarantee	(98)
(813,228)	(862,666)

22. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made for use of assets (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisation is charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to services.

The income and expenditure of the Authority's services recorded in the budget reports for the year is as follows:

2012/13

Service Income and Expenditure

	People £000	Place £000	Corporate £000	Other £000	Total £000
Employees	340,622	31,620	45,762	-	418,004
Premises-related expenditure	26,435	6,365	8,889	-	41,689
Transport-related expenditure	27,659	11,503	597	-	39,759
Supplies and services	70,233	89,666	25,992	-	185,891
Third party payments	265,446	16,553	321	-	282,320
Transfer payments	30,223	-	-	-	30,223
Support services	25,749	5,972	2,179	-	33,900
Income	(467,685)	(34,454)	(42,066)	-	(544,205)
Service totals	318,682	127,225	41,674	-	487,581

2013/14

Service Income and Expenditure

	People £000	Place £000	Corporate £000	Other £000	Total £000
Employees	338,674	32,237	48,015	2,267	421,193
Premises-related expenditure	25,772	5,910	7,350	-	39,032
Transport-related expenditure	28,101	11,578	607	-	40,286
Supplies and services	71,401	72,315	29,022	-	172,738
Third party payments	269,358	20,046	18,052	-	307,456
Transfer payments	33,459	98	-	-	33,557
Support services	26,170	6,856	3,452	-	36,478
Income	(437,693)	(34,669)	(64,171)	-	(536,533)
Service totals	355,242	114,371	42,327	2,267	514,207

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012/13	2013/14
	£000	£000
Net expenditure in the Directorate Analysis	487,581	514,207
Net service expenditure not included in the analysis	11,346	2,142
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	<u>108,512</u>	<u>144,099</u>
	607,439	660,448
Amounts included in the Analysis not included in Cost of Services in the Comprehensive Income and Expenditure Statement	(70,526)	(71,266)
Cost of Services in the Comprehensive Income and Expenditure Statement	<u>536,913</u>	<u>589,182</u>

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2012/13

Reconciliation of Subjective Analysis to Net cost of services and Net surplus	Service analysis £000	Items not in analysis £000	Not reported to mngmnt £000	Not included in I&E £000	Allocn of recharges £000	Net cost of services £000	Corporate items £000	Net surplus £000
Employee expenses	418,004	4,686	15,623	(34,088)		404,225		404,225
Other service expenses	579,882	1,331	11,066	(15,875)		576,404		576,404
Support Services	33,900	233	24,145		(58,278)	-		-
Precepts & levies						-	640	640
Depreciation, amortisation and impairment			82,604			82,604		82,604
Interest payable						-	27,072	27,072
Pensions Financing and Investment Income and Expenditure						-	32,013	32,013
PFI financing charges						-	5,776	5,776
Gain or Loss on Disposal of Fixed Assets						-	198,499	198,499
Total operating expenses	<u>1,031,786</u>	<u>6,250</u>	<u>133,438</u>	<u>(49,963)</u>	<u>(58,278)</u>	<u>1,063,233</u>	<u>264,000</u>	<u>1,327,233</u>
Fees, charges & other service income	(166,296)	5,096	(24,926)	254	58,278	(127,594)		(127,594)
Interest and investment income						-	(1,766)	(1,766)
Income from council tax						-	(328,097)	(328,097)
Business rates retention scheme - tax element						-	-	-
Government grants and contributions	(377,909)			(20,817)		(398,726)	(287,716)	(686,442)
Total Income	<u>(544,205)</u>	<u>5,096</u>	<u>(24,926)</u>	<u>(20,563)</u>	<u>58,278</u>	<u>(526,320)</u>	<u>(617,579)</u>	<u>(1,143,899)</u>
Surplus or deficit on the provision of services	<u>487,581</u>	<u>11,346</u>	<u>108,512</u>	<u>(70,526)</u>	<u>-</u>	<u>536,913</u>	<u>(353,579)</u>	<u>183,334</u>

2013/14**Reconciliation of Subjective Analysis to Net cost of services and Net surplus**

	Service analysis £000	Items not in analysis £000	Not reported to mngmnt £000	Not included in CoS £000	Allocn of recharges £000	Net cost of services £000	Corporate items £000	Net surplus £000
Employee expenses	421,193	755	37,969	(33,263)		426,654		426,654
Other service expenses	593,069	2,728	16,878	(4,737)		607,938		607,938
Support Services	36,478	94	3,829		(40,401)	-		-
Precepts & levies						-	687	687
Depreciation, amortisation and impairment			84,005			84,005		84,005
Interest payable						-	26,264	26,264
Pensions Financing and Investment Income and Expenditure						-	32,847	32,847
PFI financing charges						-	6,400	6,400
Gain or Loss on Disposal of Fixed Assets						-	132,983	132,983
Total operating expenses	1,050,740	3,577	142,681	(38,000)	(40,401)	1,118,597	199,181	1,317,778
Fees, charges & other service income	(174,883)	(1,435)	1,418	527	40,401	(133,972)		(133,972)
Interest and investment income						-	(1,175)	(1,175)
Income from council tax						-	(298,555)	(298,555)
Business rates retention scheme - tax element						-	(20,958)	(20,958)
Government grants and contributions	(361,650)			(33,793)		(395,443)	(349,200)	(744,643)
Total Income	(536,533)	(1,435)	1,418	(33,266)	40,401	(529,415)	(669,888)	(1,199,303)
Surplus or deficit on the provision of services	514,207	2,142	144,099	(71,266)	-	589,182	(470,707)	118,475

23. Cash Flow – Adjustments to deficit on the Provision of Services for non-cash movements

2012/13 Restated £000		2013/14 £000
(66,978)	Depreciation	(64,575)
	Impairment	(1,142)
(15,371)	Revaluation Losses	(18,115)
(255)	Amortisation	(174)
3,182	(Increase)/Decrease in creditors	13,872
6,349	Increase/(Decrease) in debtors	8,814
92	Increase/(Decrease) in stock	(211)
(16,165)	(Increase)/Decrease in pension liability	(46,631)
832	(Increase)/Decrease in provisions	(5,743)
(202,560)	Net Book Value of disposals	(136,285)
7,454	Other non-cash items within the provision of services	(641)
(283,420)		(250,831)

24. Cash Flow – Adjustments to the deficit on the Provision of Services for investing and financing activities

2012/13 £000		2013/14 £000
4,050	Proceeds from sale of long-term and short-term investments	3,736
	Proceeds from sale of non current assets	
	Other items giving rise to investing or financing cash flows	
<u>4,050</u>		<u>3,736</u>

25. Cash Flow - Operating activities

2012/13 £000		2013/14 £000
480,529	Cost of services	490,835
641	Other Operating Expenditure	687
31,361	Financing and Investment Income and Expenditure	42,458
<u>(608,568)</u>	Taxation and Non-specific Grant Income	<u>(662,600)</u>
<u>(96,037)</u>	Net cash flows from operating activities	<u>(128,620)</u>

26. Cash Flow - Investing Activities

2012/13 £000		2013/14 £000
105,741	Purchase of property, plant and equipment, intangible and heritage assets	137,050
5,125	Purchase of long term investments	1,306
127,000	Purchase of short term investments	96,900
	Other payments	
(3,703)	Sale of property, plant and equipment	(3,754)
<u>(110,000)</u>	Sale of short term investments	<u>(108,900)</u>
<u>(47)</u>	Other receipts	
<u>124,116</u>	Net cash flows from investing activities	<u>122,602</u>

27. Cash Flow - Financing Activities

2012/13 £000		2013/14 £000
2,379	Repayment of long term borrowing	20,000
	Payments applied in reducing finance lease and PFI liabilities	447
<u>(418)</u>	External contribution to repayment of debt	<u>(172)</u>
<u>1,961</u>	Net cash flows from financing activities	<u>20,275</u>

28. Schemes under the Transport Act 2000

Devon County Council did not operate any schemes under this act in 2013/14.

29. Members' Allowances

The authority pays its elected members basic allowances, special responsibility allowances and travel and subsistence. During 2013/14 £1,031,289 was paid (£988,690 in 2012/13).

30. Audit Fees

In 2013/14 the County Council incurred the following fees relating to the external audit and inspection:

2012/13 £000		2013/14 £000
140	External audit	146
(12)	Audit fee rebates	(19)
19	Grant claims certification	2
4	Other services	0
<u>151</u>		<u>129</u>

31. Officers' Remuneration

31.1 Senior Officers Remuneration

The County Council is required to:

- Name all officers that earn over £150,000 per annum for all or part of a year.
- 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)

The remuneration paid to the Authority's senior employees is as follows:

	Note	Salary, Fees and Allowances £	Expenses Allowances £	Pension contributions £	Total £
Chief Executive	2013/14	149,995		27,449	177,444
	2012/13	149,995	0	27,449	177,444
Strategic Director - Place	2013/14	129,995		23,789	153,784
	2012/13	137,574	0	25,176	162,750
Strategic Director - People	2013/14	129,995		23,789	153,784
	2012/13	129,995	0	23,789	153,784
County Solicitor	2013/14	105,394		19,287	124,681
	2012/13	107,573	0	19,686	127,259
County Treasurer	2013/14	105,394		19,287	124,681
	2012/13	107,573	0	19,686	127,259
Head of Human Resources	2013/14	95,357		17,450	112,807
	2012/13	97,328	0	17,811	115,139
Head of Business Strategy & Support	2013/14	75,000		13,725	88,725
	2012/13	75,000	0	13,725	88,725
Director of Public Health	1 2013/14	155,506	189	21,771	177,466
	2012/13	0	0	0	0

Notes:

1) Director of Public Health's post transferred from the Primary Care Trust on 1st April 2013.

31.2 Officers Remuneration

The Authority's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) is set out below. This table includes those Officers disclosed in note 31.1

2012/13				Emoluments £	2013/14			
Schools Staff	Other Staff	Total	Left in Year		Schools Staff	Other Staff	Total	Left in Year
114	32	146	6	50,000 - 54,999	114	24	138	1
74	24	98	7	55,000 - 59,999	64	25	89	3
31	5	36	2	60,000 - 64,999	36	6	42	
17	2	19	1	65,000 - 69,999	17	5	22	4
9	5	14	1	70,000 - 74,999	15	6	21	3
6	9	15	3	75,000 - 79,999	5	5	10	1
4	2	6		80,000 - 84,999	2	3	5	
4	2	6	1	85,000 - 89,999				
2		2		90,000 - 94,999	6	2	8	
1	4	5		95,000 - 99,999		3	3	
2	1	3		100,000 - 104,999		1	1	
1	2	3		105,000 - 109,999	3	2	5	
				110,000 - 114,999				
				115,000 - 119,999				
				120,000 - 124,999		1	1	1
	2	2	1	125,000 - 129,999		2	2	
				130,000 - 134,999				
	1	1		135,000 - 139,999				
				140,000 - 144,999				
	1	1		145,000 - 149,999		1	1	
				150,000 - 154,999				
				155,000 - 159,999		1	1	
				160,000 - 164,999	1		1	1
				165,000 - 169,999				
				170,000 - 174,999				
				175,000 - 179,999				
				180,000-184,999				
				185,000-189,999		1	1	1

31.3 Exit Packages

The table below shows the number and value of exit packages included within the Comprehensive Income & Expenditure Statement.

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012/13 No.	2013/14 No.	2012/13 No.	2013/14 No.	2012/13 No.	2013/14 No.	2012/13 £000	2013/14 £000
£0 - £20,000	95	81	77	69	172	150	1,082	770
£20,001 - £40,000	17	8	18	15	35	23	1,024	671
£40,001 - £60,000	3	3	8	4	11	7	511	329
£60,001 - £80,000		1	3		3	1	212	74
£80,001 - £100,000		3	2	1	2	4	175	363
£100,001 - £150,000			1	3	1	3	124	388
£150,001 - £200,000		1	1		1	1	168	181
£200,001 - £250,000								
	115	97	110	92	225	189	3,296	2,776

32. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

Credited to Taxation and Non Specific Grant Income

2012/13	2013/14
£000	£000
UK Government Revenue Grants:	
(5,275) Revenue Support Grant	(136,264)
(175,973) Non Domestic Rates	0
0 Business Rates Retention Scheme	(68,832)
(1,446) New Homes Bonus	(2,293)
(2,030) Local Service Support Grant	(1,326)
(8,155) Council Tax Freeze Grant	(3,301)
(4,357) Private Finance Initiative - Interest	(4,254)
0 Adoption Reform Grant	(1,258)
0 Education Services Grant	(9,187)
0 Council Tax Support Transition	(336)
0 Commons Pioneer Authority	(4)
0 Community Voice	(9)
0 Small Business & Empty Property Rate Relief	(999)
0 Efficiency Support for Sparse Areas	(741)
<u>(197,236)</u>	<u>(228,804)</u>
Capital Grants:	
(39,503) Local Transport Plan - DFT grant	(46,385)
(15,991) South Devon Link Road - DFT grant	(39,219)
(9,794) Schools Capital Maintenance - DFE grant	(9,239)
(320) Dartmouth Academy - DFE grant	(5,942)
(7,216) Schools Basic Needs - DFE grant	(5,201)
(4,920) Devolved Formula Capital - DFE grant	(2,922)
0 Local Infrastructure Fund - DCLG grant	(1,995)
(2,044) Invest in Community Capacity - DoH grant	(1,923)
(3,830) East of Exeter - DFT grant	0
(6,862) Other	(7,570)
<u>(90,480)</u>	<u>(120,396)</u>
<u>(287,716)</u>	<u>(349,200)</u>

Credited to Services

2012/13	2013/14
£000	£000
(1,422) Active Devon	(955)
(151) Additional Grants for Schools	0
0 Adoption Reform Grant	(238)
(3,073) Bellwin Claim Grant	(690)
(335) Areas of outstanding Natural Beauty	(315)
(152) Bus Services Operators Grant	(447)
(253) Cycling Projects Grant	(253)
(324,303) Dedicated Schools Grant	(328,485)
(25,366) Early Intervention Grant	0
0 Education Funding Agency	(2,231)
(154) Golden Hello	0
0 Highways Maintenance - Severe Weather	(4,422)
(9,701) Learning Disability Health Reform	0
0 Local Reform Community Voices	(631)
0 Other Communities Government Grants	(336)
(887) Local Sustainable Transport Fund	(1,087)
(996) Music Education Grant	0
(2,580) Private Finance Initiative	(2,683)
(8,974) Pupil Premium	(13,219)
0 Public Health	(20,748)
(315) SCITT Teacher Training	(528)
(3,756) Skills Funding Agency/Young Persons Learning Agency	0
0 Adult and Community Learning	(3,952)
0 Discretionary Social Fund	(1,365)
(374) South West Coast Path and Country Parks	(176)
(165) Special Education Needs Disability Pathfinder	0
(324) Substance misuse	0
(975) Troubled Families Programme	(2,458)
(266) Youth Justice Board - Youth Offending	(237)
(12,170) YPLA Post 16 Funding	(7,476)
(1,039) Government Grants below £150,000	(1,024)
(397,731) Total UK Government Grants	(393,956)
(995) Total EU Grants	(1,487)
(1,809) Exeter Diocesan Board PFI contribution	(1,825)
(741) Contributions from other local authorities	(3,226)
(512) S106 contributions paid by developers	(1,424)
(628) Other contributions to services	(2,893)
(3,690) Total Contributions from Other Sources	(9,368)
(402,416) Total Grant Income Credited to Services	(404,811)

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income within the Comprehensive Income and Expenditure Statement as they have conditions attached to them that may require the monies to be returned to the giver if the conditions are not met. The balances at the year end are:

2012/13		2013/14
£000		£000
	Revenue Grants (Included within Revenue Grants Receipts in Advance - Long Term Liabilities):	
(2,624)	S106 Developer Contributions	(2,275)
	Revenue Grants (Included within Revenue Grants Receipts in Advance - Current Liabilities):	
(880)		(647)
	Capital Grants (Included within Capital Grants Receipts in Advance - Long Term Liabilities):	
(3,924)	Devolved Formula Capital	(2,694)
	0 Crediton Link Road	(2,312)
(1,679)	Targetted Capital Fund	(1,641)
(1,485)	Contributions from Royal Naval Stores site developments	(1,485)
	(730) Langage Energy Centre	(730)
(1,142)	Dartmouth Academy	(721)
(7,301)	Other	(7,248)
(16,261)		(16,831)

32.1 Details of the deployment of DSG receivable for 2013/14 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 2013/14 are as follows:

2012/13			2013/14		
Central Expenditure	ISB	Total	Central Expenditure	ISB	Total
£000	£000	£000	£000	£000	£000
		430,221			442,222
		(106,026)			(113,135)
		324,195			329,087
		4,463			4,428
		0			0
57,867	270,791	328,658	75,587	257,928	333,515
(7,619)	7,727	108	(17,179)	16,253	(926)
50,248	278,518	328,766	58,408	274,181	332,589
(45,820)		(45,820)	(48,514)		(48,514)
	(278,518)	(278,518)		(274,181)	(274,181)
		0			0
4,428	0	4,428	9,894	0	9,894

33. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

Summary of Capital Expenditure and Sources of Finance

2012/13	2013/14
£000	£000
682,371 Opening Capital Financing Requirement	666,457
Recognition of the PFI liability with regard to VA school / St Peters	<u>20,680</u>
682,371	687,137
Capital Investment	
107,236 Property, Plant and Equipment	129,298
18 Heritage Assets	12
125 Financial Assets	1,306
99 Intangible Assets	746
Revenue Expenditure Funded from Capital under Statute (REFCUS)	22,030
10,049	22,030
(13) Capital expenditure previously recognised (abortive costs)	0
Sources of Finance	
(9,589) Capital Receipts	(10,227)
(90,434) Government Grants and other contributions	(121,553)
Sums set aside from revenue:	
(1,424) Direct revenue contributions	(2,903)
(31,981) Statutory provision for the financing of capital investment	(29,004)
Capital provision	
0 Creation of Long Term Provision	6,879
0 Provision remaining at year end	<u>(6,586)</u>
666,457 Closing Capital Financing Requirement	677,135
612,810 Borrowing	603,256
53,647 Other Long Term Liabilities	<u>73,879</u>
666,457 Underlying Debt Requirement	677,135
Explanation of Movements in Year	
16,064 Increase in underlying need to Borrow (unsupported by government financial assistance)	19,040
0 Decrease in Capital Provision	293
(2,378) (Reduction)/ Increase in PFI liability	20,233
(29,600) Increase in the provision for repayment of debt	<u>(28,888)</u>
(15,914) Increase/(decrease) in Capital Financing Requirement	10,678

34. 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 32.

