

Statement of Accounts and  
Annual Governance Statement  
2018/2019



## Statement of Accounts and Annual Governance Statement 2018/2019

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# Report of the Treasurer and Chief Executive

## Introduction

Welcome to the 2018/19 financial statements for Devon County Council. This report includes a brief overview of the County Council together with highlights of performance for 2018/19. It also provides a summary of the financial performance of the Council as detailed later in the Statement of Accounts.

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. The Annual Governance Statement explains the Council's Governance Framework and the roles of Cabinet and the Scrutiny function and significant governance issues and the challenges faced by the County Council.

This report constitutes the Authority's "Narrative Statement" as required by Section 8 of the Accounts and Audit Regulations 2015 (the Regulations).

## Accounting Policies

The accounting policies (Note 2, page 31) establish the principles on which the figures in the financial statements are based. This year the Code adopts two new accounting standards:

- IFRS 15 Revenue from Contracts with Service Recipients; and
- IFRS 9 Financial Instruments.

There is no significant impact on how the Authority recognises or measures assets, liabilities, income or expenditure. However, there are additional disclosures:

- Aged debt analysis of debtors for local taxation - business rates and council tax (Note 19)
- Additional analysis of revenue from service recipients (Note 15)
- How variations in the fair value of investments are accounted for and classified (Note 18)
- The Available for Sale Reserve is replaced by the Financial Instruments Revaluation Reserve (Note 18).

## Summary of Financial statements

The financial statements and their purpose are summarised as follows:

### **Comprehensive Income and Expenditure Statement (page 25)**

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.

The Comprehensive Income and Expenditure Account shows a deficit of £29.9 millions in 2018/19 compared with a deficit of £75.7 millions in 2017/18. The reduction in the deficit is

mainly due to technical adjustments which can be found in Note 8, pages 52 and 53, which has decreased from £100.2 millions to £51.2 millions, a net change of £49.0 millions. The largest individual movement is the decrease in asset disposals (mainly academy conversions) of £70 millions, offset by other changes including the pension reserve and capital grants. The overall Pension deficit has reduced because of changes to actuarial assumptions, mainly the mortality assumptions that is included in Other Comprehensive Income and Expenditure rather than in the Deficit on the Provision of Services.

### **Movement in Reserves Statement (page 26)**

This statement shows the movement in year for the reserves held by the Authority analysed into usable reserves (i.e. those that can be applied to either fund expenditure or reduce local taxation) and other 'unusable' 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 line shows the statutory General Fund Balance before any discretionary transfers to and from earmarked reserves undertaken by the Authority as shown in Note 9, page 54.

The Revenue and Capital Outturn 2018/19 was presented to Cabinet on 15th May and detailed the budget variances and movements to general balances and earmarked reserves.

Unusable Reserves increased by just over £97 millions (Note 23). The main reasons for the movement in Unusable Reserves is the decrease in the pension deficit of just over £50 millions and increases in the Revaluation Reserve of £34 millions and Capital Adjustment Account of £19 millions.

There are other movements in unusable reserves but these are the three most significant items.

Usable Reserves have increased by just over £25 millions because of the increase in earmarked reserves before carry forwards (Note 9) and the detail is outlined later in this report under the section Earmarked Reserves.

There are other movements which offset each other in the net movement on usable reserves:

- Capital grants unapplied have increased by £5 millions;
- Capital Receipts reserve has reduced by £1 million; and
- Carry Forwards (Schools and Non Schools) have each reduced by £2 millions, a total reduction of £4 millions.

### **Balance Sheet (page 27)**

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 usable 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 has a negative Balance Sheet as at 31st March 2019 which means that the Authority's liabilities are £103 millions greater than its assets (£226 millions at 31st March 2018). Although it may appear that this is a concern it is not, as the Pension Liability of just under £1,050 millions (Note 24, Page 84) 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 Note 39 on page 108.

## Cash Flow Statement (page 28)

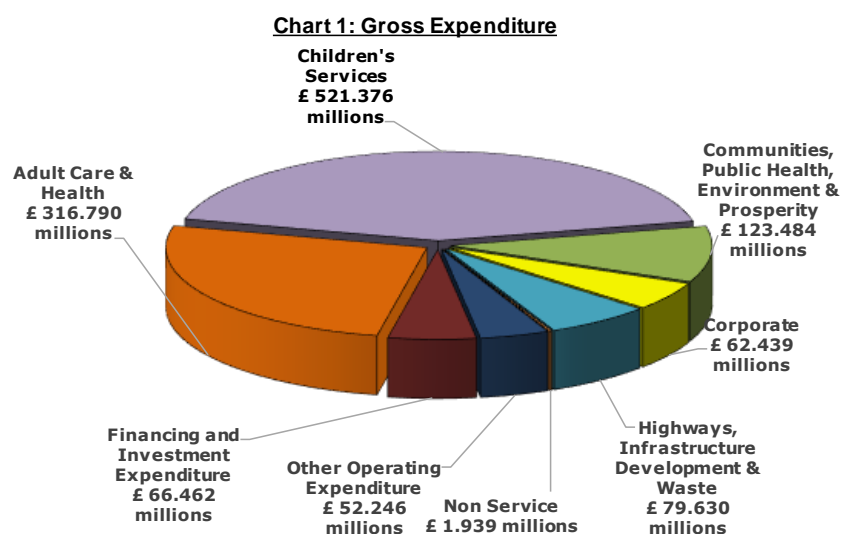
The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows 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 flows have been made for resources which are intended to contribute to the Council's future service delivery.

## Economic Context

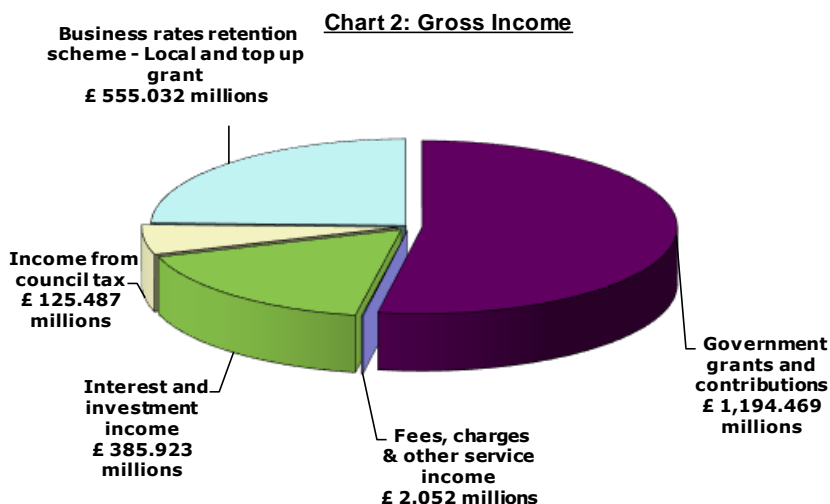
Over the period 2011/12 to 2018/19 the Council has had to make savings of just over £251 millions. The Authority's core funding from Government for 2018/19 was, compared to 2017/18, reduced by more than £13.1 millions (10.2%). This level of cut on top of those already experienced was, and continues to be, a significant challenge for the Authority.

## Financial performance

The Code requires that the Comprehensive Income and Expenditure Statement takes the format of how the Authority reports its own financial performance through budget monitoring during the year against the budget that was approved by Council in February 2018. Gross expenditure totalled just over £1,224 millions and Chart 1 highlights spending by type.



Expenditure is funded from a number of sources, some within Devon and some from Central Government. Chart 2, that follows, highlights sources of revenue income for the Authority during the year. Total gross income of just over £1,194 millions was received during the year. Chart 2 shows how this is derived.



## 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.

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.

Members have received regular budget monitoring reports throughout 2018/19 in which budget pressures and risks have been identified. The most significant of these has, throughout the year, related to Children's Services, with overspending of £8.7 millions forecast at month four (July) and steadily increasing to £12.0 millions at month ten (January). Cabinet, at its meeting in November, agreed a package of measures to offset the overspending and was pleased to note in March that, despite the increasing pressures in Children's services, the overall position was back in balance and the year-end position was now forecast to break-even.

The financial year has now ended and the overspending in Children's services is £9.8 millions and the overall Authority position, after transfers to and from Reserves, is a small underspending of £63,000.

The Authority, along with the other Devon authorities, was fortunate in 2018/19 to be selected by the Government to join its Business Rate Pilot for that year. This enabled £11.6 millions to be made available for invest to save initiatives within Children's Services. The initiatives will be implemented over a four-year timescale and at the end of the year £11.5 millions remains unspent and has been transferred to a dedicated Earmarked Reserve for future years. The change to the Minimum Revenue Provision policy agreed by County Council in February has, as planned, delivered a saving of just under £4 millions. A review of the Balance Sheet has enabled just under £3 millions to be released from the Financial Instruments Account to the revenue account. These two items, along with the late notification by Government of its intention to release the Business Rates Levy surplus in 2018/19 has enabled £8.2 millions to be added to the Budget Management Reserve. The mild and storm-free winter has meant that the Bellwin emergency budget was not required, £250,000 has been used to create a Climate Change Emergency Reserve and the balance has been added to the Emergency Reserve to enhance resilience to future events.

## Adult Care and Health

The outturn for Adult Care and Health Services shows an overall net underspend of £686,000 after taking into account grants and contributions carry forward and any other carry forward requests.

Adult Care Operations and Health is showing an underspend of £805,000. The underspend is the result of total care packages for older people and disabilities being 217 fewer than budgeted and underspends in staffing and contract costs; these being offset by carry forward proposals.

Adult Commissioning and Health is showing an overspend of £119,000 after carry forwards. This is the result of an overspend on Mental Health services, partially offset by underspends on central staffing and contract budgets.

## **Children's Services**

The outturn position for Children's Services is an overspend of £9.8 millions.

For Children's Social Care the overspend is £6.7 millions. One of the main causes has been greater numbers of children with complex needs requiring enhanced packages of care in residential and supported accommodation provision. The net financial effect of increased numbers of looked after children and higher placement costs is an overspend of £4.9 millions.

In Disabled Children's Services more children and their families accessing short breaks packages, some with very high levels of need, resulted in an over spend of £1.4 millions.

Additional investment to support service improvement, increased legal costs associated with higher volumes of cases and reduced income added a further pressure of £856,000. Vacancies and other variations within the service have led to an underspend of £455,000.

For Education and Learning General Fund the final position is an overspend of £267,000. The most significant adverse variance is within Schools Transport. The personalised transport budget has seen increased costs and higher numbers of children with Special Educational Needs requiring personalised transport

Education and Learning spending on schools is funded from the Dedicated Schools Grant (DSG). The grant is overspent by £5.2 millions due to increased demand and rising costs on Independent Special School placements, a reflection of the pressures being experienced nationally in relation to High Needs education placements. Of this £2.4 millions will be carried forward into 2019/20 as set out below. The remaining pressure of £2.8 millions will not be manageable within the 2019/20 DSG and Devon County Council has no choice but to fund this pressure as part of the 2018/19 outturn position.

A net carry forward of £16.5 millions has been agreed by the Schools Forum. This is made up of the ring fenced School's surplus balances of £16.2 millions, other central and de-delegated balances of £2.7 millions and the High Needs deficit of £2.4 millions as described above.

## **Communities, Public Health, Environment and Prosperity**

The outturn for Communities, Public Health, Environment and Prosperity shows an overall underspend of £1.7 millions after taking into account grants and contributions carry forward and other carry forward request.

Service for Communities is underspent by £339,000. This is mainly due to unspent Locality funds and small variations on activity and staffing budgets.

Economy Enterprise and Skills is underspent by £423,000. This is mainly a result of slippage on major development projects and increased income.

Planning, Transportation and Environment is showing an underspend of £1.9 millions. This relates mainly to reduced National Travel Scheme journey numbers, a mixture of capitalisation and slippage on community flood schemes, additional one-off rent, fees from secondment of staff and slippage on various project spend.



Public Health underspent by £218,000 against the one-off budget for the procurement of Community Health and Care Children's services and additionally by £227,000 on the Public Health Grant. This latter amount has been added to the statutory public health reserve.

## **Corporate Services**

The outturn for Corporate Services shows an overall underspend of £590,000 after taking into account grants and contributions carry forward and any other carry forward requests.

Chief Executive, HR, Legal and communications are £191,000 overspent. Delays to implementation of the new HR Management System, costs associated with the re-hearing of an inquest appeal and the need to use locum solicitors.

Digital Transformation and Business Support are showing an underspend of £667,000. Scomis Group contributed £312,000 of the underspend, generated by the education sector and other commissioned work, with slippage in delivering the IT roadmap and delays to Libraries Unlimited completing the roll-out of their new wide area network, more than offsetting other service pressures.

The County Treasurer is showing an underspend of £180,000 linked to increased income generation and delays to system developments.

## **Highways, Infrastructure Development and Waste**

An underspend of £2.4 millions has been generated within Highways and Traffic Management, largely through a focus on long-term preventative works that have been funded from the capital programme. Further underspends resulting from reduced winter service activities, energy savings from street lighting LED conversions and increased income have been offset by an increased requirement for safety defect rectification works.

Waste tonnages have reduced through the year, including both disposal and recycling activities. This has contributed to a net underspend for the service of £1.9 millions.

Expenditure of £8.4 millions has been charged to the On-street parking account during the year, this includes items such as operating costs for on-street parking and enforcement activities, public transport support and highways cyclic maintenance works. Income totalling £6.3 millions has been generated, leaving a shortfall against expenditure of £2.1 millions. The balance of the reserve has reduced from £5.4 millions to £3.3 millions at 31st March 2019. As shown in the 2019/20 budget book, the balance of the account is expected to continue to reduce over future years.

## **Other Items**

The budgets for the Apprenticeship Levy and the Pension Contribution Shortfall have underspent by £47,000 and £552,000 respectively. This has helped to reduce the overspending on services to £1.9 millions.

As outlined in the following section of this report, the Better Care Fund (BCF) has underspent this year and £6.3 millions of the Improved Better Care Fund Grant is being carried forward into 2019/20.

In February, County Council changed the Minimum Revenue Provision Policy from a straight-line method to an annuity method. This has resulted in a saving of £3.9 millions for 2018/19. This saving has been transferred to Earmarked Reserves. As a result of the projected overspend earlier in the financial year a review of the Balance Sheet was undertaken and, following a thorough review, £2.9 millions has been released from the Financial Instruments Adjustment Account. This has resulted in a one-off benefit to the Revenue Account that has also been taken to Earmarked Reserves.

Interest Receivable is just over £1 millions more than budgeted. This was partly as a result of having a higher level of cash to invest than anticipated. The Authority also achieved a higher average return on investments in banks and building societies than budgeted of 0.81% compared with the target of 0.55%.

As part of the 2018/19 budget setting a contingency budget was established for social care, all costs are shown within the service line and this contingency can now be released resulting in an underspend of £2.2 millions. The Council Tax Support Partnership budget is underspent by £305,000. Due to the mild winter the Bellwin Scheme Related Emergencies budget remains unspent and £1.6 millions has been added to the Emergency Earmarked Reserve.

The County Council, in partnership with the other Devon local authorities, became a Business Rates Pilot. This allowed a budget of £11.6 millions to be established to support invest to save projects within Children's Services over several years. £95,000 has been spent so far allowing £11.5 millions to be transferred to a dedicated Business Rates Pilot Earmarked Reserve.

£217,000 infrastructure development budget was carried forward from 2017/18; this sum is committed to future capital projects and it is recommended that £217,000 is carried forward again this year. £70,000 of the efficiency support budget was carried forward to enable the continuation of Chapter 8 training with Parish Councils, the cost of training is not significant and will now be met from the Highways budget allowing the remaining £65,000 to be shown as an underspend.

Late notification of changes to Business Rates when the budget for 2018/19 was set has resulted in £463,000 of additional income being received, this is shown as an underspend. The revenue costs of the Dartington School rebuild have now come to an end and the remaining budget of £646,000 is no longer required and is shown as an underspend. As part of the savings initiatives to alleviate the in year overspending financing of some small capital projects was changed from revenue to capital receipts; this has resulted in an underspend of £318,000. Budget setting for 2018/19 allowed for £4 millions to be transferred from the Budget Management Reserve, it has not been necessary to make this transfer.

The Authority, along with the other Devon authorities, was fortunate in 2018/19 to be selected by the Government to join its Business Rate Pilot for that year. The Pilot has brought a financial benefit to all of the Devon authorities and the County Council's share of the pilot gain and additional compensation grants for small business rate reliefs etc is £1.6 millions more than anticipated. This has been transferred to the Business Rates Risk Reserve to help increase resilience to future fluctuations.

As reported to Cabinet in January the Government has distributed the surplus on the Business Rates Levy Account and Devon's share of this is £1.5 millions. This has been added to Earmarked Reserves with £250,000 being used to create a Climate Change Emergency reserve and the remainder being added to the Budget Management Reserve. Additional Grants for Local Service Support Grant, Schools Improvement and other small grants have also been received and have been used to balance the overall outturn position.

## **Better Care Fund**

The Better Care Fund (BCF) for 2018/19 totals £93.2 millions and is reporting an underspend of £7.1 millions (7.6%); £6.3 millions grant, £707,000 revenue and £82,000 capital. This total will be carried forward in full by the Council to 2019/20, to continue with 2018/19 spending plans within the terms of the BCF framework agreement. The revenue underspending of £707,000 is attributable to reduced spending within Adult Carers and Care Act services of £1.2 millions. Based on the 2018/19 risk share arrangement the distribution of the surplus means that the Council will receive £6.6 millions of the total carried forward sum in the 2019/20 financial year for BCF purposes. For more information on the Better Care Fund, please see Note 36, page 98.

## General Balances

The working balance at 31st March 2018 was £14.7 millions. The review of the financial risk assessment prepared when the 2018/19 Budget was considered indicates that the Council should hold a working balance of about £14 millions. The outturn has enabled £63,000 to be added to the working balance.

## Earmarked Reserves

At the beginning of the financial year, earmarked reserves (excluding schools and non-schools carry forwards) stood at £86 millions. During the year earmarked reserves have increased by a net £25.2 millions to £111.2 millions. The reason for this movement is explained in the following table.

	£000	£000
Budgeted contribution - to offset risks relating to the Pilot		5,000
Underspend on Public Health Ring-fenced Grant	227	
In year change to Minimum Revenue Provision	3,925	
Release from Financial Instruments Adjustment Account - one off	2,948	
Bellwin Scheme Related Emergencies - mild winter	1,589	
Business Rates Pilot - Children's Initiatives	11,505	
Business Rates Pilot - Gain & Compensation Grants	1,577	
Business Rates - Levy Account Suplus Distribution - one-off	<u>1,550</u>	
		23,321
Spend on Transformation	(1,049)	
Spend from On Street Parking Reserve	<u>(2,089)</u>	
		<u>(3,138)</u>
		25,183

At the start of the financial year the Minimum Revenue Provision (MRP) Risk Reserve had a balance of £10.9 millions. The Government has decided not to change the MRP regulations at this time so it is recommended that this balance is transferred to the Budget Management Reserve.

£250,000 of the unspent budget for Bellwin Scheme Related Emergencies has been used to create a Reserve to support the Authority's work in response to the Climate Change Emergency declared at County Council in February to facilitate stronger Devon-wide action through collaboration at a strategic, community and individual level.

Details of earmarked reserves are contained in Note 9 on page 54.

## Capital Spending

The approved capital programme for 2018/19 was £170.8 millions and actual capital expenditure was £120.6 millions. The following table summarises 2018/19 expenditure and its financing.

<b>Capital Expenditure</b>	<b>Budget</b>	<b>Actual Spend</b>	<b>Variation</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adult Care and Health	10,723	7,732	2,991
Children's Services	6,973	4,682	2,291
Communities, Public Health, Environment and Prosperity	56,278	33,572	22,706
Corporate Services	8,424	5,207	3,217
Highways, Infrastructure Development & Waste	88,418	69,362	19,056
<b>Total</b>	<b>170,816</b>	<b>120,555</b>	<b>50,261</b>

<b>Capital Financing</b>	<b>Budget</b>	<b>Actual Spend</b>	<b>Variation</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Capital Receipts Applied	22,423	11,933	10,490
Internal Borrowing	9,194	4,213	4,981
External Grants and Contributions	137,571	103,233	34,338
Revenue Budgets	1,628	1,176	452
<b>Total</b>	<b>170,816</b>	<b>120,555</b>	<b>50,261</b>

As set out in the previous table, the Capital Programme outturn variance was £50.3 millions (this compares to £40.5 millions in 2017/18). Within this total £47.6 millions represents slippage across a range of schemes which will be carried forward to future years and £2.6 millions savings achieved in programme delivery.

### **Adult Care and Health**

A significant part (£1.9 millions) of the slippage is due to the North Devon Community Facility. The early stages of appraisal, design and site options is underway, and this project has seen preliminary spend during 2018/19 with the remainder of significant spend expected in 2019/20.

### **Children's Services**

Schools are awaiting the announcement of future years funding allocations. As a result, they have been reluctant to take on longer term spending commitments leading to a reduced spend on the Vehicle and Equipment Loans Pool (VELP) fund. Also, where schools have not been able to make use of the late additional schools capital funding this has been carried forward to future years.

### **Communities, Public Health, Environment and Prosperity**

- £1.5 millions is due to delays in advancing the Marsh Barton Station project, which is on hold due to elevated costs. Negotiations are on-going, and a new funding package is being developed.
- £3.2 millions - A361 North Devon Link Road due to contingency not being called upon and land purchases not completing in 2018/19.
- £3.7 millions - South Devon Highway due to delays in land compensation claims being resolved and paid which is outside of the Authority's control.
- The East of Exeter National Productivity Investment Fund includes a package of various works. Most of the variance of £1.0 millions is due to land and planning issues which have resulted in delays at the Science Park - Park & Change and Moor Lane roundabout improvement schemes.

- £1.7 millions – the Roundswell South Business Park & North Devon Enterprise Centre Scheme are due to be run concurrently to ensure value for money and minimal disruption to residents. The site wide development has been delayed due to late response from the bid funders over the grant funds towards the North Devon Enterprise Centre.
- £550,000 – The Bideford library project is at appraisal stage and is on hold while various options are considered.
- £2.8 millions - A range of school expansion works were undertaken in-year however due to the complexity and scale, a number of these projects will see works continue into the new financial year, significantly New Okehampton Primary School along with SEND works at Charlton Lodge.

### **Corporate Services**

- £558,000 County Farms programme slippage is primarily related to the programme to upgrade existing farm dwellings to the Decent Homes Standards. Each site requires detailed feasibility work to be undertaken before the scheme can commence which has caused delays in some areas. Spend will continue into 2019/20.
- £615,000 –Spending commitments for the property capital programme progressed well during 2018/19 with work on the replacement and upgrade of the County Hall boiler complete. Work on the heating systems for the rest of the corporate estate will continue into 2019/20.
- £915,000 – the contract for the replacement of the ageing Access Control System has been awarded. However, the ZEB-CAT (Zero Energy Building Catalyst) project procurement is ongoing. Spend on these two projects is expected to complete in 2019/20.
- £705,000 - Feasibility work has commenced this financial year on elements of the Strategic Centres Accommodation Improvement Programme however £700,000 of works will not be completed until 2019/20. This project includes work to reconfigure and enhance Lucombe House.

### **Highways, Infrastructure Development and Waste**

The additional £18.8 millions highways funding, awarded to Devon late in 2018/19, has resulted in the Severe Weather Resilience and LTP maintenance grant variance of £17.1 millions. Allocations are planned for works across 2019/20 and 2020/21.

### **Pensions Liability**

The Authority's pension fund deficit is subject to two different actuarial valuations; the Triennial Valuation and the IAS 19 annual accounting valuation. The Triennial Valuation is used to set the employer contribution rates for the following three years and is based on assumptions that are specific to the Authority's part of the Devon Pension Fund. The annual IAS 19 valuation, that the authority is required to use in these accounts uses standardised assumptions and is designed to provide comparability between employers.

The liability of just under £1,050 millions (Note 24 page 84) on the County Council's Balance Sheet is offset by pension costs to be reimbursed as they fall due from Plymouth City Council and Torbay Council of £27 millions (Note 17 page 64) leaving a deficit (Pensions Reserve) of just under £1,023 millions (Note 23 page 81). The liability is the annual accounting valuation and is an assessment of the level of corporate bonds a corporate body would need to issue in order to cover the cost of the deficit over an assessed period. This approach was designed with the private sector in mind but has also been adopted by the public sector although of course in local government the true pension fund deficit is assessed through the Triennial

Valuation and the deficit made good over the working life of the employees rather than by issuing Corporate Bonds.

The accounting valuation is based on the corporate bond yield as at 31st March 2019. The liability at 31st March 2019 is just under £52 millions lower than as at 31st March 2018; this is due mainly to the changes in financial assumptions. In 2018/19 the actuary applied revised mortality assumptions reducing the life expectancy estimates used in the previous year's report. This one change has reduced the pension liability by just under £136 millions, offset by movements the other way. These relatively small changes in actuarial assumptions illustrate the volatility of pension fund estimates.

It is arguable whether the annual calculation of the pension fund deficit can accurately reflect the long run position.

Note 39 on page 108 provides further information.

## Performance Management

### About Devon

Devon has an outstanding natural environment and a strong sense of community. Employment levels are high, schools are of good quality and crime is low.

However, life is more difficult for some people and communities. Although the physical health of the population is generally good, rates of mental ill health and self-harm are higher than the national average. Recent years have seen increasing financial pressures for many working age families with a rise in poverty and more people seeking emergency supplies of food. Whilst unemployment is low, there also remain significant differences in the number of people in work and the type of work available for those who are older, have a disability or have care responsibilities.

#### Devon facts and figures

- Devon is a thriving place to live, the only County to score highly on each aspect of the [Thriving Places Index](#); sustainability, local conditions and equality,
- Devon has an ageing population and high inward migration of older people. In 2016 there were 28,143 people aged 85 and over, projected to rise to 62,532 by 2039,
- Devon has 8,000 miles of roads, 3,100 miles of Public Rights of Way, two National parks and five Areas of Outstanding Natural Beauty.
- Over 75,000 new dwellings are planned over the next 15 to 20 years,
- Devon has a skilled workforce but low average earnings. There is also a significant economic diversity between Devon's Districts, with some of the best and worst performing in the South West,
- Overall crime is low but there are increased risks from drugs, child sexual exploitation, domestic abuse and modern slavery,
- Average house prices are more than 9x annual earnings, compared to 7x nationally.
- Homelessness is increasing, with more than 15,000 families on the housing register,
- Fuel poverty and poor housing conditions are a significant issue in many areas, especially rural parts of Western and Northern Devon,
- Isolation and limited access to services is an issue for many people in rural areas.

Devon County Council is one of 26 County Councils in England. We represent a population of around 780,000 and administer an area of 6,564 km<sup>2</sup>, geographically the third largest in England. Devon is a three-tiered local authority area and we work in partnership with eight District Councils and over 300 Town and Parish Councils.

The most recent County Council elections took place in May 2017 with the Conservative group, led by Councillor John Hart, remaining in control of the Council with 42 of the 60 seats.

### **Our objectives**

Our purpose is to create a Devon where everyone can:

- Become and remain independent,
- Get the best start in life,
- Stay healthy,
- Learn,
- Keep the environment safe and looking good,
- Prosper,
- Keep safe,
- Get from A to B,
- See good decisions are being made.

### **Our services**

We provide some of our services directly and commission others from other organisations. Our main service groups are:

- Adult care and health; including services for older people and for people with physical or learning disabilities,
- Children's Services; including education and learning, services to vulnerable children and families, safeguarding, looked after children and care leavers,
- Communities, Public Health, Environment and Prosperity; including planning, transportation and environment, economy enterprise and skills, trading standards, libraries, community safety and emergency planning,
- Highways, Infrastructure, Development and Waste,
- Legal, Human Resources and Communications; including registration of births, deaths and marriages and the Coroner service,
- Digital Transformation and business support,
- County Treasurer.

### **Risks and challenges**

Although the effects of leaving the European Union are not yet known, Brexit presents a high risk in view of its potential impact on local business, employment and services. We are developing a detailed Risk Register and action plan.

Other main risks include:

- Risk of failure to deliver priority services due to uncertainties about Government funding after 2019/20, the final year of the four-year financial settlement,
- Meeting demand for adult social care funded support,
- Ensuring vulnerable young people have a good transition to adulthood,

- Responding to extreme weather events including flooding, obstruction and structural damage to transport infrastructure affecting citizens and property.

## **Highlights of achievements and performance**

During 2018/19 we continued to work with residents, community groups and other partners to support Devon's communities. Examples of this work included:

- Maintaining the library estate and working alongside award winning partner Libraries Unlimited to further develop the service,
- Maintaining open access Youth Services, delivered by DYS Space,
- Resettling significant numbers of refugees,
- Supporting the Armed Forces community through an Employer Recognition Scheme and staff network development,
- Launching Crowdfunding, one of several new means of community funding,
- Establishing 'Devon Remembers' to mark the centenary of the end of World War 1, enabling people to explore experiences of the period and providing grants to support commemorative activities and restoration of WWI monuments.

Digital technologies touch every part of our organisation and the work that we do for our communities. Digital Devon sets out our strategic ambition to help make life easier and more convenient for everyone. Recent initiatives include:

- Supporting people to access digital services through Devon Digital Lives, a digital inclusion project delivered by volunteer staff and councillors,
- Developing a new digital platform for Blue Badge users,
- Sharing digital skills and knowledge across our organisation, enabling staff to collaborate more easily and to work efficiently and effectively in a digital world.

Highlights of performance against our specific objectives include:

### **Become and remain independent**

If people can live healthy lives in strong communities, fewer will become unwell and require care. In addition to our other work with communities we are in the process of agreeing a budget for prevention across our health and care partnership which will be delivered by expanding our multi-agency prevention programme.

Where adults do need care, we help them to live as independently as possible. This includes older people and those with physical or learning disabilities, mental ill health or drug and alcohol problems.

People with Learning Disabilities in Devon are more likely to be employed and to live independently than is typical elsewhere. More adults in contact with secondary mental health services were also in paid employment, an improvement on previous years and better than the national average. Our 'Ready When You Are' campaign promotes the employment of people with disabilities and mental health needs this is the best way of maximising independence.

A greater proportion of people who use services, and their carers, are supported through direct payments and other mechanisms that give them more choice & control than is typical elsewhere.



Reablement services help people to recover in their own home and avoid readmission after a hospital stay. 82.6% of people aged 65+ were still at home 91 days after discharge from hospital, similar to the national and above the regional averages, although performance has declined somewhat.

For several years Devon has placed a lower proportion of older people into care homes than comparators, supporting them at home in the community instead.

However, we still meet the needs of too many working age adults through residential care when they would be better supported in the community. Improving this is a key objective of our disabilities transformation strategy and our mental health change programme.

The Care Quality Commission rates a greater proportion of regulated adult social care services in Devon as Good and Outstanding than is typical regionally and nationally and has done so for several years.

Proud to Care Devon promotes health and care jobs, training and careers in Devon.

	Devon	SW	England
Learning Dis: % in paid employment	8.6%	5.9%	6.0%
Mental Health: % in paid employment	8.0%	11.0%	7.0%
People aged 65+ still at home 91 days after discharge from hospital	82.6%	80.2%	82.9%
Age 18-64 in residential/nursing care (per 100,000 popln)	17.7	16.8	14.0
Age 65+ in residential/nursing care (per 100,000 popln)	494.3	545.8	585.6
Overall satisfaction with adult social care services	67.9%	67.3%	65.0%
Social care users who have as much social contact as they would like	42.8%	46.0%	46.0%
Services rated Good or Outstanding by CQC	86.8%	85.9%	83.3%

For more information see our Adult Social Care Report 2018.

## Be healthy

Devon's population is reasonably healthy. Fewer adults (57.4%) are overweight or obese than the England average (61.3%). 73.9% of adults describe themselves as physically active, more than the England average of 66%. People in Devon are less likely to smoke or use drugs than is typical nationally and are less likely to be admitted into hospital because of alcohol.

Whilst people in Devon are more likely to be healthy, considerable variation exists between the communities in the county. For example, there is a 15-year difference between the area with the shortest (Central Ilfracombe, 75 years) and longest (Liverton in Exmouth, 90 years) life expectancies. Considerable variations in levels of poverty, health-related behaviours such as smoking and physical activity, and levels of ill-health and premature death. People living in the most deprived communities of Devon typically experience frailty and long-term conditions 10 to 15 years before those living in the least deprived communities.

In light of these variations, public health services often use a targeted approach to make sure they are focused on those who most need them. For example, our healthy lifestyle offer uses an 'Inform / Enable / Support' model, which includes digital platforms to inform the entire population, a telephone service to help enable those who need further assistance to live healthier lifestyles, and a face-to-face service for those in need of more intensive support.

Some outcomes are poorer for the county as a whole, compared to England. For example, rates of self-harm, suicide, mental and behavioural admissions from drug misuse are increasing. In 2017/18 the rate of hospital admission for self-harm was 210.3 per 100,000

population, well above the England average of 185.5. Work to address mental ill health includes:

- Suicide prevention training for a range of organisations in Devon and Torbay,
- Connect 5, a mental health training programme to increase the confidence and skills of staff so that they can help people to manage mental health problems,
- Crisis Cafés to offer a welcoming environment and help people better manage their mental health and wellbeing,
- Our 2018-19 Annual Public Health Report considers mental health and makes 10 recommendations to improve the mental health and wellbeing across Devon.

Our Naturally Healthy initiative demonstrates the link between physical and mental health and the environment around us. The Naturally Healthy project promotes wellbeing and active lifestyles, including experimentation with “green prescribing”.

The Council collaborates with the NHS and other local organisations through the Devon Sustainability and Transformation Partnership with the aim of improving population health and ensuring that our health and care services work seamlessly together. Our Health and Wellbeing Board plays a vital role in driving health and care integration and setting health and wellbeing priorities for the local system. During 2019, the Board is producing a new Joint Health and Wellbeing Strategy, which will be aligned to the Devon version of the NHS Long-Term Plan.

### **Get the best start in life**

Take up of funding for two-year olds increased to 91% in 2018, an improvement on 2017 and significantly better than national (72%) and regional (83%) rates. A “Golden Ticket” is sent to parents of eligible two-year olds to encourage take up, one of several initiatives that contribute to Devon’s good Early Years performance.

In 2018, 71.7% of children achieved a good level of development at Early Years Foundation Stage, in line with the England and regional averages. The Foundation Stage sets standards for the learning, development and care of children from birth to 5 years old. At 27.1%, the gap in attainment between children of different abilities is better than the national attainment gap of 31.8%.

### **Learn**

Devon schools have consistently delivered good outcomes for a relatively low spend per pupil. Attainment, progress and school quality have generally been above national averages. However, the long-term impact of low funding is being felt and it is proving difficult to maintain this above average position.

Providing support for disabled pupils and for those with special educational needs is a significant challenge. Although the County Council has invested significantly more, funds have not been enough to keep pace with the increasing range and complexity of need. As at December 2018 there had been 1,093 new requests for statutory assessments in the financial year to date compared to 726 for this period in the previous year, a 51% increase.

2018 results indicate that overall attainment at Key Stage 2 has improved and Devon continues to be in line with the national average (RWM). Devon continues to perform better than nationally in Reading (77% compared to 75% nationally) whilst attainment in Writing continues to be in line with the national average (78%). Likewise, Devon maintained its attainment performance at Key Stage 4, performing better than nationally in English and Maths, Attainment 8 and EBACC measures

However, at Key Stage 4 Devon pupils are making slightly below average progress, with an average Progress 8 score per pupil of -0.13 and Devon’s pupils are now not making as much progress as regionally (-0.07). The significant decline in the average progress 8 scores in 2017

was in line with national trends, however Devon has not seen an improvement in 2018 as was the case for our regional or statistical neighbours. Our strategy to address this issue includes:

- Partnership working through the Devon Schools Alliance, harnessing sector-wide expertise and experience to provide school and area focused support.
- Locality-based strategy groups utilising lesson study models, bespoke continuing professional development and collegiate working.
- Relentless school improvement focus on progress and the achievement of identified groups within our structured conversations with schools.

