

# West Devon Audit Committee



West Devon  
Borough  
Council

<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Tuesday, 25th June, 2019</b>
<b>Time:</b>	<b>2.00 pm</b>
<b>Venue:</b>	<b>Chamber - Kilworthy Park</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Davies <b>Vice Chairman</b> Cllr Vachon</p> <p><i>Members:</i> Cllr Bridgewater Cllr Renders Cllr Crozier Cllr Yelland Cllr Hipsey</p>
<b>Interests – Declaration and Restriction on Participation:</b>	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
<b>Committee administrator:</b>	Member.Services@swdevon.gov.uk

**1. Apologies for absence**

**2. Declarations of interest**

Members are invited to declare any personal or disclosable pecuniary interests, including the nature and extent of such interests they may have in any items to be considered at this meeting.

If Councillors have any questions relating to predetermination, bias or interests in items on this Agenda then please contact the Monitoring Officer in advance of the meeting.

**3. Items Requiring Urgent Attention**

To consider those items which, in the opinion of the Chairman, should be considered by the Meeting as matters of urgency (if any).

**4. Confirmation of Minutes**

Meeting held on 12 March 2019

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**5. Grant Thornton Audit Progress Report**

**7 - 14**

**6. Grant Thornton Audit Plan**

**15 - 32**

**(NOTE:** This is the same report that was considered at the last Committee meeting on 12 March 2019; at the request of Grant Thornton, it has been thought useful to include again as the composition of the Committee has changed following the Local Elections of May 2019).

**7. Grant Thornton External Audit Fee Letter**

**33 - 36**

**8. Draft Statement of Accounts 2018/19 and Draft Annual Governance Statement 2018/19**

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**9. Annual Report of the Statutory Officers Panel (2018/19)**

**191 - 194**

**10. Internal Audit Annual Report 2018/19**

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**11. Proposed Committee Workplan for the 2019/20 Financial Year**

**229 - 230**

PART TWO – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PUBLIC AND PRESS ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED (if any).

The Committee is recommended to pass the following resolution:

**“RESOLVED** that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the Meeting on the grounds that exempt information may be disclosed as defined in the paragraph given below in bold type from Part I of Schedule 12(A) to the Act.”

This document can be made available in large print, Braille, tape format, other languages or alternative format upon request. Please contact the Committee section on 01822 813662 or email [darryl.white@swdevon.gov.uk](mailto:darryl.white@swdevon.gov.uk)

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# Agenda Item 4

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At a Meeting of the **AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **12th** day of **March 2019** at **2.00pm**

**Present:** Cllr M Davies (Chairman)

Cllr K Ball  
Cllr W G Cann OBE  
Cllr B Lamb  
Cllr L Watts

**Officers in attendance:**

Section 151 Officer  
Internal Auditor Manager  
External Auditor  
Specialist Accountant  
Specialist – Democratic Services  
Senior Case Officer –Democratic Services

**Also in attendance:** Cllr C Edmonds (lead Hub Committee Member) and Cllr G Parker

**\* AC 34 CONFIRMATION OF MINUTES**

The Minutes of the Committee Meeting held on 22 January 2019 were confirmed and signed by the Chairman as a correct record.

**\* AC 35 AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The External Auditor took Members through the report. Officers had been on site for 2 weeks looking at financial systems and the control environment and found delivery was on track. Concern was raised by Members that a decrease in audit fee could affect quality. The external audit partner confirmed that there would be no reduction or compromise on quality and the earlier deadlines would be achieved through working smarter and ongoing dialogue through the year. More work would also be carried out at the Interim Audit.

It was then **RESOLVED** that:

The report be noted

**\* AC 36 GRANT THORNTON'S EXTERNAL AUDIT COMMITMENT**

The External Auditor took Members through the External Audit Commitment. There were no questions or issues raised from Members.

It was then **RESOLVED** that:

The report was noted

**\* AC 37      DRAFT BUDGET BOOK 2019/20**

Cllr Edmonds introduced the Draft Budget Book 2019/20. There was a 2% pay award on all salaries. Answering a Member question the S151 officer confirmed the £50,000 saving on public toilets was on the rural toilets and that an update report was going to be presented to Council on 26 March 2019 on both Okehampton and Tavistock toilets and some of the rural toilet provision.

A question was asked around the projected reduction of housing benefit payments (from £11.8m to £8.2m) and the S151 Officer confirmed that this was due to the projected reduction in housing benefit caseload from Universal Credit.

There was also a question asked about the cost of running Kilworthy Park and why the figure in the budget book of £289,000 was higher than the figure provided at the Informal Council meeting. The S151 Officer explained that the figure contained with the Budget Book included £42,000 for Capital Charges (which is akin to a notional depreciation charge for the building) and therefore the Budget Book figure was higher as the figure mentioned at Informal Council only included direct costs and not indirect (notional costs such as depreciation).

It was then **RESOLVED** that:

The content of the draft Budget Book was noted

**AC 38      REVIEW OF THE COUNCIL'S CONSTITUTION: RULES OF PROCEDURE, MEMBERS' PLANNING CODE OF PRACTICE AND PETITION SCHEME**

Cllr Edmonds introduced the review of the Council's Constitution. It was confirmed that the report had previously been presented to the Audit Committee on 22 January 2019, but prior to presentation to Council it was confirmed that further revisions were required.

Those revisions had now been made and a revised set of Procedure Rules were attached as appendices. Members were generally supportive of the Procedure Rules, however there were queries raised regarding the Hub Committee Procedure Rules. Members discussed the working of the Hub Committee and the role of Hub Committee Members in more detail. It was then **PROPOSED**, **SECONDED** and on being put to the vote declared **CARRIED**, that an additional recommendation be included to request the Political Structures Working Group be convened to review the workings of the Hub Committee.

It was then **RESOLVED** that:

The Audit Committee RECOMMEND to council that:

1. The amendments to Part 4 (Rules of Procedure) of the West Devon Borough Council's Constitution (as summarised in paragraph 2.5 of the report and fully outlined at Appendix A) be approved and formally adopted;
2. The draft Members' Code of Good Practice – Planning (as attached at appendix B) be adopted;
3. The amendment Rules for the Petition Scheme (as attached at appendix C); and;
4. The Political Structures Working Group be convened with the following Terms of Reference:
  - a) To review the roles of Hub Committee Members (paying particular attention to the circulation of information, and communication with wider membership)
  - b) To assess the circumstances in which Informal Hub meetings take place in private
  - c) To look at the involvement of non Hub Members in the deliberations of Hub Committee, (to include how to best make use of non members expertise)
  - d) To review the extent of delegation to the Hub Committee

**AC 39      DEVON AUDIT PARTNERSHIP - NON - VOTING PARTNER**

Cllr Edmonds introduced members to the report. It was confirmed that a recommendation would be made to Council to join the Devon Audit Partnership as a non-voting partner.

A discussion arose as to whether there would be a conflict of interest when the internal audit service was procured. It was agreed that the S151 officer would seek advice from the procurement officer and Monitoring officer.

It was then **RESOLVED** that:

Council be RECOMMENDED to:

1. join the Devon Audit Partnership as a Non-voting partner from 1<sup>st</sup> April 2019 (or as soon as is reasonably practicable thereafter); and
2. delegate the details of the Service Legal Agreement (including terms of reference) to the Monitoring Officer and S151 Officer, in consultation with a Hub Committee Member for Support Services and the Chairman of the Audit Committee.

**\*AC 40 2019/20 INTERNAL AUDIT PLAN**

The internal auditor presented the Internal Audit Plan to members. It was noted that Plymouth City Council paid for the audit of the Joint Local Plan. Use of Social Media by officers and members was being reviewed and whether the policies in place were being followed.

It was then RESOLVED that:

1. the report was approved, and
2. The proposed Internal Audit Plan for 2019/20 at Appendix A was approved

**\* AC 41 UPDATE ON PROGRESS ON THE 2018/19 INTERNAL AUDIT PLAN**

The internal auditor introduced the update on progress on the 2018/19 Internal Audit plan. No questions were raised.

It was then RESOLVED that:

The progress made against the 2018/19 internal audit plan, and any issues arising was approved.

**\*AC42 SHARED SERVICES METHODOLOGY 2018/19**

Cllr Edmonds introduced the Shared Services Methodology 2018/19.

It was then RESOLVED that:

The Audit Committee noted the methodology of the shared services apportionment of costs between West Devon Borough Council and South Hams District Council, as attached in Appendix A

**AC43 STRATEGIC RISK & OPPORTUNITY MONITORING –REGULAR UPDATE**

The S151 Officer took members through the report. Members thanked the finance team for their hard work.

It was then Resolved that:

The Audit Committee reviewed the strategic risk & opportunity register (see Appendix 1a &b) and made recommendations to Council on any Further action the Committee concluded should be considered.

(The Meeting terminated at 3.45 pm)

Dated this

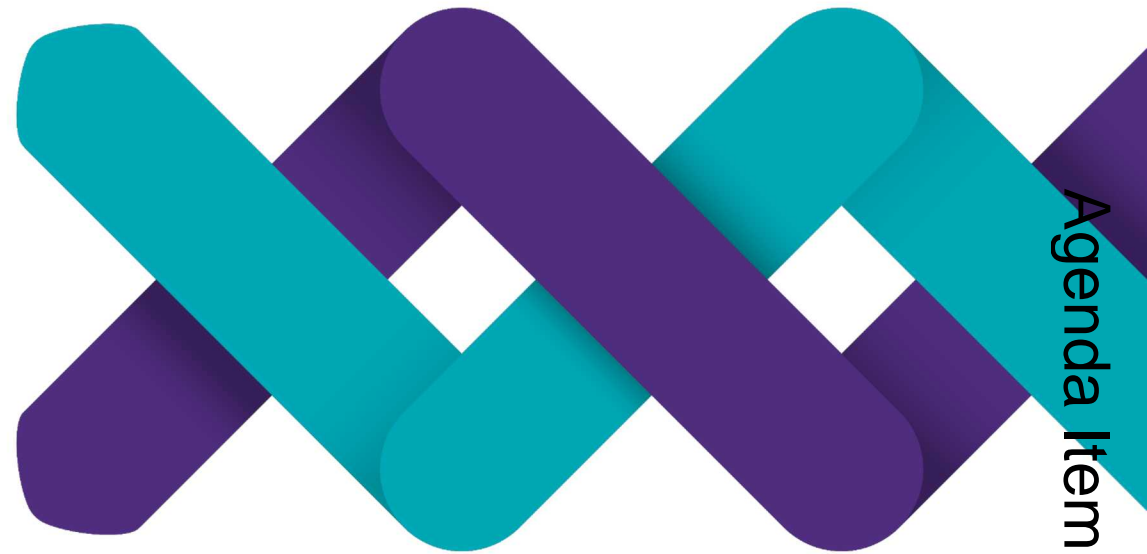




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# Audit Progress Report

West Devon Borough Council  
Year ending 31 March 2019  
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25 June 2019



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# Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



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Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk) ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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## PSAA Contract Monitoring

West Devon Borough Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psaa.co.uk](http://www.psaa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

# Progress at 31 May 2019

## Financial Statements Audit

We presented our audit plan for the Council to the January Audit Committee. Since then we have also completed our interim audit.

We commenced our interim audit in February 2019 and concluded in April 2019. Our interim fieldwork included:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

There are no issues that we need to bring to the Committee's attention from the work we have completed to date.

The final accounts audit began on the 3 June 2019. Findings will be reported to you in our Audit Findings Report at the 23 July 2019 Audit Committee.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We identified one significant Value for Money Risk (Informed decision making – Key risks to achieving savings) and are currently carrying out our audit work on the Council's response.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion to the 23 July 2019.

## Other areas

### Certification of claims and returns

The Council's annual Housing Benefit Subsidy for 2018/19 claim will be audited by KPMG.

### Meetings

We hold regular liaison meetings with Management to understand the Council's current position and future plans, and developments and to ensure the audit process is smooth and effective.

We have met regularly with Finance Officers as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

### Publications

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2018	Issued 19 April 2018
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Issued 9 January 2019
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	No issues to report
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	23 July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	31 July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due

# Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government



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# Links

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## Grant Thornton

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

## NAO

<https://www.nao.org.uk/>

## Public Sector Audit Appointments

<https://www.psaa.co.uk/>

## CIPFA

<https://www.cipfa.org/cipfa-thinks>

## DCLG

<https://www.gov.uk/browse/housing-local-services>



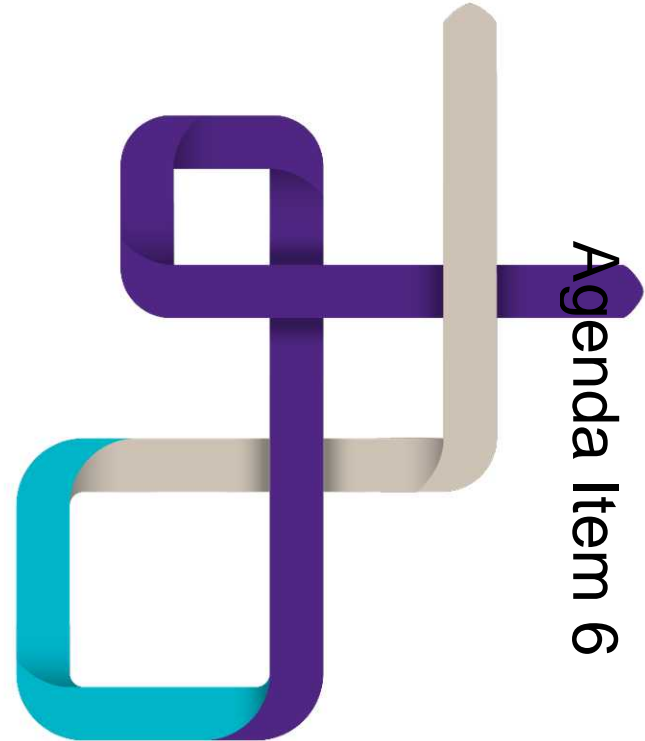
# External Audit Plan

*Year ending 31 March 2019*

West Devon Borough Council

9 January 2019

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Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Devon Borough Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed engagement letter. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

## Significant risks

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Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue cycle includes fraudulent transactions - This risk has now been rebutted
- Management over-ride of controls
- Revaluation of PPE
- Valuation of pension liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £604k for the Council, which equates to 1.8% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £30k.

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Sustainable resource deployment - The Forecast budget gap in 2023/24 is £1.1m, assuming each years gap is not met and savings from the letting of the Waste contract are realised.

## Audit logistics

Our interim visit will take place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £30,335 (PY: £39,396) for the Council, subject to the Council meeting our requirements set out on page 15.

## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

# Key matters impacting our audit

## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

West Devon Borough Council is currently forecasting a balanced budget for 2019/20 and a £0.5m budget gap by 2020/21. The MTFS (September 18) assumes that negative RSG will be reduced to zero in 2019/20.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty (update as appropriate). The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

### Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with customers which introduces a five step approach to revenue recognition.

No significant impact is expected to occur on the accounts from these changes although discussions are ongoing with financial management to monitor the impact.

### Future budget proposals

West Devon has continued to work in partnership with South Hams District Council which has allowed West Devon Borough Council to achieve annual savings of £2.2 million and more importantly protect all statutory front line services.

Between both Councils the annual shared services savings being achieved are over £6 million. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will continue to monitor the progress of the partnership with South Hams DC

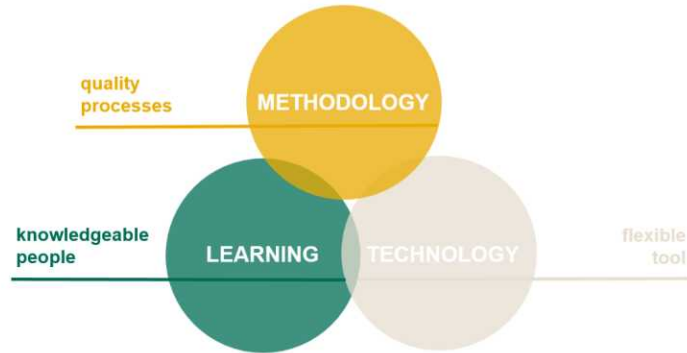
# Audit approach

## Use of audit, data interrogation and analytics software

### LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- Cloud-based industry-leading audit tool developed partnership with Microsoft



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### IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively



### Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on



### Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



#### ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



#### VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



#### INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



#### FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

# Significant risks identified – Revenue

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>We have identified the occurrence and accuracy of Fees, charges &amp; other service income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, We have rebutted this presumed risk for the other revenue streams of the Council because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including West Devon Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of income for appropriateness;</li> <li>• gain an understanding of the Council's system for accounting for income and evaluate the design of the associated controls;</li> <li>• Test, on a sample basis amounts recognised as income from Fees, charges &amp; other service income in the financial statements.</li> </ul>



# Significant risks identified – Management override

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Management over-ride of controls</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified – PPE

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings</b>	<p>The Council carries out a full revaluation of its land and buildings every five years, the last revaluation in 2013/14. In addition, the more significant assets are revalued on an ad hoc basis</p> <p>The Council's valuer carries out a formal impairment review of the entire holding of assets at the end of each financial year, to ensure the carrying value reflects the fair value at the Balance Sheet date.</p> <p>We therefore identified valuation of land and buildings, particularly the annual review, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• evaluate management's processes and assumptions for the annual impairment review.</li><li>• evaluate the competence, capabilities and objectivity of the valuation expert</li><li>• write to the valuer to confirm the basis on which the valuation was carried out</li><li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li><li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li><li>• evaluating the challenge and the assumptions made by management for ensuring that the Council has satisfied themselves that these are not materially different to current value at year end.</li></ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of the pension fund net liability</b>	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£24.38 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Completeness of operating expenses</b>	<p>The Council is under financial pressure to deliver transformational savings targets. Non-pay expenses represent a significant percentage of the Council's overall operating expenses. Management use judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness;</li> <li>• gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;</li> <li>• obtain a listing from the cash book of non-employee payments made post year and test a sample to ensure that they have been charged to the appropriate year.</li> <li>• review the year-end Accounts Payable reconciliation and investigate any significant reconciling items</li> </ul>
<b>Purchase of Investment property</b>	<p>The Council has agreed a commercial property acquisition strategy of up to £37.45m. The accounting treatment and Funding, principally through long term borrowing, will be a material and unusual transaction in the accounts.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review the Council's reporting of the transactions;</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register.</li> </ul>
<b>Allocation of shared costs</b>	<p>The Council operates on a shared service basis with South Hams District Council. Consequently, there are a number of costs borne by each Council that are reallocated as part of process to allocate costs equitably between the two Councils.</p>	<p>We will review:</p> <ul style="list-style-type: none"> <li>• the basis of allocation to ensure that it is reasonable and appropriate;</li> <li>• consider any changes from the prior year basis; and</li> <li>• test the calculation of transferred costs.</li> </ul>

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

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## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Council's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

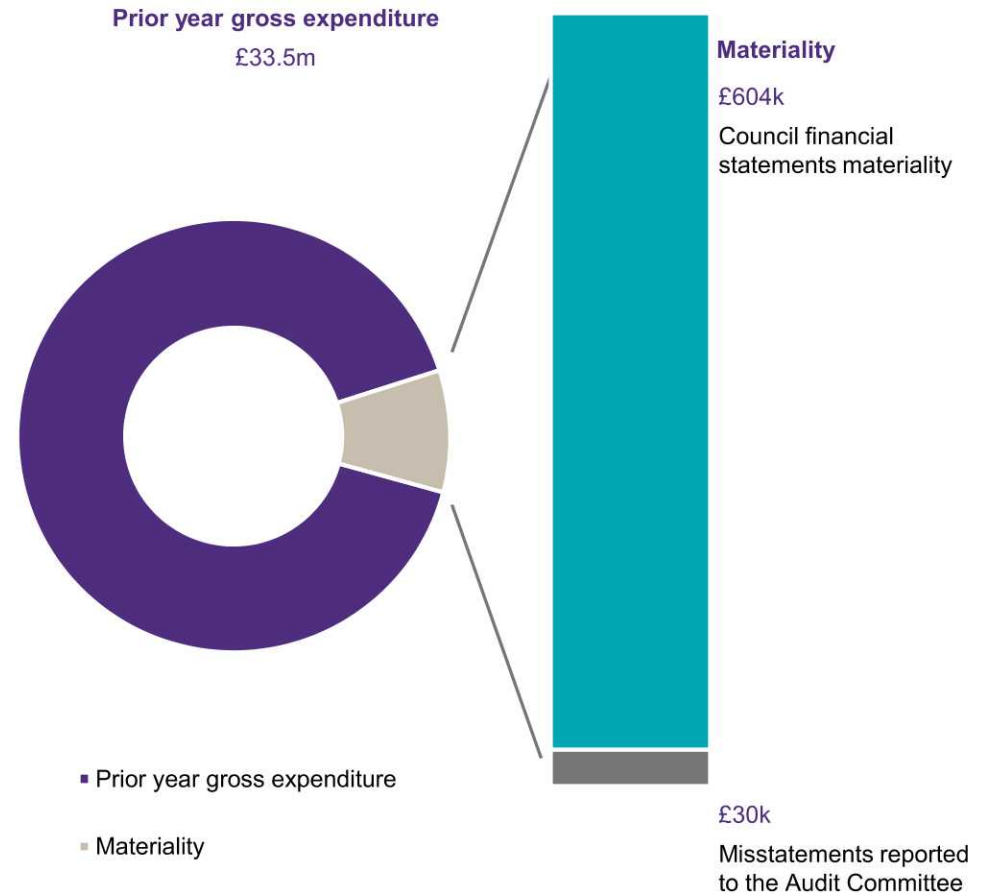
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £604k for the Council, which equates to 1.8% of your [forecast/prior year] gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £50k for Senior officer remuneration.