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 the following: 1- A member's partner is a foster carer and has received payment of £43,000 (2012/13 £36,000). 2 - A member's partner is the Director of Social Matters Ltd which has received payments of £50,000 in 2013/14 (2012/13 £31,000) 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. There is only one transaction that requires disclosure. A director's partner is a Trustee of The Parkview Society who received a total of £618,000 (2012/13 £625,000) from Devon County Council. The Parkview Society, a voluntary organisation, is a provider of residential care and supported living in the community.

34.1 Local Levies

The following levies were paid during the year:

2012/13		2013/14
£000		£000
281	Environment Agency	341
360	IFCA	347

All levies were due and paid during the year.

For the financial year 2013/14, the Council's County Treasurer acted as the Chief Finance Officer for the Dartmoor National Park Authority and the Devon and Severn Inshore Fisheries and Conservation Authority (IFCA). Also during 2013/14 the Council's HR department provided help and support to the IFCA. There were no outstanding sums due to or from the IFCA at the year end. The Council received payments from these bodies for services provided as follows:

2012/13		2013/14
£000		£000
42	Dartmoor National Park	40
12	IFCA	12

The Council gave grants to Dartmoor National Park Authority of £50,000 (2012/13 £97,000) principally for the maintenance of footpaths, bridleways and footbridges and

received grants of £6,700 (2012/13 £6,700) mainly for the support of public rights of way.

34.2 Other public sector bodies

The duties previously undertaken by the Primary Care Trust were reorganised at the start of 2013/14. Some of the duties were transferred to the NHS Commissioning Board (NHS England) but most passed to the Clinical Commissioning Groups (CCG's). In Devon these are North, East and West Devon CCG and South Devon and Torbay CCG. The organisations combined have provided £63.477 millions (2012/13 £66.648 millions) of income to the County Council of which £30.315 millions (2012/13 £27.950 millions) is included in the Comprehensive Income and Expenditure Statement and received payments of £8.602 millions (2012/13 £5.880 millions) during the year. The income is primarily for funded nursing care payments, which are administered by the County Council on behalf of the combined organisations and therefore not included within the Comprehensive Income and Expenditure Statement, and other healthcare partnership agreements. The expenditure is primarily in respect of joint staffing arrangements and a one off transfer back in relation to integrated health and social care funding. At the year end the authority was due £4.196 millions (2012/13 £5.966 millions) from the organisations combined and owed it £1.207 millions (2012/13 £5.958 millions).

34.3 Transaction with the Pension Fund

The Council charged the fund £2.395 millions (2012/13 £2.018 million) for expenses incurred in administering the fund. The whole of this sum was due at 31st March and settled in 2013/14.

34.4 Assisted Organisations

The Council has provided significant contributions to the following bodies:

- Seven District Councils in Devon have received a total of £373,000 (2012/13 £362,000) 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 £199,000 (2012/13 £369,000) and the Council for Voluntary Services £306,000 (2012/13 £577,000) from the Council conditional on long term agreements for the provision of services.
- The Community Council of Devon has received grants of £846,000 (2012/13 £443,000).
- Local Council Tax Schemes have received assistance valued at £30,000 (2012/13 £98,000).
- North Devon District Council Affordable Housing has received £8,000 (2012/13 £28,000).

34.5 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		2012/13 Restated			2013/14		
		Income £000	Expenditure £000	Net Expenditure £000	Income £000	Expenditure £000	Net Expenditure £000
	Health - Section 75 partnerships						
a	Joint Equipment Store	(3,014)	4,129	1,115	(4,810)	5,865	1,055
b	Integrated Health and Social Care	(88)	1,059	971	(164)	1,179	1,015
	Other partnerships						
c	Devon Audit Partnership	(119)	407	288	(110)	349	239
d	Devon Partnership Trust	(154)	1,539	1,385	(134)	1,458	1,324
e	South West Devon Waste Partnership	0	86	86	0	90	90
f	Safety Camera Partnership	0	237	237	0	220	220
g	Youth Offending Team	(1,193)	1,714	521	(1,070)	1,591	521
h	Devon Children's Safeguarding Board	(65)	250	185	(67)	254	187

a) The Council operates a pooled budget in conjunction with NEW Devon CCG, South Devon & Torbay CCG 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 £5.865 millions (£4.129 millions in 2012/13). The Council's net contribution to the pool is £1.055 million (£1.115 million in 2012/13). The Council's share (50%) of the stock and liabilities are held on the Council's balance sheet.

b) The Integrated Health and Social Care Management structure is a partnership arrangement under the terms of section 75 of the Health Act 2006, but is not a pooled budget. Staff are employed either by Devon CC, NEW Devon CCG, South Devon & Torbay CCG or North Devon Healthcare Trust, and agreed proportions of the cost of these staff are shared with other partners to the arrangement. The figures above represent the expenditure for which Devon County Council is accountable.

c) 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.

d) The Devon Health & Social Care Partnership Trust manages the provision of services for people with learning difficulties and mental health needs on behalf of the County Council and the Clinical Commission Groups (CCG's) operating in Devon. The spending shown above represents the County Council's contribution to the joint working arrangement.

e) 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.

f) The Safety 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 the Road Safety Grant.

g) The Youth Offending Team is a statutory partnership funded by contributions from the County Council, Devon & Cornwall Police Authority, NEW Devon CCG, South Devon & Torbay CCG, and the National Probation Service, as well as a combination of government grants. The initiative provides programmes to reduce youth re-offending and youth crime prevention programmes to reduce first time offending.

h) The Devon Children's Safeguarding Board has responsibility for co-ordinating and scrutinising the effectiveness of services being delivered to children and young people across Devon. This partnership is funded by contributions from the County Council, Devon & Cornwall Police Authority, National Probation Service, NEW Devon CCG, South Devon & Torbay CCG, North Devon Healthcare Trust, Devon Partnership Trust and Careers South West Ltd (Connexions).

34.6 Subsidiary and Associated Companies and joint ventures

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

The company is limited by guarantee, with no share capital. The principal activity of the company is the provision of employment and work-related services for people with disabilities. The four local authority members, 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 2013/14 is as follows:

2012/13 restated		2013/14
£000		£000
(165)	Operating profit/(loss) for the year	1,570
737	Net assets at the balance sheet date	1,208
6,614	Net transactions with the Council during the year	12,034

A loan arrangement with the Company is disclosed in Note 14.

At the year end PLUSS owed the authority £44,000 (2012/13 £46,000) and the authority owed PLUSS £526,000 (2012/13 £808,000).

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 2013/14 is as follows:

2012/13		2013/14
£000		£000
267	Operating profit/(loss) for the year	364
946	Net assets at the balance sheet date	1,245
8,846	Net transactions with the Council during the year	6,764

A guarantee for premises liabilities is disclosed in Note 38.

At the year end NPS South West Ltd owed the authority £429,000 (2012/13 £111,000) and the authority owed NPS South West Ltd £529,000 (2012/13 £1.255 millions).

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 [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 2013/14 is as follows:

2012/13 restated £000		2013/14 £000
382	Surplus/(Deficit) for the year	(596)
(6,712)	Net liabilities at the balance sheet date	(9,984)
94	Net transactions with the Council during the year	37

A guarantee for pension liabilities is disclosed at Note 44.

There were no outstanding sums due to (2011/12 £12,000) or from (2011/12 £11,000) Careers South West Ltd at the year end.

Copies of the Company's accounts can be obtained from Careers South West Ltd, Head Office, Tamar Business Park, Pennygillam Industrial Estate, Launceston, Cornwall PL15 7ED.

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.

There were no outstanding sums due to or from the Exeter Skypark Ltd at the year end.

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. The company's registered office is Sir Stanley Clarke House, 7 Ridgeway, Quinton Business Park, Birmingham, B32 1AF. The Company's performance during 2012/13 is as follows:

2012/13 £000		2013/14 £000
(34)	Profit/(loss) for the year	462
918	Net assets at the balance sheet date	1,954
0	Net transactions with the Council during the year	721
325	Loan from Council to Skypark LLP	796

At the year end Skypark Development Partnership LLP owed the authority £6,000 and the authority owed Skypark Development Partnership LLP £53,000

Exeter Science Park Ltd [registered company no. 06828415]

The company was set up on 24th February 2009. The Council has a 49.97% interest. The Science Park Company operates under 'de minimis' State Aid regulations with the intention of promoting Exeter Science Park. The company's registered office is Exeter Science Park Limited, The Innovation Centre, Rennes Drive, Exeter, Devon, EX4 4RN. The Company's performance during 2013/14 is as follows:

2012/13 restated		2013/14
£000		£000
(185)	Profit/(loss) for the year	(179)
877	Net assets at the balance sheet date	2,563
131	Net transactions with the Council during the year	1,730

At the year end Exeter Science Park owed the authority £14,000 and the authority owed Exeter Science Park £373,000.

Devon Norse Ltd [registered company no. 07553812]

The company was set up on 7th March 2011 to provide cleaning and catering services. The Council has a 20% equity holding in the Company. The company's registered office is Devon Norse Limited, 280 Fifers Lane, Norwich, Norfolk, NR6 6QE. The Company's performance during 2013/14 is as follows:

2012/13 restated		2013/14
£000		£000
78	Profit for the year	57
98	Net assets at the balance sheet date	156
10,718	Net transactions with the Council during the year	7,619

At the year end Devon Norse Ltd owed the authority £9,000 (2012/13 £46,000) and the authority owed Devon Norse Ltd £392,000 (2012/13 £522,000).

Babcock LDP LLP [registered company no. OC377058]

The company was set up on 1st April 2012. Babcock LDP LLP is joint venture between Devon County Council and Babcock Training Ltd and the Council has a 19.9% holding in the Company. Education and inclusion services previously delivered by the Learning Development Partnership as a Council service have been transferred to Babcock LDP LLP. The company's registered office is Babcock LDP LLP, 33 Wigmore Street, London W1U 1QX. The Company's performance during 2013/14 is as follows:

2012/13 restated		2013/14
£000		£000
628	Profit for the year	770
2,628	Net assets at the balance sheet date	3,398
17,922	Net transactions with the Council during the year	14,045

At the year end Babcock LDP LLP owed the authority £252,000 and the authority owed Babcock LDP LLP £79,000.

South West Grid for Learning Trust [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 38.

At the year end South West Grid for Learning Trust owed the authority £25,000 (2011/12 £4,000) and the authority owed South West Grid for Learning Trust £23,000

34.7 Combined interest

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

35. Private Finance Initiative

Exeter Schools - PFI Scheme

2013/14 was the ninth year of a 28 year PFI contract for the construction, maintenance and operation of 5 secondary and 1 primary schools in the city of Exeter. The contract confers rights to the Governing Bodies of the schools for 195 School Days from 8am to 5.30pm. During these hours and on these days the schools should be fully functional. In addition staff should be able to gain access to all areas of the school from 7.30am to 6.00 pm.

Additionally each school is entitled to additional school periods defined within the Project Agreement which were agreed prior to commencement. These vary between individual schools.

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the schools and maintain them to a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the schools. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Authority in a condition complying with the Residual Life Requirements, for nil consideration. The Authority only has rights to terminate the contract if it compensates the contractor in full for the Senior Debt, subordinate debt and any other costs incurred.

The Authority recognises the assets held under the PFI contract where they are Local Authority controlled school. The PFI school buildings are not included on the balance sheet when the school is Voluntary Aided, Academy or Trust.

During 2013/14 two PFI schools changed their school categories; Isca College of Media Arts converted to academy status (October 2013), sponsored by the Ted Wragg Trust, and West Exe Technology College converted from community to foundation (January 2014), a member of Exeter Learning Trust. In accordance with proper accounting practices a combined carrying value of £28.445m was derecognised from the Authority's balance sheet. Wynstream Primary School and St Luke's Church Of England Science & Sports College PP&E assets remain on the Authority's balance at the 31 March 2014.

The PFI liability has been increased by £20.680 millions in 2013/14 in order to recognise the liability relating to all six schools. The authority had not previously recognised the liability relating to St Peter's as it is a Voluntary Aided School.

Value of Assets held under PFI contracts

2012/13		2013/14
£000		£000
	Property Plant & Equipment	
51,643	Opening Net Book Value	49,221
	Additions	5
(2,422)	Depreciation	(2,014)
	Revaluations	
	Disposals	(28,445)
49,221	Closing Net Book Value	18,767

The PFI liability is carried on the Balance Sheet at amortised cost. The fair value is assessed by calculating the present value of the cash flows over the remaining term of

the agreement. This has been calculated based on the Public Works Loan Board (PWLB) premature repayment set of rates in force on 31/03/13 and 31/03/14.

The fair value of the liability is higher than the amount that is carried in the balance sheet. This is due to current loan rates being lower than the interest rate implied within the PFI contract.

Value of Liabilities held under PFI contracts

2012/13		2013/14
£000		£000
(56,025)	Opening Liability	(53,647)
	recognition of the PFI liability	
	with regard to VA school / St	
0	Peters	(20,680)
2,378	Repayment of Liability	447
<u>(53,647)</u>	Closing Liability	<u>(73,880)</u>
<u>(99,710)</u>	Fair Value	<u>(115,473)</u>

Payments due to be made under the PFI Contract for Liabilities 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.

Payments to be made under the PFI Contract for Liabilities held on Balance Sheet

	Repayments of Liability	Interest Charges	Service Charges	Other Cash Charges	Total Payments
	£000	£000	£000	£000	£000
Within 1 year	3,719	6,081	2,677	763	13,240
Within 2 - 5 years	14,860	21,327	11,484	4,528	52,199
Within 6 - 10 years	20,125	19,663	16,288	7,891	63,967
Within 11 - 15 years	18,109	11,594	18,761	12,868	61,332
Within 16 - 20 years	17,066	4,625	21,611	15,167	58,469
	<u>73,879</u>	<u>63,290</u>	<u>70,821</u>	<u>41,217</u>	<u>249,207</u>

Payments under the contract commenced in 2005/06. For both the on balance sheet schools and the off balance sheet schools the total payments under the contract amount to £348 millions. Set against this is a grant of £249 millions that will be received from central government. Of the balance, £65 millions will be met from delegated school budgets and the remainder (£34 millions) will be financed by the county council.

The un-discharged liability to Devon County Council under the contract is £18.470 millions of which the maximum in any year is £2.1 millions. This is based upon an assumed inflation rate of 2.5%. If inflation is greater than 2.5% then the un-discharged liability and maximum payment in any year will increase. In 2013/14, Devon County Council's contribution was £2.0 millions. We currently assume that inflation will be 2.5% as per the Bank of England target. If inflation is 1% greater than this then Devon County Council's undischarged liability will increase by £7.4m to £25.9m.

36. Leases and Contract Hire

Finance leases (Council as Lessor)

Land and buildings: The Council has 55 assets that are leased to tenants that meet the definition of a finance lease. The present value at 31 March 2014 of the rental payments due to the Council is estimated to be £0.5m. 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 comprehensive income and expenditure statement as it falls due.

Finance leases (Council as Lessee)

Land and buildings: The Council has 42 assets that are held on finance leases. The Council's interest in the assets is included within non-current assets on the balance sheet. The present value of lease payments to be made over the term is estimated to be £2.570m. 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 comprehensive income and expenditure statement as they fall due.

Operating leases (Council as Lessee)

The future minimum lease payments due under non-cancellable leases in future years are:

2012/13	Property £000	Equipment £000	Contract	Total £000
			Hire £000	
Not later than 1 year	865	602	68	1,535
Later than 1 year but not later than 5 years	2,430	1,339	38	3,807
Later than 5 years	5,246	41	0	5,287
	8,541	1,982	106	10,629

2013/14	Property £000	Equipment £000	Contract	Total £000
			Hire £000	
Not later than 1 year	1,224	543	42	1,809
Later than 1 year but not later than 5 years	3,154	1,075	13	4,242
Later than 5 years	7,176	23		7,199
	11,554	1,641	55	13,250

The expenditure charged to cost of services in the comprehensive income and expenditure statement was:

2012/13	Property £000	Equipment £000	Contract	Total £000
			Hire £000	
Minimum lease payments	890	610	68	1,568
	890	610	68	1,568

2013/14	Property £000	Equipment £000	Contract	Total £000
			Hire £000	
Minimum lease payments	963	566	42	1,571
	963	566	42	1,571

Operating leases (Council as Lessor)

The rental received for operating property leased to third parties for the year is £1.659m of which £747,000 relates to smallholdings. The gross value of smallholdings at 31 March 2014 is £13.804m. Property leases are often for parts of assets for which individual valuations are not maintained and therefore an exact valuation is not provided.

The future minimum lease payments due under non-cancellable leases in future years are:

2012/13		2013/14
£000		£000
943	Not later than 1 year	1,659
2,973	Later than 1 year but not later than 5 year	3,156
7,889	Later than 5 years	3,470
11,805		8,285

The expenditure charged to Cost of Services in the Comprehensive Income and Expenditure Statement was:

2012/13		2013/14
£000		£000
945	Minimum lease payments	891
945		891

37. Pensions

As part of the terms and conditions of employment of its officers and other employees, the County Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The County Council participates in three different pension schemes:

- The Local Government Pension Scheme
- The Teachers Pension Scheme
- The NHS Pensions scheme

Unfunded Benefits

Unfunded Benefits are a defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

37.1 Defined Benefit Pensions Schemes

The Local Government Pension Scheme (LGPS), administered locally by Devon County Council, is a funded defined benefit final salary scheme with its benefits defined and set in law, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

The LGPS is contracted out of the State Second Pension Scheme (S2P) and must, in general, provide benefits at least as good as most members would have received had they remained in S2P.

The LGPS provides significant retirement and death benefits to its members which include the following:

- A guaranteed pension calculated as $1/60 \times \text{final salary} \times \text{post April 2008 service}$
- A guaranteed pension calculated as $1/80 \times \text{final salary} \times \text{pre April 2008 service}$
- A Tax free lump sum upon retirement calculated using the formula $3/80 \times \text{final salary} \times \text{pre April 2008 service}$. Options are available to increase the lump sum
- Ability to increase benefits by paying additional voluntary contributions
- An Ill health pension payable from any age
- Immediate unreduced pension on redundancy after the age of 55
- Death in Service lump sum of $3 \times \text{salary}$
- Widow's/widower's/civil partner's/co habiting partner pension payable for life
- Children's pension
- Benefits rise in line with inflation

The Local Government Pension Regulations 2013 were laid in Parliament in September 2013 with the new scheme commencing on 1 April 2014 for all future LGPS membership.

Existing pensioner and deferred members will not see any change to their benefits.

Employees with membership in the current final salary scheme will retain the link to final salary for all membership built up before 1st April 2014 and the Normal Pension Age as under the current rules for membership up to that date.

Previously agreed protection will continue, including the provisions for those members who were protected against the removal of the Rule of 85 in 2006. There will also be additional protection for members within 10 years of age 65 as at 1st April 2012.