Alongside stable or improving attainment outcomes, the gaps for key cohorts at Key Stage 2 have either remained the same or narrowed. Outcomes for pupils with Special Educational Needs (SEN) have improved and Devon pupils with an Education, Health and Care Plan are achieving better results than nationally seen. Pupils with SEN Support and Free School Meals are close to the national average.

Whilst Outcomes at Key Stage 2 for disadvantaged pupils (i.e. eligible for free school meals in last 6 years, children looked after by the Authority, or left care through adoption) have improved slightly these pupils are not progressing as well as last year. This is a concern and so a revised approach to supporting schools' work with disadvantaged pupils has been developed. Schools' response to this may however be affected by the funding issues they are facing. The Local Authority's and schools' aspirations for these pupils remains high.

At Key Stage 4, outcomes for disadvantaged pupils and those on free school meals have seen a decrease in Devon this year. Work is therefore being undertaken to better understand the changes in the context/cohort in order to inform a revised strategy and support programmes that will be available to any school. The areas being looked at include:

- cohort variations (Mobility, SEN, isolated disadvantage, prior attainment, higher percentage of boys),
- understanding the context including locality variations (deprivation scores, funding levels etc.),
- Impact of teacher and support staff reduction to inform teacher training both from LA, Devon Schools Alliance and Teaching schools,
- Isolation – are we outward looking, peninsula work,
- Recruitment, especially English and Maths,
- Developing existing good practice.

Devon schools are now funded at £294 per pupil below the national average. Low funding has reached a critical point where staff are being lost because other means of cutting costs have been exhausted. Despite funding pressures, the overall percentage of Devon Primary, Secondary and Special Schools judged by Ofsted as Good or Outstanding has fallen only slightly in the last year. This reflects a national trend and with 85.6% of Devon schools currently good or outstanding Devon continues to perform better than regional (82.9%) and national (85.4%) averages.

In the year after completing Key Stage 4, 95% of pupils in Devon were in sustained education, employment or training. This is slightly better than the national rate of 94%. For disadvantaged pupils the rate is lower at 88%, reflecting the national trend.

### **Keep my environment safe and looking good**

In 2018 we reviewed our Climate Change Strategy. Carbon emissions from the Authority's operations continue to fall - emissions are now 36% below 2012/13 levels, which is ahead of existing targets. Devon's carbon emissions are 27% below 2005 levels. In light of the UN's Inter Governmental Panel on Climate Change Special Report we are taking more concerted action, both internally and with others to achieve a carbon neutral Devon.

We are responding to the Government's 25 Year Environment Plan:

- Two of the four national 'Pioneer' initiatives (landscape and marine), designed to come up with new approaches to valuing and investing in our natural environment, are being undertaken in northern Devon.
- A range of Natural Flood Management projects (i.e. working with nature) are now operating across Devon involving changes to land management practices (e.g. tree planting, or modified approaches to land drainage) in upper catchment areas to supplement traditional downstream approaches to flood defences.
- The Authority is engaged in the Glover Review of our nationally protected landscapes (National Parks & Areas of Outstanding Natural Beauty (AONB)) which cover 35% of the Devon landscape, to see how these might be better managed in the future. We have also worked with partners to review and update the Management Plans for our five AONBs.
- The Authority's Plastics Strategy was adopted in June 2018 and subsequently other authorities asked for advice on how to prepare their own strategies. The action plan includes measures to reduce plastic litter in Devon and enable communities to recycle plastic more easily. It also looks to minimise the use of the Authority's single-use plastic food and beverage items. During 18/19 various initiatives have been implemented with Devon Norse to reduce the annual consumption of these items by 35% (110,000 items per year).

In 2017/18 54% of Devon's household waste was sent for reuse, recycling or composting, a slight fall from the 2016/17 rate of 55.7%.

## **Prosper**

Devon's economy is diverse, spanning a mature advanced manufacturing sector (including aerospace, marine and other engineering sectors), digital and data analytics cluster and national significant strengths in health and related topics, as well as expertise in more established sectors such as agricultural and tourism. The Exeter area in particular is home to numerous new science, technology, medicine and engineering businesses, complemented by significant local assets in both Northern Devon and South Devon / Plymouth environs.

Business support is provided through a combined Trading Standards, Business Support & Innovation Service which offers regulatory and wider business support to local organisations. Interventions include the more general Growth Support Programme and more bespoke programmes targeting sectors such as health and social care, social enterprises and rural small-to-medium enterprises. These sit alongside other initiatives such as the Buy With Confidence approved trade scheme.

Unemployment in Devon is below national and regional levels at 2.4%, whilst employment is correspondingly higher than the national average, currently 79.2% compared to 75.1% nationally (Oct 2017 to Sep 2018). 81.4% of the working age population in Devon is economically active compared to 78.5% nationally, with a significant proportion in learning at any one time (including 4,500 individuals per annum working with Learn Devon). The Claimant Count of all those claiming out of work benefits stands at 1.2% in Devon, half the level of the national average.

However, although average resident earnings have increased by 12% since 2013, they remain only 90% of the national average. This has however increased over the past three years as a percentage of national earnings, in contrast to neighbouring areas in Cornwall, Torbay and Somerset.

Devon overall is slightly better qualified when compared to the rest of the UK with 80% trained to level 2 or equivalent and 61% to level 3, slightly more than the national average. 40% are qualified to level 4 or above, higher than the national average of 38% (level 4 represents some form of higher education). However, this masks wide disparities between districts; for example, the proportion of adults qualified to NVQ4 or above ranges from 50% in West Devon to 33.6% in North Devon. This also masks significant challenges around local retention of skills

within the County's business community, with a significant proportion of the higher skills residents in parts of Devon commuting outside the region every day to work.

In response, initiatives to enhance skills are targeted towards both areas of need and opportunity, with a focus upon both apprenticeship and skills programmes through the County's outstanding College and training providers, and through Learn Devon. The County also leads for the wider region (in partnership with the Heart of the South West Local Enterprise Partnership (LEP)) on the provision of Careers advice and guidance to schools and colleges, seeking to drive forward additional aspiration and ambition amongst those leaving and moving through education.

Information from Careers South West (Nov 18) indicates that the percentage of young people who are not in Employment, Education or Training (NEET) in Devon is slightly higher than the same period last year (3.0% compared to 2.5% in Nov 2017). However, the current rate of those not entering Education, Employment or Training is currently roughly half the national average at 6%.

### **Keep safe**

Most people feel that Devon is a safe place. 90% of respondents to our 2016 Community Insight survey felt safe outside in their local area during daylight and 77% said they are treated with dignity and respect in the community. But some people live at risk of harm or abuse.

Our Trading Standards Service is part of a joint service covering Devon, Somerset and Torbay; this partnership provides the capacity and the range of skills necessary to effectively tackle rogue traders and support victims of crime, in particular those repeat victims of mass marketing financial scams or doorstep crime.

68.8% of social care service users in Devon say they feel safe, below the national, regional and comparator averages although having improved in line with national trends. People's perception of their own safety isn't just about social care services but issues such as rural isolation, street lighting, fear of crime, and other issues in their neighbourhood or wider community.

As at 10 December 2018, there were 3811 children in need being supported by the service (including children the subject of a Child Protection Plan (529); those who are Children in Care (743), and care leavers (451)

We have seen a rise in the number of children the subject of a Child Protection Plan recently. The number tends to fluctuate during any given year and is closely monitored and remains below the average rate per 10,000 children among statistical neighbours and the overall England average.

At 10 December 2018 our rate of children in care per 10,000 children was 51. Whilst the rate has increased in recent months it remains lower than that of statistical neighbours and the most recently published regional (55) and national (64) averages.

We are in touch with 85% of 17-18-year-old care leavers. This represents an improving position as recognised by Ofsted in their recent visit but there is more to be done to make further improvement.

### **Get from A to B**

Implementation of the £93 million scheme to improve the North Devon Link Road continued in 2018/19. In February 2019 the County Council's Development Management Committee granted planning permission to upgrade 11km between Portmore roundabout, Barnstaple, and Filleigh Cutting at South Molton. The long-term strategy includes upgrades to eight junctions, additional overtaking lanes and an urban four lane road between Portmore and Roundswell roundabouts.

Through the Peninsular Rail Task Group, Devon County Council continues to lobby for an improved South West rail network. Five years after the Dawlish line closure which cost the South West an estimated £1.2 billion, the Government has agreed £80 million funding for the first phase of major resilience works to the Dawlish sea wall.

Bus passengers in the East of Exeter area are to benefit from more frequent services to and from Exeter at the end of May. This is a new service subsidised by the Authority and will provide extra capacity, as the current service is often full during peak periods.

We have continued to develop the cycle network in Exeter and the route from East of Exeter into the City has progressed well. Funding has been received from Government and one section has been built and a further two are progressing to construction. Combined these will provide a 4km high quality cycle route on the north of the City replicating the route along the river Exe to Exmouth. In addition, the first phase of the Newton Abbot East West cycle route along the A382 has been constructed to connect the Town Centre and schools to the emerging new development west of Newton Abbot.

The new towns of Cranbrook and Sherford continue to grow. Working with the Sherford Consortium, funding has been obtained from Government to build the first element of Sherford Main Street. This will connect the A38 at Deep Land to the emerging new community. Similarly, the Tithebarn Lane Link has been constructed providing an alternative route connecting Exeter across the M5 to Cranbrook and the associated employment sites.

### **See good decisions are being made**

Principles of decision making, Committees terms of reference and delegations to Members and Officers are set out in the Constitution. Both financial regulations and the scheme of delegation were reviewed in 2018/2019. All meetings of the Council, the Cabinet and Committees are held in accordance with Access to Information Procedures Rules and agendas, minutes & reports are publicly available.

An audit carried out by the Devon Audit Partnership in early 2018 confirmed that the Council has a robust ethical framework in place, set out in the Code of Corporate Governance (Constitution), which takes account of statutory obligations, Government guidance as well as local Codes of Ethics.

The Cabinet continues to make most of the Council's day-to-day decisions. Key issues considered (other than those mentioned earlier in the Report) included recommendations to Council for the Implementation of a Regional Adoption Agency, Governance arrangements relating to the Local Industrial Strategy, Management of Ash Die Back Disease, Promoting Independence in Devon and approval of the Vision and 5 year Plan for Adult Social Care, extending the Care Workers Parking Exemption Scheme, the development of an Edge of Care service and other capital schemes for roads and cycling networks. In addition, the Cabinet continued with regular budget monitoring and also approval of the outturn.

Recommendations of Scrutiny committees have influenced local policy and practice and brought local concerns to the attention of national Government. These included:

- A review of Public Health Nursing recommended that services be brought back in house and established six key principles for future delivery. The benefits include better integrated working with Early Years and Early Help services.
- A spotlight review made recommendations regarding problem gambling, an issue that has an impact on the wellbeing of many vulnerable people.
- Overseeing the policy change in foster carer fees and recommendations for a revised structure which Cabinet subsequently accepted and implemented.

- In response to increased commissioning activity, each Scrutiny Committee appointed a 'Commissioning Liaison Member'. The role of this Member is to work closely with the relevant Cabinet Members and Heads of Service, developing a fuller understanding of commissioning processes, and provide a link between Cabinet and Scrutiny on commissioning and commissioned services.

## **Conclusion**

2018/19 has been a particularly challenging year for the Authority. Significant overspending in Children's Services resulted in a package of measures being put in place to off-set this and it wasn't until month ten (January) that a balanced outturn was forecast. The final year end position is, a very welcome, small underspend after transfers to and from reserves.

The Authority's Earmarked Reserves have increased by £25.2 millions during the year, of this £18.1 millions is in relation to the Business Rates Pilot, being £6.6 millions to manage future risk and £11.5 millions for future invest to save initiatives within Children's Services.

The increase in the Authority's reserves will help to put the authority in a stronger position to deal with the uncertainty that remains around future funding, Brexit and ongoing pressures in Social Care.

### ***Mary Davis***

County Treasurer

29 May 2019

### ***Phil Norrey***

Chief Executive

29 May 2019

# **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 2019 has been prepared in accordance with the Accounts and Audit (England) Regulations 2015 and that it gives a true and fair view of the financial position of the Authority as at 31st March 2019 and its income and expenditure for the year ended 31st March 2019

***Mary Davis***

County Treasurer

24th July 2019

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

I confirm that these accounts were approved by the Audit Committee at its meeting on 29th July 2019

Chairman of the Audit Committee

29th July 2019



## 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 both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2017/18 Gross Expenditure	2017/18 Gross Income	2017/18 Net Expenditure		Notes	2018/19 Gross Expenditure	2018/19 Gross Income	2018/19 Net Expenditure
£000	£000	£000			£000	£000	£000
<b>General Fund continuing operations</b>							
294,231	(70,959)	223,272	Adult Care & Health		316,790	(72,158)	244,632
526,903	(350,905)	175,998	Children's Services		521,376	(336,385)	184,991
115,874	(49,937)	65,937	Communities, Public Health, Environment & Prosperity		123,484	(51,667)	71,817
56,052	(25,442)	30,610	Corporate		62,439	(26,277)	36,162
75,535	(17,528)	58,007	Highways, Infrastructure Development & Waste		79,630	(18,724)	60,906
3,625	(1,602)	2,023	Non Service		1,939	(1,887)	52
<b>1,072,220</b>	<b>(516,373)</b>	<b>555,847</b>	<b>Cost of Services</b>	1,14	<b>1,105,658</b>	<b>(507,098)</b>	<b>598,560</b>
115,054		115,054	Other Operating Expenditure	6,11	52,246	0	52,246
69,933	(1,533)	68,400	Financing and Investment Income and Expenditure	12	66,462	(2,052)	64,410
0	(663,587)	(663,587)	Taxation and Non-specific Grant Income	13	0	(685,319)	(685,319)
<b>1,257,207</b>	<b>(1,181,493)</b>	<b>75,714</b>	<b>(Surplus) or Deficit on Provision of Services</b>		<b>1,224,366</b>	<b>(1,194,469)</b>	<b>29,897</b>
		(49,877)	(Surplus) or deficit on revaluation of Property, Plant and Equipment	23			(61,494)
		(440)	(Surplus) or deficit on revaluation of available for sale financial assets	18.2			0
		0	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	18.2			(150)
		(103,221)	Remeasurements of the net defined benefit liability	39			(91,308)
		<b>(153,538)</b>	<b>Other Comprehensive Income &amp; Expenditure</b>				<b>(152,952)</b>
		<b>(77,824)</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>(123,055)</b>

## Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different 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 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the movements of the statutory General Fund Balance (including earmarked reserves) in the year following those adjustments. The 'Net (increase)/decrease shows the movement on the statutory General Fund Balance including earmarked reserves. The statutory General Fund Balance also includes reserves held by schools (School carry forwards); details are included within Note 9.

	General Fund and Earmarked General Fund Balance £000	Capital Grants Unapplied £000	Capital Receipts Reserve £000	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Authority Reserves £000</b>
<b>Balance at 1st April 2017</b>	<b>(115,957)</b>	<b>(16,346)</b>	<b>(12,136)</b>	<b>(144,439)</b>	<b>448,564</b>	<b>304,125</b>
<b><u>Movement in reserves during 2017/18</u></b>						
Total Comprehensive Income & Expenditure	75,714			<b>75,714</b>	(153,538)	(77,824)
Adjustments between accounting basis & funding basis under regulations (Note 8)	(100,237)	(21,357)	(1,624)	<b>(123,218)</b>	123,218	<b>0</b>
<b>Net (Increase)/Decrease in 2017/18</b>	<b>(24,523)</b>	<b>(21,357)</b>	<b>(1,624)</b>	<b>(47,504)</b>	<b>(30,320)</b>	<b>(77,824)</b>
<b>Balance at 31st March 2018 Carried Forward</b>	<b>(140,480)</b>	<b>(37,703)</b>	<b>(13,760)</b>	<b>(191,943)</b>	<b>418,244</b>	<b>226,301</b>
<b><u>Movement in reserves during 2018/19</u></b>						
Total Comprehensive Income & Expenditure	<b>29,897</b>			<b>29,897</b>	<b>(152,952)</b>	<b>(123,055)</b>
Adjustments between accounting basis & funding basis under regulations (Note 8)	(51,179)	(5,239)	1,139	<b>(55,279)</b>	55,279	<b>0</b>
<b>Net (Increase)/Decrease in 2018/19</b>	<b>(21,282)</b>	<b>(5,239)</b>	<b>1,139</b>	<b>(25,382)</b>	<b>(97,673)</b>	<b>(123,055)</b>
<b>Balance at 31st March 2019 Carried Forward</b>	<b>(161,762)</b>	<b>(42,942)</b>	<b>(12,621)</b>	<b>(217,325)</b>	<b>320,571</b>	<b>103,246</b>

## 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".

<b>31st March 2018</b>		<b>Notes</b>	<b>31st March 2019</b>	
<b>£000</b>			<b>£000</b>	<b>£000</b>
1,414,492	Property, Plant & Equipment	16	1,454,233	
1,446	Intangible Assets		2,517	
2,487	Heritage Assets		2,505	
19,702	Long Term Investments	18	19,853	
	Investments in Associates & Joint Ventures	18	2,128	
2,128			2,128	
33,748	Long Term Debtors	17	28,671	
<b>1,474,003</b>	<b>Long Term Assets</b>			<b>1,509,907</b>
92,839	Short Term Investments	18	160,665	
609	Inventories		872	
91,931	Short Term Debtors	19.2	100,374	
64,302	Cash and Cash Equivalents	21	32,865	
11,240	Assets held for sale	22	6,806	
<b>260,921</b>	<b>Current Assets</b>			<b>301,582</b>
(6,640)	Provisions	20	(15,301)	
(11,194)	Short Term Borrowing	18	(11,194)	
(1,500)	Revenue Grants Receipts in Advance	34	(951)	
(121,189)	Short Term Creditors	19.1	(114,097)	
<b>(140,523)</b>	<b>Current Liabilities</b>			<b>(141,543)</b>
(15,307)	Provisions	20	(16,123)	
(511,247)	Long Term Borrowing	18	(511,172)	
(1,265,916)	Other Long Term Liabilities	24	(1,208,137)	
(5,000)	Revenue Grants Receipts in Advance	34	(6,119)	
(23,232)	Capital Grants Receipts in Advance	34	(31,641)	
<b>(1,820,702)</b>	<b>Long Term Liabilities</b>			<b>(1,773,192)</b>
<b>(226,301)</b>	<b>Net Assets/(Liabilities)</b>			<b>(103,246)</b>
(191,943)	Usable Reserves		(217,325)	
418,244	Unusable Reserves	23	320,571	
<b>226,301</b>	<b>Total Reserves</b>			<b>103,246</b>

## 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.

<b>2017/18</b>		<b>Note</b>	<b>2018/19</b>
<b>£000</b>			<b>£000      £000</b>
<b>75,714</b>	<b>(Surplus) or Deficit on the Provision of Services</b>		<b>29,897</b>
	Adjustments for -		
(240,916)	Non cash movements	25	(158,752)
<u>8,867</u>	Investing and financing activities	26	<u>10,824</u>
(232,049)			(147,928)
<b>(156,335)</b>	<b>Net cash flows from operating activities</b>	27	<b>(118,031)</b>
<b>100,449</b>	Investing activities	28	<b>153,646</b>
<b>4,544</b>	Financing activities	29	<b>(4,178)</b>
<b>(51,342)</b>	<b>Net (increase)/decrease in cash and cash equivalents</b>		<b>31,437</b>
12,960	Cash and cash equivalents opening balance		64,302
<b><u>64,302</u></b>	<b>Cash and cash equivalents at year end</b>	21	<b><u>32,865</u></b>

# Notes to the Accounts

## 1. Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Authority (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's service segments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	Net Expenditure Chargeable to the General Fund (Outturn)	Adjustments between the funding and accounting basis	Internal Transfers	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000
Adult Care & Health	232,470	12,162	0	244,632
Children's Services	138,399	46,363	229	184,991
Communities, Public Health, Environment & Prosperity	31,765	40,051	2	71,818
Corporate	33,779	1,834	549	36,162
Highways, Infrastructure Development & Waste	57,065	1,752	2,089	60,906
Non Service	20,156	(17,235)	(2,869)	52
<b>Net cost of services</b>	<b>513,634</b>	<b>84,927</b>	<b>0</b>	<b>598,561</b>
Other Income and Expenditure	(534,916)	(33,748)	0	(568,664)
<b>(Surplus) or Deficit</b>	<b>(21,282)</b>	<b>51,179</b>	<b>0</b>	<b>29,897</b>
<b>Opening General Fund Balance, schools and earmarked reserves at 1 April</b>	<b>(140,480)</b>			
Add (Surplus)/Deficit on General Fund, Schools and Earmarked Reserves	(21,282)			
<b>Closing General Fund Balance, schools and earmarked reserves at 31 March</b>	<b>(161,762)</b>			

### Internal Transfers

Some service expenditure has been financed through reserves, through a credit to the service account and a corresponding debit to the non-service account to arrive at the outturn position. Accounting rules require that these transactions between the service accounts and non-service budget are reversed out from the Consolidated Income and Expenditure Account. There is no net effect on the overall outturn position.

<b>2017/18</b>	Net Expenditure Chargeable to the General Fund (Outturn) <b>£000</b>	Adjustments between the funding and accounting basis <b>£000</b>	Net Expenditure in the Comprehensive Income and Expenditure Statement <b>£000</b>
Adult Care & Health	212,716	10,556	223,272
Children's Services	124,369	51,629	175,998
Communities, Public Health, Environment & Prosperity	32,446	33,491	65,937
Corporate	31,892	(1,282)	30,610
Highways, Infrastructure Development & Waste	56,763	1,244	58,007
Non Service	13,129	(11,106)	2,023
<b>Net cost of services</b>	471,315	84,532	555,847
Other Income and Expenditure	(495,838)	15,705	(480,133)
<b>(Surplus) or Deficit</b>	(24,523)	100,237	75,714
<b>Opening General Fund Balance, schools and earmarked reserves at 1 April</b>	<b>(115,957)</b>		
Add (Surplus) / Deficit on General Fund, Schools and Earmarked Reserves	(24,523)		
<b>Closing General Fund Balance, schools and earmarked reserves at 31 March</b>	<b>(140,480)</b>		

## **2.Statement of Accounting Policies**

### **General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31st March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Local Government Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Local Government 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:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- 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 receivable on investments and payable on borrowings and 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.

#### **Accounting for Schools**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

Properties used by schools are recognised in accordance with the indicators of control identified under the requirements of the Code's adoption of IFRS 10, Consolidated

Financial Statements. Where assets are owned by Devon County Council and used by community schools, voluntary aided and voluntary controlled schools then they are recognised in the Authority's balance sheet.

Where the title of ownership of voluntary aided and voluntary controlled school assets rests with Trustees of the religious bodies, the Authority does not recognise these assets in its balance sheet.

In the case of foundation schools where assets have been transferred to the schools' governing bodies then the restrictions on the use of those assets in the legal transfer documents are such that the land and buildings are included in the Authority's balance sheet.

The Authority does not recognise the land or buildings used by Academy Schools in its balance sheet. The Authority still owns the assets but has transferred the rights over the assets to the academies through leases of 125 years.

## **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 no accumulated gains in the revaluation reserve against which the losses 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). Depreciation, revaluation, impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision) by way of an adjusting transaction with the Capital Adjustment Account in the movement in reserves statement for the difference between the two.

## **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.



## **Council Tax and Non Domestic Rates**

The council tax and non-domestic rate income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year, collected by the District Councils (billing authorities). However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## **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 Authority. 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 the 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 Authority 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 Authority 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 unpaid at the end of the year.

### **Post-Employment Benefits**

Employees of the Authority 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 Services 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 Authority.

The arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. 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. Children's and Public Health services in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to teachers' and NHS 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 Authority 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 Authority 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 liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- Net interest on the net defined benefit liability/(asset), i.e. 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 net 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 transfers 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 Authority 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.

## **Financial instruments**

### **Financial liabilities**

Financial liabilities are recognised on the balance sheet when the Authority becomes a party to the contractual provisions of a financial instrument. They 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 Authority 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 the 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 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 Authority 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 Assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### **Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost are recognised on the balance sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) 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 financial assets held by the Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

### **Expected Credit Loss Model**

The following table classifies the Authority's financial assets and how the expected credit loss model is applied:

#### **Financial Asset Classification**

Investments - loans to local authorities

#### **Expected Credit Loss Allowance**

Nil - investments are guaranteed by statute. Code does not allow for credit losses.

Investments - deposits with banks and building societies (> 90 days) Bank deposits (cash and cash equivalents)	Expected credit loss percentage is too small to be material. There is no reduction in the carrying value of the investments
Money Market investments	These investments are held at Fair Value through Profit and Loss (FVPL). Although the investments are immediately available and included as cash equivalents it is possible (if unlikely) that the carrying value could vary from the amount invested.
Trade receivables and leases (debtors)	Historic data for defaults, adjusted for future economic conditions - lifetime losses
Loans to voluntary groups	Nil - Small in number and value - loss allowance is not material
Shares in Exeter Science Park Limited and Skypark	The investments are not material and credit losses are not appropriate for these equity instruments. The Authority has invested in these for economic development and has designated these investments as Fair Value through Other Comprehensive Income (FVOCI).
CCLA investment - pooled property fund	The Authority has designated this investment as FVOCI: the investment is carried at fair value based on bid price provided by CCLA - no loss adjustment is required.

### **Financial Assets Measured at Fair Value through Profit of Loss (FVPL)**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset.

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.

### **Designation of investments in equity instruments to Fair Value through Other Comprehensive Income (FVOCI)**

An equity instrument is an investment where the Authority holds an interest in the net assets of the fund (e.g. remaining assets after deducting all liabilities) and does not have the contractual right to receive cash or another financial asset in return for its investment.

The Authority considers the investments in Exeter Science Park Limited, Skypark and CCLA to be such equity instruments and the default classification for these investments would be Fair Value through Profit and Loss (FVPL).

The Authority elects to designate its equity instruments that would otherwise be measured at FVPL to FVOCI.

There is no impact on the valuation of the investments in the balance sheet but fluctuations in value are treated differently.

Changes in value of FVOCI investments, are recognised in the unusable reserve, Financial Instruments Revaluation Reserve whereas fluctuations in FVPL investments would have been recognised in outturn, the General Fund and usable reserves.

### **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 Authority 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 ('Attributable revenue grants and contributions') or taxation and non-specific grant income ('Non ring-fenced revenue grants and all capital grants') in the Comprehensive Income and Expenditure Statement.

Where 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 Authority's 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.

## **Joint Operations**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

## **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 Authority 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 (Authority 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 (Authority 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 some support services are recharged to service segments in accordance with the Authority's arrangements for accountability and financial performance. There is no apportionment of overheads in the budget monitoring and reporting of service segments, which is consistent with the reporting of income and expenditure in the Comprehensive Income and Expenditure Statement.

## **Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment (PPE) needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the PPE will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its balance sheet as part of PPE.

The original recognition of these assets at fair value (based on the cost to purchase the PPE) 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 PPE owned by the Authority.

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 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 PPE 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 (PPE) 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 PPE is capitalised on an accruals basis, provided that it is probable that future economic benefits or service potential associated with the item will flow to the Authority and the 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 test is not applied.

### **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 Authority'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.

**Measurement after recognition**

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

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.

- Infrastructure, community assets and assets-under-construction are measured at depreciated historical cost;
- Council offices and other assets - current value, determined as the amount that would be paid for the assets in their existing use (EUV - existing use value). Where there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold, (such as schools) current value is estimated by using a Depreciated Replacement Cost (DRC) approach.
- School buildings are measured at current value but because of their specialist nature, are measured at depreciated replacement cost
- Surplus assets - the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective.
- 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 current value should be revalued sufficiently regularly (as a minimum every five years) to ensure that their carrying amount is not materially different from their current 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.

### **Surplus Assets at Fair Value**

All the Council's material surplus properties have been value assessed as Level 2 on the fair value hierarchy for valuation.

### **Fair Value Hierarchy**

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuations are to presume highest and best use. This is the use that brings maximum value that is physically possible, legally permissible and financially feasible.

To increase consistency and comparability the Council categorises its Surplus Asset valuations using a fair value hierarchy for the inputs to valuation techniques. Where inputs from different levels are used, the measurement is categorised at the lowest of the levels that contains a significant input.

Level 1	Quoted prices for identical assets
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly (e.g. quoted prices or market evidence for similar assets)
Level 3	Unobservable inputs for the asset (e.g. internal information used to form assumptions about the assumptions that market participants would use)

The presumption that an orderly transaction takes place requires the Council to consider which markets it has access to at the valuation date and determine the principal market (that with greatest volume and level of activity). If there is no principal market, the most advantageous is identified.

In measuring fair values, the valuation techniques must be appropriate for the circumstances and for which sufficient data is available. The use of relevant observable data (inputs) should be maximised and unobservable inputs (estimates) used only where there are no alternatives. Inputs for valuation techniques are selected consistently with the characteristics that the market participants would take into account.

### **Valuation Techniques Used to Determine Level 2 Fair Values for Surplus Assets**

The fair value of the Council's surplus properties has been measured using a market-based approach, which takes into account market data, such as publicly available information about actual events for completed property transactions for similar assets in principal and active markets. These inputs reflect the assumptions that market participants would use when pricing the asset. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant. The Council has recent and continuing experience arising from its Property Rationalisation Programme from which comparable and observable inputs are taken.

## **Unobservable inputs**

Level 3 unobservable inputs are confined to non-operational surplus properties where significant physical, legal and financial constraints restrict the market for direct or indirectly comparable transactions. The economic benefits that may be generated from highest and best use (or the next best alternatives) are limited and market participants are not readily identifiable. Asset pricing assumptions assume de-minimis market values or unsaleable.

## **Highest and best use (HBU)**

The HBU for Level 2 properties groups is assessed as residential or commercial redevelopment and private dwellings.

## **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, 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 land and buildings are removed from the Authority's balance sheet in line with proper accounting practices, as the beneficial rights associated with ownership have been transferred to the academy.

## **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. 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.

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

<b>Asset Type</b>	<b>Estimated Useful Life</b>
Care Homes	50 to 60 Years
Education – Non Schools	30 to 60 Years
Education – Schools	10 to 60 Years
Energy from Waste facilities	25 to 30 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
Social Services	50 to 60 Years
Vehicles, Plant, Furniture	3 to 15 Years
Waste Disposal sites	50 Years

## **Provisions**

Provisions are made where an event has taken place that gives the Authority 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 Authority 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 Authority. 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, i.e. 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.

## **3.Accounting Standards that have been issued but have not yet been adopted**

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for the Code of Practice for Local Authority Accounting 2019/20.

There are no changes in accounting requirements for 2019/20 that are anticipated to have a material impact on the Council's financial performance or financial position.



## 4. Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 2 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 as an authority can only be discontinued under statutory prescription. Although Central Government funding is being cut significantly this will have no effect on Devon County Council as a going concern.
- In cases where schools' land and buildings are owned by the Diocese of Exeter, the Authority has not identified any arrangements that transfer the rights arising from ownership of voluntary aided and voluntary controlled schools from the Trustees (religious organisations) to Devon County Council. Consequently, the Authority has not recognised these assets in its balance sheet.
- There are five voluntary controlled schools where the land and buildings are owned by the Authority.
- For Foundation schools the assets are owned by the governing body but deemed to be controlled by the local authority. The Authority consolidates these assets into its balance sheet.
- Note 18, page 65 Financial Instruments details the authority's Investment Strategy and approach to managing risk. None of the Authority's investments have been impaired. Disclosures of fair values are not required when the carrying amount is a reasonable approximation of fair value. For investments of duration of less than 12 months (short term investments) then the Authority has used the carrying amount as a reasonable approximation of fair value.
- In 2015/16 a Better Care Fund was established between Devon County Council, North, East West Devon CCG and South Devon and Torbay CCG, funded and controlled jointly by the three partners. The County Council administers the scheme in that it makes most of the payments on behalf of the Fund. The arrangement has been accounted for as a joint operation - where each partner shows in its accounts its share of the expenditure, assets and liabilities of the Better Care Fund. Further details are disclosed in Note 36, Partnerships and Related Party Transactions.
- The Authority has a Private Finance Initiative (PFI) contract for the provision of schools. The Authority also has a Public Private Partnership for the construction and operation of an energy from waste facility in Exeter. Devon County Council, Plymouth City Council and Torbay Council form the South West Devon Waste Partnership. The partner authorities have a PFI contract for the construction and operation of an energy from waste facility in Plymouth and each partner recognises its share of the asset in proportion to gate fees paid by each local authority. Note 37 page 101 provides further detail.
- As approved by County Council on 21st February 2019, the Authority has changed its Minimum Revenue Provision (MRP) policy for all debt up to the 1st April 2008 to the Asset Life - Annuity method. This will have no impact on the total amount set aside for the repayment of debt. MRP will still cover all existing debt repayment. The MRP policy for debt undertaken after the 1st April 2008, and for PFI arrangements, remains unchanged and is charged over the period of benefit of the capital investment using the Asset Life - straight line method.

## 5. 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 2019 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 £4.3 millions and £4.2 millions respectively for every year that useful lives have to be reduced.
	The Council operates a rolling programme of valuation reviews which ensures all assets are revalued at intervals no greater than five years. Specialised property assets are valued on the basis of Depreciated Replacement Cost (DRC) using indices and parameters, including the most recent regional construction cost information published by the RICS Building Cost Information Service (BCIS). The Valuer applies professional judgement to published indices, which can vary quarterly and an assessment of age and obsolescence affecting individual assets.	In 2018/19 £605 millions of PPE was subject to a revaluation and a variation of 1% in the value of these assets would result in a change in carrying amount of £6 millions in the balance sheet. £105 millions of assets subject to the 5 year programme were not valued in 2018/19 and a 1% change in value for these assets would impact the balance sheet by £1 million.
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 LLP, a firm of consulting Actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.	The actuary has provided sensitivity analysis: a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £42.8 millions and a reduction in life expectancy assumptions of 1 year reduces the pension liability by £88.8 millions. Adjustments to salary and pension increases of 0.1% increase the pension liability of £3.1 millions and £39.7 millions respectively.
	Amounts charged to and income credited to 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 39. 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.	The impact is not expected to be material.

## **6. Material items of Income and Expenditure**

During 2018/19 a material item was included in the Comprehensive Income and Expenditure Statement relating to derecognition of property, plant and equipment assets attributable to schools transferring to academy trust status. These assets were derecognised in accordance with proper accounting practices with nil sale proceeds, resulting in a loss on disposal of £51.872 millions (£110.642 millions in 2017/18), recognised within 'Other Operating Expenditure'.

## **7. Events after the Reporting Period**

The following events are non-adjusting events.

### **Academy Schools**

Between 1st April 2019 and 24th July 2019 the following schools became Academies:

- Cockwood Primary School
- Kenton Primary School
- Kenn Church of England Primary School

As of 31 March 2019, 16 schools have made applications to convert to academy status, of which 7 have had applications approved. However, the transfer dates have not been confirmed.

Academies are independent bodies and Devon County Council will cease to be the maintaining authority from the transfer date. All running costs and income relating to these schools will no longer be part of the Council's accounts. It is estimated that the Council's Gross Expenditure and Income will reduce by £1.042 millions per annum.

Devon County will grant a 125 year lease to the Academies to occupy the site where the Authority owns the freehold. The building element of the lease will meet the definition of a finance lease and will no longer be included within the Council's Balance Sheet. The net book value at 31st March 2019 of land and buildings for schools becoming new academies after this reporting period is £0.424 millions.