We consider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £30k.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

## Background to our VFM approach

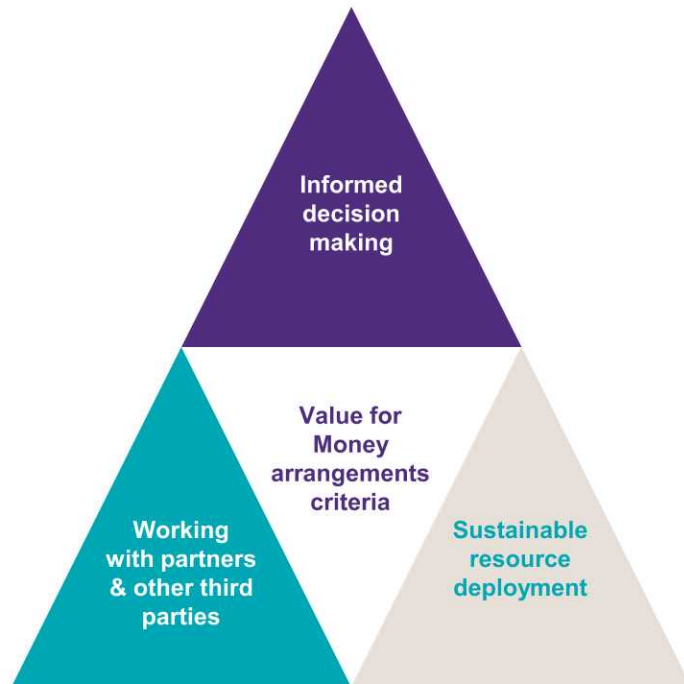
The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:

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## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



### Informed decision making

In common with most of Local Government, the Council has identified some financial challenges over the life of its Medium Term Financial Strategy. The Council is currently forecasting a balanced budget for 2019/20 and a £0.5m budget gap by 2020/21. The cumulative deficit of £3million (at September 2018) by 2022/23 is planned to be addressed through a challenging programme that includes:

- Budget delivery and reserves management;
- Waste contract being re-tendered
- Commercialisation and associated borrowing

The Council has identified a key risk that may arise that would affect its achievement. Some of the councils identified savings are part of its joint working with South Hams District Council, e.g. the award of a joint waste collection service and the continuation of joint provision of services.

### Response

We will review the Council's approach to:

- Tendering the Waste contract;
- The decision to embark on its commercialisation plans; and
- Setting and Monitoring the delivery of its Medium Term financial strategy.

We will continue to observe the joint working with South Hams DC

# Audit logistics, team & fees



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## Audit fees

The planned audit fees are £30,335 (PY: £39,396) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. There is no non-Code (as defined by PSAA) work planned]. In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.



# Early close

## Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

The council achieved the earlier deadlines in 2017/18, and the opinion was given on 26 July 2018.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 14). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

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# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No other services were identified.



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Lisa Buckle  
Section 151 Officer & Strategic Finance Lead  
Kilworthy Park  
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Tavistock  
PL19 0BZ

16 April 2019

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Dear Lisa

## Planned audit fee for 2019/20

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and had the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

All grant work, including housing benefit certification, falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

### Scale fee

PSAA published the 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. Further details are set out on the [PSAA website](#). The Council's scale fee for 2019/20 has been set by PSAA at £30,335 which is the same as in 2018/19.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2019/20. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2019/20 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2019	7,583.75
December 2019	7,583.75
March 2020	7,583.75
June 2020	7,583.75
<b>Total</b>	<b>30,335.00</b>

### Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2019 to March 2020. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed by the 31 July 2020 and work on the whole of government accounts return in August 2019.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January 2020	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June 2020	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	July 2020	Audit Findings (Report to those charged with governance)	As above

Whole of government accounts		Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September 2020	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

### Our team

The key members of the audit team for 2019/20 are:

	Name	Phone Number	E-mail
Key Audit Partner	Geraldine Daly	0117 305 7741	Geri.n.daly@uk.gt.com
Engagement Manager	Steve Johnson	0117 305 7868	Steve.p.johnson@uk.gt.com

### Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed, and a detailed project specification and fee agreed with the Council.

### Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner, via [jon.roberts@uk.gt.com](mailto:jon.roberts@uk.gt.com).

Yours sincerely



Engagement Lead

For Grant Thornton UK LLP





Report to: **Audit Committee**

Date: **25 June 2019**

Title: **Draft Statement of Accounts 2018/2019  
and Draft Annual Governance Statement  
2018/2019**

Portfolio Area: **Performance & Resources – Cllr C Edmonds**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **July 2019**

Author: **Alex Walker** Role: **Finance Business Partner**  
**Pauline Henstock** **Head of Finance Practice  
and Deputy S.151 Officer**

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## **RECOMMENDATIONS**

- 1. The Draft Statement of Accounts and the Draft Annual Governance Statement (AGS) for the financial year ended 31 March 2019 are noted.**
- 2. To elect to present in other comprehensive income changes in fair values of all equity instruments including the CCLA investment in accordance with IFRS 9 – Financial Instruments with effect from 1 April 2018.**
- 3. To note that delegated authority has been exercised by the Section 151 Officer to transfer £30,000 of additional planning income received in 2018/19 to the Joint Local Plan Earmarked Reserve.**

### **1. Executive summary**

- 1.1 The report advises Members that an under spend of £89,000 was generated in 2018/2019 which was transferred to the General**

Fund Balance (un-earmarked revenue reserve). The level of this reserve now stands at £1.286 million at 31 March 2019.

- 1.2 The Narrative Statement to the Accounts gives a summary of the main items in the Statement of Accounts for 2018/2019.
  
- 1.3 The 2018/19 Code of Practice on Local Authority Accounting has adopted IFRS 9 Financial Instruments. As a result of the implementation of IFRS 9, the Council's Draft Accounts reflect an irrevocable election to designate the CCLA investment as fair value through other comprehensive income. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds this investment as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.  
This election means there is no impact on the revenue budget. Any gains or losses on the valuation of the CCLA investment will therefore be transferred to a Financial Instruments Revaluation Reserve until they are realised.

## **2. Background**

- 2.1 The Accounts and Audit (England) Regulations 2015 set out the requirements for the production and publication of the local authority's annual Statement of Accounts (SOA). These regulations introduced revised procedures for the approval and publication of accounting statements. In line with common practice in the commercial sector, local authorities are now required to approve the accounts following the completion of the audit.
  
- 2.2 The statutory timetable relating to the production and publication of the final accounts was brought forward in 2017/18 and subsequent financial years. The Council is required to publish the draft SOA by 31 May 2019, one month earlier than 2016/17. This is prior to the period for exercise of public rights which must include the first 10 working days of June. The regulations also require that local authorities in England publish their audited SOA by 31 July 2019. The final SOA will be considered by the Audit Committee on 23 July 2019.
  
- 2.3 The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process, since it confirms the availability of reserves and balances for future use.

- 2.4 The attached booklet in Appendix A contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Statement (CIES), the Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow.
- 2.5 The accounts have been prepared in accordance with all relevant and appropriate accounting standards including, International Accounting Standard (IAS) 19 which deals with pension costs. This standard ensures that the full cost of employing people is recognised systematically in the accounts and that creditors reflect the council's liability to pay money into the pension fund. A full explanation of the pension's liability is included in the Council's Statement of Accounts. Members are advised that the accounting arrangements for IAS 19 are for reporting purposes only. Indeed the required entries are reversed out of the accounts and consequently, IAS 19 has no impact on the Council's surplus for the year.
- 2.6 The Annual Governance Statement (AGS) for 2018/19 shown in Appendix B reflects the reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The new requirements include:
- An acknowledgement of responsibility for ensuring there is a sound system of governance
  - A reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment.
  - An opinion on the level of assurance that the governance arrangements can provide.
  - An agreed action plan.
  - A conclusion.
- 2.7 The CIPFA/SOLACE 2016 Framework recommends that the Council carries out annually a self-assessment of the extent to which it complies with seven core principles of good governance. Examples of the framework the Council adopts to comply with the Code's key principles are included within the AGS, as well as an accompanying assurance statement.

### **3. Outcomes/outputs**

#### **Revenue Expenditure**

- 3.1 Revenue expenditure represents the ongoing costs of carrying out day-to-day operations, and is financed from council tax, business rates, fees and charges, government grants and interest earned on investment activity.

3.2 The under spend on the General Fund in 2018/2019 of £89,000 is essentially a break-even position. **The 2018/19 budget was £7.31 million and therefore the saving of £89,000 means that the actual spend was 1% less than the budget.** This saving will go into the Council's Unearmarked Reserves which now stand at £1.286 million. The main variations from budget are shown on Page 9 of the Narrative Statement in the Statement of Accounts.

### Capital Expenditure

3.3 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £23.6 million in 2018/19. The main areas of expenditure were as follows:

- Purchase of investment properties (£21.4m)
- Purchase of waste vehicles (£1m)
- Leisure Centre improvements (£0.5m)
- Housing renovation grants including disabled facilities grants (£0.4m)

### 4. Options available and consideration of risk

4.1 Additional planning income of £214,000 was received in 2018/19. Delegated authority has been exercised by the Section 151 Officer to transfer £30,000 of this additional income into the Joint Local Plan Earmarked Reserve. This will be used to help support the costs of the Joint Local Plan in future years. In addition, £100,000 of planning income was transferred into the Planning Policy and Major Developments Reserve, to support peaks and troughs in the planning service as agreed at Council (Council Minute CM51 (a)).

### 5. Proposed Way Forward

5.1 Members are advised that the accounts will be audited by our External Auditors, Grant Thornton during June and July 2019. Following the Audit, the Statement of Accounts will be brought back to the Audit Committee for approval in July.

### 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015.

		The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS).
Financial implications to include reference to value for money		<p>The financial implications to this report are that an under spend of £89,000 was generated in 2018/2019. This means that the Council's actual spend for 2018/2019 was 1% less than the budget set for the year.</p> <p>To note that delegated authority has been exercised by the Section 151 Officer to transfer £30,000 of additional planning income received in 2018/19 to the Joint Local Plan Earmarked Reserve.</p> <p>As part of Grant Thornton's external audit of the Statement of Accounts for 2018/19, they will give an opinion on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. (An unqualified Value for Money audit opinion was issued by KPMG in July 2018 for the 2017/18 financial year).</p>
Risk		<p><b>Public Accountability</b> – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is recognised by statute as representing proper accounting practice.</p> <p><b>Resource Planning</b> – the Council takes into account any significant issues when developing the Council's Medium Term Financial Strategy.</p>
Supporting Corporate Strategy		<p>The Annual Statement of Accounts and Annual Governance Statement support all of the six Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing, as both encompass and summarise everything that the Council does in monetary terms.</p> <p>In particular for the 'Council Theme', the Accounts summarise how the Council is delivering efficient and effective services and demonstrating strong financial management and strategic financial planning.</p> <p>Our Guiding Principles of the Corporate Strategy are 'to provide value for money and good customer service'. See comments above on the annual Value for Money audit opinion.</p>

Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

**Supporting Information**

**Appendices:**

**Appendix A – Draft Statement of Accounts 2018/19**

**Appendix B – Draft Annual Governance Statement 2018/19**

**Background Papers:**

**Finance Community of Practice final accounts working papers.**



**West Devon Borough Council**  
**Draft Statement of Accounts**  
**2018/2019**



**West Devon  
Borough  
Council**

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**Statement of Accounts 2018-19**

*The Statement of Accounts 2018-19 can be made available in large print, Braille, tape format or other languages upon request.*

*West Devon Borough Council is committed to reflecting the full diversity of our community and to promoting equality of opportunity for everyone.*



# **Section 1**

## ***Narrative Statement***

## **Introduction to the 2018/19 Statement of Accounts by Councillor Neil Jory, Leader of West Devon Borough Council**



I am very pleased to welcome you to the 2018/19 Statement of Accounts for West Devon Borough Council.

This is the first year that the Government has reduced our core funding to zero, providing a significant challenge for the Council to continue to deliver our full range of services and still meet the needs of our communities. We are reliant only on any income we generate and retaining a small percentage of the Council Tax (12%) and Business Rates (14%) raised in the area to fund our services. We have continued our pursuit of finding more efficient ways of providing services, whilst making it easier for people to do business with us.

We continue to work closely with South Hams District Council and share a single workforce, generating an ongoing annual saving of £2.2million for West Devon Borough Council. As the Local Planning Authority we have a key role to play in setting the local strategy for development in our area. A major success for us this year has been the adoption of the Joint Local Plan, which sets out a comprehensive 20 year development plan for the Borough of West Devon, the South Hams and Plymouth.

In November 2018, the Local Government Association led a Peer Review of the Council and our joint arrangements with South Hams District Council. The team comprising of Councillors and senior officers from other Councils reviewed our financial plans, governance, leadership and capacity to deliver services. Their report was very positive about our plans and progress to date and provided a number of recommendations for the Council to implement.

A key project this year has been the successful renewal of our multi million pound contract for recycling, waste collection and street cleansing services. Our partnership with FCC continues with a new contract from April 2019. This will save around £2 million during the lifetime of the contract.

The Council has taken a commercial approach and has been pro-active in addressing economic regeneration in times of financial austerity. The Council has been pursuing our commercial strategy to develop our assets or acquire new assets with the aims of providing economic benefit as well as an ancillary revenue return to the Council. Our four commercial property acquisitions purchased in 2018/19 are now generating a new income stream for the Council of over £275,000 every year.

The surplus for the 2018/19 year is £89,000 (1.2% of the net budget of £7.31m) and demonstrates the Council's prudent management of our finances. Strong financial management across the organisation has aided the financial resilience of the Council, in order to meet future challenges.

**Councillor N Jory, Leader of the Council**

## Foreword by the Chief Executive



The Council continues to scrutinise budgets as part of our annual budget setting process to ensure that we target our spending where it is needed most.

Local Government finances are increasingly stretched and there is a great deal of financial uncertainty for District Councils from 2020 onwards. The Government is undertaking a “fair funding review” (due to be implemented in 2020/21), which will set new baseline funding allocations for Councils, based on an assessment of needs and resources. The move towards Councils retaining 75% of business rates growth is expected to be in place by 2020/21.

The Council has responded to the consultations on these initiatives and continues to monitor proposals so that we can protect the Council’s position as far as possible and continue to provide our range of services to our communities. We were thrilled to be chosen as one of the pilot areas for business rates growth retention for 2018/19, allowing the Council to retain a higher share of business rates growth income.

This year I worked closely with the Council’s S151 Officer (Strategic Finance Lead) and Members to re-design the Council’s Medium Term Financial Strategy for the next five years, which was approved by Council in September 2018. The MTFs looks at financial planning and management over a five year strategy and sets out the strategic intention for all of the different strands of funding available to West Devon. The Council can now rely on this to inform future decisions. This also helps us to develop a sustainable budget over the medium term and will be reviewed annually.

The recent Peer Review report was complimentary about the Finance team and that they were to be congratulated on guiding the Council’s finances to this point. The report also stated that it will be important to avoid complacency and to ensure that financial self-sufficiency becomes the byword over the medium term and focus is maintained to achieve this.

Both West Devon and South Hams Councils have recently undertaken a benchmarking exercise to test the customer experience and we are committed to ensuring a stronger customer focus in the next phase of transformation.

We continue to play a significant role in our region, working with other local authorities and partners through the Heart of the South West Joint Committee, with the Local Enterprise Partnership and agencies such as Homes England to improve infrastructure, facilitate economic growth and support the building of affordable housing in our area.

I would like to take this opportunity to thank all of the Members and staff who have worked together throughout the year to balance the Council’s budget, deliver savings and new income streams and realise further efficiencies to provide value for money.

**Sophie Hosking, Chief Executive**

## **Message from the Section 151 Officer & Strategic Finance Lead - Lisa Buckle**



The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Accounts is to enable members of the public, Council Members, partners, stakeholders and other interested parties to:

- Understand the financial position of the Council as at 31 March 2019 and how the Council has performed against the budget set for 2018/19
- Be assured that the financial position of the Council is secure, with a degree of resilience.

This Narrative Statement provides information about West Devon Borough Council, including the key issues affecting the Council and its Accounts. It is very important to us to provide residents and other stakeholders with the confidence that the public money for which we are responsible has been properly accounted for. We have embedded financial management disciplines, processes and procedures.

The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending. The Council is still facing a forecast budget gap of £533,000 for 2020 onwards. The Council has had a 38% reduction in Government funding over the last four years, with no main Government Grant (Revenue Support Grant) now being received.

There is currently a large amount of uncertainty in local government finances, particularly with the unknowns on the resetting of the business rate baselines for Councils and the Fairer Funding Review, all of which could have a negative impact on the Council's future finances. Significant changes will also be implemented to the New Homes Bonus (NHB) scheme, with Central Government due to consult on the current scheme. The Government has announced that New Homes Bonus will cease in the future and details of any scheme to replace it are unknown. It is possible that Councils will only be receiving a one year finance settlement for 2020/21.

These developments will fundamentally change the Local Government Finance environment, which is now characterised by an increased shift towards locally-generated resources, with an accompanying transfer of both risk and opportunity.

The financial standing of the Council is secure in the short to medium term, but there is still much work to do to ensure the long term financial sustainability of the Council. The next few years will be challenging as the Government's Fair Funding Review and the reset of the Business Rates baseline are introduced, coupled with no Government Grant and the cessation of the current New Homes Bonus scheme.

**Mrs Lisa Buckle BSc (Hons), ACA  
Section 151 Officer & Strategic Finance Lead**

**NARRATIVE STATEMENT – INTRODUCTION**

- Each year West Devon Borough Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute. The Statement of Accounting Policies summarises the framework within which the Council's accounts are prepared and published.