Some of the main provisions of LGPS 2014 are as follows:

- A Career Average Revalued Earnings (CARE) Scheme revalued in line with CPI
- The Accrual rate will be 1/49th
- Retirement age linked to State Pension Age
- A 50/50 option where members can elect to pay half the contributions for half the pension.
- Benefits for service prior to 1st April 2014 are protected and keep the final salary link.

The Pension Liability does not represent an immediate call on the authority's reserves and is a snap-shot valuation in time based on assumptions. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term.

See page 112 for information on the regulatory framework of the LGPS and the Authority's role as an Administrating Authority.

Transactions relating to Retirement Benefits

The County Council recognises the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Local Government Pension Scheme and Unfunded Benefit Arrangements - Liabilities

	2012/13 Restated £000	2013/14 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service cost comprising:		
Current service cost	37,824	44,472
Past service costs, including curtailments	1,659	813
(Gain)/loss from settlements	(12,836)	10,377
Contribution to pre 01/04/98 unfunded benefits	2,176	2,679
Financing and Investment Income and Expenditure:		
Net interest expense	31,579	32,301
Administration expense	434	547
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	60,836	91,189
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	(70,013)	(3,374)
Actuarial gains and losses arising on changes in demographic assumptions		7,827
Actuarial gains and losses arising on changes in financial assumptions	100,900	34,563
Experience loss/(gain) on defined benefit obligation		(78,954)
Other actuarial gains/(losses)		23,712
Remeasurement of the net defined benefit liability	30,887	(16,226)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	91,723	74,963
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code (Note 9)		
	60,836	91,189

	Funded Liabilities		Unfunded Liabilities	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers contributions payable to scheme	33,871	33,183	0	0
Retirement benefits payable to pensioners	0	0	8,625	8,695
	33,871	33,183	8,625	8,695

The capitalised cost of curtailments arising as a result of the payment of unreduced pensions to former employees on early retirement to the Authority is £813,000.

As a result of some members transferring to/from another employer over the year liabilities have been settled at a cost different to the IAS19 reserve. The capitalised loss of this settlement is £10.377 millions.

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme		Unfunded Liabilities	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Present value of the defined benefit obligation	(1,627,452)	(1,709,721)	(107,145)	(104,437)
Fair value of plan assets	972,595	1,021,751	0	0
Net liability arising from defined benefit obligation	(654,857)	(687,970)	(107,145)	(104,437)

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

Local Government Pension Scheme and Unfunded Benefit Arrangements

	2012/13 Restated £000	2013/14 £000
Opening fair value of scheme assets	897,120	972,595
Interest income	39,784	42,638
Administration Expenses	(434)	(546)
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	70,013	3,374
Other Actuarial gains/(losses)	0	(23,712)
Employer contributions	42,496	41,878
Contributions by scheme participants	9,771	12,145
Settlement prices received/paid	(22,813)	36,219
Benefits paid	(63,342)	(62,840)
Total Assets	972,595	1,021,751

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Local Government Pension Scheme and Unfunded Benefits - Liabilities

	2012/13 Restated £000	2013/14 £000
Opening balance	(1,612,071)	(1,734,597)
Current Service Cost	(37,824)	(44,472)
Interest Cost	(71,363)	(74,939)
Contributions from scheme participants	(9,771)	(12,145)
Remeasurement gains/(losses):	(100,900)	
Actuarial gains and losses arising on changes in demographic assumptions		(7,827)
Actuarial gains and losses arising on changes in financial assumptions		(34,563)
Experience (loss)/gains on defined benefit obligation		78,954
Past service costs, including curtailments	(1,659)	(813)
Liabilities assumed/(extinguished) on settlements	35,649	(46,596)
Benefits paid	63,342	62,840
Total (Liability)	(1,734,597)	(1,814,158)

Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets	31 March 2013		31 March 2014	
	£000	%	£000	%
Gilts	126,437	13%	71,523	7%
UK Equities	593,283	61%	265,655	26%
Overseas Equities	N/A	N/A	347,395	34%
Property	77,808	8%	91,957	9%
Infrastructure	N/A	N/A	20,435	2%
Target Return Portfolio	145,889	15%	153,263	15%
Cash	29,178	3%	20,435	2%
Other Bonds	N/A	N/A	51,088	5%
Net Asset / (Liability)	972,595	100%	1,021,751	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Barnett Waddingham LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2013.

The significant assumptions used by the actuary have been:

	Funded		Unfunded	
	2012/13	2013/14	2012/13	2013/14

Long-term expected rate of return on assets in the scheme:

Total expected rate of return on assets in the scheme	5.4%			
Discount rate *		4.4%		

* For accounting years beginning on or after 1 January 2013, the expected return and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return equal to the discount rate

Mortality Assumptions:

Life Expectancy from age 65 (years) - Retiring today:				
Men	20.6	22.7	20.6	22.7
Women	24.6	26.0	24.6	26.0
Life Expectancy from age 65 (years) - Retiring in 20 years:				
Men	22.6	24.9	22.6	24.9
Women	26.5	28.3	26.5	28.3
Rate of Inflation	2.5%	2.8%		
Rate of increase in salaries	4.7%	4.6%		
Rate of increase in pensions	2.5%	2.8%		
Rate of discounting scheme liabilities	4.3%	4.4%		
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%		

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	1,783,189	1,814,158	1,845,696
Projected service cost	38,690	39,581	40,494
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	1,818,467	1,814,158	1,809,876
Projected service cost	39,581	39,581	39,581
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	1,841,851	1,814,158	1,786,963
Projected service cost	40,508	39,581	38,675
Adjustment to mortality age rating assumption	+0.1%	0.0%	-0.1%
Present value of total obligation	1,750,421	1,814,158	1,878,471
Projected service cost	38,233	39,581	40,942

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 27 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The contributions due to be paid in the next financial year are estimated to be £33.636 millions.

37.2 Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers' Pensions Scheme

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013/14, the authority paid £18.504 millions to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2012/13 were £19.185 millions and 14.1%. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £18.357 millions.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed below.

The Authority is not liable to the scheme for any other entities' obligations under the plan.

NHS Pensions Scheme

On the 1st of April 2013 responsibility for certain public health service and activities transferred to Devon County Council from the NHS. The service was previously provided by the Devon Primary Care Trust (PCT). Thirty staff transferred to the authority from the PCT under TUPE arrangements and remained members of the NHS Pension Scheme, administered by the NHS Business Service Authority. The scheme provides members

with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded multi-employer defined benefit scheme. The last published actuarial valuation undertaken for the NHS Pension Scheme was as at 31 March 2004 (published in December 2007), with the next formal quadrennial actuarial valuation being due as at 31 March 2008 (the primary purpose of the formal actuarial valuations is to set employer and employee contribution rates). However, formal actuarial valuations for unfunded public service pension schemes were suspended by HM Treasury whilst reforms to public service pension provisions were discussed. The Scheme Regulations were changed to allow contribution rates to be set by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate..

The scheme has in excess of 9,000 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013/14, the county council paid £185,000 to NHS Pensions in respect of members' retirement benefits, representing 14% of pensionable pay. No payments were made during 2012/13. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £168,000.

The Authority is not responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the NHS Pensions Scheme.

The Authority is not liable to the scheme for any other entities' obligations under the plan.

It was identified during the transfer process that 10 transferring staff were contributing members of a life assurance scheme provided by private life by Canada Life, an arrangement which had historically been arranged to offer contributing members an enhanced death in service cover to extend their NHS cover from a payment of two years' salary to an employee's surviving relative, to three years' salary. This was provided at a cost of £1 per contributing member supplemented by contributions by the NHS.

Devon County Council has kept the arrangement for existing members by underwriting the value of the benefit and funding the payment of the same terms of death in service benefit in the event of the death of one of the existing staff members who are part of the Canada Life Scheme. The liability would only be in respect of 10 members of Public Health staff and ceases on the employee either leaving employment with the authority or retiring.

38. 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 £1.597 million at 31 March 2013 (£1.712 million at 31 March 2012).

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,
- 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.

Breach of Data Protection Act

Two breaches of the Data Protection Act have been reported to the Information Commissioner's Office. The first of these incidents involving the disclosure of personal information, has been investigated by the Information Commissioner and the outcome of that investigation is that no further action will be taken against the Council. The second incident, involving the disclosure of personal data, is currently under investigation by the Information Commissioner. It is not known whether the authority will be fined following the conclusion of this open investigation, but similar incidents reported by other organisations have realised fines of between £60,000 and £100,000 per incident. The maximum fine is £500,000 per incident.

Babcock LDP LLP

From 1 April 2012 a joint venture called LDP / Babcock between Devon County Council and Babcock International took effect. In order to limit risks to the joint venture, cost sharing arrangements are in place for pension and redundancy costs should certain trigger points be reached. Redundancy costs will be shared on a diminishing basis for the first 3 years of the contract where, as a result of action by the County Council, the contract value falls by more than 5 per cent in any year. Pension costs are subject to a cap and collar arrangement where, should the employer's contribution rate move upwards or downwards by more than 4 per cent, a financial adjustment will be made. The expectation is that the County Council would either incur additional cost if the rate

increases or benefit if it decreases around the 4 per cent threshold. The pension rate will be reviewed as at 1 April 2013 with the outcome being published early in 2014.

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 given guarantees to foster carers for uninsurable losses in relation to fire damage to their properties. The guarantees extend to eight properties with an estimated value of £3.4 millions.

39. Contingent Assets

Dartington School

A new primary school for Dartington was commissioned in 2008. Shortly after it was completed and occupied in December 2010, evidence of water ingress became apparent. Technical specialists have been commissioned to undertake an investigation in to the reasons behind the water ingress and to undertake an option appraisal exercise.

Letters of claim have been issued to the original designer White Design Architects as well as the original contractor Interserve, for the recovery of costs associated with the remedial building work, the temporary relocation of the school and associated costs and expenses. These two claims are in excess of £7.0m. Given the complexity of the legal process it is unlikely that the claim will be resolved until at least the first quarter of 2015.

Glossary of Terms

ACCOUNTING POLICIES

Accounting policies determine the basis on which income and expenditure, assets and liabilities, transactions and adjusting 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, how it is to be measured and where in the comprehensive income and expenditure statement or balance sheet it is to be presented.

ACCRUALS

Except for the cash flow statement, the statement of accounts is prepared using the accruals basis of accounting. This requires the non cash effects of transactions to be reflected in the accounting period during which those effects are experienced and not in that during which any cash is paid or received. On this basis, income and expenditure is reported when the related activity or benefit actually occurs.

ACTUARY

An actuary is an expert on pension scheme assets and liabilities. Actuaries compute the actuarial charges falling due in each year in accounting for retirement benefits. Actuaries also make recommendations every three years regarding the rate of employer contributions due to the local government pension scheme.

AMORTISATION

Amortisation represents the use of economic benefits derived from intangible assets and is charged on a straight line basis over their useful lives. These are reviewed annually. Amortisation is charged with but is distinct from impairment charges.

APPROPRIATION

Certain charges and credits which are made to the comprehensive income and expenditure account do not affect the authority's funding requirements and so are not chargeable to the general fund. In such cases appropriation of the amount concerned is made from the general fund to the relevant unusable reserve. The authority may also set sums aside for planned future expenditure by appropriation of the funding to earmarked reserves. All appropriations are included in the movement in reserves statement.

ASSOCIATE

An associate is an entity in which the authority has a participating interest and over which it is able to exercise significant influence but not control (which would create a subsidiary). The degree of influence is measured according to the substance of the relationship and takes account of contractual considerations, management input and the level of investment.

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

This is classified as an unusable reserve and carries the valuation surplus of those equity investments which are regarded under the Code as available for sale. The surplus comprises the amount by which fair value exceeds historical cost.

BALANCE SHEET

The balance sheet is one of the primary financial statements and presents the authority's recognised assets, liabilities and reserves as at the end of each financial year. It shows the distribution of assets in relation to short and long term liabilities and the extent to which the authority's net worth is available in usable and unusable reserves. Each balance sheet element is recognised and valued in accordance with the Code of Practice on Local Authority Accounting (the Code) as set out in supporting notes.

BUDGET

A budget is approved annually by the authority and sets out the council tax requirement for the next financial year. This council tax precept funds the planned spending programme which is presented net of income from grants, fees and charges and other sources. The budget does not include any of the adjustments needed to comply with

financial reporting standards and, as such, is not truly comparable with the results as shown in the statement of accounts for the same period.

CAPITAL ADJUSTMENT ACCOUNT

The capital adjustment account records the funding from internal resources of capital expenditure and the financing (under statute) of certain revenue expenditure. It also includes (for existing property, plant and equipment) the revaluation gains accumulated prior to 1 April 2007 (the date on which a separate revaluation reserve was established). It is an unusable reserve and relevant adjustments are summarised in the movement in reserves statement. Categorized as timing adjustments, these typically comprise period depreciation, amortisation and impairment debits, charges for financing of certain revenue expenditure under statute or for repayment of financial assistance for capital purposes, revaluation deficit adjustments, credits for financing charges to revenue (including MRP) and for unconditional grants applied to capital expenditure. Finally, there are adjustments in respect of assets reclassified (as investments or assets held for sale) or de-recognised on disposal.

CAPITAL CHARGES

Depreciation, amortisation and downward revaluations (subject to restriction) are charges made to the comprehensive income and expenditure account for the use, depletion or impairment of non current assets during each financial period. These charges do not affect the funding position of the authority and are accordingly appropriated from the general fund to capital adjustment account. Capital charges reduce the carrying value of property, plant and equipment and of intangible assets and correspondingly reduce the capital adjustment account and (again, subject to restriction) the revaluation reserve.

CAPITAL EXPENDITURE

Capital expenditure is expenditure on the construction, acquisition, development or improvement of property, plant and equipment and of intangible assets (principally, software licenses). Under legislation it may be financed from capital sources or from funds set aside from revenue. It is to be distinguished, however, from revenue expenditure funded from capital under statute (REFCUS) which is charged as revenue expenditure in the comprehensive income and expenditure account and only matched with its capital funding by transfer in the movement in reserves statement.

CAPITAL RECEIPTS

Capital receipts are income received from the sale of property, plant and equipment or intangible assets. They are available only to finance new capital expenditure or to repay debt. Until this occurs they are held on the capital receipts reserve.

CASH FLOW STATEMENT

The cash flow statement summarises the inflows and outflows of cash and cash equivalents resulting from operations, and from investing and financing activities. It also shows, by way of note, how the net cash flow from operations is related to the net surplus or deficit on the provision of services.

CIPFA

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

COMPONENTISATION

Assets may be analysed into various components that have significantly different estimated lives and differentially depreciated accordingly. The authority's policy on componentisation is described under the accounting policies in Note 1.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The comprehensive income and expenditure account shows the net cost in the year of providing services in accordance with generally accepted accounting practices (rather than the amount to be funded from taxation). It discloses the gross income and expenditure of continuing operations analysed by service, any exceptional items, other

operating expenditure, financing and investment income and expenditure, and taxation and non-specific grant income. These items together comprise the surplus or deficit on the provision of services. Below this line, valuation and actuarial gains and losses are included in order to arrive at the total comprehensive income and expenditure. Those elements which, under statutory regulations, are not to be accounted for in the general fund are transferred to unusable reserves as shown in the movement in reserves statement.

CONTINGENT LIABILITIES

Contingent liabilities arise where, firstly, past events precipitate a present obligation which is either unlikely to result in a transfer of economic benefit or cannot be measured with sufficient reliability. Secondly, past events may give rise to a possible obligation whose existence can only be confirmed by some future occurrence not wholly under the authority's control. A contingent liability is not provided for, therefore, either because of the improbability of outflow or the inability to measure it. Contingent liabilities are disclosed by way of note.

CONTRIBUTIONS

Contributions are receivable from health authorities, other local authorities and other non-governmental bodies in respect of the authority's functions carried out independently. They are distinguishable from fees and charges income, which is received under a contract of supply. The same distinction applies to contributions paid by the authority. Contributions receivable are distinguished from grant income only in that grants are received from UK or EU governments (or their agencies).

CREDITORS

Creditors are amounts due to third parties as at the balance sheet date arising from good or services that have been received but for which payment has not been made, from income received in advance of supply, or from unspent grant monies covered by a repayment clause. Creditors also include provisions and amounts held on account for payment.

CURRENT ASSETS/LIABILITIES

Current assets are amounts owed to the authority and due for payment within twelve months or items, such as stocks, that can be readily converted to cash. Current liabilities are amounts that the authority owes to other bodies, and due for payment within twelve months of the balance sheet date.

DEBTORS

Debtors are amounts owed to the authority at the balance sheet date where services have been delivered but payment has not been received. An unexpired period in a period-based charge is also included under debtors as expenditure in advance.

DEPRECIATION

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. As charged in the comprehensive income and expenditure account it represents the measure of the cost or re-valued amount consumed during the period. Depreciation is charged with but is distinct from impairment.

DONATED ASSETS

Assets may be donated by another public body, by government or by benefactors. These are reported under the non current asset heading appropriate to their particular nature and are included at fair value. The credit to comprehensive income and expenditure account represents the surplus of fair value over any consideration and this surplus is included in taxation and non specific grant income. The value of any condition requiring repayment is excluded from income and reported in the balance sheet as income in advance.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The financial instruments adjustment account is an unusable reserve which holds cumulative timing differences arising from valuation adjustments to loans and

receivables accounted for as financial instruments. Annual charges and credits included in the comprehensive income and expenditure account are transferred to the reserve as shown in the movement in reserves statement.

GENERAL FUND

The general fund is the usable revenue reserve which finances the authority's working capital. It represents the cumulative net budget surplus after appropriations to or from earmarked reserves and consists of two elements: the county fund and reserves held by schools under delegated management. The county fund balance is evaluated under the authority's risk management strategy as the amount required to fund operations without borrowing before the first precept payments are received.

GOVERNMENT GRANTS

These are sums of money paid UK or EU governments, or their agencies, in order to fund the activities of the authority. Grants in support of local government services may be for general application or, where restricted to specified services, ring-fenced. The amount of grant income credited to the comprehensive income and expenditure account for the year represents the value received (or due to be received) in the year less any such amounts which are repayable by virtue of a condition which has not been satisfied. Outstanding conditions are normally satisfied in the following year in which case the liability is transferred to income at that stage.