## 8. 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.

2018/19

	General Fund £000	Capital grants Unapplied £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
<b>Adjustments involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non current assets	(66,241)			66,241
Revaluation Losses on Property Plant & Equipment	(2,761)			2,761
Amortisation of intangible assets	(493)			493
Release of deferred income from Energy from Waste contract	1,844			(1,844)
Capital grants and contributions	113,080	(113,080)		0
Revenue expenditure funded from capital under statute	(16,733)			16,733
Amounts of Long Term Debtors derecognised, as repaid in prior years	(7)			7
Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal	(59,424)			59,424
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	14,853			(14,853)
Capital Expenditure charged to the General Fund Balance	1,176			(1,176)
<b>Adjustments involving the Capital Receipts Reserve:</b>				
Transfer of sale proceeds credited as part of the gain/loss on disposal	8,044		(10,794)	2,750
Use of the Capital Receipts Reserve to finance new capital expenditure			11,933	(11,933)
<b>Adjustments involving the Capital Grants Unapplied Reserve:</b>				
Use of the Capital Grants Unapplied Reserve to finance capital expenditure			107,841	(107,841)
<b>Adjustments involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 39)	(85,821)			85,821
Employer's pensions contributions and direct payments to pensioners payable in the year	44,207			(44,207)
<b>Adjustments involving the Collection Fund Adjustment Account:</b>				
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	(774)			774
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	81			(81)
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>				
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.	(2,279)			2,279
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account:</b>				
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	69			(69)
<b>Total Adjustments</b>	<b>(51,179)</b>	<b>(5,239)</b>	<b>1,139</b>	<b>55,279</b>

2017/18

	General Fund £000	Capital grants Unapplied £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
<b>Adjustments involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non current assets	(75,491)			75,491
Revaluation Losses on Property Plant & Equipment	11,336			(11,336)
Amortisation of intangible assets	(482)			482
Release of deferred income from Energy from Waste contract	1,844			(1,844)
Capital grants and contributions	124,666	(124,666)		0
Revenue expenditure funded from capital under statute	(28,827)			28,827
Recognition of academy loan	246			(246)
Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal	(129,422)			129,422
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	7,366			(7,366)
Capital Expenditure charged to the General Fund Balance	2,355			(2,355)
<b>Adjustments involving the Capital Receipts Reserve:</b>				
Transfer of sale proceeds credited as part of the gain/loss on disposal	15,209		(9,709)	(5,500)
Use of the Capital Receipts Reserve to finance new capital expenditure			8,085	(8,085)
<b>Adjustments involving the Capital Grants Unapplied Reserve:</b>				
Use of the Capital Grants Unapplied Reserve to finance capital expenditure		103,309		(103,309)
<b>Adjustments involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 39)	(75,884)			75,884
Employer's pensions contributions and direct payments to pensioners payable in the year	43,824			(43,824)
<b>Adjustments involving the Collection Fund Adjustment Account:</b>				
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	(1,380)			1,380
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	2,463			(2,463)
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>				
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.	719			(719)
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account:</b>				
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	1,221			(1,221)
<b>Total Adjustments</b>	<b>(100,237)</b>	<b>(21,357)</b>	<b>(1,624)</b>	<b>123,218</b>

## 9. General Fund Balance, Schools and 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. The note shows the movement on all revenue balances and reserves in the year.

	<b>Balance at 31st March 2017 £000</b>	Transfers out 2017/18 £000	Transfers in/within 2017/18 £000	<b>Balance at 31st March 2018 £000</b>	Transfers out 2018/19 £000	Transfers in/within 2018/19 £000	<b>Balance at 31st March 2019 £000</b>
Affordable Housing	(202)	20		(182)			(182)
Budget Management	(34,041)	11,600	(12,000)	(34,441)		(19,089)	(53,530)
Business Rates Pilot						(11,505)	(11,505)
Business Rate Risk Management	(3,740)		(2,430)	(6,170)		(6,577)	(12,747)
Climate Change Emergency						(250)	(250)
Emergency	(16,500)			(16,500)		(1,589)	(18,089)
Minimum Revenue Provision Risk Reserve			(10,916)	(10,916)	10,916		0
On Street Parking	(4,953)		(412)	(5,365)	2,089		(3,276)
Public Health	(226)		(159)	(385)		(227)	(612)
Service Transformation	(11,726)	1,696	(2,000)	(12,030)	1,049		(10,981)
<b>Total before Carry Forwards</b>	<b>(71,388)</b>	<b>13,316</b>	<b>(27,917)</b>	<b>(85,989)</b>	<b>14,054</b>	<b>(39,237)</b>	<b>(111,172)</b>
Non Schools Budget Carry Forwards	(11,502)	11,502	(21,655)	(21,655)	21,655	(19,630)	(19,630)
<b>Total Earmarked excluding schools</b>	<b>(82,890)</b>	<b>24,818</b>	<b>(49,572)</b>	<b>(107,644)</b>	<b>35,709</b>	<b>(58,867)</b>	<b>(130,802)</b>
School Carry Forwards	(18,388)	18,388	(18,142)	(18,142)	18,142	(16,203)	(16,203)
<b>Total Earmarked including schools</b>	<b>(101,278)</b>	<b>43,206</b>	<b>(67,714)</b>	<b>(125,786)</b>	<b>53,851</b>	<b>(75,070)</b>	<b>(147,005)</b>
<b>General Fund (not earmarked)</b>	<b>(14,679)</b>		(15)	<b>(14,694)</b>		(63)	<b>(14,757)</b>
<b>Total General Fund, Schools and Earmarked Reserves</b>	<b>(115,957)</b>	<b>43,206</b>	<b>(67,729)</b>	<b>(140,480)</b>	<b>53,851</b>	<b>(75,133)</b>	<b>(161,762)</b>

## 10. Notes to the Expenditure and Funding Analysis

This note explains the adjustments in the Expenditure and Funding Analysis and detailed in Note 8 to move from outturn in the General Fund to the figures in the Comprehensive Income and Expenditure Statement (using generally accepted accounting practice).

### 2018/19

<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement accounts</b>	<b>Adjustments for Capital Purposes £000</b>	<b>Net Change for Pensions Adjustments £000</b>	<b>Other Adjustments £000</b>	<b>Total Adjustments £000</b>
Adult Care & Health	7,678	4,375	109	12,162
Children's Services	38,035	8,690	(362)	46,363
Communities, Public Health, Environment & Prosperity	39,403	611	37	40,051
Corporate	3,140	(1,414)	108	1,834
Highways, Infrastructure Development & Waste	132	1,581	39	1,752
Non Service	(16,696)	(539)	0	(17,235)
Net Cost of Services	71,692	13,304	(69)	84,927
Other income and expenditure from the Expenditure and Funding Analysis	(65,030)	28,310	2,972	(33,748)
<b>Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services - Note 8</b>	6,662	41,614	2,903	51,179

### 2017/18

<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement accounts</b>	<b>Adjustments for Capital Purposes £000</b>	<b>Net Change for Pensions Adjustments £000</b>	<b>Other Adjustments £000</b>	<b>Total Adjustments £000</b>
Adult Care & Health	7,365	3,165	26	10,556
Children's Services	51,463	1,452	(1,286)	51,629
Communities, Public Health, Environment & Prosperity	33,147	340	4	33,491
Corporate	2,332	(3,640)	26	(1,282)
Highways, Infrastructure Development & Waste	97	1,137	10	1,244
Non Service	(9,209)	(1,897)	0	(11,106)
Net Cost of Services	85,195	557	(1,220)	84,532
Other income and expenditure from the Expenditure and Funding Analysis	(13,995)	31,503	(1,803)	15,705
<b>Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services - Note 8</b>	71,200	32,060	(3,023)	100,237

## Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for other income and expenditure:

- adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- deducts the statutory charges for capital financing i.e. Minimum Revenue Provision
- adjusts for capital grants, where income is not recognised under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

## Net Change for the Pensions Adjustments

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Other Income and Expenditure (Financing and investment income and expenditure), the net interest on the defined benefit liability is charged to the CIES.

## Other Adjustments

There are other adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- the General Fund is adjusted for the timing differences for premiums and discounts as disclosed in the Financial Instruments Adjustment Account (Note 23)
- adjusts for what is chargeable under statutory regulations for council tax and NDR (amounts that were projected to be received at the start of the year) and the income recognised under generally accepted accounting practices in the Code (what was actually received). This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

The following table shows the revenue transactions (external and internal) for each reporting segment. It does not include grant income. The Comprehensive Income and Expenditure Statement only includes income and expenditure with external organisations in accordance with proper accounting practice. Internal recharges between segments (other services) are excluded from the CIES.

<b>2017/18</b>	<b>2017/18</b>		<b>2018/19</b>	<b>2018/19</b>
<b>Revenue from</b>	<b>Revenue from</b>		<b>Revenue from</b>	<b>Revenue from</b>
<b>External</b>	<b>Transactions</b>		<b>External</b>	<b>Transactions</b>
<b>Customers</b>	<b>with Other</b>		<b>Customers</b>	<b>with Other</b>
<b>£000</b>	<b>Services</b>		<b>£000</b>	<b>Services</b>
	<b>£000</b>			<b>£000</b>
(49,004)	(80)	Adult Care & Health	(49,697)	(34)
(19,833)	(6,812)	Children's Services	(20,355)	(6,916)
		Communities, Public Health,		
(8,101)	(2,391)	Environment & Prosperity	(10,882)	(2,302)
(13,515)	(25,646)	Corporate	(16,713)	(24,158)
		Highways, Infrastructure		
(9,722)	(2,617)	Development & Waste	(13,054)	(4,172)
<u>(100,175)</u>	<u>(37,546)</u>		<u>(110,701)</u>	<u>(37,582)</u>



## 11. Other Operating Expenditure

2017/18 £000	2018/19 £000
114,213 (Gains)/losses on the disposal of non current assets	51,350
841 Levies	896
<b><u>115,054</u></b>	<b><u>52,246</u></b>

## 12. Financing and Investment Income and Expenditure

2017/18 £000	2018/19 £000
38,301 Interest payable and similar charges	38,152
31,503 Pensions interest cost and expected return on pensions	28,310
(1,404) Interest receivable and similar income	(2,052)
<b><u>68,400</u></b>	<b><u>64,410</u></b>

## 13. Taxation and Non Specific Grant Income

2017/18 £000	2018/19 £000
(363,239) Council tax income	(385,923)
(75,320) Business Rates Retention Scheme (Top-up)/Tariff	16,222
(21,133) Business Rates Retention Scheme Local Element	(141,709)
(79,229) Non-ringfenced government grants	(60,829)
(124,666) Capital grants and contributions	(113,080)
<b><u>(663,587)</u></b>	<b><u>(685,319)</u></b>

## 14. Expenditure and Income Analysed by Nature

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>Expenditure</b>		
Employee expenses	366,753	363,442
Other service expenses	640,959	672,721
Precepts & levies	841	896
Depreciation, amortisation and impairment	64,637	69,495
Interest payable	25,882	26,041
Pensions Financing and Investment Income and Expenditure	31,503	28,310
PFI financing charges	12,419	12,111
(Gain) or Loss on Disposal of Non Current Assets	114,213	51,350
<b>Total Expenditure</b>	<u>1,257,207</u>	<u>1,224,366</u>
<b>Income</b>		
Fees, charges & other service income	(128,105)	(125,975)
Interest and investment income	(1,404)	(2,052)
Income from council tax	(363,239)	(385,923)
Business rates retention scheme - Local and top up grant	(96,453)	(125,487)
Government grants and contributions	(592,292)	(555,032)
<b>Total Income</b>	<u>(1,181,493)</u>	<u>(1,194,469)</u>
<b>(Surplus) or deficit on the provision of services</b>	<u><b>75,714</b></u>	<u><b>29,897</b></u>

## 15. Revenue from Contracts with Service Recipients

Amounts included in the Comprehensive Income and Expenditure Statement for contracts with service recipients are set out in the following table. Revenue for Adult Care and Health is recognised at the end of the period the service has been provided.

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
(31,532)	Adult Care and Health (Residential)	(30,865)
(17,045)	Adult Care and Health (other)	(18,269)
(12,101)	Education and Learning (schools)	(12,250)
(32,277)	Other	(33,867)
<b><u>(92,955)</u></b>	<b>Total</b>	<b><u>(95,251)</u></b>

Amounts included in the balance sheet for contracts with service recipients are as follows:

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
	<b>Receivables which are included in debtors</b>	
2,064	Adult Care and Health (Residential)	2,310
1,997	Adult Care and Health (Other)	2,335
188	Schools	185
1,700	Other	2,120
<b><u>5,949</u></b>	<b>Total Receivables from service recipients</b>	<b><u>6,950</u></b>
	<b>Contract Assets which are included in debtors</b>	
<b>405</b>	(NHS Transport reimbursement)	<b>402</b>
	<b>Contract Liabilities which are included in creditors</b>	
692	Inspection Fees	625
526	Registration Service	597
384	Other	394
<b><u>1,602</u></b>	<b>Total contract liabilities</b>	<b><u>1,616</u></b>

## 16. Property Plant and Equipment (PPE)

### Movements in 2018/19:

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>							
At 1st April 2018	711,727	30,921	1,095,589	2,923	12,917	21,796	<b>1,875,873</b>
Additions	17,622	4,063	70,441	22	290	9,712	<b>102,150</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	34,727				1,073		<b>35,800</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of Services	(5,763)						<b>(5,763)</b>
Derecognition - Disposals	(54,366)	(3,139)			(1,077)		<b>(58,582)</b>
Assets reclassified (to)/from Held for Sale	(508)						<b>(508)</b>
Other movements in cost or valuation	7,126	135	3,862			(10,990)	<b>133</b>
<b>At 31st March 2019</b>	<b>710,565</b>	<b>31,980</b>	<b>1,169,892</b>	<b>2,945</b>	<b>13,203</b>	<b>20,518</b>	<b>1,949,103</b>
<b>Accumulated Depreciation and Impairment</b>							
1st April 2018	(12,902)	(18,260)	(430,181)		(38)		<b>(461,381)</b>
Depreciation Charge	(28,064)	(3,861)	(34,286)		(30)		<b>(66,241)</b>
Depreciation written out to the Revaluation Reserve	25,694						<b>25,694</b>
Depreciation written out to the Surplus/Deficit on the provision of services	3,001						<b>3,001</b>
Derecognition - Disposals	1,266	2,835					<b>4,101</b>
Other movements in depreciation and impairment	0	(44)					<b>(44)</b>
<b>At 31st March 2019</b>	<b>(11,005)</b>	<b>(19,330)</b>	<b>(464,467)</b>	<b>0</b>	<b>(68)</b>	<b>0</b>	<b>(494,870)</b>
<b>Net Book Value</b>							
<b>At 31st March 2019</b>	<b>699,560</b>	<b>12,650</b>	<b>705,425</b>	<b>2,945</b>	<b>13,135</b>	<b>20,518</b>	<b>1,454,233</b>
<b>At 1st April 2018</b>	<b>698,825</b>	<b>12,661</b>	<b>665,408</b>	<b>2,923</b>	<b>12,879</b>	<b>21,796</b>	<b>1,414,492</b>

**Movements in 2017/18:**

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>							
At 1st April 2017	797,563	47,993	1,022,064	2,487	25,305	17,044	<b>1,912,456</b>
Additions	8,462	4,958	68,291	407		13,763	<b>95,881</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	15,062				3,003		<b>18,065</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of Services	893				1,600		<b>2,493</b>
Derecognition - Disposals	(113,072)	(22,030)			(13,195)	(678)	<b>(148,975)</b>
Assets reclassified (to)/from Held for Sale	(349)				(3,698)		<b>(4,047)</b>
Other movements in cost or valuation	3,168		5,234	29	(98)	(8,333)	<b>0</b>
<b>At 31st March 2018</b>	<b>711,727</b>	<b>30,921</b>	<b>1,095,589</b>	<b>2,923</b>	<b>12,917</b>	<b>21,796</b>	<b>1,875,873</b>
<b>Accumulated Depreciation and Impairment</b>							
1st April 2017	(15,942)	(35,576)	(396,968)		(8)		<b>(448,494)</b>
Depreciation Charge	(38,627)	(3,620)	(33,213)		(30)		<b>(75,490)</b>
Depreciation written out to the Revaluation Reserve	31,812						<b>31,812</b>
Depreciation written out to the Surplus/Deficit on the provision of services	8,843						<b>8,843</b>
Derecognition - Disposals	1,012	20,936					<b>21,948</b>
<b>At 31st March 2018</b>	<b>(12,902)</b>	<b>(18,260)</b>	<b>(430,181)</b>	<b>0</b>	<b>(38)</b>	<b>0</b>	<b>(461,381)</b>
<b>Net Book Value</b>							
<b>At 31st March 2018</b>	<b>698,825</b>	<b>12,661</b>	<b>665,408</b>	<b>2,923</b>	<b>12,879</b>	<b>21,796</b>	<b>1,414,492</b>
<b>At 1st April 2017</b>	<b>781,621</b>	<b>12,417</b>	<b>625,096</b>	<b>2,487</b>	<b>25,297</b>	<b>17,044</b>	<b>1,463,962</b>

**Revaluations**

The Authority maintains a rolling programme of revaluations that ensures all PPE required to be measured at fair value is revalued at least every five years. All valuations are carried out by our qualified external valuer, John Penaligon FRICS, NPS South West Ltd. 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 (RICS). The current value of PPE at 31 March 2019 is £1,454 millions.

The effective date for all valuations is 31 December 2018 for the financial year 2018/19 and the basis of valuation is explained in the Statement of Accounting Policies.

	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture &amp; Equipment £000</b>	<b>Infrastructure Assets £000</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets Under construction £000</b>	<b>Total £000</b>
<b>Valued at Historical Cost:</b>		31,980	1,169,892	2,945		20,518	1,225,335
<b>Valued at Current Value in:</b>							
2018/19	604,893				3,477		608,370
2017/18	48,440				4,485		52,925
2016/17	22,731				5,241		27,972
2015/16	19,892						19,892
2014/15	14,609						14,609
<b>Total</b>	<b>710,565</b>	<b>31,980</b>	<b>1,169,892</b>	<b>2,945</b>	<b>13,203</b>	<b>20,518</b>	<b>1,949,103</b>

### 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 first 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.

### Derecognitions and disposals

The Authority derecognised in 2018/19 property, plant and equipment assets with a carrying value of £59.4 millions, which are analysed as follows:

<b>Derecognition category</b>	<b>Carrying value £000</b>	<b>Proportion %</b>
Transfers to academy and other school movements	51,872	87.3%
Other disposals	7,552	12.7%
<b>Total</b>	<b>59,424</b>	<b>100%</b>

## Capital Commitments

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

Contract Name	Project Purpose	2019/20	2020/21	Total Commitment 2019/20 Onwards
		£000	£000	£000
Marsh Barton Station, Exeter	Design and Construction of Marsh Barton Station	41	4,786	4,827
Sherford Main Street, Phase 2	Construction of Main Street	3,000	640	3,640
Devon Surface Dressing Contract 2019/20	Design and Application of Carriageway Surface Dressing	3,325	0	3,325
Broadband for Devon	Deliver faster broadband to Devon	173	2,722	2,895
Charlton Lodge	SEN conversion	2,743	47	2,790
Devon Micro Asphalt Contract 2018/19	Carriageway surfacing treatment	1,139	0	1,139
Honiton Primary School	Expansion	1,036	23	1,059
Totnes St. John's Primary	Basic need expansion	931	24	955
Ringslade Road, Newton Abbot	Realignment of the highway	898	0	898
Wardhayes	6th form and alternative education provision	564	25	589
DCC Footway Slurry Sealing Contract 2018/19	Footpath sealing treatment	480	0	480
King Edward VI Community College	Block 06 and block 15 replacement	432	14	446
Newton Abbot East West Cycle Route-Phase B	Construction of shared use pedestrian/cycle path	444	0	444
A380 Harcombe Plantation Southbound	Carriageway resurfacing	442	0	442
Okehampton	New 210 Primary School	370	66	436
Exe Bridges, Exeter	Carriageway resurfacing	372	0	372
A386 Tavistock Road, Bickleigh	Carriageway resurfacing	331	0	331
B3233 Bickington Road, Fremington	Carriageway resurfacing	256	0	256
		<b>16,977</b>	<b>8,347</b>	<b>25,324</b>

## 17. Long Term Debtors

<b>31st March 2018 £000</b>	<b>31st March 2019 £000</b>
2 Car Loans to Employees	0
206 Academy Schools	117
1,401 Skypark LLP	1,401
2 Housing Advances	0
4 Industrial Loans	0
36 Magistrates	27
29,272 Unfunded pensions	27,051
2,750 Deferred Capital Receipts	0
75 Devon Disability Collective	75
<b><u>33,748</u></b>	<b><u>28,671</u></b>



## 18. Financial Instruments

In 2018/19 the Code has adopted IFRS 9 - Financial Instruments which replaces IAS39. This new standard affects the classification of financial instruments and the subsequent treatment of changes in fair value.

IFRS 9 removes the classification of Available for Sale (AFS) financial assets and requires that they are reclassified according to the nature of the transaction.

Upon transition to IFRS 9 on 1 April 2018, the County Council makes an irrevocable election to designate the following investments as Fair Value through Other Comprehensive Income (FVOCI)

<b>Equity Instrument</b>	<b>Purchase Cost</b>	<b>Fair Value</b>	<b>AFS reserve</b>
	<b>2018</b>	<b>at 1 April</b>	<b>transferred</b>
	<b>£000</b>	<b>2018</b>	<b>to FIRR on 1</b>
		<b>£000</b>	<b>April 2018</b>
			<b>£000</b>
CCLA Local Authorities Property Fund	10,000	9,702	298
Exeter Science Park Limited	1,965	1,881	84
NPS	0	247	(247)
<b>Total equity instruments held at FVOCI</b>	<b>11,965</b>	<b>11,830</b>	<b>135</b>

The designation of these investments as FVOCI requires any future fluctuations in fair value to be recognised in an unusable reserve called the, Financial Instruments Revaluation Reserve (FIRR). Any gain or loss will be recognised in usable balances (and outturn) only when the investment is sold.

The Authority holds the CCLA investment for the long term and not for short term selling or short term unrealised gains based on the annual fluctuations of fair value. The fair value is based on a notional bid price guide provided by the issuer each year. It does not reflect the price at which the issuer is obliged to buy back the investment. The investments in NPS and Exeter Science Park were last revalued in 2010/11.

The closing balance of the Available for Sale reserve at 31 March 2018 is cleared and transferred to be the opening balance of the FIRR.

## 18.1 Financial instrument balances

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

31 March 2018		Financial Assets	31 March 2019	
Long-Term £000	Current £000		Long-Term £000	Current £000
<b>Investments</b>				
10,000	92,735	Loans and Receivables Amortised cost	10,000	160,557
9,949	104	Available-for-sale financial assets		
1,881		Unquoted equity investment at cost		
		Fair Value through other comprehensive income - designated equity instruments	11,981	108
<b>21,830</b>	<b>92,839</b>	<b>Total Investments</b>	<b>21,981</b>	<b>160,665</b>
<b>Cash</b>				
0	77,015	Cash flow investments (cash equivalents) - Money Market Funds - Fair Value through Profit and Loss		46,830
0	(12,713)	Cash (overdraft at bank)		(13,965)
<b>0</b>	<b>64,302</b>	<b>Total Cash</b>	<b>0</b>	<b>32,865</b>
<b>Debtors</b>				
<b>4,413</b>	<b>52,502</b>	Loans and Receivables Amortised cost	<b>1,593</b>	<b>50,883</b>
29,335	39,429	Debtors that are not financial instruments	27,078	49,491
33,748	91,931	<b>Total Debtors</b>	28,671	100,374
<b>26,243</b>	<b>209,643</b>	<b>Total Financial Assets</b>	<b>23,574</b>	<b>244,413</b>

The Authority's lending to other local authorities, banks and other financial institutions is invested solely for interest and the return of principal. These investments are measured at amortised cost at 31 March 2019. The Authority has not applied any loss adjustment for credit risk for this lending. There is no change from the previous year, in which loans and receivables were accounted for under IAS 39 and there was no requirement to consider "expected loss" for these investments.

Although the previous accounting standard IAS39 did not require local authorities to impair (or create a provision for) debtors unless it was known that the debtor could not pay ("incurred loss"), the Authority did provide for "expected loss". The Authority has not changed how it provides for bad debts and it has not been necessary to restate opening balances.

31 March 2018		Financial Liabilities	31 March 2019	
Long-Term £000	Current £000		Long-Term £000	Current £000
<b>Borrowings - Amortised Cost</b>				
(436,349)	(10,896)	Financial liabilities at amortised cost - PWLB	(436,349)	(10,896)
(25,321)	(8)	Financial liabilities at amortised cost - previous LOBO* converted to fixed interest	(25,318)	(8)
(49,577)	(290)	Financial liabilities at amortised cost -	(49,505)	(290)
<b>(511,247)</b>	<b>(11,194)</b>	<b>Total Borrowings</b>	<b>(511,172)</b>	<b>(11,194)</b>
<b>Other Long Term Liabilities - Amortised Cost</b>				
(123,438)	0	PFI Liability	(119,418)	0
(1,831)	0	Financial Guarantee Liability	(1,831)	0
<b>(125,269)</b>	<b>0</b>	Total carried at amortised cost included in Other Long Term Liabilities	<b>(121,249)</b>	<b>0</b>
(1,140,647)		Other Long Term Liabilities that are not financial instruments	(1,086,888)	
(1,265,916)	0	<b>Total Other Long Term Liabilities</b>	(1,208,137)	0
<b>Creditors (payable within 12 months)</b>				
0	(89,512)	Financial liabilities at amortised cost		(80,600)
0	(4,557)	PFI Liability		(4,020)
<b>0</b>	<b>(94,069)</b>	Total included in Creditors		<b>(84,620)</b>
0	(27,120)	Creditors that are not financial instruments		(29,477)
0	(121,189)	Total Creditors	0	(114,097)
<b>(636,516)</b>	<b>(105,263)</b>	<b>Total Financial Liabilities</b>	<b>(632,421)</b>	<b>(95,814)</b>

\* Lender's Option Borrower's Option

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. Interest accrued but unpaid at 31 March is added to the borrowings as current or short term - payable within 12 months

Note 40, Contingent Liabilities discloses the financial impact of guarantees that the Authority has entered into, including the one in relation to Exeter Science Park.

## 18.2 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:

2017/18			2018/19	
(Surplus) or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000		(Surplus) or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
		<b>Interest Payable and similar charges</b>		
38,301		Interest Expense - Financial Liabilities measured at amortised cost	38,152	
1,161		Impairment - Financial Assets measured at amortised cost		
<b>39,462</b>	<b>0</b>	<b>Interest Payable and similar charges</b>	<b>38,152</b>	<b>0</b>
		<b>Interest income</b>		
(819)		Financial assets measured at amortised cost	(1,297)	
(138)		Financial assets measured at Fair Value through Profit and Loss (Money Market)	(328)	
(447)		Investments in equity instruments designated at fair value through other comprehensive income (CCLA)	(427)	
<b>(1,404)</b>	<b>0</b>	<b>Total interest income and similar revenue</b>	<b>(2,052)</b>	<b>0</b>
		Reversal of impairment losses	(126)	
<b>(1,404)</b>	<b>0</b>	<b>Total interest income and similar revenue</b>	<b>(2,178)</b>	<b>0</b>
		<b>Net (gains)/losses on</b>		
	(440)	Investments in equity instruments designated at fair value through other comprehensive income (CCLA)		(150)
<b>0</b>	<b>(440)</b>	<b>Total net (gains)/losses</b>	<b>0</b>	<b>(150)</b>

- Impairment relates to movement in the bad debt provision.

## 18.3 Fair value assets and liabilities

### Fair Value Hierarchy

The valuation of financial instruments has been classified in three levels, according to the quality and reliability of information used to determine fair values.

#### Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date. Only the Authority's cash is classified as level 1.

## Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

## Level 3

Unobservable inputs for the asset or liability.

## Fair value of assets and liabilities held 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 fair values for Public Works Loans Board (PWLB), LOBO's, Market Rate and PFI have been calculated by reference to the new borrowing rate at 31st March 2018 and 2019 (Level 2). For PFI and similar contracts, there are unobservable inputs regarding the accounting estimate of the element of the unitary charge that relates to the liability (Level 3).
- No early repayment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value. This applies to the following classified at amortised cost, within Level 2 of the fair value hierarchy:
  - Creditors payable within one year (billed amount / estimated accrual)
  - Debtors receivable within one year (adjusted for expected credit loss)
  - Short term investments (principal invested plus accrued interest).

All financial liabilities are held at amortised cost. The fair values of financial liabilities excluding creditors payable within one year and the financial guarantee are as follows:

<b>31st March 2018</b>		<b>Financial Liabilities held at amortised cost</b>	<b>31st March 2019</b>	
<b>Carrying amount</b>	<b>Fair value</b>		<b>Carrying amount</b>	<b>Fair value</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>
		<b>Level 2</b>		
(447,245)	(657,755)	PWLB	(447,245)	(668,339)
(49,867)	(73,821)	LOBO's	(49,795)	(74,982)
(25,329)	(43,968)	Market Debt, Fixed Rate	(25,326)	(44,835)
<b>(522,441)</b>	<b>(775,544)</b>		<b>(522,366)</b>	<b>(788,156)</b>
		<b>Level 3</b>		
(127,995)	(234,443)	PFI and similar contracts	(123,438)	(231,427)
<b>(650,436)</b>	<b>(1,009,987)</b>		<b>(645,804)</b>	<b>(1,019,583)</b>

The PWLB carrying amount includes interest due at 31st March 2019 of £10.896 millions not being paid until the first working day of April. The fair values of the loans are higher than the carrying amounts. This is due to current loan rates being lower 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 compared with a loan taken out at today's rates. 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 contracts.

The following table analyses the financial instruments into hierarchies:

31st March 2018			Financial Assets	31st March 2019		
Level 1 £000	Level 2 £000	Level 3 £000		Level 1 £000	Level 2 £000	Level 3 £000
			<b>Investments</b>			
102,735			Loans and Receivables Amortised Cost		170,557	
104	9,702	247	Available-for-sale financial assets			
		1,881	Unquoted equity investment at cost			
			Fair Value through other comprehensive income - designated equity instruments		9,961	2,128
<b>102,839</b>	<b>9,702</b>	<b>2,128</b>	<b>Total Investments</b>	<b>0</b>	<b>180,518</b>	<b>2,128</b>
			<b>Cash</b>			
77,015			Cash flow investments (cash equivalents) - FVPL	46,830		
(12,713)			Cash (overdraft at bank)	(13,965)		
<b>64,302</b>	<b>0</b>	<b>0</b>	<b>Total Cash</b>	<b>32,865</b>	<b>0</b>	<b>0</b>
	<b>56,916</b>		<b>Debtors - Current and Long Term</b>			
			Loans and Receivables Amortised cost		<b>52,476</b>	
<b>167,141</b>	<b>66,618</b>	<b>2,128</b>	<b>Total Financial Assets</b>	<b>32,865</b>	<b>232,994</b>	<b>2,128</b>
			<b>Financial Liabilities</b>			
			<b>Borrowings</b>			
(447,245)			Financial liabilities at amortised cost - PWLB	(447,245)		
(25,329)			Financial liabilities at amortised cost - previous LOBO converted to fixed interest	(25,326)		
(49,867)			Financial liabilities at amortised cost - LOBOs	(49,795)		
<b>(522,441)</b>	<b>0</b>	<b>0</b>	<b>Total Borrowings</b>	<b>0</b>	<b>(522,366)</b>	<b>0</b>
			<b>Other Long Term Liabilities</b>			
		(123,438)	PFI Liability - See note 37			(119,418)
		(1,831)	Financial Guarantee Liability			(1,831)
<b>0</b>	<b>0</b>	<b>(125,269)</b>	<b>Total included in Other Long Term Liabilities</b>	<b>0</b>	<b>0</b>	<b>(121,249)</b>
			<b>Creditors (payable within 12 months)</b>			
(89,512)			Financial liabilities at amortised cost	(80,600)		(4,020)
		(4,557)	PFI Liability - See note 37			(4,020)
<b>(89,512)</b>	<b>0</b>	<b>(4,557)</b>	<b>Total included in Creditors</b>	<b>0</b>	<b>(80,600)</b>	<b>(4,020)</b>
<b>(611,953)</b>	<b>0</b>	<b>(129,826)</b>	<b>Total Financial Liabilities</b>	<b>0</b>	<b>(602,966)</b>	<b>(125,269)</b>

### Reclassifications (Level 1 to Level 2)

The following financial instruments have had their fair value hierarchies reclassified from level 1 at 31 March 2018 to level 2 for 31 March 2019 because the valuation uses inputs other than quoted prices that are observable for the following financial instruments:

- external borrowing (PWLB, LOBO's and market debt)
- creditors payable within one year
- investments at amortised cost (short term and long term)

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

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 current Treasury Management Policy Statement together with the Statement of Treasury Management Practices (TMPs) was formally adopted by the County Council on 15th February 2018. TMPs set out the manner in which the Authority 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.

A variety of investment instruments are available to the Local Authority market. In addition to the notice accounts and fixed term deposits available from UK and overseas banks, it is also possible for the Council to invest, for example, in UK Government Gilts, bond funds and property funds. These alternative instruments would either require the Council to tie up its cash for significantly longer periods, thus reducing liquidity, or would carry a risk of loss of capital if markets go down. During 2015/16 the Council reviewed these alternatives and concluded that investment in a commercial property fund would be a prudent way to diversify risk and achieve a higher yield.

The overall aims of the Authority's Annual Investment strategy continue to be to:

- Limit the risk to the loss of capital (credit and counterparty risk)
- Ensure that funds are always available to meet cash flow requirements; (liquidity risk)
- Maximise investment returns, consistent with the first two aims; (interest, inflation, exchange rate risks) 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 annual Treasury Management Strategy and Prudential Indicators were approved by the Authority on 15th February 2018. The Authorised Limit for external debt for 2018/19 was initially set at £777.8millions for borrowing and other long term liabilities. Actual external debt for 2018/19 was £631.3 millions.

### **Credit and Counterparty Risk**

The Authority 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 Authority 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 Authority may be varied as part of the regular review of lending policy and counterparties.

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 which the Authority is 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.

The following table summarises the current 'Approved List' criteria.

<b>Counterparty Type</b>	<b>Fitch</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>	<b>Credit Limit</b>
<b>UK Banks</b>				
not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
not below	A- & F1	A3 & P-1	A- & A-1	£30 million
<b>UK Building Societies</b>				
not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
not below	A- & F1	A3 & P-1	A- & A-1	£30 million
<b>Non-Eurozone Overseas Banks</b>				
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
<b>UK Public Bodies</b>				
<b>Central Government</b>				
- Debt Management Office				Unlimited
<b>Local Government</b>				
- 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
<b>Fire &amp; Police Authorities</b>				£5 million
<b>Money Market Funds</b>	AAA	Aaa	AAA	£30 million
<b>CCLA Property Fund</b>				£30 million

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.

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 minimising the credit risk.



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

	<b>Amount at 31 March 2019</b>	<b>Historic experience of default</b>	<b>Historic experience adjusted for market conditions at 31 March 2019</b>	<b>Estimated maximum exposure to default and uncollectability</b>
	<b>£000</b>	<b>%</b>	<b>%</b>	<b>£000</b>
Deposits with banks and financial institutions	149,330	0.00%	0.03%	50
Deposits with local authorities	67,500	0.00%	0.00%	0
Debtors at amortised cost	52,991	0.36%	3.98%	2,108
				<u>2,158</u>

<b>Debtors measured at amortised cost</b>	<b>31 March 2018</b>	<b>31 March 2019</b>
	<b>£000</b>	<b>£000</b>
Less than three months	39,602	36,648
Three to six months	3,322	2,933
Six months to one year	4,007	4,812
More than one year	<u>7,806</u>	<u>8,598</u>
	54,737	52,991
Provision for bad debts - Impairment	(2,235)	(2,108)
Long Term Debtors not yet due	<u>4,413</u>	<u>1,620</u>
	<u>56,915</u>	<u>52,503</u>

The most significant element of longer term debt is residential debt consisting of a number of deferred purchase agreements which allow care home costs to be secured against the borrower's property. The following tables show the level of this collateral.