**REVIEW OF THE YEAR – THE REVENUE BUDGET**

- The 2018/19 budget for West Devon was £7.31 million but the actual spend was 1% lower, providing an underspend of £89,000, which will go into the Council's Unearmarked Reserves which now stand at £1.286 million. The main components of the General Fund budget for 2018/19 and how these compare with actual income and expenditure are set out below:

	Estimate £000	Actual £000	Difference Cost/ (Saving) £000
Cost of services	6,039	5,951	(88)
Parish Precepts	1,365	1,365	-
Interest and Investment income	(90)	(91)	(1)
<b>Amount to be met from Government grants and taxation</b>	<b>7,314</b>	<b>7,225</b>	<b>(89)</b>
<i>Financed from:</i>			
Business Rates	(2,050)	(2,050)	-
Business Rates Pilot Gain for 2018/19	(460)	(460)	-
Council Tax	(4,525)	(4,525)	-
Surplus on Collection Fund	(96)	(96)	-
Reserve Contributions	(183)	(183)	-
<b>UNDERSPEND 2018/19</b>	<b>-</b>	<b>(89)</b>	<b>(89)</b>

3. The underspend is shown in the Movement in Reserves Statement in Section 2B and can be summarised as follows:

	<b>£000</b>
General Fund Balance (un-earmarked revenue reserve) at 1 April 2018	(1,197)
<b>Underspend for the 2018/19 financial year</b>	<b>(89)</b>
General Fund Balance (un-earmarked revenue reserve) at 31 March 2019	(1,286)

4. The table below shows a reconciliation of the position shown on the bottom of the Comprehensive Income and Expenditure Statement and the underspend for 18/19.

	<b>£000</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,115)</b>
Remeasurements of the net defined benefit pension liability	1,218
Surplus on the revaluation of Property, Plant and Equipment	2,225
Surplus on the revaluation of financial assets	7
<b>The detail of the items below are shown in Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations'</b>	
Adjustments primarily involving the Capital Adjustment Account	(1,716)
Adjustments primarily involving the Capital Receipts Reserve	-
Adjustments primarily involving the Capital Grants Unapplied Account	527
Adjustments primarily involving the Pensions Reserve	(660)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	(28)
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	157
Adjustments primarily involving the Accumulated Absences Account	(5)
Transfers to earmarked reserves	301
<b>Underspend for the 2018/19 financial year</b>	<b>(89)</b>

5. A summary of the main differences from budget in 2018/19 is provided below:

<b>ANALYSIS OF VARIATIONS</b> (% column shows variation against budget)	<b>£000</b>	<b>% variation</b>
<b>Increases in expenditure/reduction in income</b>		
<b>Customer First</b>		
Joint Local Plan (JLP) one-off costs associated with adopting the JLP during this financial year which sets out a 20 year plan	46	-
Leisure Centre legal fees – the Council externalised the legal work to facilitate negotiations over the terms of the lease arrangements for the new leisure contract (one-off costs)	41	-
<b>Commercial Services</b>		
Car Parking income (budgeted income was £1,006,000). New charges were not implemented until 2 July 2018, following a consultation period.	53	5.3%
Staff salaries (budgeted salaries of £455,000)	18	3.9%
<b>Support Services</b>		
ICT support contracts – extra costs e.g. IEG4 software, Northgate Land Charges, Northgate Gazetteer (address database) and Clear Core (enables single customer record). The budgeted amount for ICT support contracts was £300,000.	91	30.3%
<b>Strategy and Commissioning</b>		
Corporate Management - payment collection expenses – bank and card processing fees (budgeted costs £7,000)	32	457.1%
Other small variances	16	-
<b>Reductions in expenditure/additional income</b>		
<b>Customer First</b>		
Additional Planning Income (budgeted income £333,000)	(214)	(64.3%)
Housing Benefit – additional overpayment recoveries (budgeted income £85,000 - actual expenditure for Housing Benefit in 2018/19 was £12 million)	(144)	(169.4%)
<b>Strategy and Commissioning</b>		
Commercial Property net investment income - four commercial properties were purchased in 2018/19 (See Note 13 on Investment Properties – budgeted income £100,000)	(124)	(124.0%)
Senior Leadership Team – Interim arrangements saving	(34)	(17.4%)
<b>Sub - total</b>	<b>(219)</b>	<b>(2.98%)</b>
Transfer to Earmarked Reserves - Transfer £100,000 planning income into the Planning Policy and Major Developments Reserve, to support peaks and troughs in the planning service (Council Minute CM51 (a)) and £30,000 planning income into the Joint Local Plan Reserve.	130	-
<b>TOTAL UNDERSPEND FOR 2018/19</b>	<b>(89)</b>	<b>(1.2%)</b>

The 2018/19 budget for West Devon was £7.31 million but the actual spend was 1% lower, providing an underspend of £89,000 as shown above.

## **KEY AREAS TO NOTE FROM THE 2018/19 STATEMENT OF ACCOUNTS**

### **Pension Liability**

6. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The overall impact on the General Fund of the IAS 19 entries is neutral.
7. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2019 of £23.8 million. This compares to £24.4 million as at 31 March 2018. The deficit is derived by calculating the pension assets and liabilities at 31 March 2019. See Note 36 for further information.

### **Business Rates**

8. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline or if a Council's income from business rates falls due to successful business rates appeals.
9. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value.
10. In 2018/19 there has been a £590,000 increase in the provision for appeals within the Collection Fund. The surplus on the Business Rates Collection Fund now stands at £545,000 (£152,000 in 2017/18). West Devon Borough Council's share of the surplus is 40% (£218,000). Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income. The balance on this reserve is £492,000 at March 2019.

### **Business Rates Pilot status for 2018/19**

11. The move towards 75% Business Rate Retention of business rates growth is expected to be in place by 2020. Devon was selected as one of 10 areas to take part in a national pilot allowing Councils to retain a higher share of business rates growth. The Council was very pleased to be given this opportunity by Central Government. The pilot was for one year, 2018/19 and has generated an extra £460,000 of business rate income. £143,516 of this pilot gain has been used to fund the 2018/19 revenue base budget and the balance of £316,484 has been transferred to the Financial Stability Reserve.



## Trading Company

12. West Devon Borough Council and South Hams District Council set up a trading company, Servaco Limited, on 4th September 2014. This is a company limited by shares. The company has not traded in 2018/19 and a set of statutory dormant Accounts will be filed with Companies House for the period 1 April 2018 to 31 March 2019. The future of Servaco Limited will be reviewed during 2019/20.

## Borrowing

13. In 2018/19 the Council has undertaken capital expenditure (financed by prudential borrowing from the PWLB) of £23.6 million. This was mainly to purchase four investment properties as part of the Council's Commercial Property Acquisition Strategy as detailed below.
14. In addition, the Council has also borrowed £1.5 million in 2018/19 for investment in the Council's leisure centres. The Council is being reimbursed by the leisure contractor for the borrowing costs of the leisure investment. By borrowing from the PWLB at a fixed rate, this protects against future interest rate rises over the next 23 years and ensures that leisure is a self-financing stand alone investment project.

## Commercial Property Strategy

15. In September 2018 (Minute CM34) the Council approved an updated Commercial Property Strategy, which included multiple objectives: (a) to support regeneration and the economic activity of the Borough, the LEP area and the South West Peninsula (in that priority order) (b) to enhance economic benefit (c) to grow business rate income (d) to assist with the financial sustainability of the Council as an ancillary benefit and (e) to help continue to deliver and/or improve frontline services in keeping with its adopted strategy and objectives.
16. Details of the Council's Commercial Property Strategy can be found in the report taken to the Hub Committee on 11th September 2018 (and subsequently approved by Full Council on 25th September 2018 - minute Reference CM34 and HC26)  
<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=221&MId=1206&Ver=4>
17. This strategy, which is expected to be predominantly funded through prudential borrowing, has two strands. The first is development within the Borough, the second is commercial property acquisition either within the Borough, the LEP area or the South West Peninsula (in that priority order). Also in September 2018 Council approved an overall Borrowing Limit (for all Council services) of £50 million.
18. Note the previous commercial property acquisition strategy was approved by Council on 27th March 2018. The new strategy approved in September 2018 included both commercial property acquisition as well as the funding of commercial development on

Council land. This proposal is in line with the “Enterprise” corporate strategic aim of creating places for enterprise to thrive and business to grow.

19. Due diligence and risk assessment is undertaken and a business case produced for each development or acquisition opportunity, when identified. Each investment opportunity will also be assessed on meeting the above objectives and on delivering one or more of the following outcomes: job creation or safeguarding; health and wellbeing; town centre regeneration; tourism/increased footfall; business rate growth; improved asset utilisation.
20. A minimum net yield return of 1% is being targeted. However, in some circumstances, e.g. where there is a community benefit, a lower return may be acceptable. The Council will put in place contingency plans should expected yields not materialise.

### **Capital Spending**

21. The Council spent £23.6 million on capital projects in 2018/19. The main areas of expenditure were as follows:
  - Purchase of investment properties (£21.4m)
  - Purchase of waste vehicles (£1m)
  - Leisure centre improvements (£0.5m)
  - Housing renovation grants including disabled facilities grants (£0.4m)

### **Investment in the South West Mutual Bank**

22. In 2018/19 the Council approved making a £49,995 investment in the South West Mutual Bank which takes the form of shareholding in the Bank. As the investment is supporting the local economy it was financed from the business rates pilot gain.
23. In addition to supporting the local economy, the new Mutual will promote inclusive growth. In particular, it will help make banking more local, provide branch facilities in rural locations, recycle the savings of local people and businesses back into the regional economy, promote financial inclusion and improve access to credit for small and medium sized businesses. The ethos behind the new Mutual is consistent with the Council’s corporate strategy themes of communities and enterprise.
24. The investment does not have the primary purpose of deriving a financial return and the Council recognises that the funds utilised may not necessarily be returned to the Council. Therefore the investment has been written down to Nil during 2018/19.

## Financial Instruments – IFRS9 Election to treat Equity Instruments as Fair Value through Other Comprehensive Income

25. In February 2017, the Council made the decision to invest £500,000 in the CCLA Local Authority Property Fund, with the investment being placed in April 2017.
26. Upon transition to IFRS 9 – Financial Instruments on 1 April 2018, and in accordance with paragraphs 5.7.5 and 7.2.8 (b) of IFRS9, West Devon Borough Council makes an irrevocable election to present in other comprehensive income, changes in the fair values of its equity instruments. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds this investment as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash. A summary of the position of these equity instruments as at 31 March 2019 is shown below:

	<b>Purchase cost</b>	<b>Fair Value at 31 March 2019</b>	<b>Balance in Financial Instruments Revaluation Reserve</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Equity Instrument</b>			
CCLA Local Authorities Property Fund	500	491	9

## FINANCIAL NEEDS AND RESOURCES

27. The Council maintains both capital and revenue reserves. The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.
28. General Fund reserves (which include earmarked reserves) have increased by £0.4m from the preceding year and stand at £5.6m at 31 March 2019.
29. The General Fund Balance (un-earmarked reserve) has increased by £89,000 in 2018/19 and totals £1.286m. Revenue reserves may be used to finance capital or revenue spending plans. The level of Reserves are assessed as adequate for the Council's operations.
30. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2019 amounts to £0.869m, compared to £0.469m at the end of the previous year.

31. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance capital or revenue expenditure. In addition the Financial Instruments Revaluation Unusable Reserve has been created in 2018/19 following the implementation of IFRS9 Financial Instruments on 1 April 2018. The 'Available for Sale' category of Financial Instruments is no longer available under IFRS 9 and the balance brought forward from 2017/18 has been transferred to the Financial Instruments Revaluation Reserve.
32. When reviewing the amount of overall reserves held, consideration should be given to the possible implications of the Pension Fund deficiency disclosed within the notes to the balance sheet. The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £23.8 million at 31 March 2019. This disclosure follows the implementation of the International Accounting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.
33. It is important to gain an understanding of the accounts to appreciate the nature of this reported deficiency, which is based on a "snapshot" of pension assets and liabilities at the year end. This is quite different from the valuation basis used for the purposes of establishing the employer's contribution rate and fund shortfall, which are calculated using actuarial assumptions spread over a number of years.

#### **Senior Leadership Team interim arrangements**

34. Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements. A report was presented to Council on 12 February 2019 (Council Minute CM54) that outlined a review of the Staffing Establishment.
35. The Review Panel, consisting of the Leaders of each Council and senior Members recommended that the previous structure incorporating two Executive Directors was replaced with a Chief Executive Officer. The Panel also recommended that once in post, the Chief Executive brings forward a proposed new senior leadership structure that builds upon the recommendations of the Peer Review and will be along the lines of:
  - Director of Customer Service and Delivery
  - Director of Place and Enterprise
  - Director of Governance
  - Director of Strategic Finance
36. It was resolved that with effect from 21 February, the Executive Director for Service Delivery and Head of Paid Service be appointed to the role of Chief Executive and that agreement be given to extending the interim senior management arrangements with a

report being brought to Council recommending a new structure within six months of the 2019 Council elections.

### **Annual Governance Statement (AGS)**

37. The Council's Annual Governance Statement sets out the arrangements for governance which the Council has in place. The AGS is published alongside the Accounts for 2018/19.

### **Peer Challenge**

38. In 2018, the Council requested that the Local Government Association ("LGA") undertake a Peer Challenge of West Devon Borough Council, jointly with South Hams District Council in order to identify their strengths and any areas for improvement. The team comprising of Councillors and senior officers from other Councils reviewed our financial plans, governance, leadership and capacity to deliver services. Their report was very positive about our plans and progress to date and provided a number of recommendations for the Council to implement.

A copy of the Peer Challenge report is available on the link below:

<https://www.westdevon.gov.uk/article/5049/Peer-Review-Report-2018-19>

39. On 19<sup>th</sup> March, the Hub Committee considered the Peer Challenge Action Plan. The full report is available on the following link:-

<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=221&MId=1210&Ver=4>

## **LOOKING FORWARD TO THE FUTURE AND NEXT STEPS**

40. The Council has a proud tradition of innovation, we will continue to strive to achieve this whilst implementing the Peer Review recommendations, the customer satisfaction improvement plan and of course working with local communities to deliver against the Council's key corporate themes.

### **Newly elected Council**

41. Following the local elections in May 2019, the Council will embark on a thorough induction programme for newly elected Councillors. Induction will cover in detail the services offered by the Council, the Corporate Strategy and the financial and legislative challenges to be faced in 2019/20 and beyond. A key task for Councillors will be to align services to the Council's corporate themes and more importantly explain and consult with our residents and communities. This will be key in enabling the Council to deliver on its aspiration to 'make a positive impact on the lives of local people by providing valued and easy to use services'.

### **Acting on the Peer Review**

42. As a result of the Peer Review report, we will be reviewing the Council's Senior Management structure to ensure that there is strategic capacity and direction to enable the Council to effectively plan for and deliver its aspirations into the medium term whilst at the same time generating longer term savings. Staff will be working with newly elected Councillors to strengthen the Council's political governance arrangements and build on the success of the joint procurement for waste services to continue joint working with South Hams District Council.
  
43. We will continue to ensure there is an organisational focus on achieving financial sustainability and develop new income streams to support the Council's budget. We will continue to develop our existing partnerships and create new ones, to improve our support to individuals and communities, ensuring that we offer joined up, cost effective services so that, our customers and communities have a clear understanding of where they can get guidance and support.

### **Customer Satisfaction**

44. There will be a relentless focus on improving customer satisfaction ahead of a follow-up satisfaction survey in 2019. We have set clear targets and aim to improve the Council's score in 3 key measures;
  - The overall benchmarking score
  - Getting it 'right first time'
  - And 'keeping customers informed'
  
45. We will do this by implementing service standards across the majority of our services. When customers contact us they will be advised of what they can expect to receive and by when. We will capture customers' feedback and use this to drive service improvements. For major services we will look to provide on our website, how we are doing in meeting these standards, alongside feedback from our customers. When we look at service changes or new services, we will involve customers to ensure that we understand the 'customer experience' from their first contact with us through to delivery.

### **Working with communities**

46. We will continue our work with Town and Parish Councils and Neighbourhood Planning Groups to prepare Town Centre Strategies. These will identify priorities and provide the basis for coordinated action to ensure the role town centres play in meeting the needs of communities and their hinterland are maintained and enhanced.

## **Our financial future**

47. The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending. The Council is still facing a forecast budget gap of £533,000 for 2020 onwards. The Council has had a 38% reduction in Government funding over the last four years, with no main Government Grant now being received (Revenue Support Grant has been reduced to Nil). This means that the Council needs to generate additional income to be able to carry on delivering our current range of services. In terms of sparsity, West Devon Borough Council is third in the table of Councils who are covering the largest area with the smallest population. The Council will continue to implement proposals to meet this financial challenge; these will include progressing investment opportunities and income generating services as well as identifying further efficiencies to reduce costs for the benefit of our community, finding smarter ways of doing things and making our assets work better for us in order to balance the budget next year.

## **Summary**

48. Overall, the Council's finances remain secure in the short to medium term, but there is still much work to do to ensure the long term financial sustainability of the Council. The next few years will be challenging as the Government's Fair Funding Review and reset of the Business Rates baseline are introduced, coupled with no Government Grant and the cessation of the current New Homes Bonus scheme. There are many uncertainties inherent within all these fundamental changes to the Local Government Finance environment.

## **Issue of the Accounts**

49. The Section 151 Officer & Strategic Finance Lead authorised the unaudited Statement of Accounts 2018/19 for issue on 29th May 2019.

## ACHIEVEMENTS FOR 2018/19

The following pages set out the achievements of the Council for 2018/19 by each of the Themes within its Corporate Strategy.

### COUNCIL - Delivering efficient and effective services

Action	18/19 Progress
Customer Service	Joined the renowned Institute of Customer Service to benchmark Council service against market leaders. Stopped accepting cash and cheque payments, enabling more staff to be deployed on phone answering, which in turn has helped significantly reduce call-waiting times for customers. We have continued to focus on 'getting it right first time' and proactively keeping customers informed, both of which have helped to reduce call volumes. We have piloted web chat and will be looking at how we can expand this in 2019/20.
Value for Money	Deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. Approved a net budget for 2019/20 which includes proposals for savings and additional income of £690,000, including significant annual savings from April 2019 from the procurement of the Council's waste collection, recycling and cleansing services. As part of the budget setting process for 2019/20, the Council has agreed to reduce funding or seek efficiencies to ensure statutory delivery outcomes are prioritised.
Lobbying	Participated in a number of consultations during the year, including business rate retention reform, the Fair Funding Review, the 2019/20 Local Government Finance Settlement and the Local Authority Financial Resilience Index. The Council was accepted as one of only 10 new business rate retention pilots in England for 2018/19. The Council has also been working with Rural Services Network to lobby central government on the higher cost of delivering rural services and has formally signed up to the RSN Rural Strategy which is gaining support in central Government.
Investment	The Council has taken a commercial approach and has been pro-active in addressing economic regeneration in times of financial austerity. A commercial property acquisition strategy has been approved by the Council, which blends in-area development and investment, with those outside of the area, all capped within the Council's borrowing limit of £50 million.



## COMMUNITIES - Council and residents working together to create strong empowered communities

Action	18/19 Progress
Community Project Grants	£16,868 allocated to 4 projects ranging from renovations to a village hall, replacing play equipment, an arts project and wildlife equipment.
Communities Together Funding	£28,100 awarded to 7 community projects including play equipment, bus shelter, defibrillator, memory cafe and village hall improvements.
Seamoor Community Lotto	Agreement secured to proceed with a Council led lottery in partnership with South Hams District Council and Gatherwell Ltd. Over 90 local, good causes signed up to receive funds.
Community Support	Provided core funding support to a range of local organisation providing services to local communities including the Citizens Advice, CVS (Community Volunteer Service), Ring and Rides, Okehampton Community and Recreation Association and Young Devon.
Community Asset Transfers	A number of transfers have completed this year, with two areas of open space and one public toilet transferring to Okehampton Town Council. Other public toilet transfers include Chagford and Lydford, with more planned for 2019.
Neighbourhood Plans	Launched a dedicated website <a href="http://www.neighbourhoodplanning.swdevon.gov.uk">www.neighbourhoodplanning.swdevon.gov.uk</a> providing detailed information on plans that are already in progress and guidance for community groups thinking of starting a plan. 1 plan made in 2018/19.