The following bodies (shown together with their common abbreviations) award grants to the authority and are the sources of income in the analysis of government grants:

- CLG = (Department of) Communities & Local Government
- CSPN = County Sports Partnership Network
- CWDC = Children's Workforce Development Council
- DCMS = Department for Culture, Media & Sport
- DEFRA = Department of the Environment & Rural Affairs
- DfE = Department for Education
- 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
- EFA = Education Funding Agency
- 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
- MoD = Ministry of Defence
- P4S = Partnership for Schools
- PSA = Public Service Agreement
- SCITT = School Centred Initial Teacher Training

- SDF = Sustainable Development Fund
- SFA = Skills Funding Agency
- TDA = Training and Development Agency
- YJB = Youth Justice Board

HERITAGE ASSETS

Heritage assets are assets that are held by the authority principally for their contribution to knowledge or culture. They are reported under a separate heading in the balance sheet (or notes thereto) and are included at fair value.

IMPAIRMENT

Impairment is the charge made in order to reduce the carrying amount of property, plant and equipment or intangible assets to the recoverable amount. An impairment loss is recognised when a specific asset's remaining service potential has been detrimentally affected by, for example, obsolescence, damage, or the adverse effects of reorganisation or regulatory changes. It is distinct from revaluation losses which, being price based, are non-specific in nature. Impairment also applies separately to financial instruments and to council tax collection.

INFRASTRUCTURE ASSETS

Infrastructure assets are part of property, plant and equipment (principally highways and footpaths) that are regarded as inalienable from the fabric of the Authority's responsibilities. As such, these assets have no resale value and are included in the balance sheet, subject to any impairment, at depreciated historical cost.

INTANGIBLE ASSETS

Intangible assets have no physical substance but have a value in use of more than one year. These assets are not considered as marketable and are included in the balance sheet, subject to any impairment, at amortised historical cost. All intangible assets currently owned by the authority are software licences.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

These standards are issued by the International Accounting Standards Board. They are adapted under the auspices of CIPFA so as to apply to local authorities and consolidated in the Code of Practice on Local Authority Accounting (The Code).

JOINT VENTURES

A joint venture is a contractual or binding arrangement under which two or more parties are committed to undertake an activity that is subject to joint control. The arrangement typically sets out the nature of the activity and its duration, its governing and reporting structure, and each venturer's share of inputs and outputs. Where their interests are considered to be material, Venturers report their participation in joint ventures in group accounts under the equity basis of accounting. Otherwise, joint ventures are regarded as investments and are reported under the financial instruments regulations applying to assets available for sale.

LANDFILL ALLOWANCES TRADING SCHEME (LATS)

LATS is accounted for as a 'cap and trade' scheme whereby an initial allowance (or 'cap') on the amount of biodegradable municipal waste (BMW) which the authority may dispose of in landfill without penalty is included as a government grant represented by current asset at fair value. Usage is then recorded as a current liability and settled by offset against the current asset or, if that is exceeded, either by penalty payment or offset against additional allowances purchased from other waste disposal authorities (WDAs). If, conversely, an asset remains, this may either be carried forward or traded with other WDAs. No value is currently attached to these assets.

LEASES

Two types of leases are accounted for. Finance leases transfer substantially all the risks and rewards of ownership of the assets concerned to the authority as lessee; operating leases do not. The type of lease concerned in a particular case will be determined using a list of prescribed criteria which include, for example, the length of the contract (in relation to the life of the asset), the nature of the asset (whether for specialist or general use) and the allocation of responsibility for maintenance and insurance. Operating leases are included simply as expenditure in the comprehensive income and expenditure account. Finance leases are capitalised as corresponding assets (within property, plant and equipment) and liabilities (discounted to net present value). The lease payments are similarly disaggregated as repayment of principal and interest while depreciation is charged annually to the service for which it is used.

LENDER OPTION BORROWER OPTION LOAN (LOBO)

Included in the Authority's borrowings are loans structured as LOBOs. These are fixed term loans with one or more options exercisable at specified dates, which allow the lender to charge a higher interest rate. If such an option is exercised, the borrower may then opt to repay the principal outstanding immediately. LOBOs are accounted for under reporting standards applying to Financial Instruments.

MINIMUM REVENUE PROVISION (MRP)

MRP represents the minimum amount that, under government regulations, must be appropriated from the general fund each year in order to fund the repayment of existing debt.

MOVEMENT IN RESERVES STATEMENT

The movement in reserves statement sets out transfers between reserves which are made in arriving at their balance sheet values. The surplus or deficit on the provision of services is carried to the general fund. Appropriations are then made (to exclude non-monetary charges and credits) to unusable reserves except for asset disposal sales proceeds and unapplied capital grants, which are usable reserves. Other discretionary appropriations are made to earmarked reserves for projected future spending. Appropriations are also made between the capital adjustment account and either the capital receipts reserve or capital grants unapplied reserve in order to reflect the application of capital grants and disposal receipts already credited to the comprehensive income and expenditure account. Adjustments to revaluation surpluses similarly involve capital adjustment account and the revaluation reserve.

NET BOOK VALUE/NET CARRYING AMOUNT

Net book value is the carrying amount at which assets and liabilities are included in the balance sheet under the Code. In the case of financial instruments, it is stated after including any timing adjustments and, in the case of property, plant and equipment and intangible assets, any revaluation, depreciation or amortisation. In all cases it is stated after any recognised impairment.

OUTTURN

Outturn represents the annual results of the revenue and capital programmes which the authority reports in order to account for its use of public funds under government legislation. It is reported in the same terms as the budget under which council tax funding was originally raised. The outturn report is not subject to external audit and does not apply the Code, nor does it include a balance sheet. As such it is not truly comparable with the statement of accounts.

PRECEPTS & LEVIES

A levy is a charge made by one statutory body on another in order 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 billing authority.

PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts, and also public-private partnerships (PPP), typically involve a private sector operator constructing or enhancing assets used in the provision of a public service, and operating and maintaining those assets for a specified period of time on behalf of the authority after which the assets pass to the authority for little or no incremental consideration. Under the Code, contractual charges made by the operator on the authority fall under two headings, finance lease (to finance construction or enhancement) and service provision (to finance operation and maintenance), and each heading is accounted for accordingly over the period of each contract. In cases where no asset is to pass to the Balance Sheet, all charges are made annually to the comprehensive income and expenditure account. Under the finance lease model, the liability remains with the Authority even where assets subsequently vest in schools on a change of status.

PRIOR PERIOD ADJUSTMENTS

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

PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are included in the balance sheet under the heading of property, plant and equipment. Such assets are carried at fair value and are regularly revalued in order to ensure that this remains the value at which they are reported annually. Where there is no market-based evidence of fair value (because of the specialist nature of an asset), depreciated replacement cost is used as an estimate of fair value. Depreciation is charged annually by reference to the remaining useful life of an asset or of each class of component making up that asset.

PROVISIONS

A provision is a liability of uncertain timing or amount. It is recognised when there is a present obligation (whether legal or constructive) as a result of a past event where a transfer of economic benefit is likely to result and a reliable estimate of this transfer can be made.

PUBLIC WORKS LOAN BOARD

The Public Works and Loans Board is a government agency which provides long term loans to local authorities.

RELATED PARTIES

Parties are considered to be related if one party has the ability either to control the other party or to exercise significant influence over it in making financial or operating decisions. Parties are also related if they are subject to common control. Related parties include subsidiaries, associates, joint ventures, and possibly other entities or individuals. Central government is a related party by this definition. Related parties attract additional disclosure requirements in order to identify the extent to which the authority may exercise or be subject to influence or control. The statement of accounts includes the following in this respect:

- Details of significant government grants and the awarding bodies;
- Transactions with subsidiary and associated companies;
- Transactions with the pension fund.
- Transactions with related individuals not applicable to other members of the community (for example, members and chief officers)

REVALUATION RESERVE

The revaluation reserve is an unusable reserve holding revaluation gains on property, plant and equipment and intangible assets. Each revaluation is asset specific, allowing no offset, and restricted to operational assets, thus excluding investment properties and surplus assets. Accounting for changes in valuation is closely prescribed and distinct from the treatment of impairment. Revaluations cannot be not grouped or offset, and a revaluation deficit is appropriated to capital adjustment account.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

REFCUS is revenue expenditure that is funded from capital either because it is capital in nature (but does not result in an asset) or because capital financing has been allowed by specific regulation. REFCUS is included accordingly in the comprehensive income and expenditure account and appropriated from general fund to capital adjustment account in the movement in reserves statement.

SECTION 151 OFFICER

The section 151 officer is the council officer designated under that section of the Local Government Act 1972 to take overall control of the financial affairs of the authority and to take personal responsibility for its financial administration.

UNUSABLE RESERVES

Unusable reserves are reserves that the authority is not able to utilise to provide services. These reserves fall into two categories, namely: revaluation balances and adjustment accounts. Revaluation gains held under the first category only become available for use when the assets to which they relate are disposed of and the gain realised as a capital receipt. In the second category, each reserve is named after the adjustment variously required to report the comprehensive income and expenditure account under the accounting basis. These adjustments are realised only by reversal and thus constitute timing differences. By these adjustments, the general fund continues to be stated under the funding basis required by regulation.

USABLE RESERVES

Usable reserves are reserves available to the authority for the provision of services although there may be statutory limitations on the type of use in each case. Reserves usable for capital expenditure consist of the capital receipts reserve (which may also be applied in the repayment of borrowings) and capital grants unapplied. Usable revenue reserves consist of the general fund together with any earmarked reserves set aside from general fund for specified future expenditure.

VALUATION

Assets and liabilities are included in the balance sheet at their carrying amounts, which are valuations determined in accordance with The Code. These are set out in the note on accounting policies.

Pension Fund Statement of Accounts 2013/14

Pension Fund Statement of Accounts 2013/14

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

Responsibilities of the County Treasurer

The County Treasurer 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 County Treasurer 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 County Treasurer 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 County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31 March 2014 has been prepared in accordance with the Accounts and Audit Regulations 2011 and that it presents a true and fair view of the financial position of the Pension Fund as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Mary Davis

County Treasurer

17th September 2014

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting on 25th September 2014

Chairman of the Audit Committee
25th September 2014

Summary of Scheme and its Management

The Local Government Pension Scheme (LGPS) is one of the oldest public sector schemes in operation, having been established as a national scheme in 1922. There are about 4.6 million members of 89 regional pension funds spread across England and Wales, roughly 75% of the local government workforce.

The LGPS is managed by administering authorities in accordance with regulations approved by Parliament. In Devon's case this is Devon County Council. Each administering authority is responsible for its own Fund, into which all contributions are paid. Rules by which the administering authorities must operate - the LGPS Regulations - are determined by the Government after consultation with representatives for both employees (trade unions) and employers (Local Government Association, Local Government Pensions Committee).

Each LGPS administering authority pays its benefits from a dedicated pension fund. Both the scheme member and their employer pay into this fund in order to provide retirement benefits for the member once they reach retirement age (or earlier if the situation demands). Before this time arrives however, the contributions paid into the scheme are invested in a variety of suitable investments. By investing the contributions in this way the fund can build up enough assets to cover any payments it may be expected to make regarding its scheme members retirement benefits. Please visit the website <http://www.peninsulapensions.org.uk/> for further information.

As of 31st March 2014, the net assets of the Devon County Council Pension Fund were valued at £3,140 million. The fund itself currently has 37,229 actively contributing members, employed by 185 employers of various descriptions (Unitary, District, Town & Parish Councils, Education Establishments and Admitted Bodies). Pensions are paid to 28,126 pensioners (and/or dependants) every month. There are currently 34,363 members with rights to deferred benefits, frozen memberships pending refunds and those undecided pending resolution.

The LGPS is contracted-out of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of the State Second Pension.

The Local Government Pension Scheme regulations changed with effect from 1st April 2014, and from that date moved to a Career Average Revalued Earnings (CARE) scheme. Changes have been implemented to various factors including employee contribution rates, accrual rates and normal pension age, with the aim of ensuring a more equitable cost base between employees, employers and council tax payers.

Management Structure

Administering Authority Devon County Council
County Hall
Exeter
EX2 4QD

Your Pension Fund Representatives

Investment and Pension Fund Committee (at 31 March 2014)

Representing Devon County Council	Councillor Andy Boyd Councillor Ray Radford Councillor Jerry Brook Councillor Gaston Dezart Councillor Richard Edgell Councillor Rufus Gilbert Councillor Brian Greenslade Councillor Des Hannon Councillor Roy Hill Councillor Sara Randall Johnson Councillor Margaret Squires Councillor Claire Wright
Representing Devon Unitary & District Councils	Councillor Peter Edwards (Devon Districts Councils) Councillor Peter Smith (Plymouth) Councillor David Stark (Plymouth) Councillor John Thomas (Torbay)

Observers

Representing the Contributors	Roberto Franceschini Lorraine Parker
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Representing the Beneficiaries	Colin Lomax
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Adviser	John Harrison (AllenbridgeEpic)
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Investment Managers	Devon County Council Investment Team Aberdeen Asset Managers Ltd Aviva Investors Global Services Ltd Baillie Gifford and Co. Baring Asset Management Ltd Lazard Asset Management LLC Sarasin and Partners LLP State Street Global Advisors Ltd UBS Global Asset Management (UK) Ltd Wellington Management International Ltd
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County Council Officers	Phil Norrey Chief Executive Mary Davis County Treasurer Chris Phillips Deputy County Treasurer Mark Gayler Assistant County Treasurer Charlotte Thompson Head of Pension Services
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Fund Actuary	Barnett Waddingham LLP
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For More Information

Copies of the full Annual Report, Statutory Published Statements and abridged Members Leaflet can be found on-line at: <http://www.peninsulapensions.org.uk/lgps/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/>

Requests for information about the accounts or investments should be made in writing to Mark Gayler, Assistant County Treasurer - Investments and Treasury Management, Devon County Council, Room G99, County Hall, Exeter, EX2 4QD.

Financial Statements

Background

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

- The Local Government Pension Scheme, administered by Devon County Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DFE).
- The NHS Pension Scheme, administered by the NHS Business Service Authority.

All three schemes provide defined benefits to members earned as employees. The arrangements for the teachers' and NHS schemes mean that liabilities for these benefits fall on the NHS and DFE respectively and do not form part of the Devon Pension Fund. The fund also extends to cover employees of unitary and district councils, civilian employees of the Devon and Cornwall Police Authority and Devon and Somerset Fire & Rescue Authority and employees of a number of other admitted member bodies.

The accounts of the Fund are set out in line with the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The accounts reflect the assets that are available to the Fund, and the current liabilities. Future contributions are matched to future liabilities through an actuarial valuation.

All employers' contribution rates are decided by the Fund's Actuary every three years after an actuarial valuation of the fund. The statutory triennial actuarial valuation of the fund was undertaken in 2013 and was signed by the Actuary on 27 March 2014.

The Local Government Pension Scheme regulations changed with effect from 1st April 2014, and from that date moved to a Career Average Revalued Earnings (CARE) scheme. Changes have been implemented to various factors including employee contribution rates, accrual rates and normal pension age, with the aim of ensuring a more equitable cost base between employees, employers and council tax payers.

The Accounts are set out in the following order:

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

Fund Account

2012/13 £'000	Notes	2013/14 £'000
Dealings with members, employers and others directly involved in the fund		
Contributions		
111,900	Employers 7	113,917
34,703	Employees 7 & 9	35,099
Transfers in from other schemes:		
8,647	Individual Transfers	7,446
<u>155,250</u>		<u>156,462</u>
Benefits		
(114,737)	Pensions	(120,983)
(27,389)	Commutation of pensions and lump sum retirement benefits	(26,204)
(3,356)	Death Benefits	(3,248)
(15)	Refunds	(18)
Payments to and on account of leavers		
(5,636)	Individual Transfers	(6,233)
(1,689)	Administration expenses 10	(2,030)
<u>(152,822)</u>		<u>(158,716)</u>
<u>2,428</u>	Net additions/(deductions) from dealings with members	<u>(2,254)</u>
Returns on investments		
Investment Income:		
Fixed Interest		
556	U.K. Public Sector Bonds	364
53	U.K. Public Sector Index Linked Bonds	0
8,226	Overseas Government Bonds	7,229
1,126	UK Corporate Bonds	733
5,986	Overseas Corporate Bonds	5,802
Equities (Listed)		
3,201	U.K.	2,637
10,777	Overseas	10,127
10,666	Pooled Funds	12,848
1,760	Interest on Cash Deposits	522
0	Interest on Short term Deposits	96
Taxes on income:		
(3)	Withholding Tax - Fixed Interest securities	(24)
(508)	Withholding Tax - Equities	(709)
(6,890)	Investment Management expenses 10	(8,044)
Profit and losses on disposal of investments and changes in market value of investments: 21		
35,041	Realised profit/(loss)	66,862
250,534	Unrealised profit/(loss)	37,020
<u>320,525</u>	Net Returns on Investments	<u>135,463</u>
Net increase/(decrease) in the net assets available for benefits during the year		
322,953		133,209
<u>2,683,731</u>	Opening Net Assets of the Fund at 1 April	<u>3,006,684</u>
<u>3,006,684</u>	Net Assets of the Fund at 31 March	<u>3,139,893</u>

Net Asset Statement

2012/13 £'000	Notes	2013/14 £'000
INVESTMENTS AT MARKET VALUE		
	14 &15	
Investment Assets		
Fixed Interest		
9,031	U.K. Public Sector Bonds	10,959
217,110	Overseas Government Bonds	205,791
17,167	UK Corporate Bonds	20,184
152,580	Overseas Corporate Bonds	142,478
Equities (Listed)		
64,410	U.K.	68,412
420,704	Overseas	379,345
1,284,612	Managed Funds	1,475,280
739,673	Pooled Funds	763,611
Derivative Assets		
	17	
321	Futures - Overseas Fixed Interest	60
18	Overseas Bond Forwards	24
13	Options	0
2,976	Forward Currency Contracts	1,356
17,249	Foreign Currency	6,363
24,750	Short Term Deposits	5,750
31,500	Cash Equivalents	29,221
21,682	Cash & Bank Deposits	30,907
Investment Liabilities		
Derivatives		
	17	
(450)	Futures - UK Fixed Interest	0
(155)	Futures - Overseas Fixed Interest	(78)
(11)	UK Bond Forwards	0
(16)	Overseas Bond Forwards	(5)
(3,445)	Forward Currency Contracts	(2,057)
2,999,719	Total of investments held	3,137,601
Non current Assets and Liabilities		
	18	
10,761	Non current Assets	9,590
(12,032)	Non current Liabilities	(10,528)
Current Assets and Liabilities		
	18	
28,098	Current Assets	30,605
(19,862)	Current Liabilities	(27,375)
3,006,684	Net Assets of the fund available to fund benefits at 31 March	3,139,893

Notes to the Net Asset Statement

- a) The financial statements above summarise the transactions and net assets of the Fund but they do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund's accounting year.
- b) The actuarial position of the scheme, which does take account of such obligations, is summarised in the Statement of the Actuary for the year ended 31 March 2014 on pages 149 and 150.