<b>Debt 31 March 2018</b>	<b>Non</b>			
	<b>Residential £000</b>	<b>Residential £000</b>	<b>Secured £000</b>	<b>Unsecured £000</b>
less than 3 months	36,597	3,005	1,949	37,653
more than 3 months	<u>3,798</u>	<u>11,337</u>	<u>8,841</u>	<u>6,294</u>
<b>Total</b>	<b>40,395</b>	<b>14,342</b>	<b>10,790</b>	<b>43,947</b>

<b>Debt 31 March 2019</b>	<b>Non</b>			
	<b>Residential £000</b>	<b>Residential £000</b>	<b>Secured £000</b>	<b>Unsecured £000</b>
less than 3 months	33,435	3,213	1,554	35,094
more than 3 months	<u>4,044</u>	<u>12,299</u>	<u>9,597</u>	<u>6,746</u>
<b>Total</b>	<b>37,479</b>	<b>15,512</b>	<b>11,151</b>	<b>41,840</b>

## Liquidity Risk

The Authority 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 Authority, 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 millions. 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.

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 Authority 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 Authority 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 investments outstanding at any time or £30 millions whichever is the lower.

The maturity analysis of borrowing is as follows:

<b>31st March 2018</b>		<b>31st March 2019</b>
<b>£000</b>		<b>£000</b>
(11,194)	Less than one year	(11,194)
	Between one and two years	
	Between two and five years	
(39,610)	Between five and ten years	(39,610)
(8,903)	Between ten and fifteen years	(13,412)
(103,681)	Between fifteen and twenty years	(99,172)
(50,403)	Between twenty and twenty-five years	(50,403)
(8,903)	Between twenty-five and thirty years	(8,903)
(84,574)	Between thirty and thirty-five years	(111,282)
(113,625)	Between thirty-five and forty years	(119,946)
(98,151)	Between forty and forty-five years	(65,122)
<b><u>(519,044)</u></b>		<b><u>(519,044)</u></b>

Short term creditors of £114.097 millions (£121.189 millions at 31 March 2018) are due to be paid in less than one year.

## Interest Rate Risk

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 Authority's policy has been to borrow at fixed rates of interest when rates are considered attractive, mainly 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.

The Prudential Indicators for 2018/19 and beyond are set out in the following table:

	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 35 years	60	0
35 years and within 50 years	75	20

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. One of the lenders has waived its right to this option. If this Option is taken, the Authority 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 the risk of fluctuations in interest rates. 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. However, as the average rate of interest of 5.95% for LOBOs is above the current Bank of England base rate then it is highly unlikely in the near to medium term that the lender will exercise this option.

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.

The PFI Liability and most of the Authority's loans and investments are fixed rate. Consequently, the impact of say a 1% increase in interest rates would have an impact only on variable rate investments by increasing interest receivable by £468,000 if the investments were held for a year.

The formula grant received from central government contains an element for funding debt charges but as the formula is now fixed for 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 Authority 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 risk from fluctuating exchange rates is not usually material as far as the Authority 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 is considered by the Authority 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.

## **Market Risk**

The Authority 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.

The majority of lending is in the form of cash deposits. However, a proportion of the Council's funds may be invested in alternative forms of investment where the capital value may fluctuate. These are managed in such a way as to minimise the risk of financial loss. The potential list of alternative forms of investment includes UK Government Gilts, bond funds and property funds, but only those specified within the annual Treasury Management Strategy are permitted.

## **Price Risk**

The Authority does not generally invest in equity shares but does have two £1 shares in NPS (SW) Ltd, valued at £247,000 and has an equity investment in Exeter Science Park Ltd to £1.881 millions (£1.881 millions 31/3/18). These shares are recognised in the balance sheet at £2.128 millions (£2.128 millions 31/3/18).

In 2015/16, the Authority invested £10 millions in the Local Authorities' Property Fund (CCLA). Changes in market value are recognised in the Financial Instruments Revaluation Reserve and do not affect the General Fund. Only when the investment is disposed of, is any revaluation balance recognised in the General Fund.

Variations in price are not a significant risk for the Authority.

## 19. Creditors and Debtors

### 19.1 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.

<b>31st March 2018 £000</b>	<b>31st March 2019 £000</b>
(19,970) Central Government	(18,508)
(14,406) Other Local Authorities	(9,098)
(2,593) NHS Bodies	(4,210)
(84,220) Other Entities & Individuals	(82,281)
<b><u>(121,189)</u></b>	<b><u>(114,097)</u></b>

### 19.2 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.

<b>31st March 2018 £000</b>	<b>31st March 2019 £000</b>
3,418 Central Government	7,645
16,558 Other Local Authorities	15,076
4,274 NHS Bodies	3,388
7 Public Corporations & Trading Funds	7
67,674 Other Entities & Individuals	74,258
<b><u>91,931</u></b>	<b><u>100,374</u></b>

### 19.3 Debtors for Local Taxation

Included in "other entities and individuals" (Debtors) are the debtors (net of any provision for bad debts) for council tax and business rates. The past due but not impaired amount for local taxation (council tax and non-domestic rates) is analysed by age as follows:

<b>31st March 2018</b>			<b>Council Tax</b>	<b>31st March 2019</b>		
<b>Gross Arrears</b>	<b>Provision for bad debts</b>	<b>Net debtor</b>		<b>Gross Arrears</b>	<b>Provision for bad debts</b>	<b>Net debtor</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>
7,622	(1,606)	6,016	Less than one year	7,954	(1,690)	6,264
6,096	(2,723)	3,373	Between one year and three years	6,584	(3,045)	3,539
3,618	(2,290)	1,328	More than three years	4,126	(2,732)	1,394
<b><u>17,336</u></b>	<b><u>(6,619)</u></b>	<b><u>10,717</u></b>		<b><u>18,664</u></b>	<b><u>(7,467)</u></b>	<b><u>11,197</u></b>

31st March 2018			Business Rates	31st March 2019		
Gross Arrears	Provision for bad debts	Net debtor		Gross Arrears	Provision for bad debts	Net debtor
£000	£000	£000		£000	£000	£000
340	(80)	260	Less than one year	2,544	(929)	1,615
330	(137)	193	Between one year and three years	1,811	(761)	1,050
113	(78)	35	More than three years	891	(592)	299
<b>783</b>	<b>(295)</b>	<b>488</b>		<b>5,246</b>	<b>(2,282)</b>	<b>2,964</b>

In 2018/19, during the 100% pilot year for business rates, the Council's share increased to 59% from 9% in 2017/18. Consequently, the Council's share of the business rate debt has increased.

## 20. Provisions

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.

### Short Term Liabilities

Provisions estimated to be utilised within one year	31st March 2017	Amounts released	Amounts utilised	Provided in year	31st March 2018	Amounts released	Amounts utilised	Provided in year	31st March 2019
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Insurance Fund	(3,733)	0	1,710	(2,485)	<b>(4,508)</b>	1,107	3,097	(2,654)	<b>(2,958)</b>
Landfill aftercare	(293)	0	166	(124)	<b>(251)</b>	0	298	(292)	<b>(245)</b>
Out of date cheques	(121)	26	1	(11)	<b>(105)</b>	32	3	(16)	<b>(86)</b>
Corporate Restructure	(84)	1	73	(200)	<b>(210)</b>	3	198	0	<b>(9)</b>
Social Care & Community	0	0	0	0	<b>0</b>	0	0	(54)	<b>(54)</b>
Waste Management	(215)	75	140	0	<b>0</b>	0	0	0	<b>0</b>
Business Rates Retention Scheme									
Appeals	(762)	0	0	(703)	<b>(1,465)</b>	0	0	(10,384)	<b>(11,849)</b>
Green Waste	(100)	0	0	0	<b>(100)</b>	0	0	0	<b>(100)</b>
Coroners	(150)	134	16	0	<b>0</b>	0	0	0	<b>0</b>
<b>Total</b>	<b>(5,458)</b>	<b>236</b>	<b>2,106</b>	<b>(3,523)</b>	<b>(6,639)</b>	<b>1,142</b>	<b>3,596</b>	<b>(13,400)</b>	<b>(15,301)</b>

### Insurance provision

The Council's Insurance provision enables it to carry some of its insurable risks in-house, achieving significant savings in external premiums. It covers Public Liability, Professional Indemnity, Employers Liability and vehicles, but excludes theft and accidental damage. The above amount shown above represents payments estimated to be made within twelve months.

### 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. The above amount shown above represents payments estimated to be made within twelve months.

## Out of Date Cheques

Cheques unpresented after six months are provided for while enquiries proceed and resolution reached. Periodic reviews are carried out where items remain unresolved after more than one year although none is considered as a long term item.

## Social Care & Community

A claim for a backdated payment for care provided in a residential home setting where a provision is considered appropriate.

## Business Rates Retention Scheme Appeals

Businesses can make appeals on the rateable value of their properties. Each of the eight Devon districts assesses a provision for these appeals and they are aggregated for this note. For 2018/19, in this pilot year the Authority's share of the provisions at 31 March 2019 has increased from 9% to 59%.

## Green Waste

A claim from the authority's green waste contractor is provided for on the basis of a change in regulatory requirements.

## Long Term Liabilities

<b>Provisions estimated to be utilised after more than one year</b>	<b>31st March 2017</b>	<b>Amounts released</b>	<b>Provided in year</b>	<b>31st March 2018</b>	<b>Amounts released</b>	<b>Amounts utilised</b>	<b>Provided in year</b>	<b>31st March 2019</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Insurance Fund	(9,914)	0	0	<b>(9,914)</b>	0	0	(1,107)	(11,021)
Landfill aftercare	(5,517)	124	0	<b>(5,393)</b>	291	0	0	(5,102)
<b>Total</b>	<b>(15,431)</b>	<b>124</b>	<b>0</b>	<b>(15,307)</b>	<b>291</b>	<b>0</b>	<b>(1,107)</b>	<b>(16,123)</b>

For insurance and landfill, that element falling due within one year is included as a provision in short term current liabilities while the remainder is included in long term liabilities.

## Insurance provision

The Council's Insurance provision enables it to carry some of its insurable risks in-house, achieving significant savings in external premiums. It covers Public Liability, Professional Indemnity, Employers Liability and vehicles, but excludes theft and accidental damage. The value of the provision has not been discounted because the significant majority of payments are expected to be made in the next 5 years. The provision is reviewed annually and is assessed on a triennial basis. The balance at 31 March 2019 is considered sufficient to meet claims registered on that date. An estimate of the payment profile has been applied to the Authority's insurance provision at 31 March 2019:

Payable within	<b>£000</b>
1 to 2 years	3,468
3 to 5 years	6,045
6 to 9 years	1,508
<b>Total</b>	<b><u>11,021</u></b>

## 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 and the estimate of timing of payments is shown below.

Payable within	<b>£000</b>
1 to 2 years	237
3 to 5 years	878
6 to 10 years	957
more than 10 years	<u>3,030</u>
<b>Total</b>	<b><u>5,102</u></b>

## 21. Cash and Cash Equivalents

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

<b>31st March 2018 £000</b>		<b>31st March 2019 £000</b>
(12,713)	Bank Current Accounts	(13,965)
<u>77,015</u>	Investments less than 90 days	<u>46,830</u>
<b><u>64,302</u></b>		<b><u>32,865</u></b>

## 22. Assets Held for Sale

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

<b>2017/18 £000</b>		<b>2018/19 £000</b>
9,583	<b>Balance at 1st April</b>	11,240
4,047	Assets newly classified as held for sale: Property, Plant and Equipment	508
(2,390)	Assets sold	(4,942)
<b><u>11,240</u></b>	<b>Balance at 31st March</b>	<b><u>6,806</u></b>



## 23. Unusable Reserves

<b>31st March 2018</b>		<b>31st March 2019</b>
<b>£000</b>		<b>£000</b>
(187,426)	Revaluation Reserve	(221,701)
135	Available for sale FI reserve	0
(469,642)	Capital Adjustment Account	(488,849)
14,110	Financial Instruments Adj Account	16,389
1,072,180	Pensions Reserve	1,022,486
(11,939)	Collection Fund Adjustment Account	(11,246)
6,797	Accumulated Absences Account	6,729
0	Financial Instruments Revaluation Reserve	(16)
(5,971)	Deferred Capital Receipts Reserve	(3,221)
<b><u>418,244</u></b>		<b><u>320,571</u></b>

### 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.

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
<b>(191,889)</b>	<b>Balance at 1st April</b>	<b>(187,426)</b>
(53,192)	Upward revaluation of assets	(63,203)
3,315	Downward Revaluation of assets not charged to the Surplus/Deficit on the provision of services	1,709
<u>(241,766)</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	<u>(248,920)</u>
16,064	Difference between fair value depreciation and historical cost depreciation	10,706
<u>38,276</u>	Accumulated gains on assets sold or scrapped	<u>16,513</u>
54,340	Amount written off to the Capital Adjustment Account	27,219
<b><u>(187,426)</u></b>	<b>Balance at 31st March</b>	<b><u>(221,701)</u></b>

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

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
<b>(514,983)</b>	<b>Balance 1st April</b>	<b>(469,642)</b>
75,491	Charges for depreciation and impairment of non-current assets	66,241
(11,336)	Revaluation gain / (loss) on Property Plant and Equipment	2,761
482	Amortisation	493
(1,844)	Release of deferred income from Energy from Waste	(1,844)
28,827	Revenue expenditure funded from capital under statute	16,733
129,422	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	59,424
221,042		143,808
(54,340)	Adjusting amounts written out of the Revaluation Reserve	(27,219)
166,702	Net written out amount of the cost of non-current assets consumed in the year	116,589
0	Amounts of Long Term Debtors derecognised, repaid in prior	7
(246)	Recognition of loan to Academy schools on transfer	0
(246)		7
(8,085)	Capital financing applied in the year: Use of the Capital Receipts Reserve to finance new capital expenditure	(11,933)
(103,309)	Application of grants to capital financing from the Capital Grants Unapplied Account	(107,841)
(7,366)	Statutory provision for the financing of capital investment charged against the General Fund	(14,853)
(2,355)	Capital expenditure charged against the General Fund	(1,176)
(121,115)		(135,803)
<b>(469,642)</b>	<b>Balance 31st March</b>	<b>(488,849)</b>

## 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.

<b>2017/18</b> <b>£000</b>	<b>2018/19</b> <b>£000</b>
<b>14,829</b> Balance 1st April	<b>14,110</b>
(648) Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(594)
(71) Adjusting for effective interest rates	2,873
(719) 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.	2,279
<hr/> <b>14,110</b> Balance 31st March	<hr/> <b>16,389</b>

## 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 are 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 shortfall in the resources the Authority has set aside to meet future pension benefits, earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>2017/18</b> <b>£000</b>	<b>2018/19</b> <b>£000</b>
<b>1,143,341</b> Balance 1st April	<b>1,072,180</b>
(103,221) Actuarial gains or (losses) on pensions assets and liabilities	(91,308)
75,884 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	85,821
(43,824) Employer's Pensions contributions and direct payments to pensioners payable in the year	(44,207)
<hr/> <b>1,072,180</b> Balance 31st March	<hr/> <b>1,022,486</b>

## 24. Other Long Term Liabilities

<b>31st March 2018</b>		<b>31st March 2019</b>
<b>£000</b>		<b>£000</b>
(1,101,452)	Pensions Liability	(1,049,537)
(55,300)	Private Finance Initiative Liability - schools	(51,926)
(43,134)	Liability Exeter Energy from Waste	(42,677)
(25,004)	Private Finance Initiative Liability - Plymouth Energy from Waste	(24,815)
(2,693)	Deferred income - Exeter Energy from Waste	(2,587)
(36,502)	Deferred income - Plymouth Energy from Waste	(34,764)
(1,831)	Financial Guarantee	(1,831)
<b><u>(1,265,916)</u></b>		<b><u>(1,208,137)</u></b>

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

2017/18 £000		2018/19 £000
(75,491)	Depreciation	(66,241)
11,336	Revaluation gains/(losses)	(2,761)
(482)	Amortisation	(493)
1,844	Release of deferred income	1,844
(12,795)	(Increase)/Decrease in creditors	13,364
1,091	Increase/(Decrease) in debtors	5,674
(890)	Increase/(Decrease) in inventories	263
(30,057)	(Increase)/Decrease in pension liability	(41,614)
(1,058)	(Increase)/Decrease in provisions	(9,476)
(129,422)	Net Book Value of disposals	(59,424)
(4,992)	Other non-cash items within the provision of services	112
<b>(240,916)</b>		<b>(158,752)</b>

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

2017/18 £000		2018/19 £000
8,867	Proceeds from sale of non current assets	10,824
<b>8,867</b>		<b>10,824</b>

## 27. Cash Flow - Operating Activities

2017/18 £000		2018/19 £000
484,672	Cost of services	530,570
841	Other Operating Expenditure	896
	Financing and Investment Income and Expenditure	
15,042	Interest paid and similar expenditure	26,116
12,419	Interest element of PFI	12,111
(1,377)	Interest received and similar income	(1,711)
(667,932)	Taxation and Non-specific Grant Income	(686,013)
<b>(156,335)</b>	<b>Net cash flows from operating activities</b>	<b>(118,031)</b>

## 28. Cash Flow - Investing Activities

2017/18 £000		2018/19 £000
96,786	Purchase of property, plant and equipment, intangible and heritage assets	104,220
10,450	Purchase of long term investments	0
731,000	Purchase of short term investments	145,000
(9,287)	Sale of property, plant and equipment	(8,074)
(728,500)	Sale of short term investments	(87,500)
<b><u>100,449</u></b>	<b>Net cash flows from investing activities</b>	<b><u>153,646</u></b>

## 29. Cash Flow - Financing Activities

£000		£000
4,676	Payments applied in reducing finance lease and PFI liabilities	537
(132)	External contribution to repayment of debt	(4,715)
<b><u>4,544</u></b>	<b>Net cash flows from financing activities</b>	<b><u>(4,178)</u></b>

## 30. Cash Flow - Reconciliation of liabilities arising from financing activities

	2018/19 1st April 2018	Financing cash flows	Non-cash changes Acquisitions	Other non-cash changes	2018/19 31 March 2019
	£000	£000	£000	£000	£000
Long-term borrowings	(511,247)	0	0	75	(511,172)
Short-term borrowings	(11,194)	0	0	0	(11,194)
On balance sheet PFI liabilities - Short Term	(4,557)	4,557	0	(4,020)	(4,020)
On balance sheet PFI liabilities - Long Term	(123,438)	0	0	4,020	(119,418)
Total liabilities from financing activities	<b><u>(650,436)</u></b>	<b><u>4,557</u></b>	<b><u>0</u></b>	<b><u>75</u></b>	<b><u>(645,804)</u></b>

## 31. Members' Allowances

The authority pays its elected members basic allowances, special responsibility allowances and travel and subsistence. During 2018/19 £1.093 millions was paid (£973,000 in 2017/18).

## 32. Audit Fees

In 2018/19 the County Council incurred the following fees relating to the external audit:

<b>2017/18</b> <b>£000</b>		<b>2018/19</b> <b>£000</b>
118	Fees as appointed auditor	93
8	Other services	4
<b><u>126</u></b>		<b><u>97</u></b>

## 33. Officers' Remuneration

### 33.1 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 Council's 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	<b>Total</b>
		£	£	£	£
Phil Norrey, Chief Executive	2018/19	152,995		23,102	<b>176,097</b>
	2017/18	149,995		22,649	<b>172,644</b>
Chief Officer for Adult Care and Health	2018/19	135,260		20,424	<b>155,684</b>
	2017/18	132,608		20,024	<b>152,632</b>
County Solicitor	2018/19	109,252		16,497	<b>125,749</b>
	1 2017/18	112,291		16,174	<b>128,465</b>
County Treasurer	2018/19	109,252		16,497	<b>125,749</b>
	2017/18	107,110		16,174	<b>123,284</b>
Chief Officer for Communities, Public Health, Environment and Prosperity	2018/19	165,472	192	23,795	<b>189,459</b>
	2017/18	158,753	7	22,702	<b>181,462</b>
Chief Officer for Highways, Infrastructure Development and Waste	2018/19	100,825		15,225	<b>116,050</b>
	2017/18	98,886		14,932	<b>113,818</b>
Head of Digital Transformation and Business Support	2018/19	90,212		13,622	<b>103,834</b>
	2017/18	88,443		13,355	<b>101,798</b>
Chief Officer for Childrens Services	2018/19	135,260	3,071	20,888	<b>159,219</b>
	2 2017/18	65,948		9,958	<b>75,906</b>

Notes:

1) The remuneration of the County Solicitor includes a payment for Election duties in May 2017.

2) Chief Officer for Children's Services commenced this role on 2nd October 2017



## 33.2 Officers Remuneration

The Authority's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) is set out in the following table. This table includes those Officers disclosed in note 33.1

<b>2017/18</b>				<b>Emoluments £</b>	<b>2018/19</b>			
Schools Staff	Other Staff	Total	Left in Year		Schools Staff	Other Staff	Total	Left in Year
82	51	<b>133</b>	<b>4</b>	<b>50,000 - 54,999</b>	58	44	<b>102</b>	<b>3</b>
51	30	<b>81</b>	<b>3</b>	<b>55,000 - 59,999</b>	53	15	<b>68</b>	<b>2</b>
38	9	<b>47</b>	<b>1</b>	<b>60,000 - 64,999</b>	42	18	<b>60</b>	<b>2</b>
24	9	<b>33</b>	<b>1</b>	<b>65,000 - 69,999</b>	23	12	<b>35</b>	
9	3	<b>12</b>	<b>2</b>	<b>70,000 - 74,999</b>	8	4	<b>12</b>	
2	6	<b>8</b>	<b>1</b>	<b>75,000 - 79,999</b>	4	6	<b>10</b>	
6	2	<b>8</b>		<b>80,000 - 84,999</b>	4		<b>4</b>	
6	1	<b>7</b>	<b>1</b>	<b>85,000 - 89,999</b>	4	2	<b>6</b>	
1	1	<b>2</b>		<b>90,000 - 94,999</b>	2	1	<b>3</b>	
2	6	<b>8</b>	<b>1</b>	<b>95,000 - 99,999</b>		1	<b>1</b>	<b>1</b>
	1	<b>1</b>		<b>100,000 - 104,999</b>	1	7	<b>8</b>	
1	1	<b>2</b>		<b>105,000 - 109,999</b>		2	<b>2</b>	
	1	<b>1</b>		<b>110,000 - 114,999</b>	1		<b>1</b>	
				<b>115,000 - 119,999</b>				
				<b>120,000 - 124,999</b>	1	1	<b>2</b>	<b>1</b>
				<b>125,000 - 129,999</b>		1	<b>1</b>	
	1	<b>1</b>		<b>130,000 - 134,999</b>				
				<b>135,000 - 139,999</b>		2	<b>2</b>	
				<b>140,000 - 144,999</b>				
	1	<b>1</b>		<b>145,000 - 149,999</b>				
				<b>150,000 - 154,999</b>		1	<b>1</b>	
	1	<b>1</b>		<b>155,000 - 159,999</b>				
				<b>160,000 - 164,999</b>				
				<b>165,000 - 169,999</b>		1	<b>1</b>	
				<b>170,000 - 174,999</b>				
				<b>175,000 - 179,999</b>				
				<b>180,000-184,999</b>				
				<b>185,000-189,999</b>				

### 33.3 Exit Packages

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

Bands for exit packages	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	
	2017/18 No.	2018/19 No.	2017/18 No.	2018/19 No.	2017/18 No.	2018/19 No.	2017/18 £000	2018/19 £000
£0 - £20,000	89	72	70	68	159	140	931	957
£20,001 - £40,000	16	12	14	16	30	28	854	790
£40,001 - £60,000	3	1	2	2	5	3	264	131
£60,001 - £80,000	2	1		1	2	2	132	147
£80,001 - £100,000								
£100,001 - £150,000								
£150,001 - £200,000			1		1		151	
£200,001 - £250,000								
	<b>110</b>	<b>86</b>	<b>87</b>	<b>87</b>	<b>197</b>	<b>173</b>	<b>2,332</b>	<b>2,025</b>

## 34. 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

2017/18 £000	2018/19 £000
<b>UK Government Revenue Grants:</b>	
(32,446) Revenue Support Grant	0
(15,363) Improved Better Care Fund	(20,395)
(5,983) Rural Service Delivery Grant	0
(4,891) New Homes Bonus	(3,809)
(3,592) Adult Social Care Support Grant	(2,235)
(3,542) Private Finance Initiative - Interest	(3,329)
(2,811) Transition Grant	0
(2,793) Independent Living Fund	(2,705)
(2,710) Small Business & Empty Property Rate Relief	(17,993)
(1,561) Education Services Grant	(32)
(1,460) Business Rates Cap Compensation Grant	(3,260)
(961) Adoption Reform Grant	0
(545) Local Service Support Grant	(721)
(471) School Improvement Grant	(740)
(84) Lead Local Authority Flood Relief	(89)
(13) Transparency Code Set Up	(13)
(4) Commons Pioneer Authority	(4)
0 Adult Social Care Winter Pressures	(3,576)
0 BRRS Levy Account Surplus Grant	(1,550)
0 Unaccompanied asylum seek children	(245)
0 Brexit Contingency Planning Grant	(88)
0 Virtual School Head Grant	(45)
<b><u>(79,229)</u></b>	<b><u>(60,829)</u></b>
<b>Capital Grants:</b>	
(51,969) Department for Transport - Local Transport Plan	(66,950)
(2,489) Department for Transport - Challenge Fund	(1,761)
0 Department for Transport - Slapton	(1,633)
(4,043) Department for Transport - Street Lighting	(1,187)
0 Department for Transport - North Devon Link Road	(1,102)
(23,783) Schools Basic Needs - DfE grant	(9,325)
(13,591) Better Care Fund	(6,734)
(6,363) Schools Capital Maintenance - DfE grant	(5,316)
(3,414) Growth Deal One Grant - MHCLG / HotSW LEP grant	(1,599)
(1,546) Devolved Formula Capital - DfE grant	(1,553)
(17,468) Other	(15,920)
<b>(124,666) Capital Grants and Contributions</b>	<b>(113,080)</b>
<b><u>(203,895)</u></b>	<b><u>(173,909)</u></b>

## Grant Income - Credited to Services

<b>2017/18</b>	<b>2018/19</b>
<b>£000</b>	<b>£000</b>
(575) Active Devon	(865)
(334) Areas of outstanding Natural Beauty	(339)
(823) Asylum Seekers (HO)	(760)
(1,145) Bus Services Operators Grant	(1,146)
0 Contribution from Academies	(185)
(282) Cycling Projects Grant	(79)
(298,734) Dedicated Schools Grant	(281,286)
0 District Heating HNDU (DECC)	(152)
(218) Environment Projects	(241)
(496) Local Reform Community Voices	(503)
(924) Music Education Grant	(942)
0 Other Communities Government Grants	(14)
(327) Other Economy Government Grants	(261)
(500) Local Sustainable Transport Fund	(500)
(102) Nat Coll of Teaching & Leadership (DfE)	(246)
(97) NHS Healthy New Towns (NHS England)	(152)
(3,037) PE and Sports Grant (DfE)	(3,448)
(646) Post-Adoption Support Fund (DfE)	(755)
(3,395) Private Finance Initiative	(3,608)
(309) Provision of Social Care in Prisons	(320)
(14,226) Pupil Premium	(13,427)
(28,238) Public Health	(27,512)
(3,007) Adult and Community Learning	(3,422)
(164) Staying Put (DfE)	(168)
(707) Syrian Refugees (home office)	(788)
0 Teachers Pay Grant	(993)
(1,547) Troubled Families Programme	(2,341)
(5,744) Universal Infant Free School Meals (DfE)	(5,609)
(473) War Pensions Scheme Grant (DoH)	(445)
(101) Youth Justice Board - Youth Offending	(99)
(3,628) YPLA Post 16 Funding	(3,252)
0 Violence Against Women & Girls	(173)
(766) Government Grants below £150,000	(1,013)
<b>(370,545) Total UK Government Grants</b>	<b>(355,044)</b>
<b>(301) Total EU Grants</b>	<b>(581)</b>
(1,877) Exeter Diocesan Board PFI contribution	(1,898)
(1,685) Contributions from other local authorities	(1,048)
(17,551) Better Care Fund	(17,595)
(4,207) Other contributions to services	(4,956)
<b>(25,320) Total Contributions from Other Sources</b>	<b>(25,497)</b>
<b><u>(396,166) Total Grant Income Credited to Services</u></b>	<b><u>(381,122)</u></b>

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:

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
	<b>Revenue Grants (Included within Revenue Grants Receipts in Advance - Long Term Liabilities):</b>	
<b>(5,000)</b>	S106 Developer Contributions	<b>(6,119)</b>
	<b>Revenue Grants (Included within Revenue Grants Receipts in Advance - Current Liabilities)</b>	
<b>(1,500)</b>		<b>(951)</b>
	<b>Capital Grants (Included within Capital Grants Receipts in Advance - Long Term Liabilities):</b>	
(1,297)	Schools Devolved Formula Capital	(2,524)
(5,439)	Department for Transport	(2,758)
(218)	Growth Deal One Grant (MHCLG / HotSW LEP)	(218)
(15,546)	S106 Developer Contributions	(23,660)
(732)	Other	(2,481)
<b>(23,232)</b>		<b>(31,641)</b>

### 34.1 Details of the deployment of DSG receivable

The Authority's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2018/19 are as follows:

<b>2017/18</b>			<b>2018/19</b>		
<b>Central Expenditure</b>	<b>ISB</b>	<b>Total</b>	<b>Central Expenditure</b>	<b>ISB</b>	<b>Total</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
		487,922			504,411
		Final DSG before Academy recoupment			
		(181,855)			(223,266)
		Academy figure recouped			
		306,067			281,145
		Total DSG after Academy recoupment			
		2,164			1,136
		Brought forward from previous year			
		Carry forward agreed in advance			
94,328	213,903	308,231	91,442	190,839	282,281
		Agreed initial budgeted distribution			
(43,695)	36,362	(7,333)	(36,741)	36,882	141
		In year adjustments			
50,633	250,265	300,898	54,701	227,721	282,422
		Final budgeted distribution			
(49,497)		(49,497)	(57,150)		(57,150)
		Less Actual central expenditure			
	(250,265)	(250,265)		(227,721)	(227,721)
		Less Actual ISB deployed to schools			
		Plus Local authority contribution	2,790		2,790
<b>1,136</b>	<b>0</b>	<b>1,136</b>	<b>341</b>	<b>0</b>	<b>341</b>
		Carry forward agreed in advance			

## 35. 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

<b>2017/18</b> <b>£000</b>	<b>2018/19</b> <b>£000</b>
724,104	729,326
<b>Opening Capital Financing Requirement</b>	
724,104	729,326
<b>Capital Investment</b>	
95,881	102,150
Property, Plant and Equipment	
0	18
Heritage Assets	
1,048	1,654
Intangible Assets	
28,827	16,733
Revenue Expenditure Funded from Capital under Statute	
450	0
Share Capital	
<b>Sources of Finance</b>	
(8,085)	(11,933)
Capital Receipts	
(103,308)	(107,841)
Government Grants and other contributions	
Sums set aside from revenue:	
(2,355)	(1,176)
Direct revenue contributions	
(131)	(113)
External contribution - debt repayments	
(7,365)	(14,853)
Statutory provision for the financing of capital investment	
<b>Capital provision</b>	
5,758	5,499
Creation of Long Term Provision	
(5,498)	(5,247)
Provision remaining at year end	
<b>729,326</b>	<b>714,217</b>
<b>Closing Capital Financing Requirement</b>	
<b>Explanation of Movements in Year</b>	
13,378	4,213
Increase in underlying need to Borrow (unsupported by government financial assistance)	
260	252
Decrease in Capital Provision	
(640)	(2,161)
(Reduction)/ Increase in PFI liability	
(7,776)	(17,413)
Increase in the provision for repayment of debt	
<b>5,222</b>	<b>(15,109)</b>
<b>Increase/(decrease) in Capital Financing Requirement</b>	

## 36. 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 a significant proportion 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 34.

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. A member's partner is a foster carer and has received payments of £47,000 in 2018/19 (2017/18 £31,000). A member, as a part time carer, received £1,000 in 2018/19 (2017/18 £1,000) from a recipient of funding from Devon County Council.

A member belongs to the Newtown Community Association which received £1,000 from the member's locality budget and £21,000 capital grant from the Authority towards its community building in 2018/19 (2017/18 nil).

A member belongs to the Totnes Rural Area Youth Engagement Project which received £1,000 from the member's locality budget in 2018/19 (2017/18 £2,000).

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. In 2018/19 there are no transactions that require disclosure.

### 36.1 Local Levies

The following levies were paid during the year:

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
503	Environment Agency	551
338	DSIFCA	345

All levies were due and paid during the year.

The Council's County Treasurer acts as the Chief Finance Officer for the Devon and Severn Inshore Fisheries and Conservation Authority (DSIFCA). The DSIFCA owed the Authority £83,000 at 31 March 2019 (nil at 31 March 2018). The Council received payments of £14,600 (2017/18 £14,000).

### 36.2 Other public sector bodies

Devon County Council received income from the NHS Commissioning Board and two Clinical Commissioning Groups (CCGs) - North, East and West Devon CCG and South Devon and Torbay CCG, of £88.985 millions in 2018/19 (2017/18 £89.297 millions) of which £21.770 millions (2017/18 £20.784 millions) is included in the Comprehensive Income and Expenditure Account. The Authority made payments of £22.946 millions (2017/18 £18.678 millions) during the year to the CCGs. 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 payments to the CCGs is primarily in respect of joint staffing arrangements. At the year end the Authority was due £5.545 millions (2017/18 £6.826 millions) from the organisations combined and owed it £1.991 millions (2017/18 £1.104 millions).

The Council provides legal services and the Monitoring Officer function for Exmoor National Park Authority. A county council member of the Cabinet is also the Deputy Chairman of Exmoor National Park Authority.

The Council received payments from these bodies for finance and legal services provided as follows:

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
57	Dartmoor National Park	94
65	Exmoor National Park	73

The Council gave grants to Dartmoor National Park Authority of £48,000 (2017/18 £53,000) principally for the maintenance of footpaths, bridleways and footbridges and received grants of £5,000 (2017/18 £13,000) mainly for the support of public rights of way.

The Council also made payments to Exmoor of £20,000 (2017/18 £34,000) mainly for public rights of way.

### **36.3 Transaction with the Pension Fund**

The Council charged the Fund £2.841 millions (2017/18 £2.489 millions) for expenses incurred in administering the fund, of which £2.638 millions was due to the Council at 31 March 2019 (31 March 2018 £2.674 millions).

Devon County Council is one of ten administering authorities which each owns 10% of Brunel Pension Partnership Limited (Company Number 10429110). The investments in this company are made from the Devon Pension Fund. The County Council has not transacted with Brunel.