**HOMES** - Enabling homes that meet the needs of all

Action	18/19 Progress
Affordable housing	16 homes completed in Horrabridge and South Tawton. Construction is also underway to provide 28 affordable homes within Chagford, the first units will be completed and ready for occupation in July 2019 in partnership with the Community Land Trust and Aster Housing Association. Work has commenced on three sites in Tavistock including Butcher Park which is set to provide 38 affordable homes, Callington Road providing 41 homes and new Launceston Road 37 homes. In Okehampton permission has been granted for 12 homes and two other applications, outside of the main towns will provide a further 34 dwellings in the Borough.
Disabled facility grants	Awarded over £308,000 to 61 projects to facilitate independent living through adaptation of homes including level shower access, stair lifts and ramps.
Community Housing Initiative	£250,000 Community Housing Fund targeting high quality homes for those with local connection where the cost of market housing is beyond their reach. First two schemes (17 and 12 homes respectively) in early stage of design. It is proposed that these will be constructed during 2020. Further opportunities are under review.
SeaMoor Lettings	Launch of Council run housing letting agency, managing 6 homes for private landlords to local people at affordable rents.

## ENVIRONMENT - Protecting, conserving and enhancing our built and natural environment

Action	18/19 Progress
Joint Local Plan	On 26 March 2019 the Plymouth and South West Devon Joint Local Plan was formally adopted. The Plan has been subject to examination by two independent Inspectors appointed by the Secretary of State. The Joint Local Plan is only the third joint plan in the country to include strategic and local policies, the first to include a major English city and its neighbouring Councils, and has been prepared in the shortest time of any joint plan in the country.
Waste and Recycling	Successfully awarded a new high performing waste, recycling and street cleaning contract. Achieving savings of around £2 million during the lifetime of the contract. The Council listened to what residents wanted i.e. more items being recycled from the kerbside and a continued focus on keeping the beautiful Borough clean - this will be delivered through the new arrangement at a more favourable price.
Tavistock Town Heritage Initiative	Contributed to this partnership initiative securing monies from the Heritage Lottery Fund, restoring 4 listed buildings in 2018/19 including Kingdon House and improving surfacing around the Pannier Market.
Garden Waste Club	Realigned the Council's garden waste service to better fit with the growing season, by making annual subscriptions from April to March. To date over 5,000 residents have signed up to this fortnightly service.

## ENTERPRISE - Creating places for enterprise to thrive and business to grow

Action	18/19 Progress
Greater Dartmoor LEAF (Local Enterprise Action Fund)	£249,748 funding awarded in the past 12 months to 12 projects which are expected to generate 14.4 FTE jobs. Projects include community buildings, premises refurbishments, equipment investment and farm modernisation. To date, 24.6 FTE jobs have been created in West Devon through this fund, employing local people. In recognition of the good management of this fund and the volume of high quality projects in the Greater Dartmoor LEAF area, additional funding of £264,000 was awarded by Defra to extend the programme during 2018/19.
Business Support	Funded a business support package which has delivered advice to 99 businesses, hosted 34 workshops and assisted businesses to recruit 102 employees.
Teenage Market	Continued to build on this successful initiative by working in partnership with the Town Council to host a market in the newly restored Butchers Hall. Providing young people the opportunity to hone their business skills and show their entrepreneurial flair.
Council owned premises	Achieved an average of 85% occupancy rate for all Council owned employment premises.

## WELLBEING - Supporting positive, safe and healthy lifestyles and helping those most in need

Action	18/19 Progress
Community Safety Partnership	Facilitated training on safeguarding to 95% taxi drivers. Continued to work with all secondary schools in the Borough through workshops and theatre performances to address and raise awareness of community safety including drugs, prevent and missing episodes linked to exploitation. Enabled Tavistock and Okehampton Matters meetings with local councillors to discuss anti-social behaviour with the police and other safety specialists. Commissioned "Moorwatch" banners to significantly reduce the amount of thefts from vehicles on the moor. Worked with the local fire service to deliver the Phoenix Project to teach fire and rescue skills.
Junior Life Skills	Worked with 9 partners including the Police, RNLI, Fire Service, Dog Trust and Tavistock Rotary to present workshops to 600 children, to enable them to live safely and provide them with the skills to assess and respond appropriately to potentially dangerous situations.
Refugees	Member approval to welcome additional Syrian families beyond our original pledge, where properties are offered. Fifth family to arrive in early summer 2019 for resettlement.
Leisure Centres	All capital developments at Okehampton and Tavistock have been successfully completed, to a value of nearly £2 million. Despite all the building works and associated disruption, overall usage increased to 140,324 visits, including 824 memberships, plus 757 swim school memberships.
Pocket Park Scheme	Working with the local community, secured £25,000 of Pocket Park Scheme funding, to support a disabled play space in the Hatherleigh area.

**PERFORMANCE INDICATORS FOR 2018/19**

Performance has continued the multi-year trend and been maintained at a high, and generally improving, level. Increased online uptake has delivered further improvements in efficiency and enabled better results from the contact centre to be realised. Other improvements in productivity are planned so the level of performance should be maintained or improved going forward.

**Corporate Balanced Scorecard**

**Community/Customer**

Q1	Q2	Q3	Q4	Yr	
▲	▲	▲	▲	▲	Overall waste recycling rate %
●	●	●	●	●	Residual waste per household
●	▲	●	●	●	Average no. of missed bins
▲	▲	●	●	●	CST: % of calls answered
●	●	●	▲	●	CST: % of calls answered in 20 secs
▲	●	●	●	▲	CST: % calls answered in 5 mins

**Processes**

Q1	Q2	Q3	Q4	Yr	% of planning applications determined within time frame
●	▲	●	●	●	Major(Statutory)
●	●	●	●	●	Non-Major

Q1	Q2	Q3	Q4	Yr	
●	●	●	●	●	Avg End to End time Benefits New Claims
●	●	●	●	●	Avg End to End time Benefits Change of circumstances

**Online uptake**

Q1	Q2	Q3	Q4	Yr	
●	●	●	●	●	% of Benefits new claims online (IEG4)
●	●	●	●	●	% of Benefits change of circumstances online (IEG4/DHP)
●	●	●	●	●	Ratio of web/call-post-email submissions (W2)

**Performance**

Q1	Q2	Q3	Q4	Yr	
●	●	●	●	●	EH: % of nuisance complaints resolved at informal stage
●	●	●	●	●	Avg days short term sickness/FTE
●	●	●	●	●	Complaint response speed

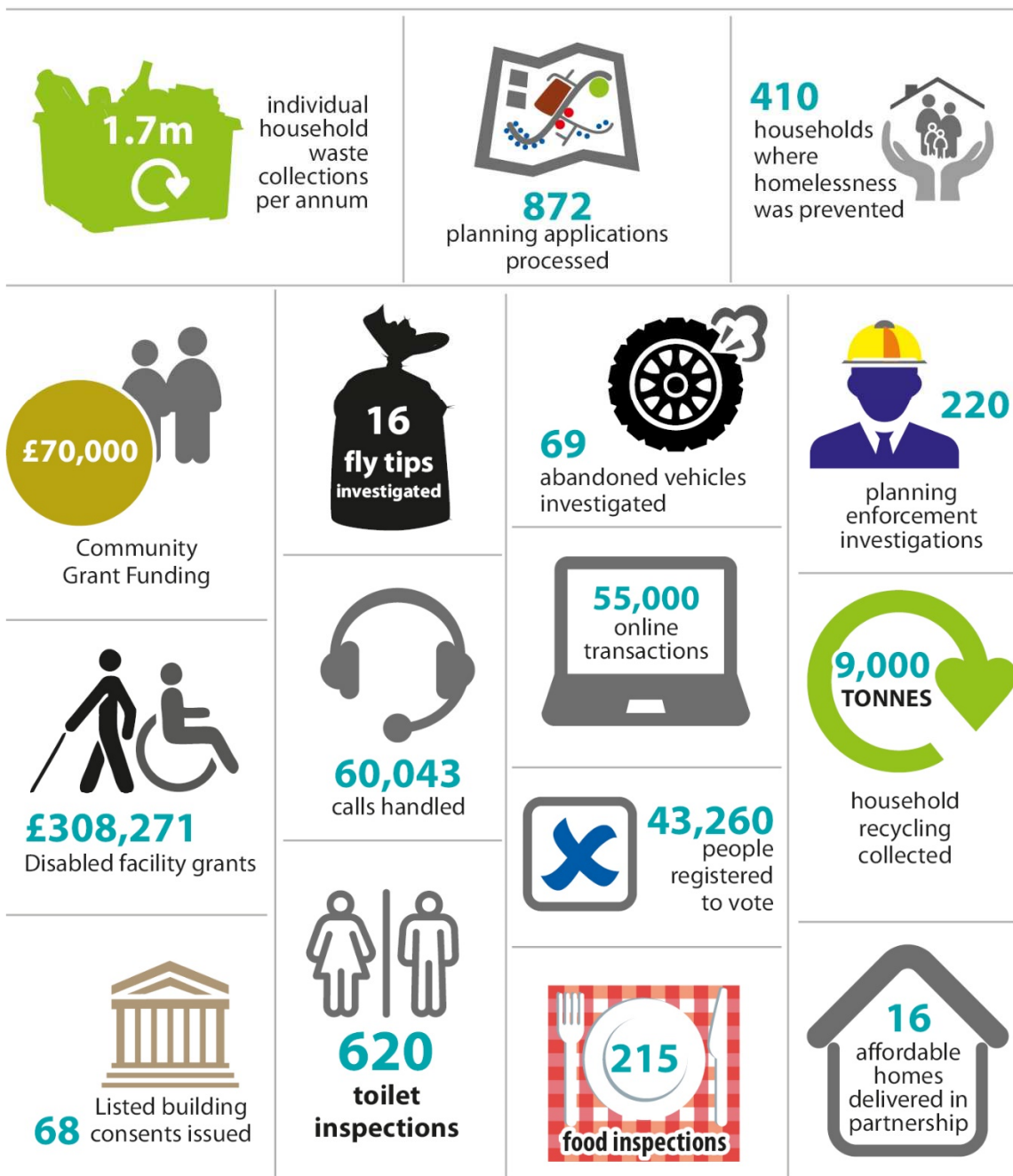
**Key**

●	Below target performance
▲	Narrowly off target, be aware
●	On or above target

**Online Uptake**

The new measure for online uptake for benefits change of circumstances was set at a stretching level to encourage channel shift for customers who were used to interacting with us in more traditional ways. The online uptake for new claims started high and increased regularly, but changes of circumstances remained low. The form was updated towards the end of the year to make it display better on smaller screen devices (phones, tablets, etc.) where we were seeing increased usage and we should see a slow improvement for this measure in the coming year.

## A few things we spent your money on in 2018/19



## Performance for the year 2018/19



Housing benefit claims processing times 8.5 days faster than the national target



Online transactions increased by 10,000 to 55,000 transactions



Missed waste collections equate to 108 in every 100,000



Non major planning determinations delivered on time 83%



Call volume decreased by over 3,000 calls



## PRINCIPAL RISKS AND UNCERTAINTIES

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. A Statutory Officers' Panel was set up in 2015/16 and a key role of this Panel is strategic risk management. This Panel consists of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer.

A risk report is presented to the Council's Audit Committee every six months. Below is an extract from the Risk report to the Audit Committee in March 2019.

<b>Risk</b>	<b>Uncertainties</b>	<b>Mitigation</b>
<b>Political commitment for change</b>	Considerable external change with Devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.	Regular Leader & Deputy Leader meetings. Regular surgery and informal sessions for wider membership.  Jan 2019: Preparation for post-May 2019 through induction and ongoing training for all Members. Introduction of some of the suggested actions from the LGA peer review.
<b>Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government policy and/or income streams</b>	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. Business rates pilot 2018/19 – 100% local business rate retention of growth above baseline is confirmed for one year only.	Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council is not intending to rely heavily on sources of income which may not be sustainable.  SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT engaged in the development of the MTFS. Latest MTFS approved by Council in September 2018 with Member Workshops in both Councils conducted in October 2018.  Budget for 2019/20 was approved by Council in February 2019. Waste contract procurement has delivered significant financial savings. Grounds maintenance business review and ICT review to be carried out to deliver either growth opportunity or efficiencies in working methods. Commercial Property Acquisition Strategy has achieved its current objectives. One development project has been approved, which subject to planning approval, will contribute revenue in future years.

<b>Risk</b>	<b>Uncertainties</b>	<b>Mitigation</b>
<b>Service Performance</b>	Process implementation is now complete. Uncertainties could be due to a lack of appropriate resources. In the past, a lack of appropriate resource and the T18 transformation and change in processes combined to affect our ability to deliver appropriately on occasion. This pressure was increased due to county and general elections in 2017.	A Customer Survey was carried out in Autumn 2018 and staff Customer Away Days were held in September 2018. Getting it right the first time, getting back to people appropriately and more timely. Better channel recognition to clear responses. Keep better records. Appropriate resources in the right places. Plan to re-measure customer satisfaction during 18/19. Increased customer engagement; new complaints policy in place. Ongoing review of internal and external policies.
<b>Business Continuity</b>	Following the event, how quickly will certain systems and processes be able to be back on-line	Key officers have now attended a training exercise. Officers are updating plans as a result. Business Impact assessments have been completed for most areas and were tested in the above exercise. A recent internal audit has been completed and identified some weaknesses but acknowledged a positive direction of travel.
<b>Emergency response, e.g. storm damage/flooding</b>	Following the event, the expectation that asset repairs will be urgently undertaken despite competing claims on capital resources	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity
<b>Inadequate Staffing Resources</b>	Performance being reviewed to understand whether resourcing levels are correct; difficult to assess accurately as organisation continues to experience change effects and processes being embedded / roll-out of new technology and working practices	Customer Satisfaction Survey has been undertaken and staff away days have also been undertaken to update staff and embed solutions to tackle issues raised. Mechanism in place for ELT to appoint within budget where appropriate without recourse to SLT. Apprenticeship scheme developed by HR.

## **Section 2**

# **Core Financial Statements**

## SECTION 2A 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 regulations; 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				2018/19		
Gross Expenditure	Gross Income	Net Expenditure	Segment	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
19,703	(16,316)	3,387	Customer First	17,998	(15,342)	2,656
4,052	(1,812)	2,240	Commercial Services	4,086	(2,029)	2,057
1,554	(579)	975	Strategy & Commissioning	1,180	(316)	864
1,963	(409)	1,554	Support Services	2,151	(376)	1,775
774	(12)	762	Centrally Held Costs	830	-	830
39	-	39	Material Items (Note 2)	32	-	32
<b>28,085</b>	<b>(19,128)</b>	<b>8,957</b>	<b>Cost of Services</b>	<b>26,277</b>	<b>(18,063)</b>	<b>8,214</b>
1,300	(13)	1,287	Other operating expenditure (Note 9)	1,643	-	1,643
797	(76)	721	Financing and investment income and expenditure (Note 10)	2,552	(1,046)	1,506
3,365	(12,616)	(9,251)	Taxation and non-specific grant income (Note 11)	2,783	(12,811)	(10,028)
<b>33,547</b>	<b>(31,833)</b>	<b>1,714</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>33,255</b>	<b>(31,920)</b>	<b>1,335</b>
		(1,349)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(2,225)
		(2,866)	Remeasurements of the net defined benefit liability			(1,218)
		16	(Surplus) or deficit on revaluation of available for sale financial assets			-
		-	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income			(7)
		<b>(4,199)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(3,450)</b>
		<b>(2,485)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(2,115)</b>

## SECTION 2B: MOVEMENT IN RESERVES

### 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 Increase/Decrease in Year line shows the statutory General Fund Balance movements in the year following these adjustments.

<b>2018/19</b>	General Fund Balance £000	Earmarked General Fund Reserves £000	<b>Total General Fund Reserves £000</b>	Capital Receipts Reserve £000	Capital Grants Unapplied £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Authority Reserves 2018/19 £000</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>1,197</b>	<b>4,015</b>	<b>5,212</b>	<b>347</b>	<b>122</b>	<b>5,681</b>	<b>(6,105)</b>	<b>(424)</b>
<b>Movement in Reserves during Year</b>								
Total Comprehensive Income & Expenditure	(1,335)	-	<b>(1,335)</b>	-	-	<b>(1,335)</b>	3,450	<b>2,115</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	1,725	-	<b>1,725</b>	(26)	426	<b>2,125</b>	(2,125)	-
Transfers to/from Earmarked Reserves (Note 8)	(301)	301	-	-	-	-	-	-
<b>Increase/ (Decrease) in Year</b>	<b>89</b>	<b>301</b>	<b>390</b>	<b>(26)</b>	<b>426</b>	<b>790</b>	<b>1,325</b>	<b>2,115</b>
<b>Balance at 31 March 2019 carried forward</b>	<b>1,286</b>	<b>4,316</b>	<b>5,602</b>	<b>321</b>	<b>548</b>	<b>6,471</b>	<b>(4,780)</b>	<b>1,691</b>

**SECTION 2B: MOVEMENT IN RESERVES**

<b>2017/18 Comparatives</b>	General Fund Balance £000	Earmarked General Fund Reserves £000	<b>Total General Fund Reserves £000</b>	Capital Receipts Reserve £000	Capital Grants Unapplied £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Authority Reserves 2017/18 £000</b>
<b>Balance at 31 March 2017 carried forward</b>	<b>1,125</b>	<b>3,732</b>	<b>4,857</b>	<b>452</b>	<b>173</b>	<b>5,482</b>	<b>(8,391)</b>	<b>(2,909)</b>
<b>Movement in Reserves during Year</b>								
Total Comprehensive Income & Expenditure	(1,714)	-	<b>(1,714)</b>	-	-	<b>(1,714)</b>	4,199	<b>2,485</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	2,069	-	<b>2,069</b>	(105)	(51)	<b>1,913</b>	(1,913)	-
Transfers to/from Earmarked Reserves (Note 8)	(283)	283	-	-	-	-	-	-
<b><i>Increase/ (Decrease) in Year</i></b>	<b>72</b>	<b>283</b>	<b>355</b>	<b>(105)</b>	<b>(51)</b>	<b>199</b>	<b>2,286</b>	<b>2,485</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>1,197</b>	<b>4,015</b>	<b>5,212</b>	<b>347</b>	<b>122</b>	<b>5,681</b>	<b>(6,105)</b>	<b>(424)</b>

## SECTION 2C. 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 are 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 is 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>31 March 2018</b>		<b>Notes</b>		<b>31 March 2019</b>
<b>£000</b>				<b>£000</b>
22,315	Property, Plant & Equipment	12		25,149
-	Investment Property	13		20,130
123	Intangible Assets			125
484	Long Term Investments	14		491
123	Long Term Debtors	15		123
<b>23,045</b>	<b>Long Term Assets</b>			<b>46,018</b>
3,000	Short Term Investments			-
3,760	Short Term Debtors	15		3,014
4,377	Cash and Cash Equivalents	17		10,638
<b>11,137</b>	<b>Current Assets</b>			<b>13,652</b>
(4,367)	Short Term Creditors	18		(5,203)
-	Short Term Borrowing	14		(514)
(413)	Provisions	19		(649)
<b>(4,780)</b>	<b>Current Liabilities</b>			<b>(6,366)</b>
(54)	Long Term Creditors	18		(211)
(4,750)	Long Term Borrowing	14		(27,066)
(24,380)	Pension Fund Liabilities	36		(23,822)
(642)	Capital Grants Receipts in Advance	31		(514)
<b>(29,826)</b>	<b>Long Term Liabilities</b>			<b>(51,613)</b>
<b>(424)</b>	<b>Total Net Assets</b>			<b>1,691</b>
5,681	Usable Reserves	20		6,471
(6,105)	Unusable Reserves	21		(4,780)
<b>(424)</b>	<b>Total Reserves</b>			<b>1,691</b>

The notes on pages 35 to 113 form part of these financial statements.