Notes to the Accounts

1. Accounting Concepts and Policies

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

Devon County Council is the designated Administering Authority. The Investment and Pension Fund Committee comprising of County Councillors together with representatives of the Unitary and District Councils (with observers representing the staff and retired members) control the investments with advice from specialists. Employing body details are shown on page 148.

1.1 General Concepts

Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared which give a true and fair view of the financial position and financial performance.

Overriding Accounting Concepts

Accruals – Financial Statements are prepared on an accruals basis.

Going Concern – The accounts are prepared on the assumption that the Pension Fund 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 accounts of the Fund have been prepared in accordance with The IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The accounting convention adopted is fair value and investments are included in the accounts on a fair value basis.

1.2 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:

- Contributions, benefits and investment income are included on an accruals basis.
- All settlements for buying and selling of investments are accrued on the day of trading.
- Transfer values received and paid out have been accounted for on a cash basis.
- Interest on deposits is accrued if not received by the end of the financial year.

- Administration and Investment Management Expenses recharged from Devon County Council to the Pension Fund are accounted for in accordance with Devon County Council's accounting policies. In particular the full cost of employees is charged to the accounts for the period within which the employees worked.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Net Asset Statement.
- Some additional payments are made to beneficiaries on behalf of certain employers. These payments are subsequently reimbursed by those employers. The figures contained in the accounts are shown exclusive of both payments and reimbursements.

Actuarial present value of promised benefits

The actuarial present value of promised retirement benefits (the Funded Obligation) is disclosed only in the notes to the accounts and not within the Net Asset Statement as per IAS 26.

Additional Voluntary Contributions

The Additional Voluntary Contributions Investments are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009, but are instead disclosed within the notes not the accounts.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 90 days or less from date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets

Contingent assets are disclosed by way of note where inflow of a receipt or economic benefit is probable and whose existence or valuation will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Pension Fund.

Events after the Reporting Date

Events after the reporting date have been considered up to the time the Pension Fund Accounts were authorised for issue on 27th June 2014.

Where an event after the reporting date occurs which provides evidence of conditions that existed at the reporting date the Statement of Accounts is adjusted. Where an event occurs after the reporting date which is indicative of conditions that have arisen after the reporting date, adjustments are not made.

Financial Instruments

The Financial Instruments of the Pension Fund are classified into the following categories:

- Financial assets and liabilities at fair value through profit or loss:
 - The Pension Fund classifies financial instruments that are 'held for trading' as at fair value through profit or loss when the financial instrument is:
 - Acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or

- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
 - A derivative.
- Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value excluding transaction costs and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal.
- Loans and receivables:
 - Financial Instruments have been classified as loans and receivables when they have fixed or determinable payments and are not quoted in an active market.
 - Loans and receivables are initially recognised at Fair Value and carried at historic cost as they are all short term with the exception of capital payment due from the Devon & Cornwall Magistrates Courts Service (see note 18 - Debtors/Creditors).
- Financial liabilities:
 - The liabilities of the Pension Fund consist of creditors and derivative liabilities. Derivative liabilities are classified as financial liabilities at fair value through profit or loss and carried at fair value.

Foreign Currency Transactions

The Pension Fund has significant investments overseas. The value of these investments in the Net Asset Statement is converted into sterling at the exchange rate prevailing on 31 March 2014 as supplied by JP Morgan Worldwide Securities Services. Income receipts are normally converted into sterling at or about the date of each transaction, and are accounted for using the actual exchange rate received. Purchases and sales of overseas stocks are normally converted into sterling at the exchange rate applicable on the day of trading. Exchange rate gains or losses will be reported where the rate fluctuates between the day of trading and settlement.

Value Added Tax (VAT)

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

2. Valuation Basis

Cost of Investments

The cost shown in the Accounts excludes direct costs of purchasing investments.

Market Value of Investments

The market values of investments referred to in this report are provided by JP Morgan Worldwide Securities Services. JP Morgan are the custodians of the Fund. Derivatives are valued on a fair value basis. Investments are also valued at their fair value and where there is an active market the bid price is usually the appropriate quoted market price. However, in some cases in relation to property assets, NAV (Net Asset Value) pricing will be used where it reflects the dealing of the fund better than a single bid or ask price. As all investments are disclosed at fair value, carrying value and fair value are the same.

Derivatives

Futures are disclosed in the accounts at fair value, which is the exchange price for closing out of the contract at the Net Asset Statement date. This represents the unrealised profit or loss on the contract.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the Net Asset Statement date by entering into an equal and opposite contract at that date.

A bond forward is an agreement to trade a bill or bond at an agreed time and place in the future. The value of a bond forward is derived from the spot market of the underlying bond adjusted for the cost of carry and accrued interest.

3. Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1 the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- These accounts have been prepared on a going concern basis. The concept of a going concern assumes that the Pension Fund will continue in operational existence for the foreseeable future.
- Note 21 Additional Financial Risk Management Disclosures details the Fund's investment strategy and approach to managing risk. None of the authority's investments are impaired.
- The Fund's significant contracts have been reviewed and no embedded finance leases or service concessions found.

4. Assumptions made about the future and other major sources of estimation uncertainty

The Pension Fund Accounts contain estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Market Value of investments	The Fund's investments are revalued on a monthly basis. Investments are valued using quoted prices in active markets or by reference to markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs with the exception of the UBS International Infrastructure Fund LLP (See Note 5). While market values are not estimates, the method of valuation does mean that future values may fluctuate.	For every 1% increase in Market Value the value of the Fund will increase by £31.277m with a decrease having the opposite effect.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting actuaries, is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the actuarial present value of promised retirement benefits (the Funded Obligation) of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the Funded Obligation of £91,441. In the year to 31 March 2014 the Funded Obligation increased by £93,544 due to updating of the financial assumptions, and increased by £4,692 due to updating of the mortality and other demographic assumptions.

5. Estimates

The Devon Fund is a limited partner in the UBS International Infrastructure Fund LLP. UBS (the fund manager to the partnership) provides the Pension Fund with quarterly financial statements indicating the value of this investment. These statements are audited annually. For all other investments market values are available from an active market and as such no assumptions have been made in their valuation.

Where actual costs were not known or could not be calculated, year-end debtors and creditors are based on the last received payment or invoice.

6. Contingent Asset

Consequent upon rulings given in the European Court of Justice, the Devon Fund, along with a number of other local authority pension funds, is pursuing the recovery of tax paid on certain dividends. If successful this will be of material benefit to the Fund. The case is complex and subject to a number of appeal processes yet to be concluded. The potential value to the pension fund is not quantifiable at this time.

7. Contributions

2012/13		2013/14
£'000		£'000
Contributions Analysed by		
(43,666)	Administering authority	(43,112)
(92,864)	Scheduled bodies	(95,565)
(10,073)	Admitted bodies	(10,339)
(146,603)		(149,016)
Benefits Analysed by		
54,588	Administering authority	55,300
85,320	Scheduled bodies	89,504
5,589	Admitted bodies	5,649
145,497		150,453

8. Contribution Rates

Scheme members (employees) paid variable percentages of their total pensionable pay into the fund as set out below.

Whole Time Pay Rate	Whole Time Pay Rate	Member contribution rate
2012/13	2013/14	
£0 to £13,500	£0 to £13,700	5.5%
£13,501 to £15,800	£13,701 to £16,100	5.8%
£15,801 to £20,400	£16,101 to £20,800	5.9%
£20,401 to £34,000	£20,801 to £34,700	6.5%
£34,001 to £45,500	£34,701 to £46,500	6.8%
£45,501 to £85,300	£46,501 to £87,100	7.2%
More than £85,300	More than £87,100	7.5%

9. Additional Voluntary Contributions (AVC) Investments

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

31/03/2013	Contributions	Investment	Paid Out	31/03/2014
Restated		Return		
£000	£000	£000	£000	£000
5,780	541	333	(756)	5,898

These amounts are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

10. Administration Expenses

Devon County Council is the administering authority for the purpose of the Fund, and included within the investment management expenses are charges for investment

management, accounting and administration expenses. These have been incurred for the internal cost of providing the services. The expenses are detailed below:

2012/13		2013/14
£000		£000
Administration Expenses		
1,641	Pensions Administration (a)	1,961
34	Actuarial Services	58
14	Audit Fees (b)	11
1,689		2,030
Investment Management Expenses		
464	Investment Management & Accounting (a)	529
6,003	External Investment Management (c)	7,042
197	Custodian	174
(167)	Stock Lending Income & Commission Recapture	(124)
379	Transaction costs (d)	412
14	Audit Fees (b)	11
6,890		8,044
8,579		10,074

- a) Included within the Investment Management expenses are charges amounting to £0.529 millions (£0.464 millions in 2012/13) for Investment Management and Accounting and in Administration expenses £1.961 millions (£1.641 millions in 2012/13) for Pensions Administration expenses. These have been incurred for the internal cost of providing these services.
- b) Audit fees include a charge of £28,000 (£28,000 in 2012/13) in relation to Grant Thornton UK LLP, the auditors appointed by the Audit Commission for external audit services under the Code of Audit Practice as well as an audit fee rebate of £6,000 (£0 in 2012/13). The total amount is allocated equally between administration and investment.
- c) Current managers' fees are on a fixed fee basis, calculated using the market value of the portfolio. The cost of external fund management varies with the value of investments under management.
- d) Transaction costs in the year amounted to £0.412 millions (£0.379 millions in 2012/13) and can be split into acquisition costs of £0.210 millions (£0.166 millions in 2012/13) and disposal costs of £0.202 millions (£0.213 millions in 2012/13).

11. Related Party Transactions

In accordance with IAS 24 'Related Party Disclosures' material transactions with related parties not disclosed elsewhere are detailed below:

Under legislation, introduced in 2003/04, Councillors are entitled to join the Scheme. No members of the Investment & Pension Fund Committee receive pension benefits from the Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Devon Fund is a limited partner in the UBS International Infrastructure Fund LLP. The total investment commitment made was \$50 millions at 31 March 2014 (\$50 millions at 31 March 2013) and \$45.1 millions (\$45.1 millions at 31 March 2013) had been drawn down for investment. At 31 March 2014 the value of the Fund's investment was £29.2 millions (£34 millions 31 March 2013).

12. Key Management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Devon Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found on page 75 of the main accounts of Devon County Council.

13. Stock Lending

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 allow the Fund to lend stock provided that the total value of the securities to be transferred does not exceed 25% of the total fund value. JP Morgan Worldwide Securities Services act as custodian for the Fund, and have been authorised to lend both UK and Overseas stocks. A summary of the stock on loan as at 31 March 2014 is shown below.

31 March 2013 £'000	% of Fund %		31 March 2014 £'000	% of Fund %
<u>7,050</u>	0.2	Stock on Loan	<u>32,951</u>	1.1
		Collateral		
2,467		Cash	6,490	
<u>4,905</u>		Securities	<u>28,772</u>	
<u>7,372</u>			<u>35,262</u>	

JP Morgan are authorised to invest and reinvest all or substantially all cash collateral. The cash collateral shown in the above table reflects its fair value as at the 31st March. It is not the policy of JP Morgan or the Devon Pension Fund to sell or repledge collateral held in the form of securities. Such securities are shown in the above table at fair value as at 31st March. In the event of default by the borrower JP Morgan will liquidate the non-cash collateral and will repurchase the original lent securities. If this is not possible (due to liquidation issues), JP Morgan will arrange an acceptable solution with the Devon Pension Fund.

14. Investment Management Arrangements

The Pension Fund is currently managed by nine external managers (ten mandates) and the in-house Investment Team in the following proportions:

31 March 2013			31 March 2014		
£'000	%	Manager	Mandate	£'000	%
162,984	5.4	Aberdeen Asset Managers Ltd	Global Equity	165,797	5.3
151,641	5.0	Sarasin and Partners LLP	Global Equity	159,985	5.1
188,206	6.3	Aberdeen Asset Managers Ltd	Global Emerging	127,937	4.1
575,128	19.2	State Street Global Advisors Ltd	Passive Equities	639,329	20.3
544,828	18.1	UBS Global Asset Management (UK) Ltd	Passive Equities	596,307	19.0
202,637	6.7	Lazard Asset Management LLC	Global Fixed Interest	186,586	5.9
196,732	6.5	Wellington Management International Ltd	Global Fixed Interest	181,989	5.8
226,016	7.5	Baillie Gifford & Co	Diversified Growth Fun	229,950	7.3
221,510	7.4	Baring Asset Management Ltd	Diversified Growth Fun	224,679	7.2
239,893	8.0	Aviva Investors Global Services Ltd	Property	319,951	10.2
297,109	9.9	DCC Investment Team	Specialist Funds	307,383	9.8
3,006,684	100			3,139,893	100

15. Investment Movements and Transactions

	Value at 31 March 2013	Reclassification	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2014
	£000	£000	£000	£000	£000	£000
Investment Assets						
Fixed Interest						
U.K. Public Sector Bonds	9,031	0	64,694	(62,065)	(701)	10,959
U.K. Public Sector Index Linked Bonds	0	0	0	0	0	0
Overseas Government Bonds	217,110	5,096	622,489	(614,853)	(24,051)	205,791
Overseas Government Index Linked Bonds	0	0	2,318	(2,318)	0	0
UK Corporate Bonds	17,167	0	15,010	(11,970)	(23)	20,184
Overseas Corporate Bonds	152,580	(5,096)	72,204	(61,041)	(16,169)	142,478
Equities (Listed)	0					
U.K.	64,410	(13,374)	31,964	(12,953)	(1,635)	68,412
Overseas	420,704	0	98,105	(122,104)	(17,360)	379,345
Managed Funds	1,284,612	13,374	86,727	(59,290)	149,857	1,475,280
Pooled Funds	739,673	0	96,673	(87,435)	14,700	763,611
Derivatives	(749)	0	58,940	(57,837)	(1,054)	(700)
Foreign Currency	17,249	0	1,971	(11,237)	(1,620)	6,363
Short Term Deposits	24,750	0	0	(19,000)	0	5,750
Cash Equivalents	31,500	0	0	(2,279)	0	29,221
Cash & Bank Deposits	21,682	0	9,225	0	0	30,907
Total Of Investments Held	2,999,719	0	1,160,320	(1,124,382)	101,944	3,137,601
Non current Assets	10,761	0	0	(1,171)	0	9,590
Non current Liabilities	(12,032)	0	1,504	0	0	(10,528)
Current Assets	28,098	0	530	0	1,977	30,605
Current Liabilities	(19,862)	0	0	(7,474)	(39)	(27,375)
Net Assets of the Fund at 31 March	3,006,684	0	1,162,354	(1,133,027)	103,882	3,139,893

	Value at 31 March 2012	Reclassification	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2013
	£000	£000	£000	£000	£000	£000
Investment Assets						
Fixed Interest						
U.K. Public Sector Bonds	52,207	0	101,530	(146,028)	1,322	9,031
U.K. Public Sector Index Linked Bonds	20,298	0	650	(21,070)	122	0
Overseas Government Bonds	257,337	3,674	386,679	(441,008)	10,428	217,110
Overseas Government Index Linked Bonds	0	0	0	0	0	0
UK Corporate Bonds	26,519	0	13,967	(23,671)	352	17,167
Overseas Corporate Bonds	130,658	(3,674)	94,000	(77,236)	8,832	152,580
Equities (Listed)						0
U.K.	168,353	0	28,596	(130,888)	(1,651)	64,410
Overseas	499,571	0	62,645	(193,447)	51,935	420,704
Managed Funds	1,079,085	0	79,128	(37,717)	164,116	1,284,612
Pooled Funds	288,880	0	422,869	(29,540)	57,464	739,673
Derivatives	(2,412)	0	62,626	(53,333)	(7,630)	(749)
Foreign Currency	9,318	0	10,251	(2,990)	670	17,249
Short Term Deposits	94,800	0	0	(70,050)	0	24,750
Cash Equivalents	29,915	0	1,585	0	0	31,500
Cash & Bank Deposits	22,313	0	0	(631)	0	21,682
Total Of Investments Held	2,676,842	0	1,264,526	(1,227,609)	285,960	2,999,719
Non current Assets	13,040	0	0	(2,279)	0	10,761
Non current Liabilities	(13,536)	0	1,504	0	0	(12,032)
Current Assets	42,035	0	0	(13,539)	(398)	28,098
Current Liabilities	(34,650)	0	14,775	0	13	(19,862)
Net Assets of the Fund at 31 March	2,683,731	0	1,280,805	(1,243,427)	285,575	3,006,684

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Additional information about derivatives is contained in the derivatives disclosure note 17

16. Analysis of Managed and Pooled Funds

16 (a) Managed Funds

	UBS	SSGA	Aviva	Other Managers	Total 31 March
	£'000	£'000	£'000	£'000	£'000
UK Property	0	0	110,061	0	110,061
Overseas Property	0	0	26,909	0	26,909
UK Other	596,307	139,453	0	53,864	789,624
North America	0	277,826	0	0	277,826
Europe	0	185,459	0	29,409	214,868
Japan	0	36,591	0	0	36,591
Global	0	0	0	19,401	19,401
31 March 2014	596,307	639,329	136,970	102,674	1,475,280
31 March 2013	544,828	575,127	94,434	70,223	1,284,612

16(b) Pooled Funds (Unit Trusts)

	Baillie Gifford	Barings	Aviva	Other Managers	Total 31 March
	£'000	£'000	£'000	£'000	£'000
UK Quoted Property	0	0	137,955	0	137,955
UK Unquoted Funds	0	0	0	20,917	20,917
Overseas Unquoted	0	0	0	150,109	150,109
Diversified Growth Funds	229,950	224,680	0	0	454,630
31 March 2014	229,950	224,680	137,955	171,026	763,611
31 March 2013	226,016	221,512	118,511	173,634	739,673

17. Derivative Contracts

Derivative receipts and payments represent the realised gains and losses on futures contracts. The scheme's objective is to decrease the risk in the portfolio by entering into future positions to match current assets that are already held in the portfolio without disturbing the underlying assets.