### **36.4 Assisted Organisations**

The Council has provided significant contributions to the following bodies:

- District Councils in Devon have received a total of £151,000 (2017/18 £299,000) 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 £573,000 (2017/18 - £601,000) and the Council for Voluntary Services £29,000 (2017/18 - £77,000) from the Council conditional on long term agreements for the provision of services.
- The Community Council of Devon has received grants of £90,000 (2017/18 £140,000) and Healthwatch £391,000 (2017/18 - £410,000), conditional on long term agreements for the provision of services.
- Local Council Tax Schemes have received assistance valued at £45,000 (2017/18 £38,000).
- Devon Disability Collective – is a Social Enterprise that provides quality employment and training to people with disabilities and those furthest from the labour market. In 2018/19 Devon Disability Collective received £3,000 from the County Council (2017/18 £15,000)



Devon County Council has the following transactions with these organisations:

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>The South West Heritage Trust</b> – an independent charitable trust - took over management of Devon Heritage Services on 1 November, 2014. Though the Heritage Trust operates as an independent organisation, it receives support from Somerset and Devon County Councils for five years.		
Receipts	(6)	(1)
Payments	457	470
Debtors	0	0
Creditors	0	0

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>Libraries Unlimited</b> – an independent charitable trust - took over management of Devon Library Services on 1 April 2016. Though Libraries Unlimited operates as an independent organisation, it has a contract with Devon County Council who also provides a pensions guarantee. The payments in 2017/18 include an early payment for the first Quarter of 2018/19. Consequently, there were only three quarters paid in 2018/19.		
Receipts	(511)	(510)
Payments	7,411	5,455
Debtors	69	119
Creditors	(43)	(24)

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>DYS Space Ltd</b> – was established from 1 February 2017 to manage youth services in Devon. The existing staff team from Devon Youth Services set up a Public Sector Mutual organisation, and secured a 3-year contract from Devon County Council. The payments in 2018/19 include the first Quarter payment of 2019/20.		
Receipts	(121)	(67)
Payments	1,751	2,365
Debtors	7	7
Creditors	(94)	(6)

## 36.5 Partnerships

There are a number of partnerships in which the County Council participates. The most significant of these is the Better Care Fund, which began in 2015/16. Devon County Council has joined with its NHS partners, North, East West (NEW) Devon and South Devon and Torbay CCG in the provision of services to support reduced hospital admissions and length of stay. Joint arrangements of this type are permitted under section 75 of the National Health Service Act 2006.

The aims and benefits of the Partners in entering in to this Agreement are to:

- improve the quality and efficiency of the Services;
- meet the National Conditions and Local Objectives;
- make more effective use of resources through the establishment and maintenance of a pooled fund for expenditure on the Services;
- ensure that people in Devon will be independent, resilient and self-caring so fewer people reach crisis point; and
- for those that need it, to develop an integrated health and care system that enables people to proactively manage their own care with the support of their family, community and the right professionals at the right time in a properly joined up system.

In a crisis, people in Devon will know exactly what to do, who to contact, receive a rapid response and have their needs met in a completely organised, systematic and careful way.

The following table shows the contributions of Devon County Council and its partners and the key areas of expenditure.

Better Care Fund 2018/19	South Devon & Torbay CCG	NEW Devon CCG	Devon County Council		TOTAL
	2018/19	2018/19	Revenue 2018/19	Capital 2018/19	
<b>Income</b>	£000	£000	£000	£000	£000
Contributions	(10,492)	(42,147)	(24,918)	(6,735)	(84,292)
add prior year carry forwards			(8,789)	(73)	(8,862)
less carry forwards / refunds due	0	0	6,968	82	7,050
<b>Income</b>	<b>(10,492)</b>	<b>(42,147)</b>	<b>(26,739)</b>	<b>(6,726)</b>	<b>(86,104)</b>
<b>Expenditure</b>	£000	£000	£000	£000	£000
Disabled Facilities Grants				6,726	6,726
Improved Better Care Fund Grant			20,962		20,962
Enabling Schemes	324	2,183	(16)		2,491
Enhanced Carers Offer/ Care Implementation Act	600	2,399	1,057		4,056
Enhanced Community Equipment Service	952	3,808	2,595		7,355
Frailty and Community Care Services, Support to Social Services	6,823	26,272	1,908		35,003
Rapid Response Services	408	2,600	295		3,303
Step Up Step Down Care Services	778	2,810	(55)		3,533
Other	607	2,075	(7)		2,675
<b>Total Expenditure</b>	<b>10,492</b>	<b>42,147</b>	<b>26,739</b>	<b>6,726</b>	<b>86,104</b>

Better Care Fund 2017/18	South Devon & Torbay CCG	NEW Devon CCG	Devon County Council		TOTAL
	2017/18	2017/18	Revenue 2017/18	Capital 2017/18	
<b>Income</b>	£000	£000	£000	£000	£000
Contributions	(10,297)	(41,361)	(19,885)	(6,285)	(77,828)
less carry forwards / refunds due	0	0	8,790	73	8,863
<b>Income</b>	<b>(10,297)</b>	<b>(41,361)</b>	<b>(11,095)</b>	<b>(6,212)</b>	<b>(68,965)</b>
<b>Expenditure</b>	£000	£000	£000	£000	£000
Disabled Facilities Grants	0	0	0	6,212	6,212
Improved Better Care Fund Grant	0	0	8,535	0	8,535
Enabling Schemes	324	2,164	14	0	2,502
Enhanced Carers Offer/ Care Implementation Act	600	2,399	566	0	3,565
Enhanced Community Equipment Service	1,027	4,109	2,014	0	7,150
Frailty and Community Care Services, Support to Social Services	6,550	25,177	36	0	31,763
Rapid Response Services	408	2,600	295	0	3,303
Step Up Step Down Care Services	778	2,829	(205)	0	3,402
Other	610	2,083	(160)	0	2,533
<b>Total Expenditure</b>	<b>10,297</b>	<b>41,361</b>	<b>11,095</b>	<b>6,212</b>	<b>68,965</b>

The value of community equipment held as stock amounts to £800,000 of which the County Council's share included in the balance sheet is £400,000.

Reference - see below		2017/18			2018/19		
		Contribution - other partners £000	Council's Contribution £000	Total Expenditure £000	Contribution - other partners £000	Council's Contribution £000	Total Expenditure £000
<b>Health - Section 75 partnerships</b>							
a	Integrated Health and Social Care	(735)	(871)	1,606	(819)	(977)	1,796
b	Mental Health Services - Devon Partnership NHS Trust	0	(1,429)	1,429	0	(1,404)	1,404
<b>Other partnerships</b>							
c	Devon Audit Partnership	(980)	(343)	1,323	(1,039)	(334)	1,373
d	South West Devon Waste Partnership	(2,545)	(2,476)	5,021	(2,555)	(2,566)	5,121
e	Safety Camera Partnership		(101)	101	0	(101)	101
f	Youth Offending Team	(947)	(299)	1,246	(926)	(299)	1,225
g	Devon Children and Families Partnership (DCFP)	(162)	(284)	446	(160)	(272)	432
h	Adopt South West	0	0	0	(1,452)	(854)	2,306

- a) 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 County Council, NEW Devon CCG, South Devon & Torbay CCG, or North Devon Healthcare NHS Trust, and agreed proportions of the cost of these staff are shared with other partners to the arrangement.
- b) Devon Partnership NHS Trust manages the provision of services for people with mental health needs on behalf of the County Council and the Clinical Commissioning Groups operating in Devon.
- c) Devon Audit Partnership is a Joint Committee formed by Devon County Council, Plymouth City Council and Torbay Council. The partnership provides an Internal Audit service to the three Councils and other Local Government clients across Devon.
- d) The South West Devon Waste Partnership is an equal partnership between Devon County Council, Plymouth City Council and Torbay Council which has established arrangements to convert waste into energy.
- e) 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.
- f) The Youth Offending Team is a statutory partnership funded by contributions from the County Council, Devon & Cornwall Police & Crime Commissioner, 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.
- g) The Devon Children and Families Partnership has the 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 & Crime Commissioner, National Probation Service, NEW Devon CCG, South Devon & Torbay CCG, North Devon Healthcare NHS Trust, Devon Partnership NHS Trust and Careers South West Ltd.
- h) Adopt South West (a Regional Adoption Agency) commenced 1st October 2018. It is a Local Authority partnership between Devon County Council (the Host Authority), Somerset

County Council, Plymouth City Council and Torbay Council, tasked with performing adoption service functions for the region. By joining together the skills, resources and best working practice of each organisation Adopt South West aims to improve outcomes for children and families, deliver a value for money service and deliver it consistently.

## 36.6 Associated Companies and Joint Ventures

Devon County Council has the following transactions with these organisations:

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>Skypark Development Partnership LLP</b> The Council has a 50% interest in this limited liability partnership to develop a business park which will offer high quality employment opportunities. St. Modwen Developments Ltd holds the other 50% interest.		
Receipts	0	0
Payments	54	54
Debtor Loans	1,401	1,401
Creditors	(65)	0
<b>Exeter Science Park.</b> The Council holds a 46.02% interest in this company which was set up on 24th February 2009. The Science Park Company operates under 'de minimis' State Aid regulations with the intention of promoting Exeter Science Park. The other partners are East Devon District Council, Exeter City Council and the University of Exeter.		
Receipts	(501)	(561)
Payments	701	0
Debtors	34	0
Creditors	0	0
<b>CSW Ltd (formerly Careers South West)</b> - a local authority controlled company which manages Devon Education Business Partnership. The members of the Company, are Devon County Council, Cornwall Council, Torbay Council and Plymouth City Council. Devon County Council has guaranteed 45% of any pension liability in the event that the company is wound up.		
Receipts	(7)	(7)
Payments	2,106	2,142
Debtors	0	6
Creditors	(6)	(12)
<b>NPS South West</b> - The Council holds 20% equity and appoints two of the six members of the Board. The Council's 50% share of profits is used to discount the payments it makes to the company for property management services provided to it. The ultimate parent is Norse Group Limited which is 100% owned by Norfolk County Council.		
Receipts	(68)	(163)
Payments	5,259	5,077
Debtors	145	0
Creditors	(317)	(603)
<b>Devon Norse.</b> The Council holds equity of 20%. The company was set up on 7th March 2011 to provide cleaning and catering services, and was expanded on 1 April 2014 to include facilities management for all corporate premises. The ultimate parent is Norse Group Limited which is 100% owned by Norfolk County Council.		
Receipts	(228)	(179)
Payments	7,930	7,507
Debtors	1	263
Creditors	(269)	(343)

## Associated Companies and Joint Ventures (continued)

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>Babcock LDP LLP</b> is a joint venture between Devon County Council and Babcock Training Ltd. Devon CC holds 19.9%. Education and inclusion services previously delivered by the Learning Development Partnership as a Council service have been transferred to Babcock LDP LLP.		
Receipts	(280)	(235)
Payments	12,539	12,715
Debtors	38	105
Creditors	(268)	(208)

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>South West Grid for Learning Trust.</b> 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 40.		
Receipts	(16)	(1)
Payments	754	556
Debtors	0	0
Creditors	(8)	(9)

**Exeter Skypark** - dormant and has never been used.

## 37. Private Finance Initiative and Similar Contracts

### Exeter Schools - PFI Scheme

2018/19 was the fourteenth 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.

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
	<b>Property Plant &amp; Equipment</b>	
24,091	Opening Net Book Value	5,564
	Additions	
(2,274)	Depreciation	(354)
2,574	Revaluations	1,005
(18,827)	Disposals	
<b>5,564</b>	<b>Closing Net Book Value</b>	<b>6,215</b>

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) new borrowing rate in force on 31st March 2018 and 31st March 2019.

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.

5 of the 6 Schools have transferred to Academy status since commencement of the contract, therefore the asset value for those Schools have been removed from the balance sheet as required under accounting standards. The liability for the PFI contract remains with the County, however there is no additional financial burden for the County.

#### **Value of Liabilities held under PFI contracts**

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
(63,135)	Opening Liability	(59,100)
4,035	Repayment of Liability	3,799
<b><u>(59,100)</u></b>	<b>Closing Liability</b>	<b><u>(55,301)</u></b>
<b><u>(89,722)</u></b>	<b>Fair Value</b>	<b><u>(84,575)</u></b>

Payments due to be made under the PFI Contract for Liabilities held on Balance Sheet include a service element for the schools' premises running costs and capital financing payments that relate to the reduction of liability and an amount for interest. Other Cash Charges include the ongoing costs of maintaining the assets and contingent rents. 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**

	<b>Repayments of Liability</b>	<b>Interest Charges</b>	<b>Service Charges</b>	<b>Other Cash Charges</b>	<b>Total Payments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Within 1 year	3,375	4,552	3,077	1,809	<b>12,813</b>
Within 2 - 5 years	16,750	15,111	13,211	6,082	<b>51,154</b>
Within 6 - 10 years	18,109	11,594	18,761	12,868	<b>61,332</b>
Within 11 - 15 years	17,066	4,625	21,611	15,167	<b>58,469</b>
	<b><u>55,300</u></b>	<b><u>35,882</u></b>	<b><u>56,660</u></b>	<b><u>35,926</u></b>	<b><u>183,768</u></b>

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 £350 millions. Set against this is a grant of £248 millions that will be received from central government. Of the balance, £76 millions will be met from delegated school budgets and the remainder (£25 millions) will be financed by the Authority. In 2018/19, the Authority's contribution was £1.3 millions.

The un-discharged liability to Devon County Council under the contract is £4.0 millions of which the maximum in any year is £1.4 millions. This is based on an assumed inflation rate of 2.5%. If inflation is 1% greater than this then the Authority's undischarged liability will increase by £700,000 to £4.7 millions.

#### **Exeter Energy from Waste**

DCC entered into an agreement in October 2011 with an operator to finance, design, construct and operate an Energy from waste (EFW) plant to treat and render inert waste that would otherwise be disposed of in landfill sites. Construction of the EFW plant was completed in July 2014.

The operator receives payments from DCC, via a 'gate fee' per tonne of waste treated at the EFW plant and fixed at an assumed capacity of 60,000 tonnes of waste per annum. The Council may make deductions from the EFW gate fee if the operator fails to accept waste for treatment or fails to perform services to the required standards. The entire EFW gate fee is indexed according to changes in the Retail Prices Index.

Accounting Standards for this service concession require the authority to record the EFW's costs of construction as property, plant and equipment.

**Value of Assets held under Service Concession contracts**

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
	<b>Property Plant &amp; Equipment</b>	
26,000	Opening Net Book Value	28,263
	Initial recognition	
	Additions	
(958)	Depreciation	(1,074)
3,221	Revaluations	2,853
	Disposals	
<b>28,263</b>	<b>Closing Net Book Value</b>	<b>30,042</b>

In addition to recognising the asset, the authority also recognises the liability for funding. The liability consists of a gate fee element from which DCC funds 93% from the revenue budget, and the remaining 7% is assumed to be funded from external third party revenues, and is shown in the authority's accounts as a deferred credit.

**Value of Liabilities held under Service Concession contracts**

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
(44,041)	Opening liability	(43,610)
	Initial recognition of EEFW liability	
431	Repayment of Liability	475
<b>(43,610)</b>	<b>Closing Liability</b>	<b>(43,135)</b>
<b>(92,697)</b>	<b>Fair Value</b>	<b>(94,540)</b>

**Value of Deferred Credit held under Service Concession contracts**

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
(2,903)	Opening deferred credit	(2,798)
105	Release of deferred income	106
<b>(2,798)</b>	<b>Closing Liability</b>	<b>(2,692)</b>

The Service Concession 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) new borrowing rate in force on 31st March 2019.

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 contract.

Payments due to be made under the Service Concession Contract for Liabilities held on Balance Sheet include a number of different elements within the gate fee. The Repayment of Liability covers the initial cost of developing the plant. The Interest Charge includes an assumed cost of capital and the element of the charge that is dependent on future cost of living increases to capital financing. Lastly, the Service charge covers the cost of servicing and maintaining the plant. The figures shown in the table below assume an annual inflation rate of 1.5%.

	<b>Repayments of Liability</b>	<b>Interest Charges</b>	<b>Service Charges</b>	<b>Total Payments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Within 1 year	457	4,793	3,549	<b>8,799</b>
Within 2 - 5 years	2,016	19,926	15,511	<b>37,453</b>
Within 6 - 10 years	3,970	26,680	21,679	<b>52,329</b>
Within 11 - 15 years	6,461	28,353	24,391	<b>59,205</b>
Within 16 - 20 years	10,980	29,169	26,836	<b>66,985</b>
Within 21 - 25 years	18,076	27,766	29,946	<b>75,788</b>
Within 26 - 30 years	1,175	1,366	1,658	<b>4,199</b>
	<b>43,135</b>	<b>138,053</b>	<b>123,570</b>	<b>304,758</b>

Payments under the contract commenced in 2014/15. Based upon an assumed inflation rate of 1.5% the total payments under the contract will amount to £343 millions. This is the total amount that will be met by DCC via a 'gate-fee' over the life of the agreement.

The un-discharged liability to the authority under the contract is £304.7 millions of which the maximum in any year is £16 millions although that is not until 2043/44. In 2018/19, the authority paid £8.6 millions under the contract.

If inflation is greater than 2.5% then the un-discharged liability and maximum payment in any year will increase. If inflation is 1% greater than this then the undischarged liability will increase by £46.7 millions to £351.4 millions.

## **Plymouth Energy from Waste**

Devon County Council entered into a Waste Partnership with Plymouth City Council & Torbay Council in 2008 - South West Devon Waste Partnership. The outcome of the project is a waste disposal solution for South West Devon. The three Councils jointly signed a 25 year contract for waste disposal with German Company MVV Umwelt in March 2011.

MVV has built an energy from waste facility on leased Ministry of Defence land at Camels Head North Yard in Devonport Dockyard, Plymouth. The Plant was fully operational in September 2015 when the plant received waste from the three authorities in return for contract payments linked to tonnages of waste delivered.

Devon County Council is taking approximately 60,000 tonnes of waste per year to the facility with the facility designed to process approximately 250,000 tonnes of residual waste per year. It uses this waste to produce approximately 22.5 MegaWatts of electricity and 23.3 MegaWatts of heat, which will be primarily used by the adjacent Naval Dockyard, with the remainder being exported to the national grid.

Accounting Standards for this PFI require the authority to record the Authority's share of EFW's costs of construction as property, plant and equipment.



**Value of Assets held under PFI contract**

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
	<b>Property Plant &amp; Equipment</b>	
63,155	Initial recognition	66,498
	Additions	
(2,857)	Depreciation	(3,140)
6,200	Revaluations	5,924
	Disposals	
<b>66,498</b>	<b>Closing Net Book Value</b>	<b>69,282</b>

In addition to recognising the asset, the authority also recognises the liability for funding. The liability consists of a gate fee element from which DCC funds partly from the revenue budget, and partly funded from revenues from third parties (including the sale of heat and electricity), and is shown in the authority's accounts as a deferred credit.

**Value of Deferred Credit held under PFI**

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
(39,979)	Opening deferred credit	(38,241)
1,738	Release of deferred income	1,738
<b>(38,241)</b>	<b>Closing Liability</b>	<b>(36,503)</b>

**Value of Liabilities held under PFI contract**

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
(25,495)	Initial recognition	(25,285)
210	Repayment of Liability	283
<b>(25,285)</b>	<b>Closing Liability</b>	<b>(25,002)</b>
<b>(52,024)</b>	<b>Fair Value</b>	<b>(52,312)</b>

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 (PWL) new borrowing rate in force on 31st March 2019.

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 contract.

Payments due to be made under the PFI Contract for Liabilities held on Balance Sheet include a number of different elements within the gate fee. The Repayment of Liability covers the initial cost of developing the plant. The Interest Charge includes an assumed cost of capital and the element of the charge that is dependent on future cost of living increases to capital financing. Lastly, the Service charge covers the cost of servicing and maintaining the plant. The figures shown in the table below assume an annual inflation rate of 2.5%.

	Repayments of Liability £000	Interest Charges £000	Service Charges £000	Total Payments £000
Within 1 year	188	2,454	2,910	<b>5,552</b>
Within 2 - 5 years	1,478	9,158	12,337	<b>22,973</b>
Within 6 - 10 years	3,045	9,132	17,650	<b>29,827</b>
Within 11 - 15 years	6,511	6,013	18,652	<b>31,176</b>
Within 16 - 20 years	11,977	165	21,607	<b>33,749</b>
Within 21 - 25 years	1,805	(882)	3,640	<b>4,563</b>
	<b>25,004</b>	<b>26,040</b>	<b>76,796</b>	<b>127,840</b>

Payments under the contract commenced in 2015/16. Based upon an assumed inflation rate of 2.5% the total payments under the contract will amount to £148 millions. This is the total amount that will be met by DCC via a 'gate-fee' over the life of the agreement.

The un-discharged liability to the authority under the contract is £127.8 millions of which the maximum in any year is £6.9 millions although that is not until 2038/39. In 2018/19, the authority paid £5.5 millions under the contract.

If inflation is greater than 2.5% then the un-discharged liability and maximum payment in any year will increase. If inflation is 1% greater than this then the undischarged liability will increase by £15 millions to £142.8 millions.

## 38. Leases and Contract Hire

### Finance leases (Council as Lessor)

Land and buildings: The Council has 79 assets that are leased to tenants that meet the definition of a finance lease. The present value at 31 March 2019 of the rental payments due to the Council is not material. 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 18 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 £1.626 millions. 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:

2017/18	Property	Equipment	Contract	Total
	£000	£000	Hire £000	
Not later than 1 year	1,098	399	21	<b>1,518</b>
Later than 1 year but not later than 5 years	3,329	568	36	<b>3,933</b>
Later than 5 years	1,425	10		<b>1,435</b>
	<b>5,852</b>	<b>977</b>	<b>57</b>	<b>6,886</b>

2018/19	Property	Equipment	Contract	Total
	£000	£000	Hire £000	
Not later than 1 year	1,211	396	64	<b>1,671</b>
Later than 1 year but not later than 5 years	3,476	668	5	<b>4,149</b>
Later than 5 years	1,902	4		<b>1,906</b>
	<b>6,589</b>	<b>1,068</b>	<b>69</b>	<b>7,726</b>

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

2017/18	Property	Equipment	Contract	Total
	£000	£000	Hire £000	
Minimum lease payments	1,098	547	21	<b>1,666</b>
	<b>1,098</b>	<b>547</b>	<b>21</b>	<b>1,666</b>

2018/19	Property	Equipment	Contract	Total
	£000	£000	Hire £000	
Minimum lease payments	1,211	487	36	<b>1,734</b>
	<b>1,211</b>	<b>487</b>	<b>36</b>	<b>1,734</b>

## Operating leases (Council as Lessor)

The rental received for operating property leased to third parties for the year is £2.067 millions of which £1.075 millions relates to smallholdings. The gross value of smallholdings at 31 March 2019 is £15.426 millions. 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:

<b>2017/18</b>		<b>2018/19</b>	
£000		£000	
3,453	Not later than 1 year	2,067	
4,874	Later than 1 year but not later than 5 years	5,789	
752	Later than 5 years	1,891	
<b>9,079</b>		<b>9,747</b>	

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

<b>2017/18</b>		<b>2018/19</b>	
£000		£000	
3,453	Minimum lease payments	2,067	
<b>3,453</b>		<b>2,067</b>	

## 39. 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 disclosed 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; and
- 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.

### 39.1 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 Pensions Act 2014 introduces a new State Pension for people reaching State Pension

age on or after 6 April 2017. The new scheme will replace the existing basic and additional State Pension and end contracting-out and the National Insurance rebate.

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

- A guaranteed pension calculated as 1/60th of the member's final salary multiplied by the amount of service between April 2008 and March 2014
- A guaranteed pension calculated as 1/80th of the member's final salary multiplied by the amount of service up to April 2008
- A Tax free lump sum upon retirement calculated using the formula 3/80ths of the member's final salary multiplied by the amount of service up to April 2008. 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 salary multiplied by 3
- 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 commenced on 1 April 2014 for all future LGPS membership.

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.

Page 127 Pension Fund Accounts provides more 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**

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>Comprehensive Income and Expenditure Statement</b>		
Cost of Services:		
Service cost comprising:		
Current service cost	64,080	62,504
Past service costs, including curtailments	1,285	1,069
(Gain)/loss from settlements	(20,639)	(5,980)
Pre 01/04/98 unfunded benefits actuarial (gains)/losses	(345)	(82)
Financing and Investment Income and Expenditure:		
Net interest expense	30,830	27,398
Administration expense	673	912
<b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>75,884</b>	<b>85,821</b>
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)	(17,721)	(38,085)
Actuarial gains and (losses) arising on changes in demographic assumptions	0	(135,969)
Actuarial gains and losses arising on changes in financial assumptions	(85,500)	82,746
Experience loss/(gain) on defined benefit obligation	0	0
Other actuarial gains/(losses)	0	0
Remeasurement of the net defined benefit liability	(103,221)	(91,308)
<b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(27,337)</b>	<b>(5,487)</b>
<b>Movement in Reserves Statement</b>		
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 8)	<b>75,884</b>	<b>85,821</b>

	<b>Funded Liabilities</b>		<b>Unfunded Liabilities</b>		<b>Total Liabilities</b>	
	<b>2017/18</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>						
Employers contributions payable to scheme	36,811	38,551	0	0	36,811	38,551
Retirement benefits payable to pensioners	0	0	9,361	7,959	9,361	7,959
Contribution to pre 01/04/98 unfunded benefits	0	0	(2,348)	(2,303)	(2,348)	(2,303)
	<b>36,811</b>	<b>38,551</b>	<b>7,013</b>	<b>5,656</b>	<b>43,824</b>	<b>44,207</b>

The estimated duration of the liabilities is 18 years.

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 £1.069 millions (£1.302 millions 2017/18).

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 gain of this settlement is £5.980 millions (£20.639 millions gain 2017/18).

**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		Total	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000	£000	£000
Present value of the defined benefit obligation	(2,261,967)	(2,269,969)	(120,367)	(111,235)	(2,382,334)	(2,381,204)
Fair value of plan assets	1,280,882	1,331,667			1,280,882	1,331,667
<b>Net liability arising from defined benefit obligation</b>	<b>(981,085)</b>	<b>(938,302)</b>	<b>(120,367)</b>	<b>(111,235)</b>	<b>(1,101,452)</b>	<b>(1,049,537)</b>

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

### Local Government Pension Scheme and Unfunded Benefit Arrangements

	2017/18	2018/19
	£000	£000
Opening fair value of scheme assets	1,254,686	1,280,882
Interest income	33,523	32,411
Administration Expenses	(673)	(912)
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	17,721	38,085
Other Actuarial gains/(losses)	0	0
Employer contributions	46,172	46,510
Contributions by scheme participants	12,118	12,106
Settlement prices received/paid	(7,627)	(2,897)
Benefits paid	(75,038)	(74,518)
<b>Total Assets</b>	<b>1,280,882</b>	<b>1,331,667</b>

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

### Local Government Pension Scheme and Unfunded Benefits - Liabilities

	2017/18	2018/19
	£000	£000
Opening balance	(2,429,302)	(2,382,334)
Current Service Cost	(64,080)	(62,504)
Interest Cost	(64,353)	(59,809)
Contributions from scheme participants	(12,118)	(12,106)
Remeasurement gains/(losses):		
Actuarial gains and losses arising on changes in demographic assumptions	0	135,969
Actuarial gains and losses arising on changes in financial assumptions	85,500	(82,746)
Experience (loss)/gains on defined benefit obligation	0	
Past service costs, including curtailments	(1,285)	(1,069)
Liabilities assumed/(extinguished) on settlements	28,266	8,877
Benefits paid	75,038	74,518
<b>Total (Liability)</b>	<b>(2,382,334)</b>	<b>(2,381,204)</b>

## Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets	31 March 2018		31 March 2019	
	£000	%	£000	%
Gilts	40,233	3%	45,727	3%
UK Equities	274,609	21%	221,224	17%
Overseas Equities	474,055	37%	572,706	43%
Property	119,184	9%	117,704	9%
Infrastructure	45,939	4%	48,907	4%
Target Return Portfolio	191,289	15%	188,524	14%
Cash	31,283	3%	21,288	1%
Other Bonds	26,183	2%	23,426	2%
Alternative assets	69,579	5%	70,333	5%
Private equity	8,528	1%	21,828	2%
<b>Net Asset / (Liability)</b>	<b>1,280,882</b>	<b>100%</b>	<b>1,331,667</b>	<b>100%</b>

### Fair Value of Scheme Assets

	31 March 2019			
	£000	% Quoted	£000	% Unquoted
Fixed interest government securities				
UK	2,663	0.2%	0	0.0%
Overseas	43,945	3.3%	0	0.0%
Corporate bonds				
UK	1,332	0.1%	0	0.0%
Overseas	22,638	1.7%	0	0.0%
Equities				
UK	210,403	15.8%	10,653	0.8%
Overseas	507,365	38.1%	63,920	4.8%
Property				
All	0	0.0%	117,187	8.8%
Others				
Absolute return portfolio	189,097	14.2%	0	0.0%
Private Equity	0	0.0%	21,307	1.6%
Infrastructure	0	0.0%	49,272	3.7%
Multi sector credit fund	70,578	5.3%	0	0.0%
Cash/Temporary investments	0	0.0%	19,975	1.5%
Net current assets				
Debtors	0	0.0%	1,332	0.1%
Creditors	0	0.0%	0	0.0%
	<b>1,048,021</b>	<b>78.7%</b>	<b>283,646</b>	<b>21.3%</b>

## 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 31st March 2016.

The significant assumptions used by the actuary have been:



	Funded		Unfunded	
	2017/18	2018/19	2017/18	2018/19
<b>Long-term expected rate of return on assets in the scheme:</b>				
Discount rate	2.55%	2.40%		
<b>Mortality Assumptions:</b>				
Life Expectancy from age 65 (years) - Retiring today:				
Men	23.5	22.4	23.5	22.4
Women	25.6	24.4	25.6	24.4
Life Expectancy from age 65 (years) - Retiring in 20 years:				
Men	25.7	24.1	25.7	24.1
Women	27.9	26.2	27.9	26.2
Rate of Inflation RPI	3.35%	3.40%		
CPI	2.35%	2.40%		
Rate of increase in salaries	3.85%	3.90%		
Rate of increase in pensions	2.35%	2.40%		
Rate of discounting scheme liabilities	2.55%	2.40%		

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. In practice changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. 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	31 March 2019		
	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	2,339,172	2,381,204	2,424,034
Projected service cost	64,278	65,827	67,414
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	2,384,331	2,381,204	2,378,099
Projected service cost	65,827	65,827	65,827
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	2,420,865	2,381,204	2,342,238
Projected service cost	67,413	65,827	64,277
Adjustment to mortality age rating assumption	+ 1 Year	0.0%	- 1 Year
Present value of total obligation	2,473,559	2,381,204	2,292,404
Projected service cost	67,926	65,827	63,792

## Impact on the Authority's Cash Flows

The most recent triennial valuation at 31st March 2016 set the authority's contributions for the subsequent 3 years beginning 2017/18. 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 21 years to March 2040. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2019.

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 £38.921 millions (£37.514 millions paid in 2018/19).

## **39.2 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 2018/19, the authority paid £15.186 millions (£17.328 millions in 2017/18) to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. 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 £14.249 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.

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

### **NHS Pensions Scheme**

Members of staff previously employed by the NHS, who transferred to the authority as part of public health services and activities, remained members of the NHS Pension Scheme, administered by the NHS Business Services 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 and 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 2018/19, the Authority paid £147,467 (£145,000 in 2017/18) to NHS Pensions in respect of members' retirement benefits, representing 14.4% (14.3% in 2017/18) of pensionable pay. Contributions of £12,556 (£12,000 in 2017/18) remaining payable at the year-end. The employers contributions due to be paid in the next financial year are estimated to be £152,179.

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.

From 1 April 2015 there is a new NHS Pension Scheme, the 2015 Scheme. This scheme has different features to the existing 1995/2008 Scheme

Some of the main provisions of the 2015 Scheme are as follows:

- A Career Average Revalued Earnings (CARE) Scheme revalued in line with CPI +1.5%;
- Normal Pension Age (NPA) at which benefits can be claimed, without reduction for early payment, will be linked to the same age as a member is entitled to claim their state pension;
- No limit on the number of years pension that can build up; and
- Final pension calculated by adding together all of the revalued pension earned in each year of membership.

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 historic arrangement 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.

### **39.3 Legal Judgement in respect of changes to Public Sector Pensions**

A judgement in the Court of Appeal about cases involving judges' and firefighters' pensions (the McCloud / Sargeant judgement) has the potential to impact on the Council. The cases concerned possible age discrimination in the arrangements for protecting certain scheme members from the impact of introducing new pensions arrangements. As the Local Government Pension Scheme was restructured in 2014, with protections for those members who were active in the Scheme at 2012 and over the age of 55, the judgement is likely to extend to the Scheme.

However, the potential impact is uncertain. Even though the Supreme Court has refused the Government's application to appeal the judgement, no decisions have been made about the remedies that would be required and the extent to which additional costs would fall on the Authority.

On the presumption that the remedy is for the Authority to incur costs in extending protections to all members who were active at 31 March 2012 until their retirement, the Pension Fund's Actuary has advised an indicative impact on Devon County Council of:

- a potential increase in pensions liabilities of £15.3 millions (0.7% of total pension liabilities currently in the Balance Sheet at 31 March 2019); and
- an increase in the projected service cost for 2019/20 of £1.5 millions (2.3% of the service cost before consideration of the McCloud judgement).

The Actuary's estimate shows that its best estimate of the impact on the Authority's Statement of Accounts is not material and there is still uncertainty about the cost of the remedy.

Consequently, the Authority has not reflected any consequences of this legal judgement in its pension liabilities in the Balance Sheet.

This estimate from the Pension Fund's Actuary is based on the disclosure paper from the Government Actuary's Department (GAD) and the assumption that salaries are assumed to increase at 1.5% each year above CPI in addition to a promotional scale. However, the actuary has allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

To illustrate sensitivity to the assumed rate of salary increases, if the Actuary were to lower the salary increase assumption by 0.25% then the impact of the judgement on the total liabilities at 31 March 2019 would be 0.5% of total liabilities, and the impact of the judgement on the current service cost would be 1.6% of the service cost.

## **40. Contingent Liabilities**

### **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 South West of England Regional Development Agency (SWERDA) agreement (relating to the Flybe hanger development) in excess of £1.920 millions
- legitimate claims or demands from specified contractors for any sum owing to them.

### **Babcock LDP LLP**

From 1 April 2012 a joint venture called Babcock LDP LLP 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 costs should certain trigger points be reached. 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%, a financial adjustment will be made. The expectation is that the Authority would either incur additional cost if the rate increases or benefit if it decreases around the 4% threshold. Babcock's contribution changed from 15.4% in March 2017, to 16.1% from April 2017. There is no additional liability to the Authority as the rate moved within the 4% threshold set. This will next be reviewed and changed from April 2020.

### **Guarantees**

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

- In 2013/14, the Authority guaranteed 50% of a loan of £5.304 millions made to Exeter Science Park Ltd from the Local Enterprise Partnership. The Authority has provided for a liability of £1.831 millions at 31 March 2019 (£1.831 millions at 31 March 2018).
- 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 Authority 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.
- CSW Group Ltd (formerly Careers South West Ltd and Connexions Devon and Cornwall Ltd) became a public sector controlled company at 1 April 2008. Details of the pension guarantee are provided in Note 36.6
- The Authority has given guarantees to foster carers and children's placement providers for uninsurable losses in relation to fire damage to their properties. The guarantees extend to three properties with an estimated value of £1.2 millions (two properties with estimated value of £943,000 in 2017/18).
- The Authority remains responsible for the historic pension liabilities of former staff who transferred to Libraries Unlimited on 1 April 2016. These liabilities are not separately identified by the actuary but are included in the Authority's overall pension fund balance in Note 39. Libraries Unlimited is responsible for meeting the current employers' contributions as determined by the actuary to the Devon Pension Fund.
- The Authority has provided a pension bond up to £600,000 for DYS Space Ltd, which is a public sector mutual established by former staff to provide Youth Services in Devon, for which the Authority received £18,000 in 2018/19 (£18,000 in 2017/18).

## **Breaches of Data Protection Act**

The Authority reported thirteen data protection breaches to the Information Commissioner's Office (ICO) in 2018/19. This represents a rise from the previous financial year, which can be explained by the introduction of new data protection laws in May 2018. The ICO is still investigating two of these incidents but has decided to take no enforcement action against the Council in relation to the remaining breaches. The ICO has the power to issue a monetary penalty of up to €20,000,000 or 4% of the Council's turnover for the most serious contraventions of data protection laws. It is not known what, if any, enforcement action may be taken against the Council in relation to the two incidents still outstanding with the ICO.