*The unaudited accounts were issued on 29 May 2019.*

## SECTION 2D. 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.

2017/18 £000		2018/19 £000
1,714	<b>Net (surplus) or deficit on the provision of services</b>	1,335
(578)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 22)	(5,051)
360	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23)	(2,156)
<b>1,496</b>	<b>Net cash flows from Operating Activities</b>	<b>(5,872)</b>
5,651	Net increase/(decrease) in Investing Activities (Note 24)	22,552
(1,883)	Net cash outflow/(inflow) from Financing Activities (Note 25)	(22,941)
<b>5,264</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>(6,261)</b>
9,641	Cash and cash equivalents at the beginning of the reporting period	4,377
<b>4,377</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 17)</b>	<b>10,638</b>



## **Section 3**

# **Notes to the Financial Statements**

## **Notes to the Financial Statements**

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### SECTION 3 NOTES TO THE ACCOUNTS

#### 1. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement 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 31 March 2019 for which there are significant risks 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 which are estimated annually. The carrying value of Property, Plant and Equipment as at 31 March 2019 is £25 million.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to change by 1 year across all assets, this would have a £26,000 impact on the Council's finances.
Investment Property	The Council's external valuers use recognised valuation techniques to determine the fair value of Investment Property each year. This involves making assumptions and estimates in terms of how market participants would price the property. The fair value of Investment Properties as at 31 March 2019 is £20 million.	The fair value estimates may differ from the actual prices that could be achieved in an arm's length transaction.
Arrears	The Authority makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. For example at 31 March 2019, the Authority had a balance of Sundry Debtors of £435,000. A review of significant balances suggested that an impairment for doubtful debts of 31% (£134,000) was appropriate.	The impairment for doubtful debts is reviewed annually in order to respond to changes in collection rates. If Council Tax arrears were to change by 1%, this would have an impact of £7,700 on the Council's finances.

### SECTION 3 NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Business Rates Appeals Provision	<p>Estimates have been made for the provision for refunding ratepayers who may successfully appeal against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed. The total appeals provision as at 31 March 2019 is £1.622 million, of which the Council's share is 40% (£649,000).</p>	<p>There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation. If the Business Rates appeals provision were to change by 1% this would have an impact of £6,500 on the Council's finances.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgments 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. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>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 sometime later, may give a different value of pension assets, but this difference is not considered to be material.</p> <p>The Pension Fund's Actuary has provided updated figures for the year based on the last valuation in 2016. This valuation is based upon cashflow and assets values as at 31 March 2019.</p> <p>Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out during 2019/20 (as at 31 March 2019) and will set contributions for the period from 1 April 2020 to 31 March 2023.</p> <p>The carrying value of the Pensions Liability as at 31 March 2019 is £23.8 million.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £928,000.</p> <p>The assumptions interact in complex ways. For example, in 2018/19, the Authority's actuaries advised that the pension liability has reduced by £2.9 million as a result of a change in "demographic assumptions" but this was partly offset by an increase of £2.4 million as a result of a change in "financial assumptions".</p> <p>Please refer to Note 36 for further information about the assumptions used by the actuaries.</p>

## SECTION 3 NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Britain leaving the European Union: pension liability and asset values	There is a high level of uncertainty over the implications of Britain leaving the European Union. Currently there are various scenarios and it is not possible to predict which option will be taken and therefore the potential impact on asset values and the pension liability. The assumption has been made that the outcome will not significantly impair the Council's asset values or the pension liability.	If asset values fall a higher impairment allowance may need to be charged. If the discount rate changes this will impact on the value of the pension liability.

### 2. MATERIAL ITEMS OF INCOME AND EXPENDITURE

The following material item has been included on the face of the Comprehensive Income and Expenditure Statement (CIES) since 2014/15. This expenditure relates to the upfront investment costs for the Council's Transformation Programme (T18).

	2017/18			2018/19		
	Direct £000	Recharges £000	Total £000	Direct £000	Recharges £000	Total £000
<b>Transformation Programme (T18) Investment Costs</b>						
<b>GROSS REVENUE EXPENDITURE</b>						
Redundancy and Pension strain payments	39	-	39	32	-	32
<b>Sub Total</b>	<b>39</b>	<b>-</b>	<b>39</b>	<b>32</b>	<b>-</b>	<b>32</b>
<b>GROSS REVENUE INCOME</b>						
Shared Service Recharge to South Hams DC	-	-	-	-	-	-
<b>Sub Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET REVENUE EXPENDITURE/(INCOME)</b> (as shown in the CIES)	<b>39</b>	<b>-</b>	<b>39</b>	<b>32</b>	<b>-</b>	<b>32</b>

### 3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2018/2019 was approved for issue by the Section 151 Officer & Strategic Finance Lead on 29 May 2019. This is also the date up to which events after the reporting period have been considered.

## SECTION 3 NOTES TO THE ACCOUNTS

### 4. 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 (ie 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 the Authority 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 Authority's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement in Section 2A.

2018-2019	Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis (Note 4A) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Customer First	1,675	981	2,656
Commercial Services	1,727	330	2,057
Strategy & Commissioning	862	2	864
Support Services	1,717	58	1,775
Centrally Held Costs	830	-	830
Material Items	32	-	32
<b>Net Cost of Services</b>	<b>6,843</b>	<b>1,371</b>	<b>8,214</b>
Other income and expenditure	(7,233)	354	(6,879)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(390)</b>	<b>1,725</b>	<b>1,335</b>

	General Fund Balance £000	Earmarked Reserves £000	Total General Fund Reserves £000
<b>Opening Balance at 31 March 2018</b>	<b>(1,197)</b>	<b>(4,015)</b>	<b>(5,212)</b>
(Increase)/decrease in year	(89)	(301)	(390)
<b>Closing Balance at 31 March 2019</b>	<b>(1,286)</b>	<b>(4,316)</b>	<b>(5,602)</b>

### SECTION 3 NOTES TO THE ACCOUNTS

2017-2018 Comparatives	Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis (Note 4A) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Customer First	1,804	1,583	3,387
Commercial Services	2,183	57	2,240
Strategy & Commissioning	947	28	975
Support Services	1,497	57	1,554
Centrally Held Costs	762	-	762
Material Items	39	-	39
<b>Net Cost of Services</b>	<b>7,232</b>	<b>1,725</b>	<b>8,957</b>
Other income and expenditure	(7,587)	344	(7,243)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(355)</b>	<b>2,069</b>	<b>1,714</b>

	General Fund Balance £000	Earmarked Reserves £000	Total General Fund Reserves £000
<b>Opening Balance at 31 March 2017</b>	<b>(1,125)</b>	<b>(3,732)</b>	<b>(4,857)</b>
(Increase)/decrease in year	(72)	(283)	(355)
<b>Closing Balance at 31 March 2018</b>	<b>(1,197)</b>	<b>(4,015)</b>	<b>(5,212)</b>

#### 4A. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This note overleaf explains the main adjustments from net expenditure chargeable to the general fund balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement (CIES).



**SECTION 3 NOTES TO THE ACCOUNTS**

<b>Adjustments between Funding and Accounting Basis</b>				
<b>2018/19</b>	<b>Adjustments for capital purposes  (Note A) £000</b>	<b>Net change for the pensions adjustments (Note B) £000</b>	<b>Other Differences  (Note C) £000</b>	<b>Total adjustments  £000</b>
Customer First	957	24	-	981
Commercial Services	325	5	-	330
Strategy and Commissioning	-	2	-	2
Support Services	52	1	5	58
<b>Net Cost of Services</b>	<b>1,334</b>	<b>32</b>	<b>5</b>	<b>1,371</b>
<b>Other income and expenditure from the Expenditure &amp; Funding Analysis</b>	<b>(145)</b>	<b>628</b>	<b>(129)</b>	<b>354</b>
<b>Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES</b>	<b>1,189</b>	<b>660</b>	<b>(124)</b>	<b>1,725</b>

<b>Adjustments between Funding and Accounting Basis</b>				
<b>2017/18 Comparatives</b>	<b>Adjustments for capital purposes  (Note A) £000</b>	<b>Net change for the pensions adjustments (Note B) £000</b>	<b>Other Differences  (Note C) £000</b>	<b>Total adjustments  £000</b>
Customer First	1,470	113	-	1,583
Commercial Services	34	23	-	57
Strategy and Commissioning	-	28	-	28
Support Services	54	-	3	57
<b>Net Cost of Services</b>	<b>1,558</b>	<b>164</b>	<b>3</b>	<b>1,725</b>
<b>Other income and expenditure from the Expenditure &amp; Funding Analysis</b>	<b>(569)</b>	<b>714</b>	<b>199</b>	<b>344</b>
<b>Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES</b>	<b>989</b>	<b>878</b>	<b>202</b>	<b>2,069</b>

### **SECTION 3 NOTES TO THE ACCOUNTS**

#### **Note A: Adjustments for Capital Purposes**

Adjustments for capital purposes reflect:

**For services** this column adds in depreciation and impairment and adjusts for revenue expenditure funded from capital under statute.

**Other income and expenditure from the Expenditure and Funding Analysis** – this adjusts for statutory charges for capital financing i.e. Minimum Revenue Provision and other capital contributions. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written-off.

#### **Note B: Net Change for the Pensions Adjustments**

Net changes for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

**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 from the Expenditure and Funding Analysis** – the net interest on the defined benefit liability is charged to the CIES.

#### **Note C: Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

**For services** reflects the change in the annual leave accrual when compared with the previous year.

**For other income and expenditure from the Expenditure and Funding Analysis** represents the timing difference between what is chargeable under statutory regulations for Council Tax and Business Rates that was projected to be received at the start of the financial year, and the income recognised under generally accepted accounting practices.

## SECTION 3 NOTES TO THE ACCOUNTS

### 5. SEGMENT REPORTING

The net expenditure figures in the Expenditure and Funding Analysis include the following particular amounts of income and expenditure:

2018/19	Customer First £000	Commercial Services £000	Financing & Investment Income £000	Total £000
<b>Expenditure</b>				
Housing Benefit Payments*	11,856	-	-	11,856
Waste Services	-	2,216	-	2,216
Depreciation	387	257	-	644
<b>Income</b>				
Housing Benefit Subsidy*	(11,710)	-	-	(11,710)
Car Parking fees and charges	-	(1,073)	-	(1,073)
Planning fees and charges	(547)	-	-	(547)
Investment Properties	-	-	(955)	(955)

2017/18 comparatives	Customer First £000	Commercial Services £000	Financing & Investment Income £000	Total £000
<b>Expenditure</b>				
Housing Benefit Payments*	13,387	-	-	13,387
Waste Services	-	2,046	-	2,046
Depreciation	434	34	-	468
<b>Income</b>				
Housing Benefit Subsidy*	(13,342)	-	-	(13,342)
Car Parking fees and charges**	-	(986)	-	(986)
Planning fees and charges	(314)	-	-	(314)
Investment Properties	-	-	-	-

\*Housing Benefit Payments and Subsidy have reduced significantly between 2018/19 and 2017/18. This decrease is mainly due to a number of fraud and error initiatives such as Real Time Information (RTI) and more recently the Verify Earnings and Pensions (VEP) service, where the Council receives up to date information from HMRC on claimants earned income. These exercises have seen a large number of housing benefit claims drop out of entitlement. Another factor is the introduction of full service Universal Credit in October 2017, which has seen the caseload drop significantly. In addition all the large Housing Associations have been reducing their rents each year by 1%.

\*\*The car parking income has been restated for 2017/18 from £1.063 million to £0.986 million to reflect car parking fees and charges. Previously the figure included all income allocated to the car parking service.

## SECTION 3 NOTES TO THE ACCOUNTS

### 6. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Expenditure and Income Analysed by Nature note shows the amounts that make up the surplus or deficit on the provision of services on the CIES, but here they are categorised by nature instead of by service segment.

<b>Expenditure and Income Analysed by Nature</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Employee Benefits Expenses	6,560	6,717
Other Service Expenses	19,968	18,260
Depreciation, Amortisation and Impairment	1,558	1,334
Interest Payments	97	609
Pension Fund Administration Expenses	14	19
Net Interest on the net defined benefit liability	700	609
Losses/(Gains) on disposal of non current assets	(13)	259
Losses/(Gains) from fair value adjustments*	-	1,249
<b>Total Expenditure</b>	<b>28,884</b>	<b>29,056</b>
Fees, Charges and Other Service Income	(4,647)	(6,115)
Interest and Investment Income	(58)	(41)
Income from Council Tax and Business Rates**	(5,357)	(6,310)
Revenue Grants and Contributions	(16,811)	(14,412)
Capital Grants and Contributions	(279)	(843)
Other Income	(18)	-
<b>Total Income</b>	<b>(27,170)</b>	<b>(27,721)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>1,714</b>	<b>1,335</b>

\*During 2018/19 the Council incurred capital expenditure totalling £21.4 million for the purchase of four Investment Properties. This amount equated to the purchase price of four acquisitions of commercial property plus transaction costs (e.g. stamp duty land tax) and directly attributable expenditure (costs incurred in successfully negotiating the sale terms and price and relevant professional fees e.g. legal costs) which were also capitalised in accordance with the Code.

The Code requires that Investment Properties are measured annually at fair value. The fair value valuation was £20.13 million at 31.3.19. Therefore there is a net reduction for the fair

### SECTION 3 NOTES TO THE ACCOUNTS

value adjustment in the first year, which reflects the fact that transaction costs and directly attributable expenditure were capitalised in accordance with the Code. The Code confirms that movements in fair value are debited to the provision of services and are not proper charges to the General Fund. They are reversed out to the Capital Adjustment Account in the Movement in Reserves Statement. Therefore this change in valuation does not impact on the Council's 'bottom line' of the Income and Expenditure account, as it is reversed out through the Capital Adjustment Account.

\*\*The figure for Council Tax and Business Rates in this statement is shown net of expenditure (precepts to other bodies). The expenditure detail is shown in Note 11 – Taxation and Non-Specific Grant Income.

### 7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2018/19	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account (CAA):</b>				
<b><i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i></b>				
Charges for depreciation and impairment of non-current assets	644			(644)
Revaluation losses/(gains) on Property, Plant and Equipment	183			(183)
Movements in the market value of Investment Properties	1,249			(1,249)
Amortisation of Intangible Assets	52			(52)
Capital grants and contributions applied	(316)			316
Revenue expenditure funded from capital under statute (REFCUS)	455			(455)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	259			(259)
Write down of bank investment	50			(50)

**SECTION 3 NOTES TO THE ACCOUNTS**

2018/19	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account (CAA):</b>				
<b><i>Insertion of items not debited or credited to the CIES:</i></b>				
Statutory provision for the financing of capital investment	(494)			494
Capital expenditure charged against the General Fund	(366)			366
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(527)		527	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(101)	101
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure		(26)		26
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 36)	1,653			(1,653)
Employer's pensions contributions and direct payments to pensioners payable in the year	(993)			993
<b>Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:</b>				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	28			(28)
<b>Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:</b>				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	(157)			157

**SECTION 3 NOTES TO THE ACCOUNTS**

	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>2018/19</b>				
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	5			(5)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2018/19</b>	<b>1,725</b>	<b>(26)</b>	<b>426</b>	<b>(2,125)</b>

	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>2017/18 Comparatives</b>				
<b>Adjustments primarily involving the Capital Adjustment Account (CAA):</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</b>				
Charges for depreciation and impairment of non-current assets	468			(468)
Revaluation losses/(gains) on Property, Plant and Equipment	626			(626)
Amortisation of Intangible Assets	54			(54)
Capital grants and contributions applied	(177)			177
Revenue expenditure funded from capital under statute (REFCUS)	409			(409)
<b>Insertion of items not debited or credited to the CIES:</b>				
Statutory provision for the financing of capital investment	(42)			42
Capital expenditure charged against the General Fund	(230)			230

### SECTION 3 NOTES TO THE ACCOUNTS

2017/18 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(101)		101	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(152)	152
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of unattached capital receipts	(18)	18		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(123)		123
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 36)	1,797			(1,797)
Employer's pensions contributions and direct payments to pensioners payable in the year	(919)			919
<b>Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:</b>				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	99			(99)
<b>Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:</b>				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	100			(100)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3			(3)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2017/18</b>	<b>2,069</b>	<b>(105)</b>	<b>(51)</b>	<b>(1,913)</b>



## **SECTION 3 NOTES TO THE ACCOUNTS**

### **8. TRANSFERS TO/ FROM EARMARKED RESERVES**

This note details the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19. The purpose of some of the more significant earmarked reserves are shown below:

**Car Parking Maintenance** - In line with the Council's car parking strategy, a car parking maintenance reserve is maintained to ensure that major planned works on car parks can be carried out at the appropriate time, in line with a cyclical programme of maintenance and repairs.

**New Homes Bonus** – This reserve was established to show how New Homes Bonus funding has been used on an annual basis.

**Business Rates Retention Scheme** - The business rates reserve covers any possible funding issues from the new accounting arrangements.

**16/17 Budget Surplus Contingency** – This reserve was created as part of the 2016/17 Budget setting process.

**Innovation Fund (Invest to Earn) Reserve** – Some of this fund will be used to acquire and develop land within West Devon to support local housing need and to facilitate an upgrade to the Hayedown Depot.

**Revenue Grants Reserve** – This reserve holds revenue grants with no repayment conditions that have not been used during the year.

**Financial Stability Reserve** – This reserve was set up in 2018/19 to hold the business rates pilot income. It will be used to meet the primary aim of the business rates pilot bid which is to achieve higher levels of investment in economic regeneration in Devon, and to help secure financial stability for the longer term.

The table below shows the earmarked reserve balances at 31 March 2019 and the movement during 2018/19.