Position at 31 March 2013				Position at 31 March 2014	
Economic exposure £'000	Market value £'000	Expiration Period	Notes	Economic exposure £'000	Market value £'000
INVESTMENT ASSETS					
Futures					
0	0	UK Fixed Interest	< 1 Year	3,067	1
39,932	321	Overseas Fixed Interest	< 1 Year	31,617	59
<u>39,932</u>	<u>321</u>			<u>34,684</u>	<u>60</u>
Bond Forwards					
1,030	0	UK Bond Forwards	< 1 Year	0	0
2,330	18	Overseas Bond Forwards	< 1 Year	9,925	24
<u>3,360</u>	<u>18</u>			<u>9,925</u>	<u>24</u>
Options					
13	13	Overseas Exchange Traded Options	< 1 Year	0	0
<u>305,766</u>	<u>2,976</u>	Forward foreign exchange contracts		<u>223,086</u>	<u>1,356</u>
349,071	3,328	Total Derivative Assets		267,695	1,440
INVESTMENT LIABILITIES					
Futures					
(26,369)	(450)	UK Fixed Interest	< 1 Year	0	0
(27,716)	(155)	Overseas Fixed Interest	< 1 Year	(65,481)	(78)
<u>(54,085)</u>	<u>(605)</u>			<u>(65,481)</u>	<u>(78)</u>
Bond Forwards					
(4,410)	(11)	UK Bond Forwards	< 1 Year	0	0
(4,021)	(16)	Overseas Bond Forwards	< 1 Year	(3,849)	(5)
<u>(8,431)</u>	<u>(27)</u>			<u>(3,849)</u>	<u>(5)</u>
<u>(305,677)</u>	<u>(3,445)</u>	Forward foreign exchange contracts		<u>(223,086)</u>	<u>(2,057)</u>
(368,193)	(4,077)	Total Derivative Liabilities		(292,416)	(2,140)

The economic exposure values futures on a 'gross basis' showing the total exposure to the underlying asset class that the future affects as if the change in asset allocation in the underlying asset class has taken place.

Notes:

- Futures. A futures contract is a standardized contract between two parties to buy or sell a specified asset of standardized quantity and quality at a specified future date at a price agreed today (the futures price). The contracts are traded on a futures exchange.
- Bond Forwards. A bond forward is an agreement whereby a counterparty agrees to trade a specified amount of a bond at a specified price on a future date.
- Options. An option is an agreement whereby a counterparty has the right, but not the obligation, to trade an underlying asset at a specified price on a future date.
- Forward Currency Contract. A forward contract (or simply a forward) is a non-standardized contract between two parties to buy or sell an asset at a specified future time at a price agreed today.

18. Debtors/Creditors

Debtors and Creditors include purchases and sales of investments not yet due for settlement. These large amounts due to or from the Pension Fund are paid within a few days of the year-end and have been included on a gross basis. Current assets and liabilities are valued at the fair value approximation of historical cost. Current assets and liabilities (with the exception of the capital payment from the Devon & Cornwall Magistrates Courts Service) are all short term and there is no active market in which they are traded.

At 31 March 2005 all staff employed by the Devon & Cornwall Magistrates Courts Service who were members of the Devon (LGPS) Fund transferred to the Principal Civil Service Pension Scheme (PCSPS). No further contributions were received from that employer. All affected staff subsequently had 12 months to elect whether to leave their accrued pension entitlement with the Devon Fund (as a deferred benefit) or transfer their 'pension pot' to the PCSPS. Under the transfer protocol issued by the Department for Constitutional Affairs the total capital payment of £15.09 millions due to the Devon Pension Fund would be repaid in ten annual instalments of £1.509 millions. The first instalment was received during 2011/12. The 2013/14 instalment was received in April 2014 and is included within current assets. The next instalment is disclosed as part of current assets with the remaining 6 instalments disclosed as part of long term assets. The deferred income is disclosed as part of long term creditors.

a) Analysis by nature of asset or liability

31 March 2013 £000		31 March 2014 £000
Non Current Assets		
Debtors and Prepayments		
10,761	Contributions Receivable - Employers	9,590
<u>10,761</u>		<u>9,590</u>
Non Current Liabilities		
Creditors and Receipts in Advance		
(12,032)	Deferred Income	(10,528)
<u>(12,032)</u>		<u>(10,528)</u>
Current Assets		
Debtors and Prepayments		
Contributions Receivable		
10,346	Employers	10,072
1,504	Current portion of non current assets (Employers contributions)	3,008
2,711	Employees	2,819
754	Interest on Cash & Bank Deposits	102
8,529	Dividends receivable	8,615
2,191	Settlements receivable	3,771
2,063	Other debtors	2,218
<u>28,098</u>		<u>30,605</u>
Current Liabilities		
Creditors and Receipts in Advance		
(2,344)	Devon County Council	(2,766)
(14,151)	Settlements payable	(22,257)
(3,367)	Other creditors	(2,352)
<u>(19,862)</u>		<u>(27,375)</u>

b) Analysis by type of debtor or creditor

31 March 2013 £000	31 March 2014 £000
Non current Debtors	
10,621 Central Government Bodies	9,025
140 Other Local Authorities	497
0 NHS Bodies	0
0 Public Corporations and Trading Funds	0
0 Bodies external to general Government	68
<u>10,761</u>	<u>9,590</u>
Non current Creditors	
(12,032) Central Government Bodies	(10,528)
0 Other Local Authorities	0
0 NHS Bodies	0
0 Public Corporations and Trading Funds	0
0 Bodies external to general Government	0
<u>(12,032)</u>	<u>(10,528)</u>
Current Debtors	
3,118 Central Government Bodies	4,721
11,859 Other Local Authorities	11,495
59 NHS Bodies	46
2 Public Corporations and Trading Funds	2
13,060 Bodies external to general Government	14,341
<u>28,098</u>	<u>30,605</u>
Current Creditors	
(1,296) Central Government Bodies	(1)
(2,447) Other Local Authorities	(3,064)
0 NHS Bodies	0
0 Public Corporations and Trading Funds	0
(16,119) Bodies external to general Government	(24,310)
<u>(19,862)</u>	<u>(27,375)</u>

19. Funded Obligation

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £5,004 million as at 31 March 2014 (£4,922 million as at 31 March 2013). The Funded Obligation consists of £4,375 million (£3,967 million as at 31 March 2013) in respect of Vested Obligation and £629 million (£956 million as at 31 March 2013), of Non-Vested Obligation. These figures have been prepared by the Fund Actuary (Barnett Waddingham LLP) in accordance with IAS 26. In calculating the disclosed numbers the Actuary has adopted methods and assumptions that are consistent with IAS 19.

The figures presented are prepared only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Employer's liabilities at 31 March 2014, the Actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to

members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, the Actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information the Actuary has received there appears to be no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

The Actuary has adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65 are:

Life Expectancy from 65 (years)	31 March 2013	31 March 2014
Retiring Today		
Males	20.6	22.7
Females	24.6	26.0
Retiring in 20 years		
Males	22.5	24.9
Females	26.4	28.3

The Actuary has also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows.

Assumptions as at	31 March 2014		31 March 2013		31 March 2012	
	% p.a	Real*	% p.a	Real*	% p.a	Real*
RPI Increases	3.6%	-	3.4%	-	3.3%	-
CPI Increases	2.7%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Salary Increases	4.6%	1.0%	4.8%	1.4%	4.7%	1.4%
Pension Increases	2.8%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Discount rate	4.5%	0.9%	4.5%	1.1%	4.6%	1.3%

* Relative to RPI

These assumptions are set with reference to market conditions at 31 March 2014.

The Actuary's estimate of the duration of the Fund's liabilities is 19 years. The duration is the average time to payment of the benefits, weighted by the value of each payment.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 19 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

This measure has historically overestimated future increases in the RPI and so, in the past, the Actuary has made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so the Actuary has made no such deduction at 31 March 2014. The RPI assumption is therefore 3.6%. As future pension increases are expected to be based on CPI rather than RPI, the Actuary has made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.8%. The Actuary believes that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.8% per annum above CPI in addition to a promotional scale. However, the Actuary has allowed for a short-term overlay from 31 March 2013 to 31 March 2015 for salaries to rise in line with CPI.

Expected Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return equal to the discount rate.

Past Service Costs/Gains

Past service costs can arise when the Employer awards additional discretionary benefits such as added years and other forms of augmentation of benefits. A change to benefits may result in either a past service cost or a past service gain.

The Actuary is not aware of any additional benefits which were granted over the year ended 31 March 2014.

20. Taxation

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

Income Tax The Pension Fund is an exempt fund, and where permitted U.K tax on interest and dividends is recovered from H.M.Revenue & Customs. The Pension Fund cannot reclaim the 10% tax credit attached to U.K. company dividends which are included net of the tax credit.

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

21. Financial Instrument Disclosures

The Net Assets of the Fund disclosed in the Net Asset Statement are made up of the following categories of financial instruments:

	Long-Term		Current	
	31/03/2013 £000	31/03/2014 £000	31/03/2013 £000	31/03/2014 £000
Financial Assets				
Loans and receivables	10,761	9,590	52,848	36,355
Financial Assets at fair value through profit or	0	0	2,908,615	3,067,499
Cash and cash equivalents	0	0	70,431	66,492
Total Financial Assets	10,761	9,590	3,031,894	3,170,346
	Long-Term		Current	
	31/03/2013 £000	31/03/2014 £000	31/03/2013 £000	31/03/2014 £000
Financial Liabilities				
Payables	(12,032)	(10,528)	(19,862)	(27,375)
Financial Liabilities at fair value through profit or	0	0	(4,077)	(2,140)
Total Financial Liabilities	(12,032)	(10,528)	(23,939)	(29,515)

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follow:

2013/14	Financial Assets			Financial Liabilities		Totals
	Loans and receivables	Financial Assets at fair value through profit or loss	Cash and cash equivalents	Financial Liabilities at fair value through profit or loss	Payables	Totals
	£000	£000	£000	£000	£000	£000
Interest expense	0	0	0	0	0	0
Losses on derecognition	(3,232)	(24,198)	(1,701)	(30,386)	(58)	(59,575)
Reductions in Fair Value	(46)	(161,736)	(10)	(2,394)	(80)	(164,266)
Impairment Losses	0	0	0	0	0	0
Fee Expense	0	0	0	0	0	0
Interest payable and similar charges	(3,278)	(185,934)	(1,711)	(32,780)	(138)	(223,841)
Interest Income	96	14,105	522	0	0	14,723
Interest income accrued on Impaired financial assets	0	0	0	0	0	0
Dividend Income	0	24,902	0	0	0	24,902
Gains on derecognition	5,254	120,759	36	303	80	126,432
Increases in Fair Value	3	200,275	56	939	18	201,291
Fee Income	0	0	0	0	0	0
Interest and investment income	5,353	360,041	614	1,242	98	367,348
Gains on revaluation	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0
Surplus arising on revaluation of financial assets	0	0	0	0	0	0
Net gain/(loss) for the year	2,075	174,107	(1,097)	(31,538)	(40)	143,507

2012/13	Financial Assets			Financial Liabilities		
	Loans and receivables	Financial Assets at fair value through profit or loss	Cash and cash equivalents	Financial Liabilities at fair value through profit or loss	Payables	Total
	£000	£000	£000	£000	£000	£000
Interest expense	0	0	0	0	0	0
Losses on derecognition	(2,946)	(41,166)	(513)	(20,462)	0	(65,087)
Reductions in Fair Value	(155)	(94,712)	(66)	(3,734)	(56)	(98,723)
Impairment Losses	0	0	0	0	0	0
Fee Expense	0	0	0	0	0	0
Interest payable and similar charges	(3,101)	(135,878)	(579)	(24,196)	(56)	(163,810)
Interest Income	0	15,947	1,760	0	0	17,707
Interest income accrued on Impaired financial assets	0	0	0	0	0	0
Dividend Income	0	24,133	0	0	0	24,133
Gains on derecognition	2,640	96,317	1,228	0	0	100,185
Increases in Fair Value	64	348,613	20	434	69	349,200
Fee Income	0	0	0	0	0	0
Interest and investment income	2,704	485,010	3,008	434	69	491,225
Gains on revaluation	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0
Surplus arising on revaluation of financial assets	0	0	0	0	0	0
Net gain/(loss) for the year	(397)	349,132	2,429	(23,762)	13	327,415

The total changes in fair value represent unrealised profit or loss. The difference in unrealised profit / (loss) figures between 2012/13 and 2013/14 reflects the prevailing economic conditions during each of the two years and the impact on the specific assets held by the Fund.

22. Additional Financial Risk Management Disclosures

The activities of the Pension Fund are exposed to a variety of financial risks; market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Fund's investments are managed on behalf of scheme members by the Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of a written investment mandate or duly authorised prospectus.

The Investment and Pension Fund Committee has determined that appointment of these managers is appropriate for the Fund and is in accordance with its investment strategy.

The Investment and Pension Fund Committee obtains regular reports from each investment manager on the nature of the investments made and associated risks.

The Fund is exposed to interest rate risk, currency risk and other price risk due to its underlying assets and liabilities. The analysis below is provided to meet the disclosure requirements of IFRS 7 Financial Instruments disclosures and should not be used for any other purpose. The analysis is not intended to constitute advice and is not guaranteed.

Market Risk

Market risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund is exposed, particularly through its equity portfolio, to market risk influencing investment valuations. In addition to the effects of movements in interest rates, the Fund is exposed to currency risk and other price risk. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of exposure to different markets through different Investment Managers. Risk of exposure to specific markets is limited by applying strategic targets to asset allocation, which are monitored by the Investment and Pension Fund Committee.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market.

The Fund is exposed to price risk which arises from investments for which the prices in the future are uncertain. All securities investments present a risk of loss of capital, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies.

Other Price Risk - Sensitivity Analysis

Following analysis of data from WM Performance Services, it has been determined that the following movements in market price risk were reasonably possible for the 2013/14 reporting period:

Manager	Percentage	Percentage
	Change 2012/13	Change 2013/14
Aberdeen Asset Managers Ltd - Global Equity	11.07%	10.58%
Sarasin and Partners LLP - Global Equity	12.17%	10.44%
Aberdeen Asset Managers Ltd - Global Emerging	14.13%	14.84%
State Street Global Advisors Ltd - Passive Equities	12.98%	11.70%
UBS Global Asset Management (UK) Ltd - Passive Equities	12.99%	12.27%
Lazard Asset Management LLC - Global Fixed Interest	5.26%	5.54%
Wellington Management International Ltd - Global Fixed Interest	5.96%	6.07%
Baillie Gifford & Co - Diversified Growth Fund	4.50%	4.43%
Baring Asset Management Ltd - Diversified Growth Fund	4.50%	4.96%
Aviva Investors Global Services Ltd - Property	1.80%	2.61%
DCC Investment Team - Specialist Funds	5.62%	7.00%

A price change disclosed above is broadly consistent with a one-standard deviation movement in the value of the assets based on movements over the previous 3 years. This analysis assumes that all other variables, in particular foreign currency exchange rates, and interest rates remain constant.

An increase or decrease in the market price of the investments of the Fund by the percentages given at 31 March would have increased or decreased the net assets available to pay benefits by the amount shown below:

As at 31 March 2014

Manager	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Aberdeen Asset Managers Ltd - Global Equity	165,797	10.58%	17,541	(17,541)
Sarasin and Partners LLP - Global Equity	159,985	10.44%	16,702	(16,702)
Aberdeen Asset Managers Ltd - Global Emerging	127,937	14.84%	18,986	(18,986)
State Street Global Advisors Ltd - Passive Equities	639,329	11.70%	74,801	(74,801)
UBS Global Asset Management (UK) Ltd - Passive Equities	596,307	12.27%	73,167	(73,167)
Lazard Asset Management LLC - Global Fixed Interest	186,586	5.54%	10,337	(10,337)
Wellington Mgt. International Ltd - Global Fixed Interest	181,989	6.07%	11,047	(11,047)
Baillie Gifford & Co - Diversified Growth Fund	229,950	4.43%	10,187	(10,187)
Baring Asset Management Ltd - Diversified Growth Fund	224,679	4.96%	11,144	(11,144)
Aviva Investors Global Services Ltd - Property	319,951	2.61%	8,351	(8,351)
DCC Investment Team - Specialist Funds	307,383	7.00%	21,517	(21,517)
Total	3,139,893		273,780	(273,780)

As at 31 March 2013

Manager	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Aberdeen Asset Managers Ltd - Global Equity	162,984	11.07%	18,042	(18,042)
Sarasin and Partners LLP - Global Equity	151,641	12.17%	18,455	(18,455)
Aberdeen Asset Managers Ltd - Global Emerging	188,206	14.13%	26,594	(26,594)
State Street Global Advisors Ltd - Passive Equities	575,128	12.98%	74,652	(74,652)
UBS Global Asset Management (UK) Ltd - Passive Equities	544,828	12.99%	70,773	(70,773)
Lazard Asset Management LLC - Global Fixed Interest	202,637	5.26%	10,659	(10,659)
Wellington Mgt. International Ltd - Global Fixed Interest	196,732	5.96%	11,725	(11,725)
Baillie Gifford & Co - Diversified Growth Fund	226,016	4.50%	10,171	(10,171)
Baring Asset Management Ltd - Diversified Growth Fund	221,510	4.50%	9,968	(9,968)
Aviva Investors Global Services Ltd - Property	239,893	1.80%	4,318	(4,318)
DCC Investment Team - Specialist Funds	297,109	5.62%	16,698	(16,698)
Total	3,006,684		272,055	(272,055)

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of scheme members. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rates are monitored during the year, both by the Fund's Investment Managers and by the Devon County Council Investments team. Short term deposits are made at fixed rates and monitored against a target rate for the year, with the aim of maximising interest within risk parameters set by the Investment and Pension Fund Committee.

The Fund's exposure to interest rate movements on those investments at 31 March 2013 and 2014 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Cash and cash equivalents	53,182	60,128
Fixed Interest	395,888	379,412
Short term Deposits	24,750	5,750
Total	473,820	445,290

Interest Rate Risk - Sensitivity Analysis

Interest rates vary and can impact on the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

An increase or decrease of 1% in interest rates at the reporting date would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below:

As at 31 March 2014	Change for the year in net assets available to pay benefits		
	Value	+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	60,128	601	(601)
Fixed Interest	379,412	3,794	(3,794)
Short term Deposits	5,750	58	(58)
Total	445,290	4,453	(4,453)

As at 31 March 2013	Change for the year in net assets available to pay benefits		
	Value	+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	53,182	532	(532)
Fixed Interest	395,888	3,959	(3,959)
Short term Deposits	24,750	248	(248)
Total	473,820	4,739	(4,739)

Currency Risk and Sensitivity Analysis

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in a currency other than the functional currency (Pound Sterling) of the Fund. The Fund holds both monetary and non-monetary assets denominated in currencies other than Pounds Sterling.

The following table summarises:

(a) The Fund's exposure at 31 March 2014 to currency exchange rate movements on its investments based on movements over the previous 3 years.

(b) A sensitivity analysis based on historical data (provided by WM Performance Services) of the likely volatility associated with foreign currency rate movements (as measured by one standard deviation). A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages) at 31 March 2014 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown. These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2013.