## **South Devon Link Road**

The Authority has received claims from residents, living near to the South Devon Link Road regarding noise levels. The potential costs of these claims are included in the Authority's future capital programme for retention costs.

# 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 over which the authority has significant influence. This means that investment by the authority is such that it has power to participate in the operating and financial policy decisions of the entity (though not to the extent of control, which would create a subsidiary). Investment takes account of contractual connections, participation in governance and executive interchange as well as the level of financial 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. Categorised 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 2.

## **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).

## **CREDIT LOSS**

Credit loss is the difference between all contractual cash flows that are due to the Authority and all the expected cash flows (i.e. cash shortfalls) discounted at the effective rate of interest.

## **CREDITORS**

Creditors are amounts due to third parties as at the balance sheet date arising from goods 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.

## **CURRENT VALUE**

The Code has introduced the concept and definition of current value to the measurement of property, plant and equipment. Current value measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date.

For non-specialised assets, current value should be interpreted as existing use value. In the RICS Valuation – Professional Standards, this is market value based on the assumption that property is sold as part of the continuing enterprise.



For specialised assets where no market exists, current value should be interpreted as the present value of the assets' remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. Under these circumstances, property, plant and equipment is measured at Depreciated Replacement Cost.

## **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 distinct from impairment.

## **DERECOGNITION**

Derecognition is the removal of an asset or liability from the balance sheet. When an asset is sold or disposed of - it is derecognised.

## **EFFECTIVE INTEREST RATE (EIR)**

The EIR is the rate that exactly discounts future cash payments or receipts to the gross carrying value of a financial asset or amortised cost of a liability. Where contractual interest rates may vary over the lifetime of a financial asset / liability the EIR is the rate when applied to future cash flows will discount to the original amount.

## **ENTITY**

An entity is a body corporate, partnership or unincorporated association which has an autonomous financial structure, and which is legally capable of contracting and making binding decisions under its own name.

## **EXPENDITURE AND FUNDING ANALYSIS**

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (fees and charges, government grants, council tax and business rates) as reported in the budget book and outturn report - used for decision making. It compares with those resources consumed or earned in accordance with generally accepted accounting practices (i.e. the Comprehensive Income and Expenditure Statement).

## **EQUITY INSTRUMENT**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. There cannot be any contractual requirement for the issuer to deliver cash or another financial asset to the Authority on redemption.

## **FAIR VALUE**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## **FINANCIAL GUARANTEES**

A financial guarantee 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 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:

CSPN = County Sports Partnership Network

CWDC = Children's Workforce Development Council

DBERR = Department for Business, Enterprise and Regulatory Reform

DCMS = Department for Culture, Media & Sport

DEFRA = Department for Environment, Food & Rural Affairs

DfE = Department for Education

DfT = Department for Transport

DHSC = Department of Health and Social Care, formerly DH - Department of Health, now with Social Care responsibilities

DIUS = Department for Innovation, Universities and Skills

DTI = Department of Trade & Industry

DWP = Department for Work & Pensions

ESFA = Education and Skills Funding Agency - combination of EFA - Education Funding Agency and SFA Skills Funding Agency

EU = European Union

HEFCE = Higher Education Funding Council for England

HLF = Heritage Lottery Fund

HO = Home Office

MHCLG = Ministry of Housing, Communities and Local Government, replaced DCLG from January 2018

MoD = Ministry of Defence

NE = Natural England

P4S = Partnership for Schools

PSA = Public Service Agreement

SCITT	= School Centred Initial Teacher Training
SDF	= Sustainable Development Fund
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 OPERATION**

A joint operation is a binding collaborative arrangement which requires the unanimous consent of the authority and at least one other party (together exercising joint control) and in which the rights and obligations of each party are identified in relation to the income and expenditure, and assets and liabilities arising under the arrangement.

## **JOINT VENTURE**

A joint venture is a binding collaborative arrangement which requires the unanimous consent of the authority and at least one other party (together exercising joint control) and which is carried on through a separate vehicle where the rights of each party are identified in relation to the net assets of an autonomous financial structure.

## **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 current 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 current value (because of the specialist nature of an asset), depreciated replacement cost is used as an estimate of current 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.

Surplus assets are valued at fair value.

### **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 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. At Devon County Council the Section 151 Officer is the County Treasurer.

### **SUBSIDIARY**

A subsidiary is an entity which is under the control of the authority. This means that investment by the authority is such that it has decisive power over the entity, has the ability to direct all its substantial activities and enjoys rights (or suffers exposure) to variable returns. Investment takes account of contractual connections, participation in governance and executive interchange as well as the level of financial investment.

### **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 2018/19**

## Report of the County Treasurer

Over the course of the 2018/19 year, the value of the Devon Pension Fund increased from £4.086 billion (as at 31 March 2018) to £4.302 billion as at 31 March 2019, an increase of around £216 million. The Devon Pension Fund's investment return for the year, net of fees, was +5.6%. This was in line with actuarial assumptions but slightly below the Fund's own strategic target of +6.2%. In the last three years the fund has achieved an annualised return of +9.1% which was ahead of the Fund's benchmark and also ahead of the Actuary's assumed investment return of +5.5%. The Fund's maturing cashflow profile saw a shortfall of £26 million between the contributions received during the year and the benefit payments and management costs paid out.

Over the last three years, the Devon Pension Fund has been working with nine other LGPS funds to set up the Brunel Pension Partnership Ltd in order to pool investment assets to reduce investment costs and improve risk management. The Fund's passive equity assets transitioned across to Brunel in July, and the Fund has also invested in Brunel's Low Volatility Equities portfolio and Infrastructure Portfolio. The Devon Pension Fund will continue to be responsible for deciding the strategic allocation between different asset classes to meet local investment objectives, but the Brunel Pension Partnership will be responsible for selection and monitoring of the external investment managers who will manage the investments.

The pensions administration team continues to face increasing workloads and demands caused by an increase in membership and in the number of new employers joining the fund, requests for information and changes to regulations. During 2018/19, a restructure of Peninsula Pensions was undertaken to address these issues and to ensure that the administration function is best placed to continue to deliver the objectives of the Fund. Processes have been reviewed and improvements have been introduced which aim to drive out inefficiencies, increase capacity and improve the outcomes for our customers. The performance of the administration team has continued to improve during the restructure and it is anticipated that this trend will continue once the new processes have bedded in and we are fully resourced. During 2019/20 we will be consulting with employers in the development of our Pensions Administration Strategy which will set out the policies and performance standards of Peninsula Pensions.

### Summary of Financial Statements

The financial statements and their purpose are summarised as follows:

- Fund Account – The Fund Account sets out the Pension Fund's income and expenditure for the year to 31 March 2019. The first section sets out the income received in contributions from employers and employees, and the expenditure on pension benefit payments. In the past income from contributions has exceeded the annual expenditure on benefit payments, resulting in a significant surplus to invest. This has not been the case over the last few years, and the gap between contributions received and benefits paid out will continue to grow. The second section of the Fund Account shows the income received from the Fund's investments and the cost of managing those investments. The majority of investment income is retained by the external investment managers for re-investment, but income from property, infrastructure and private debt is returned as cash and can be used to offset any shortfall between contributions and benefit payments. The growing gap between contributions and pension benefit payments means that a larger proportion of investment income will now need to be used to meet the shortfall, rather than being reinvested. The Fund Account also shows that there has been an increase in the capital values of the Fund's investment assets of £192 million over the last year.



- Net Asset Statement – The Net Asset Statement sets out the net assets of the Fund, in line with the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the latest Statement of Recommended Practice (SORP). Pooled investments include pooled Equity, Fixed Interest, Property, Infrastructure and Private Debt Funds and they are incorporated into those categories in reviewing the Asset Allocation of the Fund in a later section of my report.

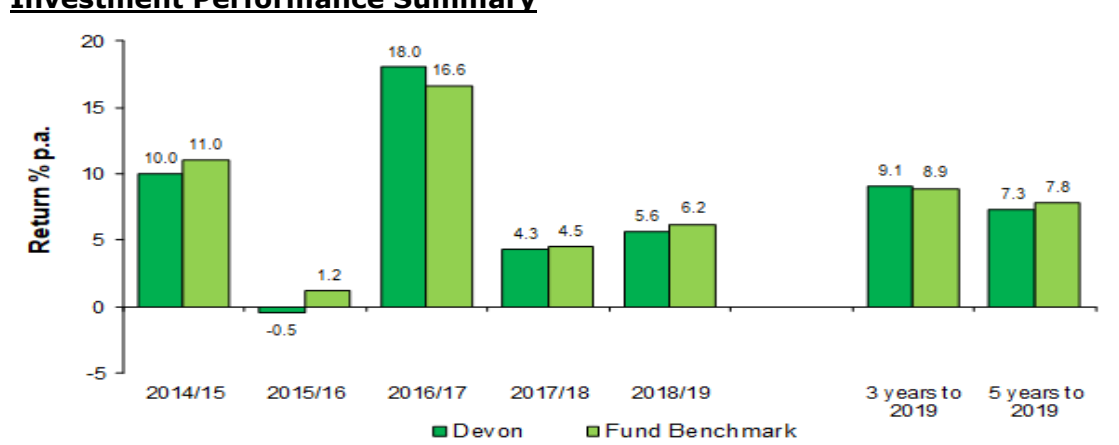
## Investment Performance

As indicated above, the asset value of the Fund at the end of the 2018/19 financial year was £4.302 billion. This represents a positive investment return of +5.6% net of fees, slightly below the Fund’s internally set benchmark target of +6.2%. The three year return of 9.1%, reflecting the period since the last Actuarial Valuation, was ahead of benchmark, and also ahead of the Actuary’s assumed investment return at the 2016 Valuation of 5.5%. The year saw significant volatility, with the Fund experiencing a negative return of -6.7% in the quarter to December, which was then recovered in the quarter to March which saw a positive return of +7.1%.

The main reason for the Fund’s below benchmark performance was the underperformance of the diversified growth funds. Both failed to achieve their cash plus benchmarks, and while it would not be expected that they would keep up with equities in a rising market, it is disappointing that they captured less of the upturn over the first 6 months of the financial year than they did of the downturn between October and December. Active global equities also underperformed, with the Specialist Funds’ bias towards Europe and the Emerging Markets detracting in a period where those regions did less well than other parts of the World, principally the US. Property, infrastructure and private debt all out performed their benchmarks.

Pension fund investment management has to consider the long term, and the Investment and Pension Fund Committee’s principal aim for the Fund is therefore to maintain high performance over the longer term. The following chart presents the investment returns achieved by the Devon Fund compared to the Fund’s benchmark over each of the last five years, plus the total annualised return over the last three years and the last five years. Performance Figures are shown net of fees.

### Investment Performance Summary



A more detailed analysis of the Fund’s investment returns over the last year, 3 years and 5 years, broken down by asset class, is provided in the following table.

## Investment Performance by Asset Class

One Year Performance	Opening Value		Closing Value		Performance		
	£'000	%	£'000	%	Gross	Net	Benchmark
<b>Brunel Asset Pool Managed Investments</b>							
Passive Equities (from 10 July)	0	0.0	1,815,034	42.3	-0.8	-0.8	-0.7
Active Low Volatility Equities	0	0.0	101,727	2.4	+0.3	+0.3	+1.1
Infrastructure	0	0.0	5,883	0.2	-9.5	-9.5	-0.1
<b>Non-Asset Pool Managed Investments</b>							
Passive Equities (to 10 July)	1,780,200	43.7	0	0.0	+8.5	+8.5	+8.3
Active Global Equities	430,953	10.6	458,655	10.7	+6.3	+6.1	+11.1
Active Emerging Market Equities	185,688	4.6	190,600	4.4	+2.6	+1.9	+0.1
Global Bonds	220,072	5.4	231,282	5.4	+5.1	+4.8	+5.2
Multi-Sector Credit	221,425	5.4	226,437	5.3	+2.3	+1.9	+1.9
Property	389,164	9.6	403,626	9.4	+6.4	+6.2	+4.8
Infrastructure	147,504	3.6	150,532	3.5	+7.1	+7.0	+5.6
Private Debt	27,138	0.7	70,271	1.6	+14.4	+11.3	+5.6
Diversified Growth Funds	608,752	14.9	606,931	14.1	+1.4	+0.9	+4.6
Cash	61,192	1.5	30,783	0.7	+2.3	+2.2	+0.5

Three Year Performance	Value 1 April 2016		Closing Value		Performance		
	£'000	%	£'000	%	Gross	Net	Benchmark
Passive Equities	1,425,527	42.9	1,815,034	42.3	+11.5	+11.5	+11.6
Active Global Equities	342,069	10.3	458,655	10.7	+13.6	+13.5	+15.0
Active Low Volatility Equities	0	0.0	101,727	2.4	-	-	-
Active Emerging Market Equities	136,970	4.1	190,600	4.4	+11.7	+11.4	+14.5
Global Bonds	282,544	8.5	231,282	5.4	+3.2	+3.2	+3.4
Multi-Sector Credit	119,694	3.6	226,437	5.3	+5.8	+5.7	+5.5
Property	366,555	11.1	403,626	9.4	+7.1	+7.0	+6.1
Infrastructure	139,748	4.2	156,415	3.7	+8.4	+8.3	+3.6
Private Debt	0	0.0	70,271	1.6	-	-	-
Diversified Growth Funds	486,079	14.6	606,931	14.1	+5.4	+5.3	+4.3
Cash	23,266	0.7	30,783	0.7	+1.0	+1.0	+0.3

Five Year Performance	Value 1 April 2014		Closing Value		Performance		
	£'000	%	£'000	%	Gross	Net	Benchmark
Passive Equities	1,235,636	39.3	1,815,034	42.3	+8.4	+8.4	+8.5
Active Global Equities	523,170	16.7	458,655	10.7	+8.9	+8.8	+12.5
Active Low Volatility Equities	0	0.0	101,727	2.4	-	-	-
Active Emerging Market Equities	127,937	4.1	190,600	4.4	+8.2	+8.1	+9.0
Global Bonds	368,575	11.7	231,282	5.4	+4.2	+4.2	+4.3
Multi-Sector Credit	0	0.0	226,437	5.3	-	-	-
Property	319,951	10.2	403,626	9.4	+9.4	+9.3	+9.1
Infrastructure	58,572	1.9	156,415	3.7	+6.8	+6.8	+2.3
Private Debt	0	0.0	70,271	1.6	-	-	-
Diversified Growth Funds	454,629	14.5	606,931	14.1	+4.4	+4.3	+4.3

Three year and five year performance numbers combine periods of management by the pool and outside the pool where relevant, given that the assets have been managed by the pool for less than a year.

## **Fund Solvency**

The Fund is required to have an actuarial valuation conducted every three years. The most recent triennial valuation, as at 31 March 2016, carried out by the Fund Actuary, Barnett Waddingham, determined that the Devon Pension Fund had a funding level of 84%.

As at the end of December 2018, a funding update provided by the Fund Actuary, based on rolling forward the data from the 2016 valuation, and updating it for subsequent investment returns, pension and salary increases suggested that the funding level had improved to in the region of 90%. The annualised investment return over the last three years of 9.1% will have improved the Fund's position, as will a slowdown in life expectancy forecasts.

However, work on the next scheduled valuation, as at 31 March 2019, is now underway. The 2019 valuation will comprise a more detailed analysis and updating of the Fund's liabilities and will be impacted by revised assumptions adopted by the Fund Actuary. The valuation has to be carried out in a way that ensures the solvency of the Fund and achieves long term cost efficiency in setting contribution levels to reduce the deficit in the funding position. The Fund will have an ongoing dialogue with employers over the valuation period to ensure that any concerns they have about future contribution levels are addressed.

## **Asset Allocation**

The Investment and Pension Fund Committee is charged with the responsibility for governance and stewardship of the Fund and making decisions about strategic asset allocation policy.

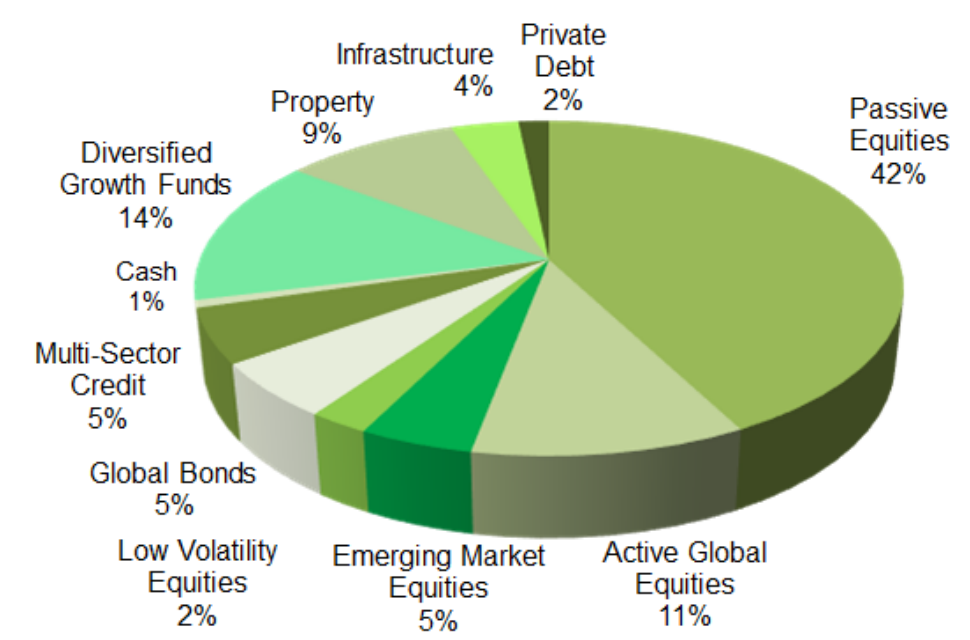
The Committee agreed some small changes to asset allocation targets during 2018/19, in line with its medium term strategy. Commitments had been made to two private debt funds during the previous year, and to reflect the gradual draw down of those commitments a 2% target was set for 2018/19. An initial investment of £100 million into Brunel's low volatility equities portfolio was agreed in November, which was implemented in March 2019, when the portfolio was launched and available for investment. In the medium term, it is planned to make further allocations to low volatility equities to bring the overall strategic allocation up to around 7%. This is in line with the policy set out in the Investment Strategy Statement, with the aim of reducing risk without impacting the Fund's investment return potential. In February 2019 the Committee agreed to increase its commitment to Brunel's Infrastructure portfolio to a total of £175 million in addition to the infrastructure assets already held.

Mercer investment consultants were commissioned to undertake a further review of the Fund's strategic asset allocation and reported back to the Committee in February. Their conclusions were broadly consistent with the previous review undertaken in 2016/17, and the Fund will continue with the direction of travel set out in the Investment Strategy Statement.

Within the allocation to passive equities there has been a significant bias towards UK equities. It was recognised that this has the potential to expose the fund to significant risk if UK markets perform poorly, particularly as the UK market contains sectoral biases towards the mining and financial sectors of the economy and an under-exposure to the high performing technology sector. The Fund has therefore been reallocating its passive equity investments on a gradual phased basis from the UK to global equity markets in order to gain greater diversification and reduce risk. A total of £188 million was moved from the passive UK allocation to the global passive allocation during the year.

The Fund's actual asset allocation as at 31 March 2019 is shown in the following chart:

**Actual Asset Allocation as at 31 March 2019**



A comparison of the actual allocation as at 31 March 2019 with the Fund's target allocation for 2018/19 is shown in the following table:

**Actual Asset Allocation Compared to Target**

	as at 31 March 2018		as at 31 March 2019		
	Target allocation	Actual allocation	Target allocation	Actual allocation	Variation from Target
	%	%	%	%	%
Global Bonds	6.0	5.2	6.0	5.4	
Multi-Sector Credit	6.0	5.4	6.0	5.3	
Cash	1.0	2.4	1.0	0.7	
<b>Total Fixed Interest</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>	<b>11.4</b>	<b>-1.6</b>
Passive Equities	43.0	43.6	40.0	42.3	
Active Global Equities	10.0	10.2	10.0	10.7	
Active Emerging Markets Equities	5.0	4.5	5.0	4.4	
Active Low Volatility Equities	-	-	3.0	2.4	
<b>Total Equities</b>	<b>58.0</b>	<b>58.3</b>	<b>58.0</b>	<b>59.8</b>	<b>+1.8</b>
Diversified Growth Funds	15.0	14.9	13.0	14.1	
Property	10.0	9.5	10.0	9.4	
Infrastructure	4.0	3.6	4.0	3.7	
Private Debt	-	0.7	2.0	1.6	
<b>Total Alternatives/Other</b>	<b>29.0</b>	<b>28.7</b>	<b>29.0</b>	<b>28.8</b>	<b>-0.2</b>

## **Conclusion**

It is pleasing that the Fund has achieved a total return of 9.1% per year over the three years since the last Actuarial Valuation, which should stand us in good stead for the 2019 Valuation. However, we will need to ensure that the Valuation takes a prudent view of future returns, given the uncertain economic outlook, fuelled by issues such as the trading relationship between the US and China, the inflated level of asset prices and Brexit. The review of our investment strategy undertaken by Mercer concluded that we should continue with our current direction of travel, by for example continuing to commit further funds to private markets.

During the year we transitioned around 45% of our assets across to the Brunel Pension Partnership, mainly comprising the Fund's allocations to passive equities. We expect that the majority of the Fund's allocations to property, global equities, emerging market equities and diversified growth funds will transition during 2019/20. The Committee will continue to focus on its strategic asset allocation to ensure the Fund can achieve its funding targets and continue to meet its liabilities to pay pensions over the medium to longer term.

The Fund remains committed to ensuring that it provides an excellent service to pension fund members and value for money for both pension fund members and local taxpayers.

***Mary Davis***

County Treasurer

24<sup>th</sup> July 2019

# **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 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 2019 has been prepared in accordance with the Accounts and Audit Regulations 2015 and that it presents a true and fair view of the financial position of the Pension Fund as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

***Mary Davis***

County Treasurer

24th July 2019

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

I confirm that these accounts were approved by the Audit Committee as its meeting on 29th July 2019

Chairman of the Audit Committee

29th July 2019

## Summary of the 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. The LGPS is managed by administering authorities in accordance with regulations approved by Parliament. In the county area of Devon, Devon County Council is the administering authority of the Fund. 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).

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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 at 31st March 2019, the net assets of the Devon Pension Fund were valued at £4,302 millions. The fund currently has 38,624 actively contributing members, employed by 225 employers of various descriptions (Unitary, District, Town & Parish Councils, Education Establishments and Admitted Bodies). Different rules apply in relation to membership of the fund for the different categories of employer, as set out in the following table:

Scheduled Body - An employer explicitly defined in the Regulations. As listed on pages 177 and 178.	Admitted Body - As listed on page 178.
No employing body discretion on membership.	Employing body discretion on membership
No employer discretion on who can join.	Employer discretion on who can join
Restricted to geographical area of fund.	May operate outside geographical area of fund, and potentially participate in more than one fund (separate admission agreement required).
No parent guarantee or bond.	May require an indemnity or bond

Pensions are paid to 36,666 pensioners (and/or dependants) every month. There are currently 52,856 members with rights to deferred benefits, frozen memberships pending refunds and those undecided pending resolution.

Further contributions are made by Fund employers, which are set based on triennial actuarial funding valuations. The contributions for 2018/19 were set by the valuation as at 31 March 2016. Employer contributions comprise a primary rate, which represents the employers' share of the cost of future benefits, and a secondary rate to meet any shortfall on past service liabilities. Currently, employer future service rates range from 10.6% to 28.5% of pensionable pay. The deficit contribution is expressed as a cash sum, and ranges from £0 to £14.0 millions.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. The benefits payable are summarised in the following table:

	<b>Service before 1 April 2008</b>	<b>Service 1 April 2008 to 31 March 2014</b>	<b>Service from 1 April 2014</b>
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 x <b>career average</b> salary.
<b>Lump sum</b>	Each year worked is worth 3/80 x final pensionable salary.  In addition, part of the annual pension can be exchanged for a oneoff tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum.  Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum.  Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.



## Management Structure

**Administering Authority** Devon County Council  
County Hall  
Exeter  
EX2 4QD

### Investment and Pension Fund Committee (at 31 March 2019)

Representing Devon County Council	Councillor Ray Bloxham Councillor Yvonne Atkinson Councillor Alan Connett Councillor Richard Edgell Councillor Richard Hosking Councillor Andrew Saywell	(Chairman)
Representing Devon Unitary & District Councils	Councillor Peter Edwards Councillor Lorraine Parker Delaz Ajete Councillor James O'Dwyer	(Devon Districts Councils) (Plymouth) (Torbay)
Representing Other Employer:	Donna Healy	(Dartmoor National Park Authority)

### Observers

Representing the Contributors	Roberto Franceschini Jo Rimron
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Representing the Beneficiaries Colin Lomax

<b>Adviser</b>	Anthony Fletcher	(MJ Hudson Allenbridge)
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### Devon Pension Board (at 31 March 2019)

Representing Fund Employers	Councillor Colin Slade Councillor Sara Randall Johnson Carl Hearn Graham Smith	(Devon County Council) (Chairman) (Devon County Council) (Tavistock Town Council) (Devon and Cornwall Police)
Representing Fund Members	Andrew Bowman Paul Phillips Colin Shipp One Vacancy	
Independent Member	William Nicholls	

### County Council Officers

Phil Norrey	Chief Executive
Mary Davis	County Treasurer
Angie Sinclair	Deputy County Treasurer
Mark Gayler	Assistant County Treasurer
Martin Oram	Assistant County Treasurer
Daniel Harris	Head of Peninsula Pensions

<b>Asset Pool</b>	Brunel Pension Partnership 101 Victoria Street Bristol. BS1 6PU
<b>Investment Managers</b>	Devon County Council Investment Team Aberdeen Asset Managers Ltd Baillie Gifford and Co. Baring Asset Management Ltd La Salle Investment Management Lazard Asset Management LLC Wellington Management International Ltd
<b>Fund Actuary</b>	Barnett Waddingham LLP 163 West George Street Glasgow. G2 2JJ
<b>Fund Custodian</b>	State Street Bank and Trust Company Quartermile 3 10 Nightingale Way Edinburgh. EH3 9EG
<b>Bankers to the Fund</b>	Barclays Bank plc 3 Bedford St Exeter. EX1 1LX
<b>AVC Providers</b>	Prudential Assurance Company Ltd Lancing BN15 8GB
<b>External Auditors</b>	Grant Thornton UK LLP 2 Glass Wharf Bristol. BS2 0EL

### **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>

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

The Devon Pension Fund provides defined pension benefits to members earned as employees. As well as the County Council, the Fund also extends to cover employees of unitary, district and parish councils, civilian employees of the Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority, and employees of academy schools and a number of other admitted member bodies.

The accounts of the Fund are set out in line with the IFRS Based CIPFA 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 2016 and was signed by the Actuary on 31 March 2017.

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

2017/18 £'000	Notes	2018/19 £'000
<b>Dealings with members, employers and others directly involved in the fund</b>		
Contributions		
(131,149)	Employers 5	(137,431)
(37,659)	Members 5	(38,765)
Transfers in from other pension funds:		
(6,481)	Individual Transfers	(6,134)
<u>(175,289)</u>		<u>(182,330)</u>
Benefits		
142,191	Pensions 6	149,688
28,224	Commutation and lump sum retirement benefits 6	26,759
3,357	Lump sum death benefits 6	4,191
Payments to and on account of leavers		
394	Refunds to members leaving service	705
51	Payments for members joining state scheme	30
5,410	Individual Transfers	9,012
<u>179,627</u>		<u>190,385</u>
<b>4,338</b>	<b>Net (additions)/withdrawals from dealings with members</b>	<b>8,055</b>
18,084	Management expenses 8	17,999
<b>22,422</b>	<b>Net (additions)/withdrawals including fund management expenses</b>	<b>26,054</b>
<b>Returns on investments</b>		
Investment Income:		
Income from Bonds		
(38)	U.K. Public Sector Bonds	(330)
(5,249)	Overseas Government Bonds	(4,342)
(167)	UK Corporate Bonds	(169)
(2,164)	Overseas Corporate Bonds	(2,877)
Income from Equities (Listed)		
(1,254)	U.K.	(1,342)
(8,306)	Overseas	(7,495)
(12,589)	Pooled Investments - Unit Trusts and Other Managed Funds	(19,605)
(15,257)	Pooled Property Investments	(13,609)
(709)	Interest on Cash and Short Term Deposits	(707)
Taxes on income:		
319	Withholding Tax - Fixed Interest securities	19
836	Withholding Tax - Equities	520
Profit and losses on disposal of investments and changes in market value of investments:		
(129,783)	Realised (profit)/loss	(970,168)
(5,599)	Unrealised (profit)/loss	778,201
<b>(179,960)</b>	<b>Net Returns on Investments</b>	<b>(241,904)</b>
(157,538)	Net (increase)/decrease in the net assets available for benefits during the year	(215,850)
(3,928,894)	Opening Net Assets of the Scheme	(4,086,432)
<b>(4,086,432)</b>	<b>Net Assets of the Scheme</b>	<b>(4,302,282)</b>

## Net Asset Statement

31 March 2018 £'000	Notes	31 March 2019 £'000
<b>INVESTMENTS AT MARKET VALUE</b>		
840 <b>Long Term Investments</b>	13 & 14	395
<b>Investment Assets</b>		
Bonds		
2,362 U.K. Public Sector Bonds		11,770
154,228 Overseas Government Bonds		135,440
1,853 UK Corporate Bonds		0
52,918 Overseas Corporate Bonds		75,489
Equities (Listed)		
39,970 U.K.		39,901
326,205 Overseas		348,734
3,027,451 Pooled Investments - Unit Trusts and Other Managed Funds	15	3,224,966
375,292 Pooled Property Investments	15	378,934
Derivative Assets		
2,190 Forward Currency Contracts	18	6,614
Cash deposits		
11,990 Foreign Currency		5,447
49,819 Short Term Deposits		22,581
25,527 Cash & Bank Deposits		37,875
6,197 Investment income due		4,792
0 Amounts receivable for sales		879
<b>Investment Liabilities</b>		
Derivatives		
(4,360) Forward Currency Contracts	18	(1,468)
0 Amounts payable for purchases		(193)
<b>4,072,482 Total Net Investments</b>		<b>4,292,156</b>
<b>Non Current Assets and Liabilities</b>		
3,335 Non Current Assets	20	1,839
(4,512) Non Current Liabilities		(3,008)
<b>Current Assets and Liabilities</b>		
22,242 Current Assets	19	18,953
(7,115) Current Liabilities		(7,658)
<b>4,086,432 Net assets of the fund available to fund benefits at 31 March</b>		<b>4,302,282</b>

### Notes to the Net Asset Statement

The financial statements 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. These obligations are summarised in Note 21 on page 157.

# Notes to the Accounts

## 1. Accounting Policies

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

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 and other employers (with observers representing the staff and retired members) control the investments with advice from specialists. Employing body details are shown on pages 177 and 178.

### Fund account – revenue recognition

#### Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate prescribed by the LGPS regulations for members and at the percentage rate recommended by the fund actuary for employers in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

#### Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### Investment income

- Interest income is recognised in the fund account as it accrues
- Dividend income is recognised on the date the shares are quoted ex-dividend.

- Distributions from pooled funds are recognised at the date of issue.

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

## **Fund account – expense items**

### **Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

### **Taxation**

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

### **Management expenses**

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance on Accounting for Local Government Pension Scheme Management expenses (2016). These are shown under note 8.

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.

Administrative expenses; oversight and governance costs; and investment management expenses are charged directly to the fund.

## **Net assets statement**

### **Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined as follows:

- Market-quoted investments. The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- Fixed interest securities are recorded at net market value based on their current yields.
- Unquoted investments. The fair value of investments for which market quotations are not readily available is determined as follows:

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted limited partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- Limited partnerships. Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

### **Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### **Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

### **Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

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.

### **Hedge Accounts**

Where the fund has assets denominated in currencies other than sterling, the value of those assets will be affected by movements in the exchange rate. The fund may use forward currency contracts to hedge exchange rate risks in relation to specific assets held by the fund. The fair value of the forward currency contracts will be calculated as set out under derivatives. Where material gains and losses on forward currency contracts used to hedge against the exchange rate risks associated with specific assets will be set out in the notes to the accounts.



## **Financial liabilities**

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

## **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 21).

## **Stock lending**

The Fund has a programme of stock lending operated by its custodian. The programme lends directly held global equities and bonds to approved borrowers against a collateral of cash or fixed interest securities of developed countries, which is marked to market on a daily basis. Securities on loan are included at market value in the net assets on the basis that they will be returned to the Fund at the end of the loan term. Net income from securities lending received from the custodian is shown as income from investments in the Fund Account.

The custodian is authorised to invest and reinvest all or substantially all cash collateral. It is not the policy of custodian or the Devon Pension Fund to sell or repledge collateral held in the form of securities. In the event of default by the borrower, the custodian will liquidate non-cash collateral and will repurchase the original lent securities. If this is not possible (due to liquidity issues), the custodian would arrange an acceptable solution with the Devon 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 24th July 2019.

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.
- Financial Assets measured at Amortised Cost:
  - These assets are all short term except for capital payment due from the Devon & Cornwall Magistrates Courts Service (see note 20 - Non-Current Assets and Liabilities).
- 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.
  -

## **Value Added Tax (VAT)**

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

## **2. 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.

Pension fund liability. The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 21. These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Note 26 Additional Financial Risk Management Disclosures details the Fund's 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.

### 3. 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.

#### Uncertainties

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 Archmore (UBS) International Infrastructure Fund LLP £26.019 millions (£25.444 millions as at 31 March 2018), the Hermes GPE Infrastructure Fund LLP 36.047 millions (£33.093 millions as at 31 March 2018), Aviva Investors Infrastructure Fund £19.886 millions (£19.279 millions as at 31 March 2018), Golub Capital Partners International Fund 11 LLP £30.217 millions (£16.039 millions as at 31 March 2018), Bluebay Senior Loan Fund 1 LLP £40.054 millions (£11.098 millions as at 31st March 2018), Mirova Core Infrastructure Fund II £3.034 millions and NTR Renewable Energy Fund II £2.848 millions. While market values are not estimates, the method of valuation does mean that future values may fluctuate (see note 4).

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.

#### Effect if actual results differ from assumptions

For every 1% increase in Market Value the value of the Fund will increase by £42.922 millions with a decrease having the opposite effect.

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 £141.601 millions
- a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £13.467 millions
- a one-year increase in assumed life expectancy would increase the liability by approximately £279.584 millions

## 4. Estimates

The Devon Pension Fund is a limited partner in a number of partnerships. Within the partnership the fund managers provide the Pension Fund with quarterly financial statements indicating the value of these investments. These statements are audited annually. The subjectivity of the inputs used in making an assessment of fair value is explained in Note 25. 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.