### SECTION 3 NOTES TO THE ACCOUNTS

2018/19 EARMARKED RESERVES	Balance at 31.3.2018 £000	Transfers Out £000	Transfers In £000	Balance at 31.3.2019 £000
<b>General Fund</b>				
Car Parking Maintenance	435	(60)	42	417
ICT Development	30	(64)	110	76
JSG Future Options	11	(6)	-	5
Planning Policy & Major Developments	44	(65)	125	104
16/17 Budget Surplus Contingency	382	(7)	-	375
Innovation Fund (Invest to Earn)	724	(271)	-	453
Outdoor Sports & Recreation	18	-	-	18
Strategic Waste & Cleansing Options Review	80	(51)	134	163
Community Housing Fund	243	(91)	-	152
Leisure Services	231	-	-	231
Support Services Trading	8	-	-	8
Environmental Health Initiatives	20	-	-	20
Habitats Reserve	10	(2)	-	8
Financial Stability	-	(50)	317	267
Joint Local Plan	-	(86)	116	30
Maintenance, Management & Risk Mitigation (Investment Properties)	-	(7)	95	88
Landscape Maintenance	5	(5)	-	-
Invest to Save	27	(15)	-	12
Elections	24	-	-	24
DCC Localism Support Officer	5	-	-	5
New Burdens CLG	3	(3)	-	-
CLG – Assets Community Value	8	(8)	-	-
Neighbourhood Planning Grants	47	(25)	20	42
World Heritage Key Site	5	(5)	-	-
Cannons Meadow	13	(2)	-	11
Millwood Homes	15	(15)	-	-
DCC Public Health	6	-	-	6
Revenue Grants	220	(7)	209	422
Business Rates Retention Scheme	509	(17)	-	492
Town Teams & Economic Grants	23	-	-	23
Flood Works	15	-	-	15
New Homes Bonus	225	(577)	643	291
Homelessness	95	-	20	115
Strategic Change	287	(63)	10	234
Planning Enforcement	5	-	-	5
Maintenance Fund	223	(27)	-	196
S106 Monitoring	19	(11)	-	8
<b>TOTAL EARMARKED REVENUE RESERVES</b>	<b>4,015</b>	<b>(1,540)</b>	<b>1,841</b>	<b>4,316</b>

**SECTION 3 NOTES TO THE ACCOUNTS**

<b>2017/18 Comparatives</b>	<b>Balance at</b>	<b>Transfers</b>	<b>Transfers</b>	<b>Balance at</b>
<b>EARMARKED RESERVES</b>	<b>31.3.2017</b>	<b>Out</b>	<b>In</b>	<b>31.3.2018</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>General Fund</b>				
Car Parking Maintenance	440	(5)	-	435
ICT Development	24	(19)	25	30
JSG Future Options	46	(35)	-	11
Planning Policy & Major Developments	39	(60)	65	44
16/17 Budget Surplus Contingency	669	(287)	-	382
Innovation Fund (Invest to Earn)	906	(182)	-	724
Outdoor Sports & Recreation	7	-	11	18
Strategic Waste & Cleansing Options Review	80	-	-	80
Community Housing Fund	248	(5)	-	243
Leisure Services	174	-	57	231
Support Services Trading	-	-	8	8
Environmental Health Initiatives	-	-	20	20
Habitats Reserve	13	(3)	-	10
Landscape Maintenance	5	-	-	5
Invest to Save	27	-	-	27
Elections	24	-	-	24
DCC Localism Support Officer	4	-	1	5
REIP – Localism Projects	1	(1)	-	-
New Burdens CLG	3	-	-	3
CLG – Assets Community Value	8	-	-	8
Neighbourhood Planning Grants	58	(11)	-	47
World Heritage Key Site	5	-	-	5
Cannons Meadow	16	(3)	-	13
Millwood Homes	15	-	-	15
DCC Public Health	6	-	-	6
Revenue Grants	59	-	161	220
Business Rates Retention Scheme	218	-	291	509
Town Teams & Economic Grants	23	-	-	23
Flood Works	18	(3)	-	15
New Homes Bonus	227	(963)	961	225
Homelessness	30	-	65	95
Strategic Change	111	(51)	227	287
Planning Enforcement	5	-	-	5
Maintenance Fund	223	-	-	223
S106 Monitoring	-	-	19	19
<b>TOTAL EARMARKED REVENUE RESERVES</b>	<b>3,732</b>	<b>(1,628)</b>	<b>1,911</b>	<b>4,015</b>

## SECTION 3 NOTES TO THE ACCOUNTS

### 9. OTHER OPERATING EXPENDITURE

<b>2017/18 £000</b>		<b>2018/19 £000</b>
1,286	Parish council precepts	1,365
(13)	(Gains)/losses on the disposal of non-current assets	259
14	Pension administration expenses	19
<b>1,287</b>	<b>Total</b>	<b>1,643</b>

### 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

<b>2017/18 £000</b>		<b>2018/19 £000</b>
97	Interest payable and similar charges	609
(58)	Interest receivable and similar income	(91)
(18)	Other investment income	-
-	Investment (gains)/losses	50
700	Net interest on the net defined benefit liability	609
-	Investment properties (Note 13)	329
<b>721</b>	<b>Total</b>	<b>1,506</b>

## SECTION 3 NOTES TO THE ACCOUNTS

### 11. TAXATION AND NON SPECIFIC GRANT INCOME

2017/18 £000		2018/19 £000
	Council Tax	
(5,642)	• Income	(5,890)
30	• Collection Fund adjustment	13
(109)	• Collection Fund - distribution of surplus	(81)
71	• Support grant to parishes	65
	Business Rates	
(4,099)	• Income*	(3,930)
3,017	• Tariff**	2,643
1	• Pooling administration costs	-
(82)	• Pooling gain	-
-	• Pilot contribution*	(296)
85	• Levy payment	-
86	• Transfer of Collection Fund deficit/(surplus)	(199)
	Non ring - fenced Government grants :	
(738)	• Small Business Rate Relief Grant	(842)
(227)	• Revenue Support Grant	-
(961)	• New Homes Bonus Grant	(643)
(373)	• Rural Services Delivery Grant**	-
-	• Levy Account Surplus Grant	(25)
(31)	• Transition Grant	-
(279)	Capital grants and contributions	(843)
<b>(9,251)</b>	<b>Total</b>	<b>(10,028)</b>

#### Business Rates Pilot Status 2018/19

\*The Business Rates income includes the pilot gain for 2018/19. The income generated by the pilot is £460,000 (£164,000 additional localised income plus the contribution from the Devon Pilot in 2018/19 of £296,000). £143,516 of this pilot gain has been used to fund the 2018/19 revenue base budget and the balance of £316,484 has been transferred into a new Financial Stability earmarked reserve.

#### Rural Services Delivery Grant 2018/19

\*\* Due to the 2018/19 pilot status the Council's business rates baseline was increased to reflect the Rural Services Delivery Grant for 2018/19 of £464,365. This is reflected in the reduced Tariff figure above.

## SECTION 3 NOTES TO THE ACCOUNTS

### 12. PROPERTY, PLANT AND EQUIPMENT

#### Movements in 2018/19:

	Land and Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost or Valuation</b>						
<b>At 1 April 2018</b>	<b>19,300</b>	<b>3,146</b>	<b>1,074</b>	<b>83</b>	<b>1,031</b>	<b>24,634</b>
Additions	250	958			487	1,695
Revaluation increases/(decreases) recognised in the Revaluation Reserve	1,537					1,537
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(199)					(199)
Derecognition – disposals	(195)	(1,494)		(83)		(1,772)
Other movements in cost or valuation (reclassification)	1,500	18			(1,518)	-
<b>At 31 March 2019</b>	<b>22,193</b>	<b>2,628</b>	<b>1,074</b>	<b>-</b>	<b>-</b>	<b>25,895</b>
<b>Accumulated Depreciation and Impairment at 1 April 2018</b>	<b>474</b>	<b>1,493</b>	<b>352</b>	<b>-</b>	<b>-</b>	<b>2,319</b>
Charge for 2018/19	397	219	28			644
Depreciation written out to the Revaluation Reserve	(688)					(688)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(16)					(16)
Derecognition – disposals	(19)	(1,494)				(1,513)
<b>At 31 March 2019</b>	<b>148</b>	<b>218</b>	<b>380</b>	<b>-</b>	<b>-</b>	<b>746</b>
<b>Balance Sheet amount at 31 March 2019</b>	<b>22,045</b>	<b>2,410</b>	<b>694</b>	<b>-</b>	<b>-</b>	<b>25,149</b>
<b>Balance Sheet amount at 31 March 2018</b>	<b>18,826</b>	<b>1,653</b>	<b>722</b>	<b>83</b>	<b>1,031</b>	<b>22,315</b>

## SECTION 3 NOTES TO THE ACCOUNTS

### Comparative Movements in 2017/18:

	Land and Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost or Valuation</b>						
<b>At 1 April 2017</b>	<b>19,583</b>	<b>1,493</b>	<b>1,074</b>	<b>83</b>	<b>99</b>	<b>22,332</b>
Additions	164	1,653	-	-	932	2,749
Revaluation increases/(decreases) recognised in the Revaluation Reserve	203	-	-	-	-	203
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(650)	-	-	-	-	(650)
<b>At 31 March 2018</b>	<b>19,300</b>	<b>3,146</b>	<b>1,074</b>	<b>83</b>	<b>1,031</b>	<b>24,634</b>
<b>Accumulated Depreciation and Impairment at 1 April 2017</b>	<b>1,204</b>	<b>1,493</b>	<b>324</b>	<b>-</b>	<b>-</b>	<b>3,021</b>
Charge for 2017/18	440	-	28	-	-	468
Depreciation written out to the Revaluation Reserve	(688)	-	-	-	-	(688)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(482)	-	-	-	-	(482)
<b>At 31 March 2018</b>	<b>474</b>	<b>1,493</b>	<b>352</b>	<b>-</b>	<b>-</b>	<b>2,319</b>
<b>Balance Sheet amount at 31 March 2018</b>	<b>18,826</b>	<b>1,653</b>	<b>722</b>	<b>83</b>	<b>1,031</b>	<b>22,315</b>
<b>Balance Sheet amount at 31 March 2017</b>	<b>18,379</b>	<b>-</b>	<b>750</b>	<b>83</b>	<b>99</b>	<b>19,311</b>

### Depreciation

The Council provides for depreciation on all assets other than freehold land and community assets. The provision for depreciation is made by allocating the cost (or revalued amount) less the estimated residual value of the assets over the accounting period expected to benefit from their use. The straight line method of depreciation is used.

### **SECTION 3 NOTES TO THE ACCOUNTS**

Asset lives are reviewed regularly as part of the property revaluation and annual impairment review. Where the useful life of an asset is revised the carrying amount of the asset is depreciated over the revised remaining life.

#### **Capital Commitments**

As at 31 March 2019 the Authority had not entered into any contracts for the construction or enhancement of Property, Plant and Equipment.

As a comparison, as at 31 March 2018 the Authority had entered into the following contracts for the construction or enhancement of Property, Plant and Equipment. These commitments related to:

- Leisure Centre investment £1m

#### **Revaluations**

The Council values its whole asset portfolio once every five years. The Council's Valuer revalued the Authority's asset portfolio as at 31 December 2018. In addition, the more significant assets are revalued on an ad hoc basis.

#### **Fair Value Review at 31 March 2019**

In addition, a formal impairment review of the entire holding of assets is undertaken at the end of each financial year, to ensure the carrying value reflects the fair value at the Balance Sheet date. This was undertaken by the Council's Valuer.

Non-Specialised operational properties were valued on the basis of existing use value (EUV). Specialised operational properties were valued on the basis of depreciated replacement costs (DRC). A de minimis level of £10,000 was set. Infrastructure assets are on a historical cost (HC) basis, whilst vehicles, plant and equipment are held on historical costs as a proxy for current value.

	<b>Land and buildings £000</b>	<b>Vehicles, plant furniture &amp; equipment £000</b>	<b>Total £000</b>
<b>Valued at historical cost</b>	-	2,410	2,410
<b>Valued at current value in:</b> 2018/2019	22,043	-	22,043
<b>Total</b>	<b>22,043</b>	<b>2,410</b>	<b>24,453</b>



## SECTION 3 NOTES TO THE ACCOUNTS

### Impairment Losses

Impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure, are summarised in the preceding movements table, reconciling the movement over the year in the Property, Plant and Equipment balances. No impairment losses other than those relating to revaluation losses were incurred.

### 13. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

<b>A. Income &amp; Expenditure Account</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Rental income from investment properties	-	(955)
Direct operating expenses arising from investment properties*	-	1,284
<b>Net (gain)/ loss*</b>	<b>-</b>	<b>329</b>

The following table summarises the movement in the fair value of investment properties over the year:

<b>B. Movement in fair value</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>
<b>Balance at start of the year</b>	<b>-</b>	<b>-</b>
Purchases	-	21,379
Net gains/(losses) from fair value adjustments*	-	(1,249)
<b>Balance at end of the year</b>	<b>-</b>	<b>20,130</b>

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal.

\*During 2018/19 the Council incurred capital expenditure totalling £21.4 million for the purchase of four Investment Properties. This amount equated to the purchase price of four acquisitions of commercial property plus transaction costs (e.g. stamp duty land tax) and directly attributable expenditure (costs incurred in successfully negotiating the sale terms and price and relevant professional fees e.g. legal costs) which were also capitalised in accordance with the Code.

The Code requires that Investment Properties are measured annually at fair value. The fair value valuation was £20.13 million at 31 March 2019. Therefore there is a net reduction for the fair value adjustment in the first year, which reflects the fact that transaction costs and directly

## **SECTION 3 NOTES TO THE ACCOUNTS**

attributable expenditure were capitalised in accordance with the Code. The Code confirms that movements in fair value are debited to the provision of services and are not proper charges to the General Fund. They are reversed out to the Capital Adjustment Account in the Movement in Reserves Statement. Therefore this change in valuation does not impact on the Council's 'bottom line' of the Income and Expenditure account, as it is reversed out through the Capital Adjustment Account.

### **14. FINANCIAL INSTRUMENTS**

#### **Categories of Financial Instruments**

Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

#### **Financial Liabilities**

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus outstanding interest payable).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

#### **Financial Assets**

To meet the new code requirements, financial assets are now classified into one of three categories:

- **Financial assets held at amortised cost** – These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specific amounts. The figure presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the Comprehensive Income and Expenditure Statement (CIES) is the amount receivable as per the loan agreement.
- **Fair Value Through Other Comprehensive Income (FVOCI)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- **Fair Value Through Profit and Loss (FVTPL)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

### SECTION 3 NOTES TO THE ACCOUNTS

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit loss method. Changes in loss allowances (including balances outstanding at the date of recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES. Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

The value of debtors and creditors reported in the table below are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the Balance Sheet and Notes 15 and 18 also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

#### Summary of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000
<b>Financial Assets at Amortised Cost</b>				
Investments	-	-	3,000	-
Cash and Cash Equivalents	-	-	4,377	10,638
Debtors	123	123	1,211	718
<b>Fair Value through Other Comprehensive Income – Financial Assets</b>				
Investments – Local Authorities’ Property Fund	484	491	-	-
<b>Total Financial Assets</b>	<b>607</b>	<b>614</b>	<b>8,588</b>	<b>11,356</b>
<b>Financial Liabilities at Amortised Cost</b>				
Borrowing	(4,750)	(27,066)	-	(514)
Creditors	(54)	(211)	(1,950)	(1,727)
<b>Total Financial Liabilities</b>	<b>(4,804)</b>	<b>(27,277)</b>	<b>(1,950)</b>	<b>(2,241)</b>

#### Reclassification and Measurement of Financial Assets at 1 April 2018

This note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting. No remeasurements were required for 2018/19.

### SECTION 3 NOTES TO THE ACCOUNTS

		New Classifications at 1 April 2018	
	Carrying amount brought forward at 1 April 2018	Amortised Cost	Fair Value Through Other Comprehensive Income
	£000	£000	£000
<b>Previous Classifications:</b>			
Loans and receivables	5,711	5,711	-
Available for Sale	484	-	484
<b>Reclassified amounts at 1 April 2018</b>	<b>6,195</b>	<b>5,711</b>	<b>484</b>

#### Effect of Asset Reclassification and on the Balance Sheet

This note shows how the new balances at 1 April 2018 for financial assets are incorporated into the Balance Sheet.

#### New Classifications at 1 April 2018

	Amortised Cost	Fair Value Through Other Comprehensive Income	Total Balance Sheet Carrying Amount
	£000	£000	£000
<b>Reclassified carrying amounts at 1 April 2018</b>	<b>5,711</b>	<b>484</b>	<b>6,195</b>
<b>Reclassified amounts:</b>			
Cash and Cash Equivalents	4,377	-	4,377
Long-term Investments	-	484	484
Long-term Debtors	123	-	123
Current Debtors	1,211	-	1,211
<b>Total</b>	<b>5,711</b>	<b>484</b>	<b>6,195</b>

#### Designated to Fair Value Through Other Comprehensive Income

The Council has £0.5 million investment with the CCLA Property Fund and up to 31 March 2018 this was held as an 'Available for Sale Financial Asset' and measured at fair value each year. Any change in fair value was posted to Other Comprehensive Income and Expenditure and accumulated gains and losses have been held in an Available for Sale Financial Instruments Reserve.

## **SECTION 3 NOTES TO THE ACCOUNTS**

With the adoption of accounting standard IFRS 9 Financial Instruments, the 'Available for Sale Financial Asset' category is no longer available. The new standard requires that investments in equity to be classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income.

The Council has elected to designate the CCLA investment as fair value through other comprehensive income. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds this investment as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

This election means there is no impact on the revenue budget. Any gains or losses on the valuation of the CCLA investment will therefore be transferred to a Financial Instruments Revaluation Reserve until they are realised.

### **Statutory Override on Pooled Investments**

As a result of the change in accounting standards for 2018/19 under IFRS 9, the Ministry for Housing, Communities and Local Government (MHCLG) have agreed a temporary override to allow English Local Authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from April 2018. The Council will use the statutory override to account for any changes in the fair value on its pooled investments. For the Council's Money Market Fund investments the change in fair value was immaterial in 2018/19.

### **Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income**

Following the introduction of IFRS 9, the Council has designated the following equity instrument at 31 March 2019 as fair value through other comprehensive income:

<b>Investment</b>	<b>Nominal</b>	<b>Fair Value</b>	<b>Change in Fair Value During 2018/19</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
CCLA Property Fund	500	491	7

### **Net Gains and Losses on Financial Instruments**

The following gains and losses have been recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments:

### SECTION 3 NOTES TO THE ACCOUNTS

	2017/18	2018/19
	£000	£000
Net gains/losses on: Financial Assets measured at fair value through other comprehensive income	(16)	7
<b>Total Net Gains/(Losses)</b>	<b>(16)</b>	<b>7</b>

#### Fair Value of Financial Instruments

The following financial asset is measured in the Balance Sheet at fair value on a recurring basis:

Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation Technique Used to Measure Fair Value	31 March 2018 Fair Value	31 March 2019 Fair Value
			£000	£000
<b>Fair Value Through Other Comprehensive Income</b>				
CCLA Property Fund	Level 1	Unadjusted quoted prices in active markets for identical shares	484	491
<b>TOTAL</b>			<b>484</b>	<b>491</b>

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented are carried forward on the Balance Sheet at amortised cost. Their fair values are as follows:

	31 March 2018		31 March 2019	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
PWLB Debt – Maturity	(2,100)	(3,840)	(5,692)	(7,052)
PWLB Debt – Annuity	(2,650)	(2,780)	(21,888)	(22,902)
Long Term Debtors	123	123	123	123
Long Term Creditors	(54)	(54)	(211)	(211)

## SECTION 3 NOTES TO THE ACCOUNTS

### 15. DEBTORS

31.3.2018 £000		31.3.2019 £000
	<b>Short Term</b>	
1,120	Central Government bodies*	189
209	Other Local Authorities	241
	Other debtors	
716	Council Tax	888
430	Business Rates	599
1,285	Other entities and individuals	1,097
<b>3,760</b>	<b>Total</b>	<b>3,014</b>
	<b>Long Term</b>	
123	Other entities and individuals	123
<b>123</b>	<b>Total</b>	<b>123</b>

\*The 'Central Government bodies' debtor has reduced significantly in 2018/19 due to the end of year position for the Housing Benefit subsidy claim. At 31 March 2018 £637,000 was due from Central Government following completion of the final claim. However, in 2018/19 this position has changed to a creditor balance, with £359,000 due to be paid to Central Government at 31 March 2019.

### 16. DEBTORS FOR LOCAL TAXATION

The past due but not impaired amount for local taxation (council tax and business rates) can be analysed by age as follows:

31.3.2018 £000		31.3.2019 £000
296	Up to one year	341
281	One to three years	314
51	Over three years	77
<b>628</b>	<b>Total Debtors for Local Taxation</b>	<b>732</b>

### 17. CASH AND CASH EQUIVALENTS

31.3.2018 £000		31.3.2019 £000
1,177	Cash held by the Authority	1,338
3,200	Money Market Funds*	9,300
<b>4,377</b>	<b>Total Cash and Cash Equivalents</b>	<b>10,638</b>

## SECTION 3 NOTES TO THE ACCOUNTS

\*As at 31 March 2018 the Council had £3 million held in short term investments (a fixed term deposit with Lloyds Bank PLC) and £3.2 million in Money Market Funds. Investments are classified separately on the Balance Sheet (see Section 2C). As at 31 March 2019 the Council held no short term investments, £9.3 million was placed in Money market Funds and £0.5 million in long term investments, the CCLA Property Fund (see the Balance Sheet and Note 14 – Financial Instruments).

### 18. CREDITORS

31.3.2018 £000		31.3.2019 £000
	<b>Short Term</b>	
-	Central Government bodies*	(572)
(840)	Other Local Authorities	(715)
(1)	NHS Bodies	-
	Other Creditors	
(44)	Council Tax	(50)
(681)	Business Rates**	(1,127)
(2,801)	Other entities and individuals	(2,739)
<b>(4,367)</b>	<b>Total</b>	<b>(5,203)</b>
	<b>Long Term</b>	
(16)	Other Local Authorities	-
(38)	Other entities and individuals***	(211)
<b>(54)</b>	<b>Total</b>	<b>(211)</b>

\*The 'Central Government bodies' creditor as at 31.3.19 relates mainly to the amount due to Central Government following completion of the final Housing Benefit subsidy claim for 2018/19 (£359,000). At 31 March 2018 money was due from Central Government and therefore the balance was reflected in short term Debtors (Note 15).