		Assets held at	FX			Change for the year in net assets available to pay benefits	
As at 31 March 2014		fair value	Contracts	Total	Percentage Change	+ 1 Standard Deviation	- 1 Standard Deviation
		£'000	£'000	£'000		£'000	£'000
AUD	Australian Dollar	16,990	17	17,007	9.80%	1,667	(1,667)
BRL	Brazilian Real	8,812	20	8,832	12.69%	1,121	(1,121)
CAD	Canadian Dollar	21,795	22	21,817	6.04%	1,318	(1,318)
CHF	Swiss Franc	25,117	15	25,132	7.42%	1,865	(1,865)
CLP	Chilean Peso	0	30	30	10.00%	3	(3)
CNH/CNY	Chinese Yuan	5,268	(7)	5,261	7.98%	420	(420)
COP	Colombian Peso	1,203	2	1,205	8.55%	103	(103)
CZK	Czech Republic Koruna	2,046	0	2,046	8.75%	179	(179)
DKK	Danish Krona	5,718	0	5,718	6.26%	358	(358)
EUR	Euro	196,761	99	196,860	6.31%	12,422	(12,422)
HKD	Hong Kong Dollar	25,823	0	25,823	7.98%	2,061	(2,061)
HUF	Hungarian Forint	1,867	0	1,867	12.59%	235	(235)
IDR	Indonesian Rupiah	3,525	0	3,525	11.04%	389	(389)
INR	Indian Rupee	0	1	1	0.00%	0	0
ILS	Israeli Shekel	3,927	(1)	3,926	6.93%	272	(272)
JPY	Japanese Yen	36,358	(330)	36,028	11.54%	4,158	(4,158)
KRW	South Korean Won	11,790	0	11,790	6.56%	773	(773)
MXN	Mexican Peso	14,270	24	14,294	10.03%	1,434	(1,434)
MYR	Malaysian Ringit	2,950	1	2,951	7.01%	207	(207)
NOK	Norwegian Krone	12,946	1	12,947	8.79%	1,138	(1,138)
NZD	New Zealand Dollar	11,115	1	11,116	10.01%	1,113	(1,113)
PEN	Peruvian Sol	1,436	0	1,436	7.24%	104	(104)
PHP	Philippines Peso	6,298	0	6,298	6.70%	422	(422)
PLN	Polish Zloty New	9,594	0	9,594	10.58%	1,015	(1,015)
RUB	Russian Rouble	0	0	0	0.00%	0	0
SEK	Swedish Krone	11,618	2	11,620	7.03%	817	(817)
SGD	Singapore Dollars	2,857	0	2,857	5.71%	163	(163)
THB	Thailand Baht	6,822	0	6,822	7.40%	505	(505)
TRY	New Turkish Lira	5,842	16	5,858	9.63%	564	(564)
TWD	New Taiwan Dollar	6,205	0	6,205	5.62%	349	(349)
USD	US Dollars	461,189	(310)	460,879	8.07%	37,193	(37,193)
ZAR	South African Rand	12,117	5	12,122	11.31%	1,371	(1,371)
Total		932,259	(392)	931,867		73,739	(73,739)

As at 31 March 2013		Assets held at		Total	Percentage Change	Change for the year in net assets available to pay benefits	
		fair value	FX Contracts			+ 1 Standard Deviation	- 1 Standard Deviation
		£'000	£'000	£'000		£'000	£'000
AUD	Australian Dollar	16,752	7	16,759	9.95%	1,667	(1,667)
BRL	Brazilian Real	17,357	(26)	17,331	11.62%	2,014	(2,014)
CAD	Canadian Dollar	22,861	68	22,929	5.61%	1,286	(1,286)
CHF	Swiss Franc	25,427	2	25,429	9.36%	2,380	(2,380)
CLP	Chilean Peso	3,035	0	3,035	9.92%	301	(301)
CNH/CNY	Chinese Yuan	8,412	1	8,413	8.55%	719	(719)
COP	Colombian Peso	0	0	0	0.00%	0	0
CZK	Czech Republic Koruna	0	(2)	(2)	0.00%	0	0
DKK	Danish Krona	5,030	(25)	5,005	7.73%	387	(387)
EUR	Euro	128,800	(255)	128,545	7.80%	10,026	(10,026)
HKD	Hong Kong Dollar	33,055	0	33,055	8.54%	2,823	(2,823)
HUF	Hungarian Forint	2,399	0	2,399	14.96%	359	(359)
IDR	Indonesian Rupiah	6,511	0	6,511	7.06%	460	(460)
INR	Indian Rupee	0	1	1	0.00%	0	0
ILS	Israeli Shekel	145	0	145	8.97%	13	(13)
JPY	Japanese Yen	44,665	1,201	45,866	11.72%	5,377	(5,377)
KRW	South Korean Won	13,089	(5)	13,084	7.55%	988	(988)
MXN	Mexican Peso	21,535	6	21,541	9.30%	2,003	(2,003)
MYR	Malaysian Ringit	5,794	2	5,796	6.35%	368	(368)
NOK	Norwegian Krone	12,728	(53)	12,675	9.04%	1,146	(1,146)
NZD	New Zealand Dollar	4,421	5	4,426	24.49%	1,084	(1,084)
PEN	Peruvian Sol	9,126	0	9,126	3.66%	334	(334)
PHP	Philippines Peso	11,068	0	11,068	4.93%	546	(546)
PLN	Polish Zloty New	2,951	(4)	2,947	46.32%	1,365	(1,365)
RUB	Russian Rouble	12,541	50	12,591	1.27%	160	(160)
SEK	Swedish Krone	3,426	(5)	3,421	29.79%	1,019	(1,019)
SGD	Singapore Dollars	3,426	2	3,428	5.81%	199	(199)
THB	Thailand Baht	11,126	0	11,126	7.91%	880	(880)
TRY	New Turkish Lira	14,029	2	14,031	8.77%	1,230	(1,230)
TWD	New Taiwan Dollar	9,348	0	9,348	7.16%	669	(669)
USD	US Dollars	497,615	273	497,888	8.74%	43,515	(43,515)
ZAR	South African Rand	14,531	10	14,541	11.94%	1,736	(1,736)
Total		969,131	1,073	970,204		85,054	(85,054)

Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities as they are marked to market.

The net market value of financial assets represents the Fund's exposure to credit risk in relation to those assets. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's exposure to concentrations of credit risk to individual counterparties comprises of assets that are invested by individual investment managers and in specific investment trusts. The contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default.

Credit risk on exchange traded derivative contracts is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Interest rate agreements and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Fund pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Fund.

The Fund's exposure to credit risk at 31 March 2014 is the carrying amount of the financial assets.

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Fixed Interest	395,888	379,412
UK Equities - Quoted	64,410	68,412
Overseas Equities - Quoted	420,704	379,345
Pooled Investment Vehicles (Managed and Pooled Funds)	2,024,285	2,238,891
Derivatives (net)	(749)	(700)
Foreign currency	17,249	6,363
Short term deposits	24,750	5,750
Cash and cash equivalents	53,182	60,128
Settlements and dividends receivable	10,720	12,386
Total of investments held	3,010,439	3,149,987

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding (short term deposits and cash equivalents) under its treasury management arrangements at 31 March 2014 was £34.971 million (31 March 2013: £56.250 million). This was held with the following institutions

	Credit Rating at 31 March 2014			Balances as at 31 March 2013 £'000	Balances as at 31 March 2014 £'000
	Fitch	Moody's	Standard & Poor's		
Banks and Building Societies					
Barclays Bank	A	A2	A	30,000	29,221
Lloyds TSB	A	A2	A	24,750	5,750
Skandinaviska Enskilda Banken	A+	A1	A+	1,500	0
				56,250	34,971

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. In assessing each individual investment, a key consideration is to ensure that the liability of the Fund is limited to the amount of the investment in the asset.

The liquidity risks associated with the need to pay members' benefits are mitigated by maintaining a pool of cash. As this pool reduces other shortages will be developed to eliminate this risk. In the first instance, income from investments, now held and reinvested by fund managers, will be used to meet liquidity shortfall.

All the Fund's financial liabilities fall due within 12 months with the exception of the payments due from the Principal Civil Service Pension Scheme (PCSPS) (see note 18). Under the transfer protocol issued by the Department for Constitutional Affairs the capital payments due to the Pension Fund will be repaid in ten annual instalments of £1.509m. The first instalment was received during 2011/12. The 2013/14 instalment was received in April 2014 and is included within current assets. The next instalment is

disclosed as part of current assets with the remaining 6 instalments disclosed as part of long term assets.

Fair Value Hierarchy

IFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable) (level 3)

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement. Observable data is considered to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy.

At 31 March 2014

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Fixed Interest				-
U.K. Public Sector Bonds	10,959	-	-	10,959
Overseas Government Bonds	205,791	-	-	205,791
UK Corporate Bonds	20,184	-	-	20,184
Overseas Corporate Bonds	142,478	-	-	142,478
Equities (Listed)				
U.K.	68,412	-	-	68,412
Overseas	379,345	-	-	379,345
Managed Funds	-	1,475,280	-	1,475,280
Pooled Funds	137,955	596,492	29,164	763,611
Derivative Assets				
Futures - Overseas Fixed Interest	-	60	-	60
Overseas Bond Forwards	-	24	-	24
Options	-	-	-	-
Forward Currency Contracts	-	1,356	-	1,356
Foreign Currency	-	6,363	-	6,363
Short Term Deposits	-	5,750	-	5,750
Cash Equivalents	-	29,221	-	29,221
Cash & Bank Deposits	30,907	-	-	30,907
Investment Liabilities	-	-	-	-
Derivatives	-	-	-	-
Futures - UK Fixed Interest	-	-	-	-
Futures - Overseas Fixed Interest	-	(78)	-	(78)
UK Bond Forwards	-	0	-	-
Overseas Bond Forwards	-	(5)	-	(5)
Forward Currency Contracts	-	(2,057)	-	(2,057)
Non current Assets	9,590	-	-	9,590
Non current Liabilities	(10,528)	-	-	(10,528)
Current Assets	30,605	-	-	30,605
Current Liabilities	(27,375)	-	-	(27,375)
Net Assets of the Fund at 31 March 2014	998,323	2,112,406	29,164	3,139,893

At 31 March 2013

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Fixed Interest				-
U.K. Public Sector Bonds	9,031	-	-	9,031
Overseas Government Bonds	217,110	-	-	217,110
UK Corporate Bonds	17,167	-	-	17,167
Overseas Corporate Bonds	152,580	-	-	152,580
Equities (Listed)	-			
U.K.	64,410	-	-	64,410
Overseas	420,704	-	-	420,704
Managed Funds	-	1,284,612	-	1,284,612
Pooled Funds	118,511	587,134	34,028	739,673
Derivative Assets				
Futures - Overseas Fixed Interest	-	321	-	321
Overseas Bond Forwards	-	18	-	18
Options	-	13	-	13
Forward Currency Contracts	-	2,976	-	2,976
Foreign Currency	-	17,249	-	17,249
Short Term Deposits	-	24,750	-	24,750
Cash Equivalents	-	31,500	-	31,500
Cash & Bank Deposits	21,682	-	-	21,682
Investment Liabilities				-
Derivatives				
Futures - UK Fixed Interest	-	(450)	-	(450)
Futures - Overseas Fixed Interest	-	(155)	-	(155)
UK Bond Forwards	-	(11)	-	(11)
Overseas Bond Forwards	-	(16)	-	(16)
Forward Currency Contracts	-	(3,445)	-	(3,445)
Non current Assets	10,761	-	-	10,761
Non current Liabilities	(12,032)	-	-	(12,032)
Current Assets	28,098	-	-	28,098
Current Liabilities	(19,862)	-	-	(19,862)
Net Assets of the Fund at 31 March 2013	1,028,160	1,944,496	34,028	3,006,684

Investments whose values are based on quoted market prices in active markets, are therefore classified within level 1.

Financial instruments that trade in markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuation may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. As observable prices are not available for these securities, the responsible entity has used valuation techniques to derive fair value.

During the year ended 31 March 2014 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy.

23. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 27 years and to provide stability in employer contribution rates by spreading any increases in rates over a short period of time, normally three years.

Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2013 actuarial valuation, the fund was assessed as 83% funded (81% at the March 2010 valuation). This corresponded to a deficit of £603 million (2010 valuation: £530m) at that time.

The common contribution rate (ie the rate which all employers in the fund pay) over the three year period ending 31 March 2014 is 18.8% of payroll.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report (<http://www.peninsulapensions.org.uk/wp-content/uploads/2013/10/Devon-Valuation-Report-31-March-2013.pdf>) and the funding strategy statement (<http://www.peninsulapensions.org.uk/wp-content/uploads/2013/08/devon-funding-strategy-statement.pdf>).

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial Assumptions

Assumptions	Rate
Investment return (discount rate)	6.1%
Price inflation	3.5%
Salary increases	4.5%
Pension increases in line with CPI – Assumed to be 0.5% less than RPI	2.7%

Mortality assumptions

Future life expectancy from the age of 65 based on the actuary's fund-specific mortality review was:

Mortality assumptions at age 65	Male	Female
Current pensioners	22.7 years	26.0 years
Future pensioners (assumed current age 45)	24.9 years	28.3 years

Historic mortality assumptions

Life expectancy for the year ended 31 March 2013 are based on S1PA tables with a multiplier of 100% for males and 90% for females. The allowances for future life expectancy are based on the 2012 CMI Model with a long term rate of improvement of 1.5% per annum.

Commutation assumption

It is assumed that at retirement 50% of members will opt to increase their lump sum to the maximum allowed.

Statistical Summary

Financial Summary

	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000
Contributions and Benefits					
Contributions	154,374	150,329	152,657	146,603	149,016
Transfers from Other Schemes	20,110	11,375	9,868	8,647	7,446
	174,484	161,704	162,525	155,250	156,462
Benefits Paid	(119,844)	(124,947)	(143,382)	(145,497)	(150,453)
Transfers to Other Schemes	(23,534)	(21,676)	(5,933)	(5,636)	(6,233)
Administration Expenses	(1,325)	(1,266)	(1,282)	(1,689)	(2,030)
	(144,703)	(147,889)	(150,597)	(152,822)	(158,716)
Net Additions (Withdrawals) from Dealings with Fund members	29,781	13,815	11,928	2,428	(2,254)
Returns on Investments					
Investment Income	31,813	41,161	47,438	41,840	39,625
Investment Management Expenses	(5,262)	(3,644)	(3,596)	(6,890)	(8,044)
Increase / (decrease) in Market Value of Investments during the Year	564,399	152,254	21,062	285,575	103,882
Net Returns on Investments	590,950	189,771	64,904	320,525	135,463
Net Assets of the Fund at 31 March	2,403,313	2,606,899	2,683,731	3,006,684	3,139,893

Members Summary

Membership Summary as at year end

	2009/10	2010/11	2011/12	2012/13	2013/14
	No.	No.	No.	No.	No.
Devon County Council					
Contributors	13,077	14,157	12,527	11,747	13,033
Pensioners and Dependents	10,133	10,937	11,408	11,824	12,175
Deferred Pensioners *	12,059	13,262	12,001	12,622	14,163
Other Employers					
Contributors	25,588	23,160	22,760	23,653	24,196
Pensioners and Dependents	13,259	13,609	14,446	15,225	15,951
Deferred Pensioners *	13,099	13,544	17,247	18,392	20,200

*Deferred pensioners include frozen memberships pending refunds and those undecided pending resolution.

Employing Bodies

There are currently 185 employers who have active members in the Fund.

Administering Authority

Devon County Council

Scheduled Bodies

All Saints Babbacombe
All Saints Cofe Academy
Ashburton Town Council
Barnstaple Town Council
Barton Hill Academy
Bickleigh Academy
Bicton College
Bideford Town Council
Bovey Tracey Town Council
Bradworthy Primary Academy
Braunton School
Brixham Academy
Brixham Town Council
Broadclyst Primary Academy
Buckland Monachorum Parish Council
Central Employees
Chudleigh Town Council
Chumleigh Academy Trust
Churston Academy
City College Plymouth
Clyst Vale Academy
Cockington Primary
Colyton Grammar School Academy
Combe Martin Parish Council
Combe Pafford Academy
Coombe Dean School
Crediton Town Council
Cullompton Town Council
Curledge Street Academy
Dartmoor National Park
Dartmouth Academy
Dartmouth Town Council
Dawlish Town Council
Devon & Cornwall Police Authority
Devon & Cornwall Probation Trust
Devon & Severn IFCA
Devon & Somerset Fire and Rescue Service
Devon Studio School
Devonport Boys Academy
Devonport High School for Girls
East Devon District Council
Eden Park Academy
Eggbuckland Community College Academy Trust
Elburton Primary Academy
Ellacombe School
Exeter City Council
Exeter College
Exmouth CC
Exmouth Town Council
First Federation
Fremington Parish Council
Great Torrington Academy
Great Torrington Town Council
Hayes School
Hele's Academy
Honiton Academy
Honiton Town Council
Hooe Primary Academy Trust
Ifracombe Town Council
Isham primary School

Isca College of Media Arts
Ivybridge Academy Trust
Ivybridge Town Council
Kings Ash Primary School
Kingsbridge Academy
Kingsbridge Town Council
Kingsteignton Town Council
Lipson Academy
Littleton Academy
Lynton & Lynmouth Town Council
Marine Academy Plymouth
Mayflower Academy
Mid Devon District Council
Newport Academy
Newton Abbot Academy Trust
Newton Abbot Town Council
North Devon Council
North Devon Crematorium Committee
Okehampton Town Council
Old Priory Junior Academy
Oreston Community Academy
Paignton College & Sports Academy
PETROC
Pilton Academy
Pilton Bluecoat Primary School
Plymouth CAST
Plymouth City Council
Plymouth Citybus
Plymouth College of Art
Plymouth School of Creative Arts
Plymouth University
Plymouth UTC Ltd
Plymstock School
Primaries Academies Trust
Prospects Academies Trust
Queen Elizabeth Academy Trust
Ridgeway School
Shiphay Learning Academy
Sidmouth Town Council
South Brent Parish Council
South Dartmoor Academy
South Devon College
South Hams District Council
South Molton Town Council
Sparkwell Primary Academy
St Margarets Academy
St.Boniface R.C. Boys College
St Christopher's Secondary
St George's Cofe Primary Academy
St Marychurch
St Michaels Cofe Primary School
Steiner Academy Exeter
Stockland Academy
Stoke Damerel Academy
Stowford School
Tavistock Town Council
Tedburn St Mary Parish Council
Teignbridge District Council
Teignmouth 3-11 & 11-19
Templar Academy Schools Trust
The King's School
Torbay Council
Torbay Economic Development Company
Tor Bridge Academy Trust

Torquay Boys Trust
Torquay Girls Academy
Torre Academy
Torrige District Council
Totnes Town Council
Uffculme Academy Trust
Ugborough Parish Council
West Devon Borough Council
Widewell Primary Academy
Woodbury Parish Council

Admitted Bodies

Access Plymouth
Action for Children
Amey Services Ltd
Aspens Services Ltd
Babcock
Barnardo's
Bournemouth Churches Housing Association
Call 24 Hour Ltd
Carillion JM Ltd
Churchill Services
Cormac Solutions Ltd
Dame Hannah Rogers School
Devon Norse Catering
Devon Norse Cleaning
English Riviera Tourism Company
Exeter Community Initiatives
Exeter Council for Voluntary Services
Exeter Royal Academy for Deaf Education
Healthwatch
Initial Catering Services Plymouth
Initial Catering Services Torbay
Innovate Ltd
Interserve Project Services Ltd
Leisure East Devon Ltd
Mama Bear's Day Nursery Ltd
Millfields Trust
North Devon Homes Ltd
Open College Network South West Region
Peninsula Dental Social Enterprise
Pluss
Plymouth Citizen's Advice Bureau
Plymouth Community Homes
Quadron Services Ltd
SLM Ltd
Tarka Housing Ltd
Teign Housing
The Children's Society
The Human Support Group
Tone Leisure (South Hams Ltd)
Tor 2 Ltd Asset Management
Tor 2 Ltd Streetscene
Tor 2 Ltd Waste & Recycling
Tor Homes
Torbay Coast & Countryside Trust
Torquay Museum Trust
UCSPL
Valuation Tribunal Service
Virgin Care Ltd
West Devon Homes Ltd
Wolseley Development Trust

Statement of the Actuary for the year ended 31 March 2014

Introduction

The last full triennial valuation of the Devon County Council Pension Fund was carried as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation. The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

2013 Valuation Results

The results for the Fund at 31 March 2013 were as follows

- The Fund as a whole had a funding level of 83% i.e. the assets were 83% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £603 millions which is higher than the deficit at the previous valuation in 2010.
- To cover the cost of new benefits and to also pay off the deficit over a period of 25 years, a total contribution rate of 18.8% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment (usually expressed as a lump sum payment) required to pay for their individual deficit.