## 5. Contributions receivable

### By authority

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
(47,682)	Administering Authority	(48,375)
(108,789)	Scheduled bodies	(114,249)
(11,270)	Admitted bodies	(12,464)
(1,067)	Resolution body	(1,108)
<b><u>(168,808)</u></b>		<b><u>(176,196)</u></b>

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
(37,659)	Employees' normal contributions	(38,765)
(93,073)	Employers' normal contributions	(98,379)
(38,076)	Employers' deficit recovery contributions	(39,052)
<b><u>(168,808)</u></b>		<b><u>(176,196)</u></b>

## 6. Benefits Payable

### By authority

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
63,125	Administering Authority	64,038
101,394	Scheduled bodies	107,186
442	Admitted bodies	563
4,257	Community admission body	3,884
3,956	Transferee admission body	4,398
598	Resolution body	569
<b>173,772</b>		<b>180,638</b>

## 7. Contribution Rates

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

<b>Whole Time Pay Rate</b>	<b>Member contribution</b>	<b>Whole Time Pay Rate</b>	<b>Member contribution</b>
<b>2017/18</b>	<b>rate</b>	<b>2018/19</b>	<b>rate</b>
£0 to £13,700	5.5%	£0 to £14,100	5.5%
£13,701 to £21,400	5.8%	£14,101 to £22,000	5.8%
£21,401 to £34,700	6.5%	£22,001 to £35,700	6.5%
£34,701 to £43,900	6.8%	£35,701 to £45,200	6.8%
£43,901 to £61,300	8.5%	£45,201 to £63,100	8.5%
£61,301 to £86,800	9.9%	£63,101 to £89,400	9.9%
£86,801 to £102,200	10.5%	£89,401 to £105,200	10.5%
£102,201 to £153,300	11.4%	£105,201 to £157,800	11.4%
£153,301 or more	12.5%	More than £157,801	12.5%

## 8. Management Expenses

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
2,037	<b>Administrative costs</b>	2,084
<b>2,037</b>		<b>2,084</b>
	<b>Investment management expenses</b>	
11,315	Management fees (a)	12,106
2,625	Performance fees (a)	1,892
160	Custody fees	78
1,510	Transaction costs (b)	1,126
(77)	Stock Lending Income & Commission Recapture	(36)
30	Other Investment management expenses	44
<b>15,563</b>		<b>15,210</b>
	<b>Oversight and governance costs</b>	
29	Audit Fees (c)	22
455	Other Oversight and governance costs	683
<b>484</b>		<b>705</b>
<b>18,084</b>		<b>17,999</b>

a) The majority of 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. A small proportion of the current managers' fees is based on performance and will be paid where the manager outperforms an agreed target level of return.

The fund's investment in pooled property funds is via a fund of funds arrangement managed by La Salle (previously Aviva). In addition, the diversified growth funds managed by Baillie Gifford and Barings will also invest in underlying funds. The Devon Pension Fund does not have day to day involvement over the investment decisions made by La Salle, Baillie Gifford or Barings, and therefore the investment costs incurred by the underlying funds are not included in the management costs disclosed.

b) In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).

c) Audit fees include an amount of £22,024 (£28,603 in 2017/18) in relation to Grant Thornton UK LLP, the auditors appointed by the Public Sector Audit Appointments Ltd for external audit services.

## 9. Agency Services

The Pension Fund pays discretionary awards to the former employees of other bodies. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed in the following table.

<b>31 March 2018</b>	<b>31 March 2019</b>
<b>£'000 Payments on behalf of:</b>	<b>£'000</b>
7,777 Devon County Council	7,755
939 Plymouth City Council	903
578 Torbay Council	563
349 Teignbridge District Council	356
303 University Of Plymouth	292
234 Exeter City Council	228
225 North Devon District Council	222
185 South Hams District Council	183
159 Dorset, Devon and Cornwall Rehabilitation Service	137
90 Torridge District Council	93
327 Payments of less than £100,000 on behalf of other bodies	310
<b>11,166</b>	<b>11,042</b>

## 10. Related Party Transactions

The Devon Pension Fund is administered by Devon County Council. During the reporting period, the council incurred costs of £2.841 millions (2017/18: £2.489 millions) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. Devon County Council and its employees contributed £48.354 millions to the fund in 2018/19 (2017/18: £47.591 millions). In 2018/19 £4.155 millions was owed to the fund (2017/18: £4.237 millions) and £2.638 millions was due from the fund (2017/18: £2.674 millions).

The Investment and Pension Fund Committee is the decision making body for the fund and Devon County Council nominates 6 of the 10 voting committee members.

Each member of the pension fund committee is required to declare their interests at each meeting.

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

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 Pension Fund has transactions with the following organisation:

### **Brunel Pension Partnership Ltd (Company number 10429110)**

Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 14th October 2016 and oversees the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Devon County council own 10% of BPP Ltd. Pension Fund transactions with BPP Ltd are as follows:

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Income	0	0
Expenditure	840	749
Debtors	202	272
Creditors	0	0

## **11. Key Management personnel**

The Key Management Personnel of the Fund are those persons having the authority and responsibility for planning, directing and controlling the activities of the fund, including the oversight of these activities. The Key Management Personnel of the Fund are the County Council Treasurer, the Deputy County Treasurer, the Assistant County Treasurers and the Head of Pension Services. A percentage of the Key Management Personnel total remuneration payable is set out below:

	Salary, Fees and Allowances £'000	Expenses Allowances £'000	Pension contributions £'000	<b>Total</b> <b>£'000</b>
Remuneration 2018/19	210		40	<b>250</b>
2017/18	240		36	<b>276</b>

## **12. Stock Lending**

The Devon pension Fund permits holdings in its segregated portfolios to be lent out to market participants. State Street Bank and Trust Company has acted as custodian for the Fund since 1 April 2018 and are authorised to lend both UK and Overseas stocks. A summary of the stock on loan as at 31 March 2019 is shown below.

<b>31 March 2018</b>	<b>% of Fund</b>		<b>31 March 2019</b>	<b>% of Fund</b>
<b>£'000</b>	<b>%</b>		<b>£'000</b>	<b>%</b>
<b>0</b>	0.0	<b>Stock on Loan</b>	<b>28,978</b>	0.7
		<b>Collateral</b>		
0		Cash	0	
0		Securities	30,828	
<b>0</b>			<b>30,828</b>	

### 13. Investment Management Arrangements

The Pension Fund is currently managed by the Brunel Pension Partnership Ltd. and six other external managers and the in-house Investment Team in the following proportions:

<b>31 March 2018</b>		<b>Manager</b>	<b>Mandate</b>	<b>31 March 2019</b>	
<b>£'000</b>	<b>%</b>			<b>£'000</b>	<b>%</b>
<b>Investments managed by the Brunel Pension Partnership Asset Pool:</b>					
0	0.0	Brunel Pension Partnership Ltd	Passive Equities	1,815,034	42.3
0	0.0	Brunel Pension Partnership Ltd	Low Volatility Equities	101,727	2.4
0	0.0	Brunel Pension Partnership Ltd	Infrastructure	5,883	0.1
<b>0</b>	<b>0.0</b>			<b>1,922,644</b>	<b>44.8</b>
<b>Investments managed outside the Brunel Pension Partnership Asset Pool:</b>					
228,607	5.6	Aberdeen Asset Managers Ltd	Global Equity	249,758	5.8
185,688	4.6	Aberdeen Asset Managers Ltd	Global Emerging	190,600	4.4
673,379	16.5	State Street Global Advisors Ltd	Passive Equities	0	0.0
1,106,821	27.2	UBS Global Asset Management (UK) Ltd	Passive Equities	0	0.0
220,072	5.4	Lazard Asset Management LLC	Global Fixed Interest	231,282	5.4
221,425	5.4	Wellington Management International Ltd	Global Fixed Interest	226,437	5.3
311,512	7.6	Baillie Gifford & Co	Diversified Growth Fund	308,767	7.2
297,240	7.3	Baring Asset Management Ltd	Diversified Growth Fund	298,164	7.0
389,164	9.6	Aviva Investors Global Services Ltd	Property	0	0.0
0	0.0	La Salle Investment Management	Property	403,626	9.4
438,574	10.8	DCC Investment Team	Specialist Funds	460,878	10.7
<b>4,072,482</b>	<b>100</b>			<b>2,369,512</b>	<b>55.2</b>
<b>4,072,482</b>	<b>100</b>			<b>4,292,156</b>	<b>100</b>

### 14. Investment Movements and Transactions

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.



	Value at 31 March 2018	Reclassification *	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Investment Assets</b>						
Bonds						
U.K. Public Sector Bonds	2,362	4,146	4,759	0	503	11,770
Overseas Government Bonds	154,228	(23,816)	63,504	(64,283)	5,807	135,440
UK Corporate Bonds	1,853	928	0	(2,725)	(56)	0
Overseas Corporate Bonds	52,918	18,743	29,880	(30,077)	4,025	75,489
Equities (Listed)						
U.K.	39,970	(6,120)	209,136	(208,874)	5,789	39,901
Overseas	326,205	2,125	99,485	(90,263)	11,182	348,734
Pooled investments	3,027,451	0	3,663,218	(3,623,617)	157,914	3,224,966
Pooled property investments	375,292	3,994	16,917	(29,077)	11,808	378,934
Derivative contracts						
Forward currency contracts	(2,170)	0	75,031	(61,584)	(6,131)	5,146
Foreign Currency	11,990	0	2,211	(10,315)	1,561	5,447
Amount receivable for sales of investments	0	0	0	869	10	879
Amounts payable for purchases of investments	0	0	(193)	0	0	(193)
	<b>3,990,099</b>	<b>0</b>	<b>4,163,948</b>	<b>(4,119,946)</b>	<b>192,412</b>	<b>4,226,513</b>
Other Investment Balances						
Short Term Deposits	49,819					22,581
Cash & Bank Deposits	25,527					37,875
Long Term Investments	840				(445)	395
Investment income due	6,197					4,792
<b>Net investment assets</b>	<b>4,072,482</b>				<b>191,967</b>	<b>4,292,156</b>

	Value at 31 March 2017	Reclassification	Purchases at cost & Derivative Payments	Sale proceeds & Derivative Receipts	Change in Market Value	Value at 31 March 2018
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Investment Assets</b>						
Bonds						
U.K. Public Sector Bonds	1,572	0	2,630	(1,845)	5	2,362
Overseas Government Bonds	141,928	0	74,034	(49,531)	(12,203)	154,228
UK Corporate Bonds	5,150	0	750	(3,907)	(140)	1,853
Overseas Corporate Bonds	68,242	0	13,518	(22,399)	(6,443)	52,918
Equities (Listed)						
U.K.	38,140	0	13,925	(10,946)	(1,149)	39,970
Overseas	321,015	0	59,231	(51,396)	(2,645)	326,205
Pooled investments	2,945,420	(33,343)	107,620	(116,442)	124,196	3,027,451
Pooled property investments	306,140	33,343	21,007	(12,491)	27,293	375,292
Derivative contracts						
Forward currency contracts	213	0	21,043	(30,791)	7,365	(2,170)
Foreign Currency	2,812	0	12,813	(2,737)	(898)	11,990
Amount receivable for sales of investments	202	0	0	(203)	1	0
	<b>3,830,834</b>	<b>0</b>	<b>326,571</b>	<b>(302,688)</b>	<b>135,382</b>	<b>3,990,099</b>
Other Investment Balances						
Short Term Deposits	50,116					49,819
Cash & Bank Deposits	31,776					25,527
Long Term Investments	0					840
Investment income due	5,054					6,197
<b>Net investment assets</b>	<b>3,917,780</b>				<b>135,382</b>	<b>4,072,482</b>

\*Several assets have been reclassified following the change of Fund Custodian from Northern Trust to State Street and reflect different interpretations of the asset classification by the two custodians. For example bonds issued by development banks, which are quasi-governmental organisations, were categorised as government bonds by Northern Trust, but as corporate bonds by State Street. They can be seen as both "government" and "corporate" so either interpretation can be seen as valid. Another example is the holding of equity shares in BHP Billiton, a company which is a dual-listed in the UK and Australia. Northern Trust categorised the holding as UK Equities, State Street have categorised the holding as Overseas Equities.

## Fund Investments over 5% of total fund value

	<b>Value at 31 March 2019 £'000</b>	<b>% of Total Fund Value %</b>
LGIM World Developed Equity Index (Currency Hedged)	672,704	15.6%
LGIM UK Equity Index Fund	621,631	14.4%
Baillie Gifford Diversified Growth Fund	308,767	7.2%
Barings Dynamic Asset Allocation Fund	298,164	6.9%
LGIM Multi-Factor North America Equity Fund	259,946	6.0%
Wellington Multi Sector Credit Fund	226,429	5.3%

	<b>Value at 31 March 2018 £'000</b>	<b>% of Total Fund Value %</b>
UBS UK Equity Tracker Life Fund	754,990	18.5%
Baillie Gifford Diversified Growth Fund	311,512	7.6%
Barings Dynamic Asset Allocation Fund	297,240	7.3%
Wellington Multi Sector Credit Fund	221,427	5.4%

## 15. Analysis of Pooled Funds

<b>31st March 2018 £'000</b>		<b>31st March 2019 £'000</b>
	UK	
680,457	Unit Trusts	681,237
321,135	Property Funds	317,718
754,990	Unitised Insurance Policies	621,631
86,570	Other Managed Funds (Equities)	34,066
	Overseas	
177,403	Unit Trusts	178,436
54,157	Property Funds	61,217
351,831	Unitised Insurance Policies	1,191,482
727,635	Other Managed Funds (Equities)	221,413
248,565	Other Managed Funds (Fixed Interest)	296,700
<b>3,402,743</b>	<b>Total Pooled Funds</b>	<b>3,603,900</b>

## 16. Analysis of Fund Assets

The following analysis is provided to comply with CIPFA guidance on preparing the annual report, to provide a consistent analysis across LGPS funds to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board. Alternatives comprise property funds, infrastructure, private debt and derivatives investments.

**31st March 2019**

	<b>UK £'000</b>	<b>Non UK £'000</b>	<b>Global £'000</b>	<b>Total £'000</b>
Equities	717,898	816,872	1,019,179	2,553,949
Bonds	11,770	210,929	226,428	449,127
Alternatives	392,024	91,435	127,309	610,768
Cash and cash equivalents	65,934	5,447	0	71,381
Other	0	0	606,931	606,931
<b>Total</b>	<b>1,187,626</b>	<b>1,124,683</b>	<b>1,979,847</b>	<b>4,292,156</b>

**31st March 2018**

	<b>UK £'000</b>	<b>Non UK £'000</b>	<b>Global £'000</b>	<b>Total £'000</b>
Equities	880,282	1,155,444	353,919	2,389,645
Bonds	4,215	207,146	221,427	432,788
Alternatives	411,566	51,470	84,728	547,764
Cash and cash equivalents	81,543	11,990	0	93,533
Other	0	0	608,752	608,752
<b>Total</b>	<b>1,377,606</b>	<b>1,426,050</b>	<b>1,268,826</b>	<b>4,072,482</b>

**17. Analysis of Investment Income**

The following analysis is provided to comply with CIPFA guidance on preparing the annual report, to provide a consistent analysis across LGPS funds to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board.

Alternatives comprise property funds, infrastructure, private debt and derivatives investments.

**2018/19**

	<b>UK £'000</b>	<b>Non UK £'000</b>	<b>Global £'000</b>	<b>Total £'000</b>
Equities	1,342	6,976	(270)	8,048
Bonds	499	7,200	0	7,699
Alternatives	14,281	1,821	9,822	25,924
Cash and cash equivalents	707	0	0	707
Other	0	0	7,559	7,559
<b>Total</b>	<b>16,829</b>	<b>15,997</b>	<b>17,111</b>	<b>49,937</b>

**2017/18**

	<b>UK £'000</b>	<b>Non UK £'000</b>	<b>Global £'000</b>	<b>Total £'000</b>
Equities	1,254	8,884	19	10,157
Bonds	205	7,094	0	7,299
Alternatives	15,664	2,554	8,195	26,413
Cash and cash equivalents	709	0	0	709
<b>Total</b>	<b>17,832</b>	<b>18,532</b>	<b>8,214</b>	<b>44,578</b>

## 18. 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.

## 19. Current Assets and Liabilities

The Analysis of Current Assets and Liabilities does not include purchases and sales of investments not yet due for settlement or investment income due. They are included within net investment assets and liabilities. Current assets and liabilities are valued at the fair value approximation of historical cost. Current assets and liabilities are all short term and there is no active market in which they are traded.

<b>31 March 2018 £'000</b>		<b>31 March 2019 £'000</b>
	<b>Current Assets</b>	
	<b>Debtors and Prepayments</b>	
	Contributions Receivable	
13,219	Employers	11,054
	Current portion of non current assets	
3,008	(Employers contributions)	3,008
3,015	Employees	2,954
3,000	Other debtors	1,937
<b><u>22,242</u></b>		<b><u>18,953</u></b>
	<b>Current Liabilities</b>	
	<b>Creditors and Receipts in Advance</b>	
(2,674)	Devon County Council	(2,638)
(4,441)	Other creditors	(5,020)
<b><u>(7,115)</u></b>		<b><u>(7,658)</u></b>

## 20. Non-Current Assets and Liabilities

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 £15.04 millions due to the Devon Pension Fund would be repaid in ten annual instalments of £1.504 millions. The first instalment was received during 2011/12. The 2018/19 instalment was received in April 2019 and is included within current assets (Other debtors). The next instalment is disclosed as part of current assets with the remaining one instalment disclosed as part of long term assets. The deferred income is disclosed as part of long term creditors.

<b>31 March 2018 £'000</b>		<b>31 March 2019 £'000</b>
	<b>Non Current Assets</b>	
	<b>Debtors and Prepayments</b>	
3,335	Contributions Receivable - Employers	1,839
<u><b>3,335</b></u>		<u><b>1,839</b></u>
	<b>Non Current Liabilities</b>	
	<b>Creditors and Receipts in Advance</b>	
(4,512)	Deferred Income	(3,008)
<u><b>(4,512)</b></u>		<u><b>(3,008)</b></u>

## 21. Funded Obligation

A judgement in the Court of Appeal about cases involving judges' and firefighters' pensions (the McCloud / Sargeant judgement) has the potential to impact on the Pension Fund. The cases concerned possible age discrimination in the arrangements for protecting certain scheme members from the impact of introducing new pensions arrangements. As the Local Government Pension Scheme was restructured in 2014, with protections for those members who were active in the Scheme at 2012 and over the age of 55, the judgement is likely to extend to the Scheme.

However, the potential impact is uncertain. Even though the Supreme Court has refused the Government's application to appeal the judgement, no decisions have been made about the remedies that would be required and the extent to which additional costs would fall on the Pension Fund.

Excluding the impact of the "McCloud" judgement, the actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £7,415 millions as at 31 March 2019 (£7,202 millions as at 31 March 2018). The Funded Obligation consists of £7,205 millions (£6,974 millions as at 31 March 2018) in respect of Vested Obligation and £210 millions (£228 millions as at 31 March 2018), of Non-Vested Obligation.

These figures have been prepared by the Fund Actuary (Barnett Waddingham LLP) in accordance with their understanding of IAS 26. In calculating the disclosed numbers the Actuary has adopted methods and assumptions that are consistent with IAS 19.

However, on the presumption that the remedy is for the Pension Fund to incur costs in extending protections to all members who were active at 31 March 2012 until their retirement, the Pension Fund's actuaries have advised that there could be a potential increase in Funded Obligation (pension liabilities) of just under £55 millions (just over 0.7% of the Funded Obligation of £7,415 millions).

This estimate from the Fund Actuary is based on the disclosure paper from the Government Actuary's Department (GAD) and the assumption that salaries are assumed to increase at 1.5% each year above CPI in addition to a promotional scale. However, the actuary has allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

To illustrate sensitivity to the assumed rate of salary increases, if the Actuary were to lower the salary increase assumption by 0.25% then the impact of the judgement on the total liabilities at 31 March 2019 would be 0.5% of Funded Obligation..

## **Actuarial Methods and Assumptions**

### **Valuation Approach**

To assess the value of the Fund's liabilities at 31 March 2019, the actuary has rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2016, 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 Fund 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 2019 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2019 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 we have received there appears to be no evidence that this approach is inappropriate.

### **Guaranteed Minimum Pension (GMP) Equalisation**

As a result of the High Court's recent Lloyds ruling on the equalisation of GMP's between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of the pension liabilities. It is the Actuaries' understanding that the HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of the public service pension schemes can be found on the [www.gov.uk](http://www.gov.uk) website.

On 22 January 2018, the Government published the outcome to its 'Indexation and equalisation of GMP in public service pension schemes' consultation, concluding that the requirement for the public service pension schemes to fully price protect the GMP element of the individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and Ministerial Direction can be found on the [www.gov.uk](http://www.gov.uk) website.

The Actuary's valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by the 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Actuary has assumed that the Fund will be required to pay the entire inflationary increase. Therefore, the Actuary does not believe they need to make any adjustments to the value placed on the liabilities as a result of the above.

### **Demographic/Statistical Assumptions**

The post retirement mortality tables adopted are the S2PA tables with a multiplier of 90%. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.5% per annum.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's Model CMI 2018, which was released in March 2019. The Actuary has adopted the default smoothing parameter of 7.0 and has not applied an additional rate, while continuing to adopt a long-term improvement rate of 1.5% per annum. At the last accounting date, the CMI 2015 Model was adopted.

The assumed life expectations from age 65 are:

<b>Life Expectancy from 65 (years)</b>	<b>31 March 2018</b>	<b>31 March 2019</b>
Retiring Today		
Males	23.5	22.4
Females	25.6	24.4
Retiring in 20 years		
Males	25.7	24.1
Females	27.9	26.2

The Actuary has also assumed that:

- 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; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

### **Financial Assumptions**

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

<b>Assumptions as at</b>	<b>31 March 2019</b>	<b>31 March 2018</b>	<b>31 March 2017</b>
	<b>% p.a</b>	<b>% p.a</b>	<b>% p.a</b>
Discount rate	2.4%	2.6%	2.8%
Pension Increases	2.4%	2.3%	2.7%
Salary Increases	3.9%	3.8%	4.2%

These assumptions are set with reference to market conditions at 31 March 2019.

The Actuary's estimate of the duration of the Fund's liabilities is 20 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. The estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows as described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the Bank of England (BoE) implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, the Actuary has made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.4% p.a. The Actuary believes that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is consistent with the approach used at the previous accounting date.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, the Actuary has allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

## 22. 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.

## 23. 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:

Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost
2017/18			2018/19		
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
211,361	0	0	222,699	0	0
366,175	0	0	388,635	0	0
3,027,451	0	0	3,224,966	0	0
375,292	0	0	378,934	0	0
2,190	0	0	6,614	0	0
0	87,336	0	0	65,903	0
840	0	0	395	0	0
6,197	0	0	5,671	0	0
0	25,577	0	0	20,792	0
<b>3,988,666</b>	<b>112,913</b>	<b>0</b>	<b>4,227,914</b>	<b>86,695</b>	<b>0</b>
<b>Financial Liabilities</b>					
(4,360)	0	0	(1,468)	0	0
0	0	0	0	0	(193)
0	0	(11,627)	0	0	(10,666)
<b>(4,360)</b>	<b>0</b>	<b>(11,627)</b>	<b>(1,468)</b>	<b>0</b>	<b>(10,859)</b>
<b>3,985,146</b>	<b>112,913</b>	<b>(11,627)</b>	<b>4,226,446</b>	<b>86,695</b>	<b>(10,859)</b>

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 follows:



<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£'000</b>		<b>£'000</b>
<b>Financial assets</b>		
172,194	Fair value through profit and loss	237,180
(188)	Amortised cost	2,278
<b>172,006</b>		<b>239,458</b>
<b>Financial liabilities</b>		
7,952	Fair value through profit and loss	2,446
0	Amortised cost	0
<b>7,952</b>		<b>2,446</b>

The total changes in fair value represent unrealised profit or loss. The difference in unrealised profit / (loss) figures between 2017/18 and 2018/19 reflects the prevailing economic conditions during each of the two years and the impact on the specific assets held by the Fund.

## 24. Hedge Accounting

Hedging is the process of entering into a derivative contract with the objective of reducing or eliminating exposure to a risk. This is achieved because expected changes in the value or cash flows of the hedging of the hedged item move in the opposite direction to expected changes in the value or cash flow of other investment holdings.

The Pension Fund enters hedging in order to manage risk and not for speculation purposes.

	Nominal Value	Inception Date	Carrying Value at 31 March 2019	Changes in Fair Value 2018/19	Changes in Fair Value since inception	Hedge Ineffectiveness 2018/19	Hedge Ineffectiveness since inception
	£'000		£'000	£'000	£'000	%	%
<b>Pooled Investments - Overseas Unit Trusts</b>							
Forward Currency Contracts	(26,945)	07/12/2018	(25,910)	1,035	1,035	(3.8)	(3.8)
<b>Pooled Investments - Overseas Other Managed Funds</b>							
Forward Currency Contracts	(44,908)	07/12/2018	(43,183)	1,725	1,725	(3.8)	(3.8)

The pooled investments effectiveness has been recognised as part of change in the market value of the investment.

## 25. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Pooled investments – Quoted UK and overseas unit trusts	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled investments - UK and overseas property funds, unitised insurance policies and other managed funds	Level 2	* Closing bid price where bid and offer prices are published * Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Forward Currency Contracts	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
UK and Overseas Unit Trusts (Venture Capital and Partnerships)	Level 3	Based on cash flow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines	* Market conditions * Company business plans * Financial projections * Economic outlook * Performance of the investments * Business analysis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows and interest rates that are inputs to the valuation models, such as the discounted cash flow models used in the valuation of unlisted investments.

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March.

As at 31 March 2019	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
<b>Investment Assets</b>				
UK Unit Trusts (Venture Capital and Partnerships)	5.30%	55,933	58,895	52,970
Overseas Unit Trusts (Venture Capital and Partnerships)	5.30%	26,018	27,395	24,640
Overseas Other Managed Funds	3.45%	76,153	78,780	73,526
Long Term Investments	8.87%	395	430	360
<b>Total</b>		<b>158,499</b>	<b>165,500</b>	<b>151,496</b>

All movements in the assessed valuation range of the above investments derive from changes in the underlying profitability of component companies, the range in the potential movement quoted is caused by how this profitability is measured since different methods (listed in Note 25) produce different price results.

<b>As at 31 March 2018</b>	<b>Assessed valuation range (+/-)</b>	<b>Value at 31 March 2018 £'000</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
<b>Investment Assets</b>				
UK Unit Trusts (Venture Capital and Partnerships)	5.90%	52,372	55,462	49,282
Overseas Unit Trusts (Venture Capital and Partnerships)	5.90%	25,444	26,945	23,943
Overseas Other Managed Funds	4.82%	27,137	28,445	25,829
<b>Total</b>		<b>104,953</b>	<b>110,852</b>	<b>99,054</b>

## Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

### Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts.

### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The Archmore (UBS) International Infrastructure Fund LLP, the Hermes GPE Infrastructure Fund LLP, Aviva Investors Infrastructure Fund, Golub Capital partners international Fund 11 LLP, Bluebay Senior Loan Fund 1 LLP, Mirova Core Infrastructure Fund II and NTR Renewable Energy Funds II have been classified as level 3 financial instruments.

The values of the investments in infrastructure funds are based on valuations provided by the fund managers. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The total gain/(loss) in fair value is calculated based on valuations that are recognised in the Fund Account are detailed below:

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Archmore (UBS) International Infrastructure Fund LLP	(2,924)	994
Aviva Infrastructure Income Fund	(1,006)	909
Bluebay Senior Loan Fund I	75	1,094
Golub Capital Partners International Fund 11	(904)	2,702
Hermes GPE Infrastructure Fund LLP	115	(819)
Mirova Core Infrastructure Fund II	-	(106)
NTR Renewable Energy Fund II	-	(130)
Brunel Pension Partnership	-	(445)
	<b>(4,644)</b>	<b>4,199</b>

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

**At 31 March 2019**

	<b>Quoted market price</b>	<b>Using observable inputs</b>	<b>With Significant unobservable inputs</b>	
	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
<b>Long Term Investments</b>	-	-	395	395
<b>Investment Assets</b>				
Fixed Interest				
U.K. Public Sector Bonds	11,770	-	-	11,770
Overseas Government Bonds	135,440	-	-	135,440
UK Corporate Bonds	-	-	-	-
Overseas Corporate Bonds	75,489	-	-	75,489
Equities ( Listed )				
U.K.	39,901	-	-	39,901
Overseas	348,734	-	-	348,734
Pooled investments	759,350	2,307,512	158,104	3,224,966
Pooled property investments	-	378,934	-	378,934
Derivative Assets				
Forward Currency Contracts	-	6,614	-	6,614
Cash Deposits				
Foreign Currency	5,447	-	-	5,447
Short Term Deposits	22,581	-	-	22,581
Cash & Bank Deposits	37,875	-	-	37,875
Investment income due	4,792	-	-	4,792
Amounts receivable for sales	879	-	-	879
<b>Investment Liabilities</b>				
Derivatives				
Forward Currency Contracts	-	(1,468)	-	(1,468)
Amounts payable for purchases	(193)	-	-	(193)
<b>Assets and Liabilities</b>				
Non current Assets	1,839	-	-	1,839
Non current Liabilities	(3,008)	-	-	(3,008)
Current Assets	18,953	-	-	18,953
Current Liabilities	(7,658)	-	-	(7,658)
<b>Net Assets of the Fund at 31 March 2019</b>	<b>1,452,191</b>	<b>2,691,592</b>	<b>158,499</b>	<b>4,302,282</b>

## At 31 March 2018

	Quoted market price - Restated	Using observable inputs - Restated	With Significant unobservable inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
<b>Long Term Investments</b>	-	-	840	840
<b>Investment Assets</b>				
Fixed Interest				
U.K. Public Sector Bonds	2,362	-	-	2,362
Overseas Government Bonds	154,228	-	-	154,228
UK Corporate Bonds	1,853	-	-	1,853
Overseas Corporate Bonds	52,918	-	-	52,918
Equities ( Listed )				
U.K.	39,970	-	-	39,970
Overseas	326,205	-	-	326,205
Pooled investments	760,712	2,161,786	104,953	3,027,451
Pooled property investments	-	375,292	-	375,292
Derivative Assets				
Forward Currency Contracts	-	2,190	-	2,190
Cash Deposits				
Foreign Currency	11,990	-	-	11,990
Short Term Deposits	49,819	-	-	49,819
Cash & Bank Deposits	25,527	-	-	25,527
Investment income due	6,197	-	-	6,197
Amounts receivable for sales	-	-	-	-
<b>Investment Liabilities</b>				
Derivatives				
Forward Currency Contracts	-	(4,360)	-	(4,360)
<b>Assets and Liabilities</b>				
Non current Assets	3,335	-	-	3,335
Non current Liabilities	(4,512)	-	-	(4,512)
Current Assets	22,242	-	-	22,242
Current Liabilities	(7,115)	-	-	(7,115)
<b>Net Assets of the Fund at 31 March 2018</b>	<b>1,445,731</b>	<b>2,534,908</b>	<b>105,793</b>	<b>4,086,432</b>

## Reconciliation of Fair Value Measurements within Level 3

	Value at 31 March 2018	Purchase during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Value at 31 March 2019
	£'000	£'000	£'000	£'000	£000	£'000
<b>Investment Assets</b>						
UK Unit Trusts (Venture Capital and Partnerships)	52,372	5,514	(2,044)	(53)	144	55,933
Overseas Unit Trusts (Venture Capital and Partnerships)	25,444	0	(420)	994	0	26,018
Overseas Other Managed Funds	27,137	55,995	(10,539)	1,932	1,628	76,153
Long Term Investment	840	0	0	(445)	0	395
	<b>105,793</b>	<b>61,509</b>	<b>(13,003)</b>	<b>2,428</b>	<b>1,772</b>	<b>158,499</b>

	Value at 31 March 2017	Purchase during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Value at 31 March 2018
	£'000	£'000	£'000	£'000	£000	£'000
<b>Investment Assets</b>						
UK Unit Trusts (Venture Capital and Partnerships)	57,443	878	(5,057)	(892)	0	52,372
Overseas Unit Trusts (Venture Capital and Partnerships)	31,116		(2,748)	(2,924)	0	25,444
Overseas Other Managed Funds	0	29,653	(1,687)	(829)		27,137
Long Term Investment	0	840	0	0	0	840
	<b>88,559</b>	<b>31,371</b>	<b>(9,492)</b>	<b>(4,645)</b>	<b>0</b>	<b>105,793</b>

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

## 26. 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. As a result of the investment pooling agenda, some of the fund's assets are now pooled with those of other LGPS Funds and managed by the Brunel Pension Partnership. Each investment manager, including Brunel 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 9 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 by PIRC (Pensions and Investment Research Consultants Ltd.), it has been determined that the following movements in market price risk were reasonably possible for the reporting period:

<b>Asset Class</b>	<b>Percentage Change 2017/18</b>	<b>Percentage Change 2018/19</b>
Equities	9.20%	8.87%
Bonds	4.82%	3.45%
Cash	0.48%	2.11%
Pooled Property Investments	1.76%	1.44%
Infrastructure	5.90%	5.30%
Pooled Multi Asset	4.53%	4.66%

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 2019

<b>Asset Class</b>	<b>Value £'000</b>	<b>Percentage Change</b>	<b>Increase £'000</b>	<b>Decrease £'000</b>
Equities	2,553,949	8.87%	226,462	(226,462)
Bonds	449,127	3.45%	15,495	(15,495)
Cash	71,381	2.11%	1,503	(1,503)
Pooled Property Investments	378,934	1.44%	5,457	(5,457)
Infrastructure	231,834	5.30%	12,277	(12,277)
Pooled Multi Asset	606,931	4.66%	28,286	(28,286)
<b>Total</b>	<b>4,292,156</b>		<b>289,480</b>	<b>(289,480)</b>

#### As at 31 March 2018

<b>Asset Class</b>	<b>Value £'000</b>	<b>Percentage Change</b>	<b>Increase £'000</b>	<b>Decrease £'000</b>
Equities	2,389,645	9.20%	219,847	(219,847)
Bonds	432,788	4.82%	20,860	(20,860)
Cash	91,363	0.48%	439	(439)
Pooled Property Investments	375,292	1.76%	6,605	(6,605)
Infrastructure	174,642	5.90%	10,304	(10,304)
Pooled Multi Asset	608,752	4.53%	27,576	(27,576)
<b>Total</b>	<b>4,072,482</b>		<b>285,631</b>	<b>(285,631)</b>

## 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 2018 and 2019 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	<b>As at 31 March 2018</b>	<b>As at 31 March 2019</b>
	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	25,527	37,875
Short term Deposits	49,819	22,581
Fixed Interest	432,788	449,128
<b>Total</b>	<b>508,134</b>	<b>509,584</b>

## 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.

The sensitivity of bond prices to interest rate changes depends upon both the maturity of the fixed interest security and the size and frequency of its coupon payments. Duration is used to measure interest rate risk and is the weighted average maturity of a bond, where the weights are the relative discounted cash flows in each period. Duration can then be adapted with reference to the yield of a bond to calculate modified duration, which is the percentage change in a bond's price for a 1% change in yields. Modified duration can be calculated for a portfolio of bonds, and modified duration figures have been provided by the Devon Pension Fund's two bond managers (Lazard and Wellington) for the portfolios that they manage. A weighted average has been used in the tables following.

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:



<b>As at 31 March 2019</b>	<b>Carrying value at 31 March 2019</b>	<b>Modified Duration of Portfolio</b>	<b>Effect on Asset Values</b>	
			<b>+1%</b>	<b>-1%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	37,875	-	-	-
Short term Deposits	22,581	-	-	-
Fixed Interest	449,128	5.79%	(25,993)	25,993
<b>Total</b>	<b>509,584</b>	<b>5.79%</b>	<b>(25,993)</b>	<b>25,993</b>

<b>As at 31 March 2018</b>	<b>Carrying value at 31 March 2018</b>	<b>Modified Duration of Portfolio</b>	<b>Effect on Asset Values - Restated</b>	
			<b>+1%</b>	<b>-1%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	25,527	-	-	-
Short term Deposits	49,819	-	-	-
Fixed Interest	432,788	5.43%	(23,504)	23,504
<b>Total</b>	<b>508,134</b>	<b>5.43%</b>	<b>(23,504)</b>	<b>23,504</b>

<b>As at 31 March 2019</b>	<b>Amount receivable in year ending 31 March 2019</b>	<b>Effect on Income Values</b>	
		<b>+1%</b>	<b>-1%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	707	7	(7)
Short term Deposits	0	-	-
Fixed Interest	7,718	-	-
<b>Total</b>	<b>8,425</b>	<b>7</b>	<b>(7)</b>

<b>As at 31 March 2018</b>	<b>Amount receivable in year ending 31 March 2018</b>	<b>Effect on Income Values</b>	
		<b>+1%</b>	<b>-1%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	623	6	(6)
Short term Deposits	86	1	(1)
Fixed Interest	7,618	-	-
<b>Total</b>	<b>8,327</b>	<b>7</b>	<b>(7)</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent or short term deposit balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

## **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:

- The Fund's exposure at 31 March 2019 to currency exchange rate movements on its investments based on movements over the previous 3 years.
- A sensitivity analysis based on historical data (published by Rates FX, with some additional data from PIRC) 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 2019 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 2018.