\*\*The movement in the 'Business Rates' creditor is mainly due to the increase in the provision for business rates appeals (£590,000). The Preceptors' share of this is 60% (£354,000).

\*\*\*The increase in 'Other entities and individuals' long term creditor as at 31 March 2019 relates to the rent deposits held in respect of Commercial Property acquired during 2018/19 of £169,000.

### 19. PROVISIONS

Provisions payable within twelve months of the Balance Sheet date are classified as current liabilities; provisions payable more than twelve months from the Balance Sheet date are classified as long term liabilities. No long term provisions were created in 2018/19 or 2017/18. The breakdown of the 2018/19 provision is shown in the following table:



## SECTION 3 NOTES TO THE ACCOUNTS

	<b>Business Rates Appeals £000</b>
<b>Balance at 1 April 2018</b>	<b>(413)</b>
Provisions made in year	(304)
Amounts used in year	68
<b>Balance at 31 March 2019</b>	<b>(649)</b>

### **Short term Provision – Business Rates Appeals:**

Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value. In 2018/19 there has been a £590,000 increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (£236,000). This is further explained in the Narrative Statement.

## **20. USABLE RESERVES**

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement in Section 2B. The Council has the following usable reserves:

**General Fund Balance** - This balance has been established from surpluses on the Council's total expenditure. It provides a financial cushion should anything unexpected happen which would require unplanned expenditure.

**Earmarked Reserves** - The Council has set aside monies for specific purposes e.g. vehicle & plant replacement, the funding of strategic issues etc.

**Capital Receipts Reserve** - Proceeds from the sale of assets are held in this reserve to be made available for future capital expenditure.

**Capital Grants Unapplied** – This reserve represents grants and contributions received in advance of matching to new capital investment.

## SECTION 3 NOTES TO THE ACCOUNTS

### 21. UNUSABLE RESERVES

<b>31.3.2018</b> <b>£000</b>		<b>31.3.2019</b> <b>£000</b>
6,820	Revaluation Reserve	8,899
11,378	Capital Adjustment Account	9,935
(24,380)	Pensions Reserve	(23,822)
(16)	Available for Sale Financial Instruments Reserve	-
-	Financial Instruments Revaluation Reserve	(9)
109	Council Tax Collection Fund Adjustment Account	81
61	Business Rates Collection Fund Adjustment Account	218
(77)	Accumulated Absences Account	(82)
<b>(6,105)</b>	<b>Total Unusable Reserves</b>	<b>(4,780)</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

The Reserve includes only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

### SECTION 3 NOTES TO THE ACCOUNTS

31.3.2018 £000	31.3.2018 £000	Revaluation Reserve	31.3.2019 £000	31.3.2019 £000
	5,515	<b>Balance at 1 April</b>		<b>6,820</b>
1,934		Upward revaluation of assets	2,924	
(585)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(699)	
	1,349	<b>Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		<b>2,225</b>
(44)		Difference between fair value depreciation and historical cost depreciation	(118)	
—		Accumulated gains on assets sold or scrapped	(28)	
	(44)	<b>Amount written off to the Capital Adjustment Account</b>		<b>(146)</b>
	6,820	<b>Balance at 31 March</b>		<b>8,899</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 acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to an 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 contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

**SECTION 3 NOTES TO THE ACCOUNTS**

2017/18 £000	2017/18 £000	Capital Adjustment Account	2018/19 £000	2018/19 £000
	12,167	<b>Balance at 1 April</b>		11,378
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(468)		▪ Charges for depreciation of non-current assets	(644)	
(626)		▪ Revaluation losses on Property, Plant and Equipment	(183)	
-		▪ Revaluation gains/(losses) on Investment Properties	(1,249)	
(54)		▪ Amortisation of Intangible Assets	(52)	
(409)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(455)	
		▪ 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	(259)	
		▪ Amounts of Revaluation Reserve balance written off on disposal or sale of Property, Plant and Equipment	28	
		▪ Write down of Bank Investment	(50)	
	(1,557)	<b>Total</b>		(2,864)
44		Adjusting amounts written out of the Revaluation Reserve	118	
	44	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		118
		Capital financing applied in the year:		
123		• Use of the Capital Receipts Reserve to finance new capital expenditure	26	
177		• Capital grants and contributions credited to the CIES that have been applied to capital financing	316	
152		• Application of grants to capital financing from the Capitals Grants Unapplied Account	101	
230		• Capital expenditure charged against the General Fund	366	
42		• Statutory provision for the financing of capital investment charged against the General Fund (Minimum Revenue Provision)	494	
	724	<b>Total</b>		1,303
	11,378	<b>Balance at 31 March</b>		9,935

## SECTION 3 NOTES TO THE ACCOUNTS

### Pensions Reserve

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

<b>31.3.2018</b> <b>£000</b>	<b>Pensions Reserve</b>	<b>31.3.2019</b> <b>£000</b>
<b>(26,368)</b>	<b>Balance at 1 April</b>	<b>(24,380)</b>
2,866	Actuarial gains or (losses) on pension assets and liabilities	1,218
(1,797)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(1,653)
919	Employer's pensions contributions and direct payments to pensioners payable in the year	993
<b>(24,380)</b>	<b>Balance at 31 March</b>	<b>(23,822)</b>

### Available for Sale Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

<b>31.3.2018</b> <b>£000</b>	<b>Available for Sale Financial Instruments Reserve</b>	<b>31.3.2019</b> <b>£000</b>
-	<b>Balance at 1 April</b>	<b>(16)</b>
-	Transfer of opening balance to Financial Instruments Revaluation Reserve under IFRS 9	16
(16)	Downward revaluation of investments not charged to the Surplus/(Deficit) on the Provision of Services	-
<b>(16)</b>	<b>Balance at 31 March</b>	<b>-</b>

### SECTION 3 NOTES TO THE ACCOUNTS

The 2018/19 Code of Practice on Local Authority Accounting has adopted IFRS 9 Financial Instruments. As a result of the implementation of IFRS 9, the Available for Sale Reserve has been decommissioned and any balance held has been transferred to the Financial Instruments Revaluation Reserve. The Council has transferred the balance on the Available for Sale Reserve in relation to its investment in the CCLA property fund.

#### Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

31.3.2018 £000	Financial Instruments Revaluation Reserve	31.3.2019 £000
-	<b>Balance at 1 April</b>	-
-	Upward revaluation of assets	7
-	Transfer from Available for Sale Financial Instrument Reserve	(16)
-	<b>Balance at 31 March</b>	<b>(9)</b>

#### Council Tax Collection Fund Adjustment Account

The Council Tax Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement (CIES) as it falls due from council tax payers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31.3.2018 £000	Council Tax Collection Fund Adjustment Account	31.3.2019 £000
208	<b>Balance at 1 April</b>	109
(99)	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(28)
109	<b>Balance at 31 March</b>	<b>81</b>

## SECTION 3 NOTES TO THE ACCOUNTS

### Business Rates Collection Fund Adjustment Account

A scheme for the retention of business rates came in to effect on 1 April 2013 and established new accounting arrangements. The Business Rates Collection Fund Adjustment Account manages the differences arising from the recognition of business rates income in the Comprehensive Income and Expenditure Statement (CIES) as it falls due from ratepayers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31.3.2018 £000	<b>Business Rates Collection Fund Adjustment Account</b>	31.3.2019 £000
161	<b>Balance at 1 April</b>	61
(100)	Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements*	157
61	<b>Balance at 31 March</b>	218

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31.3.2018 £000	31.3.2018 £000	<b>Accumulated Absences Account</b>	31.3.2019 £000	31.3.2019 £000
74	(74)	<b>Balance at 1 April</b>	77	(77)
(77)		Settlement or cancellation of accrual made at the end of the preceding year	(82)	
	(3)	Amounts accrued at the end of the current year		(5)
		Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		
	(77)	<b>Balance at 31 March</b>		(82)

### SECTION 3 NOTES TO THE ACCOUNTS

#### 22. CASH FLOW STATEMENT – ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

2017/18 £000		2018/19 £000
(468)	Depreciation	(644)
(626)	Impairment & downward valuations	(183)
-	Movement in investment properties	(1,249)
(54)	Amortisation	(52)
861	(Increase)/decrease in Debtors	(1,087)
709	Increase/(decrease) in Creditors	(681)
(878)	Movement in pension liability	(660)
(122)	Other non-cash items charged to the net surplus or deficit on the provision of services	(495)
<b>(578)</b>	<b>Total</b>	<b>(5,051)</b>

#### 23. CASH FLOW STATEMENT – ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES

2017/18 £000		2018/19 £000
342	Capital Grants credited to the net surplus or deficit on the provision of services	(2,999)
18	Other non-cash items charged to the net surplus or deficit on the provision of services	843
<b>360</b>	<b>Total</b>	<b>(2,156)</b>

#### 24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2017/18 £000		2018/19 £000
2,749	Purchase of Property, Plant and Equipment, Investment Properties and Intangible Assets	23,128
3,500	Purchase of short and long term investments	-
(140)	Other payments for investing activities	140
(18)	Proceeds from the sale of Property, Plant and Equipment, Investment Properties & Intangible Assets	-
(440)	Other receipts from investing activities (capital grants & contributions)	(716)
<b>5,651</b>	<b>Net cash flows from investing activities</b>	<b>22,552</b>



## SECTION 3 NOTES TO THE ACCOUNTS

### 25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2017/18 £000		2018/19 £000
(2,650)	Cash receipts of short and long term borrowing	(22,830)
767	Other receipts from financing activity	(111)
<b>(1,883)</b>	<b>Total</b>	<b>(22,941)</b>

### 26. TRADING OPERATIONS – BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the Building Control function. Building Regulations Control Services operate as a separate trading unit.

As of 1 April 2017, West Devon Borough Council (WDBC), South Hams District Council (SHDC) and Teignbridge District Council (TDC) entered into an updated partnership agreement and a new hosting agreement with respect to the staff and functions delivered by the Devon Building Control Partnership (DBCP) to the three Council areas. This agreement saw the transfer of all staff who had DBCP responsibilities from WDBC or SHDC to TDC. WDBC and SHDC retain an active participation in the controlling Devon Building Control Partnership Committee.

The Summary Accounts for the year will be detailed in the Devon Building Control Partnership Accounts, which can be found at the following website under the Devon Building Control Partnership Committee 2019-2020:

<https://www.teignbridge.gov.uk/committee-meetings-and-agendas-archive/>

### 27. BUSINESS IMPROVEMENT DISTRICTS

The Tavistock Business Improvement District (BID) was set up in Tavistock on the 1<sup>st</sup> September 2011 for the purpose of providing additional services or improvements to the Tavistock BID area. The BID is funded in part by a levy which is based on the rateable value of each property within the BID area and this is charged in addition to the non-domestic rates. West Devon Borough Council acts as agent for the BID Company.

### 28. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Council during the year. Members allowances are published on the Council's website at:

<https://www.westdevon.gov.uk/article/3661/Councillor-Allowances-and-Annual-Attendance->

### SECTION 3 NOTES TO THE ACCOUNTS

2017/18 £000		2018/19 £000
187	Allowances	191
16	Expenses	15
<b>203</b>	<b>Total</b>	<b>206</b>

### 29. OFFICERS' REMUNERATION

Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 [SI 2009 No. 3322] introduced a legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees.

A senior employee is defined as an employee whose salary is more than £150,000 per year, or alternatively one whose salary is at least £50,000 per year (to be calculated pro rata for a part-time employee) and who is:

- the designated head of paid service, a statutory chief officer or a non-statutory chief officer of a relevant body, as defined under the Local Government and Housing Act 1989
- the head of staff for a relevant body which does not have a designated head of paid service; or
- any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

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

Post	Year	Salary, Fees and Allowances £	Expenses £	Pension Contribution £	Total £
<b>Executive Director Head of Paid Service – left 18.2.18</b>	18/19	-	-	-	-
	17/18	92,200	1,500	11,700	<b>105,400</b>
<b>Strategic Finance Lead &amp; S151 Officer</b>	18/19	65,500	-	8,700	<b>74,200</b>
	17/18	56,700	-	7,500	<b>64,200</b>
<b>Commercial Services Group Manager</b>	18/19	74,200	2,400	9,900	<b>86,500</b>
	17/18	72,700	4,200	9,600	<b>86,500</b>
<b>Business Development Group Manager</b>	18/19	64,700	2,500	8,600	<b>75,800</b>
	17/18	62,400	2,700	8,300	<b>73,400</b>
<b>Monitoring Officer (0.9FTE to 1/4/18)</b>	18/19	56,200	400	7,500	<b>64,100</b>
	17/18	49,700	100	6,600	<b>56,400</b>

### SECTION 3 NOTES TO THE ACCOUNTS

Post	Year	Salary, Fees and Allowances £	Expenses £	Pension Contribution £	Total £
Lead Specialist Waste Strategy	18/19	50,200	1,400	6,700	58,300
	17/18	48,200	1,900	6,400	56,500
Operational Manager (Environmental Services)	18/19	50,000	1,800	6,600	58,400
	17/18	49,000	1,700	6,500	57,200
Support Services Specialist Manager	18/19	52,400	400	7,000	59,800
	17/18	43,800	-	5,800	49,600
Head of Assets Practice	18/19	53,400	3,000	7,100	63,500
	17/18	46,000	2,800	6,100	54,900
Head of Environmental Health Practice	18/19	51,500	700	6,800	59,000
	17/18	49,200	400	6,500	56,100

No other officers earned over £50,000 during 2018/19 or 2017/18.

#### Note A: Shared Services with South Hams District Council

The total cost of senior employees employed by South Hams District Council has been included in the equivalent note of South Hams District Council's Accounts in accordance with the accounting requirements and is therefore excluded from the table above.

In 2018/19 West Devon Borough Council reimbursed costs amounting to £181,800 (2017/18 £133,000) in respect of some members of the Senior Leadership Team (SLT), and the Extended Leadership Team (ELT) who are employed by South Hams District Council. West Devon Borough Council received a reimbursement in 2018/19 from South Hams District Council of £367,200 (2017/18 £282,000) in respect of the above shared senior employees.

#### Note B: Senior Leadership Team interim arrangements

West Devon Borough Council is in a shared services arrangement with South Hams District Council and the two Councils have a shared senior leadership team and a shared non-manual workforce. Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements. A report was presented to Council on 12 February 2019 (Minute CM 54) that outlined a review of the Staffing Establishment.

The Review Panel, consisting of the Leaders of each Council and senior Members recommended that the previous structure incorporating two Executive Directors was replaced with a Chief Executive Officer. The Panel also recommended that once in post, the Chief Executive brings forward a proposed new senior leadership structure that builds upon the recommendations of the Peer Review and will be along the lines of:

- Director of Customer Service and Delivery
- Director of Place and Enterprise
- Director of Governance
- Director of Strategic Finance

### **SECTION 3 NOTES TO THE ACCOUNTS**

It was resolved that with effect from 21 February, the Executive Director for Service Delivery and Head of Paid Service (employed by South Hams District Council) be appointed to the role of Chief Executive and that agreement be given to extending the interim senior management arrangements with a report being brought to Council recommending a new structure within six months of the 2019 Council elections.

#### **30. PAYMENTS TO EXTERNAL AUDITORS**

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Authority's external auditors:

	<b>2017/18 £000</b>	<b>2018/19 £000</b>
<b>Fees payable with regard to external audit services</b>	<b>45</b>	<b>36</b>
Core Audit Fees	39	30
Audit of Grants and Returns	6	6
<b>Rebate from Public Sector Audit Appointments Ltd</b>	<b>(6)</b>	<b>-</b>
<b>TOTAL</b>	<b>39</b>	<b>36</b>

## SECTION 3 NOTES TO THE ACCOUNTS

### 31. GRANT INCOME

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

	2017/18 £000	2018/19 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Capital grants and contributions:</b>		
Disabled Facilities Grants	(279)	(710)
S106's	-	(38)
Other Capital Grants and Contributions	-	(95)
<b>Non ring - fenced Government grants and contributions:</b>		
Revenue Support Grant	(227)	-
New Homes Bonus Grant	(961)	(643)
Small Business Rate Relief	(738)	(842)
Levy Account Surplus Grant	-	(25)
Rural Services Delivery Grant*	(373)	-
Transition Grant	(31)	-
<b>Total</b>	<b>(2,609)</b>	<b>(2,353)</b>
<b>Credited to Services</b>		
Rent Allowance subsidy**	(13,105)	(11,710)
Housing Benefit administration subsidy	(201)	(184)
Rent rebate subsidy	(44)	(31)
Flexible Homelessness Support Grant	(92)	(120)
Discretionary housing payments	(193)	(130)
Business Rates cost of collection allowance	(84)	(84)
Section 106 deposits	(103)	(102)
Recycling credits	(260)	(266)
Electoral Commission - General Elections, Referendum and Police & Crime Commissioners	(162)	-
County Council Elections	(100)	-
Other grants	(167)	(275)
<b>Total</b>	<b>(14,511)</b>	<b>(12,902)</b>

#### Rural Services Delivery Grant 2018/19

\* Due to the Council's business rates pilot status in 2018/19 the Rural Services Delivery Grant of £464,365 is reflected in the lower business rates tariff for 2018/19. Further information can be found in Note 11 – Taxation and Non Specific Grant Income.

#### Rent Allowance Subsidy

\*\* Housing Benefit Payments and Subsidy have reduced significantly between 2018/19 and 2017/18 mainly due to a reduction in caseload. Please see Note 5 – Segment Reporting for further detail.

### **SECTION 3 NOTES TO THE ACCOUNTS**

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have repayment conditions attached to them. Until these conditions are met these grants are held as receipts in advance. Should these conditions not be met the monies would need to be returned to the grantor. The balances at the year-end are as follows:

<b>Capital Grants Receipts in Advance</b>	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
Land Stabilisation	(10)	-
Hayedown	(20)	(20)
Batheway Fields	(158)	(52)
Other Section 106s	(454)	(442)
<b>Total</b>	<b>(642)</b>	<b>(514)</b>

### **32. RELATED PARTIES**

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

#### **Central Government**

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are detailed in Note 31.

#### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 28.

## SECTION 3 NOTES TO THE ACCOUNTS

### 33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below with the resources that have been used to finance it, giving rise to the movement in the Council's Capital Financing Requirement.

<b>Summary of Capital Expenditure and Financing (incorporating the Capital Financing Requirement)</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b><i>Opening Capital Financing Requirement</i></b>	<b><i>1,716</i></b>	<b><i>4,240</i></b>
<b>Capital Investment</b>		
Property, Plant and Equipment	1,816	1,207
Intangible Assets	90	54
Investment Properties	-	21,379
Revenue expenditure funded from capital under statute (REFCUS)	375	455
Assets under Construction	933	488
<b>Total expenditure for capital purposes</b>	<b>3,214</b>	<b>23,583</b>
<b>Sources of Finance</b>		
Capital receipts	(126)	(26)
Capital grants and external contributions	(291)	(417)
Earmarked reserves	(231)	(316)
<b>Total funding</b>	<b>(648)</b>	<b>(759)</b>
<b>Minimum Revenue Provision</b>	<b>(42)</b>	<b>(494)</b>
<b><i>Closing Capital Financing Requirement</i></b>	<b><i>4,240</i></b>	<b><i>26,570</i></b>
<b><i>Movement in Capital Financing Requirement</i></b>	<b><i>2,524</i></b>	<b><i>22,330</i></b>
<b>Explained by:</b>		
Increase in underlying need to borrow (supported by government financial assistance)	2,650	23,182
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(126)	(852)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>2,524</b>	<b>22,330</b>

During 2018/19 the Council incurred capital expenditure totalling £21.4 million for the purchase of four Investment Properties as shown in the Note above. This amount equated to the purchase price of four acquisitions of commercial property plus transaction costs and directly attributable expenditure which was also capitalised in accordance with the Code.

## SECTION 3 NOTES TO THE ACCOUNTS

Details of the Council's commercial property strategy can be found in the report taken to the Hub Committee on 11th September 2018 (and subsequently approved by Full Council on 25th September 2018 - minute Reference CM34 and HC26).