Assumptions

Assumption	31 March 2013	31 March 2014
Discount rate	6.1% p.a.	6.2% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.	2.8% until 31 March 2015 then 4.6% p.a.
Mortality	The post retirement mortality tables adopted are the S1PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced.	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash.	

The effect of the change in the assumptions over the year is discussed in the final section.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so these asset values have been adjusted in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the value of the smoothed assets used was £2,985 millions and this has increased over the year to an estimated £3,146 millions.

Updated position

The estimated funding position at 31 March 2014 is a funding level of 85% which is a slight improvement on the position at 31 March 2013.

The assets have given a return of about 5% over the year which is lower than assumed at the 2013 valuation. However, changes in the assumptions used to value the liabilities between 31 March 2013 and 31 March 2014 have made a marginal improvement to the funding position.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Roisin McGuire FFA

Actuary, Barnett Waddingham LLP

10 June 2014

Glossary

Actuarial Terms

Actuary

An independent consultant who advises on the financial position of the fund. Every three years the actuary reviews the assets and liabilities of the fund and reports to the County Council on the financial position and the recommended employers' contribution rates. This is known as the Actuarial Valuation.

BoE spot inflation curve

A fixed-interest gilt and an otherwise identical index-linked gilt of the same time to maturity will have a different price or yield. This difference in yields indicates the market's expectation of future inflation, or spot inflation, for that particular term. The Bank of England produces an inflation curve which is essentially a best fit of the difference in fixed interest gilts and index linked gilts for terms to maturity of up to 25 years

Deferred Pension

The pension benefit payable from normal retirement age to a member of the fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before state retirement age.

Merrill Lynch AA rated corporate bond curve

Corporate bonds are given a credit rating by a credit rating agency which indicates the creditworthiness of the company that has issued the bond. Merrill Lynch produces a yield curve which shows the relationship between the yields on bonds with AA credit ratings against the time to maturity of these bonds.

Non-Vested obligations

If active members remain active rather than become deferred then their liabilities will be higher due to assumed salary increases until retirement. These additional liabilities make up the non-vested obligation.

Promotional scale

This takes into consideration the possibility of promotion during the course of an employees working life.

Retirement age assumption

Active members will retire one year later than they are first able to do so without reduction – One year after minimum retirement age

Solvency Test

An actuarial calculation to determine whether the assets of an occupational pension scheme are sufficient to meet its benefit obligations.

S1PA tables

The S1PA tables are published by the Actuarial Profession's Continuous Mortality Investigation ("CMI"). These tables are based on studies of mortality for members of large self-administered pension schemes over the period 2000 to 2006.

Vested obligations

Vested obligations are liabilities in respect of deferred and pensioner members. It also includes part of the liability for active members. This part is calculated by assuming that active members become deferred immediately and as such does not take into account future salary increases.

Derivatives

Financial contracts whose value is tied to an underlying asset. Derivatives include futures, options and swaps.

Emerging Markets

Stock Markets in developing countries (as defined by the World Bank).

Equities

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

Fixed Interest Securities

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on a recognised Stock Exchange in the meantime.

Index Future

An obligation to make or take delivery of a specified quantity of an underlying Stock/Index at a particular time in the future, at a price agreed when the contract is taken out.

Index (Stock Market)

The movements in a Stock Market are monitored continuously by means of an Index made up of the current prices of a representative sample of stocks.

Indexation

Also known as Index Matching or Index Tracking. Indexation is a statistical technique used to construct a portfolio of shares that will consistently move in line with a particular Index.

Managed Fund

A multi-asset pooled fund under which an insurance company offers participation in one or more pooled funds.

Market Value

The price at which an investment can be sold at a given date.

Performance Services

WM Performance services are an independent company used to measure the investment performance of the Fund. They also measure 84 Local Authority sector funds calculating, every quarter, the average returns for the median of all the funds and constituent funds (the weighted average).

Pooled Funds

A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region.

Portfolio

A collective term for all the investments held in a fund, market or sector.

Property Unit Trust

A pooled investment vehicle that enables investors to hold a stake in a diversified portfolio of properties.

Return

The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Transfers to/from Other Schemes

These are sums paid to or received from other pension schemes and relate to the current value of past contributions which transfer with a member when changing employment.

Unrealised Increase / (Decrease) in Market Value

The increase/ (decrease) in market value, since the previous year, of those investments still held at the year end.

Unit Trust

A Pooled Fund in which investors hold units, and where the fund offers new units and is prepared to redeem existing units from holders on a regular basis.

Annual Governance Statement 2013/14

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 these codes can be obtained from the County Treasurer. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2011.

Purpose of the Governance Framework

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

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

The governance framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

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 ended 31 March 2014 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 Council's financial management arrangements also conform with the CIPFA/Solace guidance on the role of the Chief Financial Officer in Local Government (2010), enabling the County Treasurer to operate in line with the 5 principles set out in the 'Application Note Delivering Good Governance in Local Government: A Framework' to operate effectively and perform her core duties demonstrating commitment to good practice in governance and financial management.

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 for specific issues to act to the Leader, Committees, Portfolio Holders 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 is regularly reviewed.

Significant amendments were made in 2012/13 reflecting the requirements of the Localism Act and revised arrangements for Standards required by Government and in preparation for assumption of new public health duties. Alterations to the constitution were made in relation to the Members' Code of conduct, declaration of interests and arrangements for Standards Committees consequent upon implementation of the provisions of the Localism Act 2011.

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.

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

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

The Constitution

The 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 have been regularly reviewed and revised since 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 (61 at present) 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, Scrutiny Committees, the Standards Committee and all other committees. The Council receives the minutes of committees, and has power to vary or refer back decisions which are outside established policy. From time to time it also debates issues of particular relevance or topicality for the County.

The Council had previously anticipated the potential impact of the provisions of the Localism Bill Act 2011 for its governance framework, including the new power of general competence for local authorities, governance arrangements, the abolition of the standards regime, enhanced community empowerment and availability of local referenda, community involvement in provision of services and potential acquisition of assets and reformation of the planning system including more localised neighbourhood plans and has made appropriate revisions as elements of that Act were brought into force.

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 Scrutiny Function

Scrutiny Committees support 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. 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 Scrutiny Report is also prepared for and considered by the County Council.

The Health & Wellbeing Scrutiny Committee also monitors the function and activity of the new Devon Health & Wellbeing Board and the development of commissioning strategies and strategic needs assessments.

Scrutiny Committees aim 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 Scrutiny Committees. Members of the Council may place items on the agenda of any 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'

It is widely acknowledged that, in order to be effective, call-ins must be used only in exceptional circumstances, sparingly and appropriately. In the year in question there were only 3 instances as summarised below and while these may not have resulted in any significant changes to decisions they reinforce the independence and value of scrutiny in applying an 'external' view on decisions. During 2013/14 there were three instances of decisions of the Cabinet or Cabinet Member being 'called-in'. In all cases, and following detailed consideration of the issues the relevant Scrutiny Committee was either satisfied with the original decision or in one case, and notwithstanding the views of the Scrutiny Committee, the Cabinet subsequently decided that no new or additional evidence or specific proposals had been submitted that would warrant the original decision being revoked or amended.

Following the County Council elections in May 2013, the first year of the new Council saw the beginning of what are set to be another challenging four years in local government. The Council, having already saved £100 million over the last four years, has to save a further £110 million by 2017 due to cuts in Government funding. This means that it will inevitably see further major changes to the way in which services are delivered in the future. The elections returned a Conservative majority with a high turnover and 19 new Members. Three out of the four chairmanships of Scrutiny Committees changed after the elections and there was a further change mid-year for the Corporate Services Scrutiny Committee. Notwithstanding that, the central objective remained, of working together across the political spectrum and organisational boundaries in order to achieve the best possible outcomes for the people of Devon.

The Cabinet and Corporate Leadership Team remain appreciative of the work undertaken by the 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. This has been none more so apparent following the April 2013 inadequate judgement from Ofsted after an unannounced inspection on the overall effectiveness of the arrangements in Devon to protect children. Following Ofsted's findings, the People's Scrutiny Safeguarding Children Task Group was set up to examine Devon's arrangements for the protection of children and monitored the County Council's implementation of the Ofsted Action Plan. A considerable number of meetings and site visits have and continue to be held as Committee Members discharge their duty in helping to ensure Devon's children are kept safe.

More detailed information on the work of the County Council's scrutiny committees may be found in the various scrutiny annual reports available at <http://new.devon.gov.uk/democracy/committee-meetings/scrutiny-committees/scrutiny-annual-reports/>.

Organisational Performance

The continuing impact of the Government's Comprehensive Spending Review, the Council's financial settlement for 2014/15 and beyond, and the general direction of travel indicated by Government for the reform of the public realm services, reaffirms the need a more flexible organisational structure to respond to those challenges and better equip and position the Council to focus on its future strategic commissioning responsibilities.

The Council also agreed:

- (a) the establishment of a joint Heritage Trust with Somerset Council as a-not-for-profit charitable company for the future provision of heritage services;
- (b) the creation of a new Southern Construction Framework with Hampshire County Council and Haringey Council through the convergence of existing regional arrangements;
- (c) the development alongside district councils of a Community Impact Fund to support communities to become more self-reliant;
- (d) the approval of a revised countywide Parking Dispensation Scheme;
- (e) the creation of a Regional Growth Fund for a series of the County Council's priority infrastructure projects supporting economic development in the Exeter and East Devon Growth Point;
- (f) the approval of a 'One Council' Energy Policy and Strategy to reduce demand for energy and generate energy from renewable sources;
- (g) the transfer of the County Council's Facilities Management Services to the existing joint venture partner Devon Norse;
- (h) the Establishment of a shared service for pension administration with Somerset County Council.

In addition the Council has also agreed new or revised strategic plans to try to set out how services were to be delivered including:

- (i) the Education Infrastructure Plan 2013/31, incorporating strategic objectives for educational provision to 2031, which would thus form the basis of future school organisation and local investment plans;
- (j) the Waste and Resource Management Strategy for Devon.

In April 2013 the County Council received an inadequate judgement from Ofsted following an unannounced inspection under section 136 of the Education and Inspections Act 2006 on the overall effectiveness of the arrangements in Devon to protect children.

The Council received a favourable Ofsted report on its Adult and Community Learning Services following inspection in April 2013. The Service received an overall effectiveness score of 2 (Good) resulting from similar individual scores for each of the three areas of inspection namely; 'Outcomes for Learners', 'Quality of Teaching, Learning and Assessment' and 'Effectiveness of Leadership and Management'. The Council was also subject to an LGA Corporate Peer Challenge.

The Standards Committee

The Standards Committee continued to exercise its role in monitoring complaints and standards. The number of complaints received against Councillors remains small. 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.

During the course of 2013/14 the Committee considered,

- (a) the first annual feedback report covering both corporate and social care services, relating to compliments, representations and complaints received and handled by the Council in 2012/13;
- (b) the revised Code of Conduct and arrangements for assessing and determining complaints adopted by the Council from 1 July 2012.

The Audit Committee/ Devon Audit Partnership

The Audit Committee remains 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 External Auditor and the application of the Council's Risk Management policy.

The Audit Committee will also review separately, and on a regular basis, progress with and implementation of any recommendations made in Audit Reports into specific areas of activity to ensure they have been adhered to and appropriate management action taken.

In the 2012/13 Annual Audit letter of the Council's external auditors, it was confirmed that the accounts had been produced to a good standard with an excellent level of support provided by the Council's finance team. The Audit Report gave a qualified value for money conclusion, due to the findings of the April 2013 Ofsted Inspection on the Council's arrangements for the safeguarding of children which had been judged to be inadequate.

The Committee received the report of the external auditors which considered whether the Council had proper arrangements in place for securing financial resilience. The report in particular outlined historic areas such as the Council's borrowing levels, which were being proactively addressed, as well as the significant challenge facing all local authorities of financial planning and concluded that the Council was well placed to deal with this. The overall conclusion was that the Council had adequate arrangements in place to deliver financial resilience.

The Devon Audit Partnership was established by the Council in conjunction with Plymouth City and Torbay Councils in 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. The Devon Audit Partnership currently undertakes audit work for a number of District Councils, Devon and Somerset Fire and Rescue Service, Devon and Cornwall Police, the University of Plymouth and many other public authorities and planned to continue expanding on their work with external partners. The Partnership and democratic arrangements are working well and will continue to be reviewed.

The Investment and Pension Fund Committee

Accounting arrangements require separate accounts to be prepared for the County Council and the Devon Pension Fund. Recognising the need for clear governance arrangements for managing these Accounts the Council's Investment & Pension Fund Committee undertakes the role of reviewing and approving the Pension Fund Annual Report, which incorporates the Statement of Accounts. The Devon County Council Audit Committee undertakes the role to review and approve the accounts of the Devon Pension Fund to ensure appropriate accounting policies were introduced in the same way as it is responsible for monitoring and approving the Council's main accounts.

Engagement and Participation

The County Council has always prided itself on the work it does, over and above statutory consultations, to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council. Examples of this are the Council's Communications Strategy, the Devon Voice (Residents Panel), Parent Carers Voice, and the Tough Choices events 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.

Significant Governance Issues

One of the biggest issues in 2013/14 was perhaps the setting of the budget for 2014/15 and in making sure that appropriate steps were taken and measures put in place to ensure that services delivered or commissioned by the County Council remained accountable and properly managed. The Council had regard to appropriate assessments of the impact of the budget on services and were mindful of any legislative and equality considerations which would be made available as part of their deliberations. To illustrate that approach Council commenced a number of consultations which would be completed early in 2014 in relation to:

- (a) the Accommodation Strategy for Adults with social care needs;
- (b) the Community Life Choices Strategy, which incorporates community enabling, community capacity building and County Council day centres;
- (c) Children's Homes.

A particular situation arose in relation to Dartington Church of England Primary School, where following construction completion of the new school site, in only 2010, significant water ingress had led to the need to provide temporary accommodation for pupils for up to 24 months while a programme of remedial works is implemented. Appropriate action is being taken to protect the Council's position and recover costs.

The continuing impact of the unprecedented turmoil in the financial markets over the previous years justifies the continuing focus 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. Levels of liquidity and active treasury management have meant that no short term borrowing was required. Similarly, no long term borrowing was undertaken during this financial year with any borrowing required to finance capital expenditure being met from internal cash balances.

The Council also regularly reviews and updates its Investment Strategy and its Treasury Management Policy and Practices to ensure that they reflect 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 the Council's Policy & Resources Scrutiny prior to consideration by the Council's Cabinet.

The Treasury Management Stewardship Annual Report for 2013/14 had not identified any issues to highlight confirming there had been; no long term or short term borrowing requirements at that stage; that investment income targets would be achieved and all lending had been carried out in accordance with the Council's Treasury Management Strategy.

At the time this Annual Statement was in preparation – and over and above the impact upon the organisation and services of the Comprehensive Spending Review (CSR) and financial settlements for 2014/15 and beyond – a degree of uncertainty remains over the impact upon the Council's governance framework of the Government's intentions for and direction of travel of public realm services post general election 2015. The CSR published in October 2010 outlined real terms cuts of 28% in local authority expenditure over four years to 2014/15. The Spending Review in June 2013 and the Chancellor's Autumn Statement in December 2013 continue to indicate significant reductions in public expenditure into the medium term.

The Cabinet and the Council's Scrutiny Committees had previously acknowledged that the uncertainties caused by the fundamental changes to the grant regime were far greater than would normally be the case, particularly in relation to the ability of District Councils to determine council tax bases and the proportion of the business rate yield that would accrue to the County Council. Moreover, the impact on District Councils of the transfer to them of the administration of local Council Tax Support schemes had also been acknowledged.

The County Council has formulated and put in place new Standards arrangements adopting a common format with the Devon District Councils.

While a large amount of preparatory work has been undertaken in 2013/14, there remain future significant challenges from the implications of reorganising the NHS including:

- the transfer of local health improvement functions to local councils;
- the role of local councils in leading joint strategic needs assessments;
- the establishment by councils of Health and Wellbeing Boards and enhanced Scrutiny functions;
- transferring responsibility for funding and contracting of the new local Healthwatch (replacing LINK);
- increased joint commissioning and pooled budgets i.e. the Transforming Community services programme;
- the establishment of the Better Care Fund;

Finally, it must also be acknowledged that 2013/14 saw the announcement by the Local Government Boundary Commission that it has included the County Council in its

Electoral Review programme for 14/15 because of existing imbalances / variations between electoral divisions.

While that of itself had minimal impact on organisational performance in this year it required a great deal of preparatory work to be undertaken – which will also be the case in 2014/15 – in preparing the Council’s submission on the future size of the Council which, inevitably, could ultimately have a direct impact on how it operates even if, as is likely, the Council argues for an option that will complement the existing, evolutionary, approach to future organisational development and performance.

The Council formally places on record and expresses its appreciation to its entire staff for their continuing commitment to the delivery of high quality services for the people of Devon throughout this 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 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

25 September 2014