As at 31 March 2019	Assets held at		FX Contracts	Percentage Total	Change	Change for the year in net assets available to pay benefits	
	fair value					+ 1	- 1
	£'000	£'000	£'000			Standard Deviation	Standard Deviation
						£'000	£'000
Australian Dollar	25,902	218	26,120	9.38%		2,450	(2,450)
Brazilian Real	8,705	0	8,705	13.82%		1,203	(1,203)
Canadian Dollar	23,851	232	24,083	9.04%		2,177	(2,177)
Swiss Franc	23,426	(5)	23,421	8.49%		1,988	(1,988)
Chilean Peso	8,040	0	8,040	11.87%		954	(954)
Colombian Peso	2,139	0	2,139	13.70%		293	(293)
Czech Republic Koruna	4,365	25	4,390	8.46%		371	(371)
Danish Krona	734	0	734	7.97%		58	(58)
Euro	310,674	3,157	313,831	7.99%		25,075	(25,075)
Hong Kong Dollar	49,227	0	49,227	9.37%		4,613	(4,613)
Hungarian Forint	4,594	53	4,647	9.09%		422	(422)
Indonesian Rupiah	9,514	0	9,514	9.39%		893	(893)
Indian Rupee	971	0	971	9.35%		91	(91)
Israeli Shekel	220	0	220	8.82%		19	(19)
Japanese Yen	64,300	(404)	63,896	12.17%		7,776	(7,776)
South Korean Won	17,644	0	17,644	9.18%		1,620	(1,620)
Mexican Peso	7,743	17	7,760	12.84%		996	(996)
Malaysian Ringgit	2,315	0	2,315	8.78%		203	(203)
Norwegian Krone	7,941	11	7,952	8.36%		665	(665)
New Zealand Dollar	8,301	(5)	8,296	9.76%		810	(810)
Philippines Peso	9,088	0	9,088	9.19%		836	(836)
Polish Zloty New	5,887	47	5,934	8.77%		520	(520)
Romanian Leu	3,968	(17)	3,951	11.54%		456	(456)
Swedish Krona	4,571	0	4,571	8.39%		384	(384)
Singapore Dollars	11,833	45	11,878	8.19%		973	(973)
Thailand Baht	9,608	0	9,608	9.05%		870	(870)
New Turkish Lira	1,662	0	1,662	18.67%		310	(310)
New Taiwan Dollar	9,865	0	9,865	8.99%		887	(887)
US Dollars	793,925	1,773	795,698	9.40%		74,796	(74,796)
South African Rand	6,752	0	6,752	15.20%		1,026	(1,026)
	<b>1,437,765</b>	<b>5,147</b>	<b>1,442,912</b>			<b>133,735</b>	<b>(133,735)</b>

		Assets	FX			Change for the year in		
As at 31 March 2018		held at	Contracts	Total	Percentage	net assets available to		
		fair value			Change	+ 1	- 1	
		£'000	£'000	£'000		Standard	Standard	
						Deviation	Deviation	
						£'000	£'000	
AUD	AUD*	Australian Dollar	13,428	365	13,793	11.82%	1,630	(1,630)
BRL	BRL	Brazilian Real	13,357	0	13,357	17.66%	2,359	(2,359)
CAD	CAD*	Canadian Dollar	19,803	363	20,166	10.01%	2,019	(2,019)
CHF	CHF	Swiss Franc	15,366	(24)	15,342	10.08%	1,546	(1,546)
CLP	CLP	Chilean Peso	6,353	0	6,353	13.27%	843	(843)
CZK	CZK	Czech Republic Koruna	6,496	84	6,580	8.81%	579	(579)
EUR	EUR*	Euro	229,503	(3,261)	226,242	8.90%	20,136	(20,136)
HKD	HKD	Hong Kong Dollar	37,894	0	37,894	9.48%	3,591	(3,591)
HUF	HUF	Hungarian Forint	3,613	14	3,627	10.41%	378	(378)
IDR	IDR	Indonesian Rupiah	10,099	0	10,099	11.55%	1,166	(1,166)
INR	INR	Indian Rupee	4,152	0	4,152	9.93%	412	(412)
JPY	JPY*	Japanese Yen	50,396	(98)	50,298	14.61%	7,349	(7,349)
KRW	KRW	South Korean Won	17,642	5	17,647	11.51%	2,032	(2,032)
MXN	MXN	Mexican Peso	11,656	(130)	11,526	13.75%	1,585	(1,585)
MYR	MYR	Malaysian Ringgit	2,008	0	2,008	12.61%	253	(253)
NOK	NOK	Norwegian Krone	6,583	33	6,616	10.80%	715	(715)
NZD	NZD	New Zealand Dollar	10,497	235	10,732	13.42%	1,440	(1,440)
PHP	PHP	Philippines Peso	9,321	0	9,321	10.17%	948	(948)
PLN	PLN	Polish Zloty New	8,304	124	8,428	11.16%	940	(940)
RON	RON	Romanian Leu	4,203	(23)	4,180	9.08%	380	(380)
SEK	SEK	Swedish Krona	4,415	(101)	4,314	9.66%	417	(417)
SGD	SGD	Singapore Dollars	8,972	(13)	8,959	9.15%	819	(819)
THB	THB	Thailand Baht	10,632	0	10,632	9.84%	1,047	(1,047)
TRY	TRY	New Turkish Lira	4,865	0	4,865	15.42%	750	(750)
TWD	TWD	New Taiwan Dollar	9,094	0	9,094	9.07%	825	(825)
USD	USD*	US Dollars	395,911	257	396,168	9.49%	37,597	(37,597)
ZAR	ZAR	South African Rand	9,906	0	9,906	17.23%	1,707	(1,707)
<b>Total</b>	<b>Total</b>		<b>924,469</b>	<b>(2,170)</b>	<b>922,299</b>		<b>93,463</b>	<b>(93,463)</b>

## 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.

	<b>As at 31 March 2018 £'000</b>	<b>As at 31 March 2019 £'000</b>
Fixed Interest	211,361	222,699
UK Equities - Quoted	39,970	39,901
Overseas Equities - Quoted	326,205	348,734
Pooled investments	3,027,451	3,224,966
Pooled property investments	375,292	378,934
Derivatives (net)	(2,170)	5,146
Foreign currency	11,990	5,447
Short term deposits	49,819	22,581
Cash and cash equivalents	25,527	37,875
Settlements and dividends receivable	6,197	5,671
Long Term Investment	840	395
<b>Total of investments held</b>	<b><u>4,072,482</u></b>	<b><u>4,292,349</u></b>

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 is the carrying amount of the financial assets.

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 2019 was £22.581 millions (31 March 2018: £49.819 millions). This was held with the following institutions:

<b>Credit Rating at 31 March 2019</b>	<b>Fitch</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>	<b>Balances as at 31 March 2018 £'000</b>	<b>Balances as at 31 March 2019 £'000</b>
<b>Banks and Building Societies</b>					
Handelsbanken	AA	Aa2	AA-	10,000	0
Goldman Sachs International	A	A1	A+	20,000	0
<b>Money Market Funds</b>					
Standard Life Money Market Fund	AAA	Aaa	AAA	9,819	
Aberdeen Standard Money Market Fund	AAA	Aaa	AAA		22,581
<b>Local Government</b>					
Midlothian Council				5,000	0
London Borough of Newham				5,000	0
				<b>49,819</b>	<b>22,581</b>

### 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 strategies 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.

## 27. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2013, 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 2016. The next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the fund are met; and
- Take a prudent longer-term view of funding those liabilities.

The aim is to achieve 100% solvency over a period of 22 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 2016 actuarial valuation, the fund was assessed as 84% funded (83% at the March 2013 valuation). This corresponded to a deficit of £628 millions (2010 valuation: £603 millions) at that time.

The primary rate (previously known as the future service rate) over the three year period ending 31 March 2019 is 14.9% of payroll. The secondary rate (the deficit recovery rate) totals £39.705 millions across all the Fund's employers, equivalent to an average of 6.0% of payroll.

Individual employers' rates will vary from the primary and secondary rates above depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report (<https://www.peninsulapensions.org.uk/wp-content/uploads/2013/10/DEVN-March-2016-Valuation-report.pdf>) and the funding strategy statement (<https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/>).

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)	5.5%
Price inflation	3.3%
Salary increases	3.9%
Pension increases in line with CPI – Assumed to be 0.9% less than RPI	2.4%

### Mortality assumptions

#### Life Expectancy from 65 (years)      31 March 2016

Retiring Today	
Males	23.3
Females	25.4
Retiring in 20 years	
Males	25.5
Females	27.7

### Historic mortality assumptions

Life expectancy for the year ended 31 March 2016 are based on S2PA tables with a multiplier of 90%. The allowances for future life expectancy are based on the 2015 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

### Financial Summary

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
<b>Contributions and Benefits</b>					
Contributions	(150,902)	(153,280)	(159,873)	(168,808)	(176,196)
Transfers in from other pension funds	(5,686)	(4,766)	(8,205)	(6,481)	(6,134)
	<u>(156,588)</u>	<u>(158,046)</u>	<u>(168,078)</u>	<u>(175,289)</u>	<u>(182,330)</u>
Benefits Paid	158,336	166,247	168,016	173,772	180,638
Payments to and on account of leavers	68,742	7,429	6,403	5,855	9,747
	<u>227,078</u>	<u>173,676</u>	<u>174,419</u>	<u>179,627</u>	<u>190,385</u>
<b>Net Withdrawal from Dealings with Fund members</b>	<b>70,490</b>	<b>15,630</b>	<b>6,341</b>	<b>4,338</b>	<b>8,055</b>
<b>Management Expenses</b>	<b>12,481</b>	<b>13,945</b>	<b>12,286</b>	<b>18,084</b>	<b>17,999</b>
<b>Returns on Investments</b>					
Investment Income	(36,629)	(35,743)	(39,852)	(44,578)	(49,937)
Increase/(decrease) in Market Value of Investments during the Year	(280,875)	44,679	(571,754)	(135,382)	(191,967)
<b>Net Returns on Investments</b>	<b>(317,504)</b>	<b>8,936</b>	<b>(611,606)</b>	<b>(179,960)</b>	<b>(241,904)</b>
<b>Net Assets of the Fund at 31 March</b>	<b>(3,374,426)</b>	<b>(3,335,915)</b>	<b>(3,928,894)</b>	<b>(4,086,432)</b>	<b>(4,302,282)</b>

## Members Summary

### Membership Summary

	2014/15	2015/16	2016/17	2017/18	2018/19
	No.	No.	No.	No.	No.
<b>Devon County Council</b>					
Contributors	13,849	13,154	12,455	11,484	11,166
Pensioners and Dependants	12,649	12,720	13,737	14,117	14,548
Deferred Pensioners	15,648	16,171	18,923	20,080	20,240
<b>Other Employers</b>					
Contributors	25,620	24,525	26,051	27,728	27,458
Pensioners and Dependants	16,315	16,415	18,050	18,976	22,118
Deferred Pensioners	21,994	23,081	28,217	30,139	32,616

\* Deferred pensioners include frozen memberships pending refunds and those undecided pending resolution.

## Employing Bodies

	Active	Ceased	Total
Scheduled body	142	0	142
Admitted body	83	3	86
<b>Total</b>	<b>225</b>	<b>3</b>	<b>228</b>

There are currently 225 employers who have active members in the Fund.



## **Administering Authority**

Devon County Council

### **Scheduled Bodies**

Academy for Character and Excellence  
Ace Schools (Plymouth)  
Acorn Multi Academy Trust  
Alumnis MAT  
An Daras MAT  
Ashburton Town Council  
Axe Valley Academy  
Axminster Town Council  
Barnstaple Town Council  
Barton Hill Academy  
Bay Education Trust  
Bicton College  
Bideford Town Council  
Bishopsteignton Parish Council  
Bovey Tracey Town Council  
Bradninch Town Council  
Bradworthy Primary Academy  
Braunton Parish Council  
Braunton School And Community College  
Brixham College  
Brixham Town Council  
Broadclyst Parish Council  
Buckland Monachorum Parish Council  
Budleigh Salterton Town Council  
Chudleigh Town Council  
Chulmleigh Community College  
Churston Academy  
City College Plymouth  
Clyst Vale Community College  
Coast Academies  
Colyton Grammar School Academy  
Combe Martin Parish Council  
Connect Academy Trust  
Coombe Pafford School  
Cornerstone Academy Trust  
Cranbrook Town Council  
Crediton Town Council  
Cullompton Town Council  
Dartmoor MAT  
Dartmoor National Park  
Dartmouth Town Council  
Dawlish Town Council  
Devon & Cornwall Police & Crime Commissioner  
Devon & Somerset Fire & Rescue  
Devonport High School For Boys  
Devonport High School For Girls  
Discovery MAT  
East Devon District Council  
Education South West  
Eggbuckland Community College  
Exeter City Council  
Exeter College  
Exeter Learning Academy Trust  
Exeter Mathematics School  
Exmouth Community College  
Exmouth Town Council  
First Federation  
Fremington Parish Council  
Great Torrington Academy  
Great Torrington Town Council  
Hayes Road Academy  
Holcombe Brunel Parish Council  
Honiton Community College  
Honiton Town Council  
Horizon MAT  
Ilfracombe Town Council  
Inspiring Schools Partnership  
Ivybridge Town Council  
Kings Academy  
Kingsbridge Town Council  
Kingsteignton Town Council  
Launceston MAT  
Learning Academy MAT  
Learning Academy Partnership  
Lipson Academy  
Littletown Primary Academy And Nursery  
Lynton & Lynmouth Town Council  
Marine Academy Plymouth  
Mayflower Academy  
Mid Devon District Council  
Moretonhampstead Parish Council  
Newton Abbot Academy  
Newton Abbot Town Council  
North Devon District Council  
Okehampton Town Council  
Petroc  
Plymouth Academy Trust  
Plymouth Cast  
Plymouth City Bus  
Plymouth City Council  
Plymouth College Of Art & Design  
Plymouth School Of Creative Arts  
Plymouth Studio School  
Plymouth University  
Plympton Academy  
Queen Elizabeth's Academy Trust  
Reach South Academy Trust  
Riviera Education Trust  
Schools Company  
Seaton Town Council  
Shiphay Learning Academy  
Sidmouth Town Council  
South Brent Parish Council  
South Dartmoor Academy  
South Devon College  
South Devon UTC  
South Hams District Council  
South Molton Town Council  
Sparkwell Primary Academy  
St Christophers MAT  
St James Primary Academy  
St Margaret's Academy  
Steiner Academy  
Stockland Cofe Primary School  
Stokenham Parish Council  
Tarka Learning Academy Partnership  
Tavistock Town Council  
Team Multi Academy Trust  
Ted Wragg MAT  
Tedburn St Mary Parish Council  
Teignbridge District Council  
Teignmouth Learning Trust

### **Scheduled Bodies Continued**

Teignmouth Town Council  
The All Saints Church Of England Academy  
The Inspire Mat  
The Link Academy MAT  
Tor Bridge High  
Torbay Council  
Torquay Boys' Grammar School  
Torquay Girls Grammar School  
Torre Primary School  
Torridge District Council  
Totnes Town Council  
Uffculme Academy  
Ugborough Parish Council  
United School Trust  
Ventrus  
WAVE MAT  
West Devon Borough Council  
Westcountry Schools Trust  
Witheridge Parish Council

### **Admitted Bodies**

Access Plymouth  
Action for Children  
Action for Children (West Exe)  
Aspens Services Ltd  
Aspens Services (King Edward VI)  
Aspens (Queen Elizabeth)  
Babcock  
Barnardos - 4Children  
Barnardo's - Dell Children's Centre  
Barnardos - Plymouth  
Barnardos - Plymouth/Whitleigh  
Bournemouth Churches Housing Association  
Burton Art Gallery  
Catch 22 Multi Academy Trust  
Catered Ltd  
Caterlink Ltd  
Chartwells (Holsworthy)  
Chartwells (N Tawton)  
Chartwells (OLCS)  
Churchill Services  
Churchill Cleaning Services Limited  
Churchills (King Edward VI)  
Compass Contract Services (Chartwells)  
Compass (Great Torrington)  
Cormac Solutions Ltd  
Dame Hannah Rogers School  
DCC South West Heritage Trust  
Delt Shared Services Ltd  
Devon & Severn IFCA  
Devon Norse Catering  
Devon Norse Cleaning  
Devon Norse Facilities Management  
DYS Space Ltd  
Exeter CVS  
Exeter Royal Academy For Deaf Education  
FCC Environment  
Fresha  
Fully Catered Ltd  
Fusion Lifestyle  
Healthwatch  
Human Support Group Ltd  
Initial Plymouth Catering Services  
Innovate (Honiton Community College)

Innovate TGGS  
Interserve Projects Ltd  
ISS Eden Park  
ISS Learning Academy Partnership  
ISS Plymouth CAST  
ISS St Christopher's Primary MAT  
ISS Torbay Schools  
LED Leisure Management Ltd  
Lex Leisure  
Libraries Unlimited  
Livewell South West  
Livewest  
Mama Bears Day Nursery  
Medigold  
Millfields Community Economic Development Trust  
Mitie Plc (Devon)  
North Devon Homes  
North Devon Joint Crematorium  
On Course South West  
Peninsula Dental Social Enterprise  
Plymouth Citizen's Advice Bureau  
Plymouth Community Homes  
Plymouth Learning Partnership  
Quadron  
Red One Ltd  
Sanctuary Housing  
SLM Community Leisure  
Sodexo  
South West Highways  
Strata  
Taylor Shaw (Petroc)  
Teign Housing  
The Childrens Society  
Tor2Ltd  
Torbay Coast & Countryside Trust  
Torbay Community Development Trust  
Torbay Economic Development Company  
University Commercial Services Plymouth Ltd  
Virgin Care  
Viridor  
Well Connected  
Westward Housing Group Ltd  
Wolseley Community Economic Development Trust

# Statement of the Actuary for the year ended 31 March 2019

## Introduction

The last full triennial valuation of the Devon County Council Pension Fund was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2017.

## Asset value and funding level

The results for the Fund at 31 March 2016 were as follows:

- The smoothed market value of the Fund's assets as at 31 March 2016 for valuation purposes was £3,311 millions;
- The Fund had a funding level of 84% i.e. the assets were 84% 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 £628 millions.

## Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 14.9% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2017.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's primary and secondary rates are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## Assumptions

The assumptions used to value the liabilities at 31 March 2016 are summarised following:

<b>Assumption</b>	<b>31 March 2016</b>
Discount rate	5.5% p.a.
Pension increases (CPI)	2.4% p.a.
Salary increases	In line with CPI until 31 March 2020 and 3.9% p.a. thereafter
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Mortality	The post retirement mortality assumptions adopted are as follows: <ul style="list-style-type: none"> <li>• For members, the S2PA series with a multiplier of 90%, making allowance for CMI 2015 projected improvements and a long term rate of improvement of 1.5% p.a.</li> <li>• For dependants, 115% of the S2PMA tables for male dependants and 80% of the S2DFA tables for female dependants, making allowance for CMI 2015 projected improvements and a long-term rate of improvement of 1.5% p.a.</li> </ul>
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

Further details of these assumptions can be found in the relevant actuarial valuation report.

### **Updated position since the 2016 Valuation**

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model.

Overall, we estimate that the funding position should be improved when compared on a consistent basis to 31 March 2016 but the final position will depend on the assumptions adopted as part of the 2019 valuation process.

The 31 March 2019 actuarial valuation is currently underway and we will be reviewing assumptions and methodologies. There is currently uncertainty surrounding the benefit structure of the LGPS and the cost cap management process which was meant to bring in any revised benefit changes from 1 April 2019 has been paused. Therefore it is difficult to say with any certainty what the funding position will be as at 31 March 2019. The 2019 valuation process will result in any revised contribution rates required to be paid by the employers from 1 April 2020.

### ***Graeme Muir FFA***

Partner, Barnett Waddingham LLP

17 May 2019

# 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 2018/19

## Purpose of Annual Governance Statement

To achieve good governance, a Council must not only take account of the legislative and constitutional arrangements that underpin them but should use all means at its disposal to explain to the community, service users, tax payers and other stakeholders how its governance arrangements work and how the controls it has in place manage risks of failure in delivering its outcomes.

An Annual Governance Statement should therefore provide a meaningful communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit and other committees). It should be high level, strategic and written in an open and readable style, in line with CIPFA guidance.

The County Council's Annual Governance Statement:

- acknowledges responsibility for ensuring there is a sound system of governance incorporating systems of internal control;
- recognises and assesses the effectiveness of key elements of the governance framework, including joint arrangements where appropriate and the roles of the Council, its Cabinet, Audit and other Committees as appropriate;
- provides an opinion on the level of assurances that the Council's governance arrangements can provide;
- recognises and reflects upon any appropriate action(s) identified or required in earlier Statements and commits to monitoring any action(s) require as part of this Statement.

## 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. The 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 County Council is responsible for putting in place proper arrangements for the governance of its affairs 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 (2016). The Annual Governance Statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015.



## **Purpose of the Governance Framework**

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

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

Satisfactory controls to support statements made in this Annual Governance Statement are essential and in endorsing it the Council's officers confirm that input to systems and processing of transactions is complete for the financial year ended 31 March 2019 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 and transcends the core principles and sub principles of corporate governance in the CIPFA/SOLACE Framework which form the basis of the attached schedule. Many of the structures and processes referred to here are readily available either through the Constitution or in the Council's website.

The Constitution is the Council's Code of Corporate Governance. Framed in accordance with statute and Government guidance, it has 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, Cabinet Members and officers;
- it enables the people of Devon to access information and ask questions or make representations or submit petitions at certain meetings;

- 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 and identifies standards for the behaviour of individuals and groups through codes of conduct (including interests, conflicts of interest and whistleblowing), 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 Business and Personal Conduct – for Members and Officers (parts 3-9);
- working practices which supplement these formal rules (Part 10);
- The Framework of Corporate Guidance, which includes other Devon County Council strategies and plans (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 document 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 both 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 and 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 and is underpinned by relevant policies and practices through the Council's website (e.g. consultations, feedback, and public participation).

## **Review of Effectiveness**

The County Council's Constitution has been in force since 2002 and is regularly reviewed (by the Council's Procedures and Standards Committees, as appropriate). The Constitution is published on the County Council's website.

Over the last two years there have been, via the Procedures Committee numerous amendments to the Constitution. These included a change of practice regarding Motions brought to the Council, that were not the responsibility of the Cabinet, be referred to the appropriate Committee, the introduction of a Scrutiny Voting Scheme, clarification on the process for motions and amendments and also changes to Cabinet, Council and Scrutiny Procedure Rules were also agreed. It was further resolved by Council in February 2019 that the Constitution be amended to reflect the revised Pay Policy Statement for 2019/20.

A review of Financial Regulations was undertaken in April 2018 resulting in changes to both the regulations as well as procurement policy, procedures for tenders and contracts and disposal of surplus property.

A large scale review of the Council's scheme of delegation was undertaken during 2018, reporting to the Procedures Committee in November 2018. This ensured an up to date position and a thorough assessment that the scheme was accurate and fit for purpose.

Further changes were made to the public participation scheme to provide clarity and public representation.

A review of ethical governance was carried out by the Devon Audit Partnership (DAP) in 2018 and confirmed that the Council has a robust ethical governance framework in place, set out in the Constitution, which takes account of statutory dissemination, delivery monitoring and maintenance of ethical standards. Particular areas of strength were the member mentoring carried out by the Standards Committee and member induction training. The high standard reported meant the system and contracts in place adequately mitigated exposure to risks identified.

The County Council must, at least annually, review 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 by comments made by the external auditors and other review agencies and inspectorates.

## **The Council**

The Council currently comprises of 60 members, 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 and Deputy 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 roles and responsibilities of the Council, as well as its Cabinet and non-Cabinet Members are set out more fully in Articles 2 and 4 of the Constitution and in Part 3 (Responsibility for Functions). These have been regularly reviewed and revised since the County Council elections in 2017 and are themselves balanced by the Codes of Personal Conduct set out at Part 6 of the Constitution.

## **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 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 in line with the Council's Access to Information Rules (Part 4 of the Constitution). 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 those of the NHS 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 yet 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 or service delivery. Scrutiny has an important role in ensuring that the voice of the people of Devon are heard in policy development and delivery.

Following the 2017 Elections, it was resolved that three Scrutiny Committees (Children's / Health & Adult Care / Corporate Infrastructure and Regulatory Services) would replace the former Place / People's / Health & Wellbeing / Corporate Services Scrutiny Committees. The Scrutiny Budget process was also reviewed and the Council agreed that the Joint Budget Scrutiny Meeting be no longer held, but the Corporate Infrastructure and Regulatory Services Scrutiny Committee undertaking its overview function in this regard.

The Health and Adult Care Scrutiny Committee has responsibilities conferred by the Local Authority (Public Health, Health and Wellbeing Boards and Health Scrutiny) Regulations 2013 for Scrutiny of any matter relating to the planning, provision and operation of the health service in Devon and the requirement to independently review and comment on Health Providers Quality Accounts. This includes the delegated responsibility for a referral to the Secretary of State for Health on a substantial variation as well as the monitoring of the function and activity of the Devon Health & Wellbeing Board and its statutory responsibilities for the Joint Health & Wellbeing Strategy, the Joint Strategic Needs Assessment and the Pharmaceutical Needs Assessment.

Scrutiny Committees aim to operate in a non-partisan, critical friend 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, to be effective, call-ins must be used only in exceptional circumstances, sparingly and appropriately. In the year in question there were two call-ins through the Corporate Infrastructure and Regulatory Services Scrutiny Committee on an increase to parking charges and the proposal to declare the building Haldon View, Exeter as surplus to the requirements of the Council. These call-ins may not have resulted in any significant changes to decisions, but it reinforces the independence and value of Scrutiny in applying an 'external' view on decisions.

Reflecting the Council's approach to the commissioning of services, Scrutiny continues to exercise influence through asking questions about delivery mechanisms, quality, monitoring, safety and responsiveness as an appreciative inquiry where problems are analysed and understood as a precursor to improvement and change rather than punitive action. To strengthen Scrutiny engagement in commissioning processes and commissioned services, the Scrutiny Commissioning Liaison Members continue to review planned commissioning activity, reporting back to Scrutiny Committees to inform their work programme.

Scrutiny activity over the last year has continued apace with a variety of reviews. Concerns about mental health have been seen with the work undertaken on the Children and Young People's Emotional Health and Wellbeing Task Group and the Gambling Spotlight Review. Three task groups have been held to respond to highways concerns on speed, surface and winter. Health and Adult Care Scrutiny has through the last year had a key role influencing the emerging Integrated Care System and the development of a Long-Term Plan for Devon. Many Councillors have also taken part in the comprehensive programme of visits to frontline services, furthering their understanding and improving the quality of critical friend questioning.

In recognition of the best practice of this Council, the work of Devon Scrutiny has been featured in the annual publication by the Centre for Public Scrutiny; Scrutiny Frontiers'.

In July 2018 it was agreed that the Council becomes the host Authority to support the new Heart of the South West Local Enterprise Partnership (LEP) Joint Scrutiny Committee. Scrutiny arrangements have been put in place to monitor decision-making and achievements of the LEP, with the first meeting of the Committee in November 2018.

The Cabinet and 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. A summary of the work of Scrutiny Committees during the year is presented to the County Council yearly in an Annual Scrutiny Report.

The strong and effective scrutiny function was recently celebrated with a 20-year symposium event which reflected on the encouragement needed for scrutiny to achieve a meaningful impact to challenge and ultimately achieve better decisions.

## **Organisational Performance**

The impact of the Government's reform of the public realm and local government finances continues to influence the Council's current and future performance.

In June, it was resolved that the Plastics Strategy and Action Plan be adopted by the Council as a response to the issue of plastics accumulating in the environment.

In October the Council resolved that the new Devon CCG's recommendation that Torbay and South Devon Foundation Trust, acting as prime provider for the consortium Devon Children and Families Alliance, become preferred bidder for the delivery of Community Health and Wellbeing Services be supported.

In November the Council resolved that the Children's Services Sufficiency Strategy for placements and services for children in care, care leavers & disabled children should be welcomed and endorsed.

The Council has continued upon a 'purposeful systems' transformation approach, Doing What Matters. The Council's External Auditors Grant Thornton fully support the purposeful systems approach the County Council had adopted.

The Council also agreed the following significant actions, specific policy changes or revised strategic objectives during 2018/19 which will impact on future performance:

- the Treasury Management Strategy 2019/20 - 2021/22 and Prudential Indicators 2019/20 - 2023/24;
- revised scheme of fees and allowances for Devon County Council's Foster Carers which incorporates all of the recommendations of the Council's Children's Scrutiny Committee of 17th September 2018;

- a new policy dealing with 'persistent evaders' of parking enforcement;
- the Admission & Education Transport Policies for 2018-19 and 2019-20;
- the Medium Term Financial Strategy 2019/20 - 2022/23;
- approval of the 2019/20 Flood Risk Management Action Plan; and
- a new joint strategy called 'Living Well with a Learning Disability in Devon 2018-2022'.

## **The Standards Committee**

The Standards Committee continued to exercise its role in monitoring complaints and standards. The Committee acts as champion (and guardian) of the Council's ethical standards and is responsible for promoting / maintaining high standards of conduct by both elected and co-opted Members of the Council. At the heart of the Committee's work are the Nolan principles of public life.

The Standards Committee met 3 times in 2018/19 and its work during the year is set out more fully in its Annual Report. A total of 11 complaints were received under the Members Code of Conduct. There was 1 case where a formal investigation was required. For this case, the outcome was heard by the Committee in July 2018, who determined there had been a breach of the Code of Conduct in relation to all the above allegations. The Committee agreed a number of sanctions including a formal censure, recommendations to remove the subject member from Committee / Sub Committees and outside bodies, have access to County Council premises restricted and undertake relevant training.

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.

Co-opted Members of the Committee continue to attend other meetings of the Council, Cabinet and other Committees, selected at random, to monitor and observe compliance with the Council's Governance Framework and behaviours, reporting back to the Standards Committee. There were no reports of any specific actions or behaviours that might be felt to have resulted in a potential breach of the Code or warranted further action.

One of the main issues for 2018/19 was ensuring that Members of the Council would undergo a Basic Disclosure and Barring Service (DBS) check as agreed by the Council following a recommendation from the Audit Committee. The Council also approved a Risk Assessment which would be followed in the event of a positive disclosure. Both the policy guidance and risk assessment forms part of the Constitution. The process to DBS check all Members commenced in January 2019.

Following the outcome of a complaint and the resolution of the Standards Committee, the Council arranged Sexual Harassment Training for all Members of the Council. The 4-hour workshop aimed to increase knowledge and confidence in recognising, reporting, responding to and preventing sexual harassment and was delivered by external providers. It was an interactive session exploring Members' roles as a Community Leaders, increasing knowledge of the law, prevalence of the issue, increasing understanding of the impacts and building confidence to recognise, challenge and prevent such incidents taking place.

The Committee also responded to Government consultations on proposed changes to the Standards regime and disqualification criteria for those standing for public office.

## **The Audit Committee / Devon Audit Partnership**

The Council's Audit Committee monitors 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 continues to 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. It also reviews the Council's Risk Management Strategy and Registers on a regular basis.

The Annual Audit Letter (for the year ended 31 March 2018) from the Council's external auditors, 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 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). Mid Devon District Council and Torridge District Council have subsequently joined the Partnership. In March 2019 it was agreed that South Hams District Council and West Devon Borough Council become non-voting partners of the Partnership with effect from April 2019.

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 plans to continue expanding on their work with external partners. The Partnership and democratic arrangements are functioning 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.

## **Devon Pension Board**

The Pension Board, which was established in 2015/16, is required to ensure that the Devon Pension Fund is managed and administered effectively and efficiently and to ensure that it complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Devon Pension Board (comprising employer and fund representatives with an independent member) has met six times in total and twice in the past financial year. The operation of the Board will be kept under review.

A summary of the Board's activities and deliberations over the period in question had been included in the Devon Pension Fund's Annual Report and Accounts 2017/18 (and the action taken by the Fund/Fund Manager as a consequence) in scrutinising and satisfying itself with the operation and management of the Fund during that period.

## **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), Devon 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 budgets and priorities. The Have your say consultation pages allow views to be gathered on service specific proposals and provide opportunity for local people to shape their local services.

## **Public Participation**

Those who live and work in Devon have a number of direct opportunities to participate in the Council's decision-making process which are explained in more detail in the Access to Information Procedure Rules in Part 4 of the Council's Constitution and in addition to being available to attend meetings and lobby Councillors in the normal way may also ask questions at meetings of the County Council or the Cabinet and make representations at the County Council and a number of other Committees of the Council, including Scrutiny Committees.

## **Governance Issues**

One of the biggest issues addressed by the Council in 2018/19 was the setting of the Revenue Budget for 2019/20, the Medium Term Financial Strategy to 2022/23 and the Capital Strategy 2019/20 to 2023/24 given the continued cuts to local government funding.

The challenging financial situation 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.

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 CIPFA. The Treasury Management Stewardship Annual Report for 2017/18 had not identified any issues to highlight. No new long-term borrowing was undertaken during 2018/19 and it was not envisaged that any new long-term borrowing will be required over the next three-year period but this will be reviewed annually. The report confirmed that investment income targets had been achieved and all lending had been carried out in accordance with the Council's Treasury Management Strategy.

## **Conclusion**

The preparation of the Budget for 2019/20 had been set by the detailed assessment of the risks associated with each budget and the goals and objectives of the Council. The Cabinet was assured that the Budget was an effective and balanced Budget which could be commended to the Council. A 2% increase in spending on Adult Care and Health and a 9.4% increase on Children's Services were highlighted in the Budget.

The Autumn Statement (published on 29th October 2018) outlined £650 million extra funding in 2019-20 for local authorities to help deliver the services communities need and to support the most vulnerable residents.



The 2018/19 100% Business Rates Retention Pilot created an estimated County Council share gain of £16.6 million. It should be noted, however, that Devon's bid for the 2019/20 75% Business Rates Pilot has been unsuccessful, this was to be expected, as few councils had successful bids in both 2018/19 and 2019/20.

The Provisional Settlement (announced on 13th December 2018) gave details of the final year of the current funding settlement which saw core funding reduced by £13.5 million, equivalent to 11.7%. The Adult Social Care Precept rules remain unchanged from 2017/18 – with a limit of 6% over three years, in 2017/18 DCC used 3%, a further 2% in 2018/19, leaving 1% available in 2019/20. Furthermore, the basic increase in Council Tax that will trigger a referendum is now 3%.

The Council's Leadership Team (Chief Officers and Heads of Service) has confirmed that the organisational, financial, compliance and operational key controls referred to in the Annual Governance Statement and the accompanying schedule continue to be appropriate and that statements of internal control supported the content of this Statement; having operated, effectively, during the financial year. Sundry issues identified in the AGS will be relevant and actioned as appropriate over the coming year. All necessary monitoring and/or implementation of key issues identified in the previous AGS have or are continuing to be addressed.

The Council is satisfied that the governance arrangements can and do provide a high level of assurance, that the arrangements continue to be regarded as fit for purpose and that its governance structures reflecting the core and sub-principles of the Statement.

The Council formally places on record and expresses its appreciation to all staff and partners for their continuing commitment to the delivery of high quality services for the people of Devon throughout this period. The spirit and ethos of good governance cannot be achieved by rules and procedures alone. It is vital that shared values that are integrated into the culture of an organisation and are reflected in behaviour and policy, as a hallmark of good governance.

## **Certification**

In light of the aforementioned and the reviews 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.

Councillor John Mathews

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

Phil Norrey

Chief Executive, on behalf of Devon County Council,

21<sup>st</sup> May 2019