<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=221&MId=1206&Ver=4>

This strategy is expected to be predominantly funded through prudential borrowing. In 2018/19 the Council's Capital Financing Requirement has increased by £22 million mainly due to the purchase of these Investment Properties which have been funded by prudential borrowing.

### 34. LEASES

#### Authority as Lessee

The Authority has, in the past, acquired some assets through operating leases. These have included vehicles and printers. However, all remaining material operating leases have ceased and no lease payments have been made since 2009/10.

#### Authority as Lessor

The Authority leases various parcels of land and buildings to external organisations. The most significant are shown below:

Detail of lease	Term	Expiry date	Segment in CIES
The rental of office accommodation	15 years	17/09/2033	Investment Properties
The operation of a supermarket	9 years	08/01/2028	Investment Properties
The rental of an industrial unit	10 years	28/11/2028	Investment Properties
The rental of an industrial unit	9 years	11/12/2027	Investment Properties
The rental of an industrial unit	14 years	28/09/2032	Investment Properties



### **SECTION 3 NOTES TO THE ACCOUNTS**

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

	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
Not later than one year	-	1,062
Later than one year & not later than five years	-	4,248
Later than five years	-	7,969
<b>Total</b>	<b>-</b>	<b>13,279</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

#### **35. EXIT PACKAGES AND TERMINATION BENEFITS**

There were no exit package costs in 2018/19 (nil in 2017/18). In addition, West Devon Borough Council has not contributed towards exit package costs in South Hams District Council in 2018/19 (nil in 2017/18).

#### **36. DEFINED BENEFIT PENSION SCHEMES**

##### **Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

The administering Authority for the Fund is Devon County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering Authority. Where appropriate some functions are delegated to the Fund's professional advisers.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out during 2019/20 (as at 31 March 2019) and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The total contributions expected to be made

### SECTION 3 NOTES TO THE ACCOUNTS

to the LGPS by the Council in the year to 31 March 2020 is £883,000. The Actuary has estimated the duration of the Employer's liabilities to be 19 years.

**Further information can be found in Devon County Council Pension Fund's Annual Report which is available upon request from The County Treasurer, Devon County Council, County Hall, Exeter, EX2 4QJ.**

#### Transactions Relating to Post-employment Benefits

The cost of retirement benefits are recognised in 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 movement in the pension scheme assets and liabilities together with the treatment of the corresponding transactions in the CIES is summarised in the following tables:

<b>Comprehensive Income and Expenditure Statement</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>
<b>Cost of Services</b>		
<i>Service cost comprising</i>		
- Current Service Cost	1,083	1,025
<i>Financing and Investment Income and Expenditure</i>		
- Net Interest Expense	700	609
- Administration Expenses	14	19
<b>Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>1,797</b>	<b>1,653</b>
<b>Other post-employment benefits charged to the comprehensive income and expenditure statement</b>		
<i>Re-measurement of the net defined benefit liability comprising:</i>		
- Change in financial assumptions	2,502	(2,425)
- Change in demographic assumptions	-	2,856
- Return on fund assets in excess of interest	364	787
<b><i>Total re-measurement recognised</i></b>	<b>2,866</b>	<b>1,218</b>
<b>Total post-employment benefits charged to the Comprehensive income and expenditure statement</b>	<b>4,663</b>	<b>2,871</b>
<i>Movement in Reserves Statement</i>		

### SECTION 3 NOTES TO THE ACCOUNTS

- Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code	(1,797)	(1,653)
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
- Employers contributions payable to scheme	919	993

#### 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:

<b>Net Pension Liability</b>	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
Present value of the defined benefit obligation	49,998	50,534
Fair value of Fund assets	(26,558)	(27,568)
<b>Deficit/(Surplus)</b>	<b>23,440</b>	<b>22,966</b>
Present value of unfunded obligation	940	856
<b>Net defined benefit liability/(asset)</b>	<b>24,380</b>	<b>23,822</b>

<b>Reconciliation of opening and closing balances of the fair value of Fund assets</b>	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
<b>Opening fair value of Fund assets</b>	<b>25,921</b>	<b>26,558</b>
Interest on assets	694	672
Return on assets less interest	364	787
Administration expenses	(14)	(19)
Contributions by employer including unfunded	919	993
Contributions by Scheme participants	180	185
Estimated benefits paid plus unfunded net of transfers in	(1,506)	(1,608)
<b>Closing fair value of Fund assets</b>	<b>26,558</b>	<b>27,568</b>
<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
<b>Opening defined benefit obligation</b>	<b>52,289</b>	<b>50,938</b>
Current service cost	1,083	1,025
Interest cost	1,394	1,281
Change in financial assumptions	(2,502)	2,425

### SECTION 3 NOTES TO THE ACCOUNTS

Change in demographic assumptions	-	(2,856)
Estimated benefits paid net of transfers in	(1,428)	(1,530)
Contributions by Scheme participants	180	185
Unfunded pension payments	(78)	(78)
<b>Closing defined benefit obligation</b>	<b>50,938</b>	<b>51,390</b>

#### Basis for Estimating Assets and Liabilities

Assets and liabilities are assessed by Barnett Waddingham, an independent firm of actuaries. As required under IAS19 they use the projected unit method of valuation to calculate the service cost.

To assess the value of the Employer's liabilities at 31 March 2019, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.

To calculate the asset share they have rolled forward the assets allowing for investment returns (estimated where necessary), contributions paid into and estimated benefits paid from the Fund, by and in respect of the Employer and its employees.

The major assumptions are summarised in the following table:

Basis for estimating assets and liabilities	31 March 2018	31 March 2019
<b>Mortality assumptions (in years):</b>		
<i>Longevity at 65 for current pensioners</i>		
- Men	23.5	22.4
- Women	25.6	24.4
<i>Longevity at 65 for future pensioners (in 20 years)</i>		
- Men	25.7	24.1
- Women	27.9	26.2
<b>Financial assumptions (in percentages):</b>		
- RPI increases	3.3%	3.4%
- CPI increases	2.3%	2.4%
- Salary increases	3.8%	3.9%
- Pension increases	2.3%	2.4%
- Discount rate	2.55%	2.4%

The financial assumptions summarised in the table above are set with reference to market conditions at 31 March 2019.

### SECTION 3 NOTES TO THE ACCOUNTS

The table below looks at the sensitivity of the major assumptions:

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	(0.1%)
Present value of total obligation	50,462	51,390	52,336
Projected service cost	1,026	1,056	1,087
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	51,469	51,390	51,312
Projected service cost	1,056	1,056	1,056
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	52,256	51,390	50,539
Projected service cost	1,087	1,056	1,026
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	53,419	51,390	49,440
Projected service cost	1,090	1,056	1,023

The estimated asset allocation for West Devon Borough Council as at 31 March 2019 is as follows:

Employer asset share	31 March 2018		31 March 2019	
	£000	%	£000	%
Gilts	833	3%	946	3%
UK equities	5,694	22%	4,580	17%
Overseas equities	9,829	37%	11,856	43%
Property	2,471	9%	2,437	9%
Infrastructure	953	4%	1,012	4%
Target return portfolio	3,966	15%	3,903	14%
Cash	649	2%	441	1%
Other bonds	543	2%	485	2%
Alternative assets	1,443	5%	1,456	5%
Private equity	177	1%	452	2%
<b>Total</b>	<b>26,558</b>	<b>100%</b>	<b>27,568</b>	<b>100%</b>

### SECTION 3 NOTES TO THE ACCOUNTS

Of the total fund asset at 31 March 2019, the following table identifies the split of those assets with a quoted market price and those that do not:

Employer Asset Share – Bid Value		31 March 2019	
		% Quoted	% Unquoted
<b>Fixed interest government securities</b>	UK	0.2%	-
	Overseas	3.3%	-
<b>Corporate bonds</b>	UK	0.1%	-
	Overseas	1.7%	-
<b>Equities</b>	UK	15.8%	0.8%
	Overseas	38.1%	4.8%
<b>Property</b>	All	-	8.8%
<b>Others</b>	Absolute return portfolio	14.2%	-
	Private Equity	-	1.6%
	Infrastructure	-	3.7%
	Multi sector credit fund	5.3%	-
	Cash/Temporary investments	-	1.5%
	Debtors	-	0.1%
<b>Total</b>		<b>78.7%</b>	<b>21.3%</b>

### 37. CONTINGENT LIABILITIES

The Council had no contingent liabilities at 31 March 2019.

### 38. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

#### Key Risks

The Council's activities expose it to a variety of financial risks:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements;
- **Re-financing risk** - the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **Overall Procedures for Managing Risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its Financial Regulations/Standing Orders/Constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures regarding the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported to Members during the year.

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council and is available on the Council's website.

These policies are implemented by the Finance team. The Council maintains written principles 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 through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code.

### **Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures from the Council's customers.

### **SECTION 3 NOTES TO THE ACCOUNTS**

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch and Moody's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

Institutions are split into colour bandings to determine the maximum level and duration of the investment.

The full Investment Strategy for 2018/19 was approved by Council and is available on the Council's website.

The Council's Counterparty limits are as follows:

- £3.0 million for Money Market Funds
- £0.5 million on CCLA Property Investment Fund
- £3.0 million on term deposits with banks and building societies with the UK (£4.0 million with Lloyds Bank PLC)

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2019 and is reflected in the current figure of £430,000. This compares to £577,000 in 2017/18. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 15 to the accounts.



## SECTION 3 NOTES TO THE ACCOUNTS

### Amounts Arising from Expected Credit Losses

The Council's short term investments have been assessed and the expected credit loss is not material and therefore no allowances have been made.

	Balance at 31 March 2019	Historical Experience of Default	Estimated Maximum Exposure to Default and Uncollectability at 31 March 2019
	£000	%	£000
<b>Deposits with Bank and Financial Institutions</b>			
Aberdeen Standard Money Market Fund	3,000	0.00%	-
Deutsche Money Market Fund	300	0.00%	-
Blackrock Money Market Fund	3,000	0.00%	-
LGIM Money Market Fund	3,000	0.00%	-
<b>Total</b>	<b>9,300</b>		<b>-</b>

### Liquidity risk

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 17 to the accounts. This seeks to ensure that cash is available when needed.

The Authority has ready access to borrowing from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

### Market Risk

The Council is exposed to market risk in terms of its exposure that the value of an instrument will fluctuate because of changes in:

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

## **SECTION 3 NOTES TO THE ACCOUNTS**

### ***Interest rate risk***

The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in fixed interest rates would have the following effects:

- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements.

From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Finance team will monitor markets and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

### ***Price risk***

The Council has an investment of £0.5 million in the CCLA Local Authorities Property Fund. At the end of each financial year the value of the Local Authority's investment is adjusted to equal the number of units held, multiplied by the published bid price.

The above investment has been elected as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve, therefore there will be no impact on the General Fund until the investment is sold or impaired.

### ***Foreign exchange risk***

The Council does not have any financial assets or liabilities denominated in foreign currencies, and thus has no exposure to loss arising from movements in exchange rates.

## SECTION 3 NOTES TO THE ACCOUNTS

### Refinancing and Maturity Risk

The Council maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the Finance team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	Approved minimum limits	Approved maximum limits	31 March 2018		31 March 2019	
	%	%	£million	%	£million	%
Less than 1 year	0%	10%	-	-	0.514	1.9
Between 1 and 2 years	0%	10%	0.272	5.7	0.508	1.8
Between 2 and 5 years	0%	30%	0.849	17.9	1.675	6.1
Between 5 and 10 years	0%	50%	1.529	32.2	2.519	9.1
More than 10 years	0%	100%	2.100	44.2	22.365	81.1
<b>Total</b>			<b>4.750</b>	<b>100.0</b>	<b>27.581</b>	<b>100.0</b>

## 39. ACCOUNTING POLICIES

### a) 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 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations

### **SECTION 3 NOTES TO THE ACCOUNTS**

require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

The accounting policies are applicable to all of the Council's transactions including those of the Collection Fund (council tax and business rates).

#### **b) Accruals of Income and Expenditure**

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority
- Supplies are recorded as expenditure when they are consumed
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings 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 the contract
- 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected

The Council operates a de minimis policy for accruals. For revenue and capital the de minimis has remained at £5,000 in 2018/19.

### **SECTION 3 NOTES TO THE ACCOUNTS**

#### **c) Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Our policy is shown in the following table:

<b>Type of Investment</b>	<b>Settlement Terms</b>	<b>Gain/Loss on Sale</b>	<b>Cash Equivalent</b>
Money Market Fund	T + 0	x	✓
Call Account	T + 0	x	✓
Notice Deposit	Maturity	x	x
Term Deposit	T + 7 days	x	✓
Other Term Deposits	Maturity	x	x

**Key: T = trade date**

The Council's view is that investments made with an investment period of greater than 7 days would not be classified as cash equivalents because they are not sufficiently liquid to meet short term cash commitments.

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.

#### **d) Material items of Income and Expense**

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

#### **e) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

Changes in accounting policies are only made when required by proper accounting practices or 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.

### **SECTION 3 NOTES TO THE ACCOUNTS**

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

#### **f) Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These charges are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement, for the difference between the two.

#### **g) 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, bonuses 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 the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

##### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to end an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement, to terminate at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

## **SECTION 3 NOTES TO THE ACCOUNTS**

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 the 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 Reserve 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 year-end.

### **Post-Employment Benefits**

Employees of the Authority are members of the Local Government Pensions Scheme, administered by Devon County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

### **The Local Government Scheme**

The Local Government Scheme is accounted for as a defined benefits scheme in the following way:

- The liabilities of the Devon County Council Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and estimates of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value.

For further information please refer to Note 36.

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

- **Service cost comprising:**
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees 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 as part of Non Distributed Costs

## **SECTION 3 NOTES TO THE ACCOUNTS**

- 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.
- **Re-measurements comprising:**
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - contributions paid to the Devon County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

### **Discretionary Benefits**

The Authority also 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 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.

### **h) Events after the Reporting Period**

Events after the Reporting Period 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:



## **SECTION 3 NOTES TO THE ACCOUNTS**

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – 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.

### **i) 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 and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest 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 the borrowings held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

#### **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 cash flow characteristics.

The three main classes of financial assets are measured at:

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

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified at 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).

## **SECTION 3 NOTES TO THE ACCOUNTS**

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

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council 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 Council, 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.

### **Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)**

The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI). This was previously classified as an Available for Sale asset at 31 March 2018.

The Council has made an irrevocable election to designate its equity instrument as FVOCI on the basis that it is held for non-contractual benefits, it is not held for trading but for strategic purposes. The asset was transferred to the new asset category on 1 April 2018.

The asset is initially measured and carried at fair value.

Dividend income is credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus or Deficit on the Provision of Services.

The same accounting treatment was adopted in the prior year when the asset was classified as Available for Sale, except that accumulated gains and losses on the available for sale asset were previously held in an Available for Sale Financial Instruments Reserve at 31 March 2018.

The balance on this reserve was transferred to the new Financial Instruments Revaluation Reserve as at 1 April 2018.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **Expected Credit Loss Model**

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

### **Fair Value**

The Council measures some of its assets and liabilities at their fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability. The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date.
- 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.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **j) Government Grants and Contributions**

#### **General**

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution 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 for which conditions have not been satisfied are carried in the Balance Sheet as creditors. 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 in 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.

A Business Improvement District (BID) scheme operates in Tavistock. This scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as an agent for the Tavistock BID Company, the Council is the billing Authority and collects the levy on the BID company's behalf. No income or expenditure is included in the Comprehensive Income and Expenditure Statement, and any cash balance collected by the Council but not yet paid to the BID company at the year end is carried in the Balance Sheet as a creditor.

### **k) Heritage Assets**

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge or culture. The Council has reviewed its insurance and assets registers and has not identified any material assets that require disclosure.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **l) Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority. As with Property, Plant and Equipment a de minimis level of £10,000 has been set for capitalisation.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets 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 they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over 3 years to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation charges are not permitted to have an impact on the General Fund Balance. Therefore, these charges are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

### **m) Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements 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 in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **n) Jointly Controlled Operations**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other partners that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **o) 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. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets (i.e. embedded leases).

#### **The Authority as Lessee**

##### Finance Leases

The Council does not hold any finance leases as a lessee.

##### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Where material, charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

#### **The Authority as Lessor**

##### Finance Leases

The Council does not hold any finance leases as a lessor.

##### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant line within the 'Cost of Services' or 'Financing and Investment Income' in the Comprehensive Income and Expenditure Statement. Where material, the rental income is credited on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

### **p) Overheads and Support Services**

Costs of overheads and support services are only recharged to services requiring full cost recovery. Apart from these exceptions support services are shown in the Comprehensive Income and Expenditure Statement in their own reporting segment, which is in line with the Council's internal reporting method.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **q) 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 classified as Property, Plant and Equipment.

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the 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 (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but at a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

### **SECTION 3 NOTES TO THE ACCOUNTS**

- 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(s) 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.

#### **De minimis policy for capital controls and accounting purposes**

CIPFA have not set specified de minimis levels and it is up to authorities to decide for themselves having regard to their particular circumstances.

In order to reduce the administrative burden a general de minimis limit of £10,000 has been set for the recognition of capital expenditure except for:

- Vehicles and Plant for which the limit is £7,000
- Loans which have no limit

#### **Component Accounting**

The International Financial Reporting Standards (IFRS) code requires separate accounting for depreciation of significant components of assets that are:

- acquired on or after 1 April 2010
- enhanced on or after 1 April 2010
- revalued on or after 1 April 2010

Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge.

Significant components which have different useful lives and/or depreciation methods, will be accounted for separately.

Where a component is replaced or restored, the carrying amount of the old component shall be derecognised and the new component reflected in the assets carrying amount, subject to the recognition principles of capitalising expenditure. Derecognition of a component from the Balance Sheet takes place when no future economic benefits are expected from its use. Such recognition and derecognition takes place regardless of whether the replaced part has been depreciated separately.

Assets eligible to be considered for componentisation are those classified within the following categories:



## **SECTION 3 NOTES TO THE ACCOUNTS**

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

1. Non-Depreciable Land
2. Assets Under Construction
3. Investment Properties
4. Infrastructure
5. Plant and Equipment
6. Community Assets
7. Intangible Assets

The criteria for components to be separately valued are that:

***De minimis threshold*** - *The overall gross asset value must be in excess of £400k to be considered for componentisation and*

***Materiality*** - *The component must have a minimum value of £200k or be at least 20% of the overall value of the asset (whichever is the higher) and*

***Asset lives*** - *The estimated life of the component is less than half of that of the main asset.*

**All three rules above must be met to consider componentisation. These rules will apply to revaluations and when replacing components within an asset.**

Where enhancement is integral to the whole asset then unless there is significant evidence to the contrary, the asset life of the enhancement will have the same remaining life as the existing asset and will not be separately identified as a component.

Where assets are material and will therefore be reviewed for significant components, it is recommended that the **minimum** level of apportionment for the non-land element of assets is:

- Plant and equipment and engineering services
- Structure

The Valuer will assign to each standard property type a group of significant components common to all property assets within that property type.

Where a component is replaced the existing component shall be derecognised and the new component cost added to the carrying amount. The amount derecognised will be estimated based on the cost of the replacement part. This principle will apply to componentised and non-componentised assets.

Assets and asset components will be revalued in accordance with the annual valuation schedule agreed with the Valuer. The Valuer will be responsible for providing valuations apportioned in accordance with the assets property type.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **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.

Where impairment losses 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(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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.

### **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 (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on a straight-line allocation over the useful life of the asset. Useful lives are determined on a case by case basis. Typical useful lives are:

<b>Asset</b>	<b>Useful life</b>
Buildings	Sixty years
Infrastructure	Twenty years
Refuse vehicles	Seven years
Light vans	Five years
IT equipment	Four years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also 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.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **Disposals and 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 losses previously 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 depreciation, amortisation or revaluations 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.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) 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 (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The written-off value of disposals is not a charge against council tax, as the cost of 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.

### **r) Provisions, Contingent Liabilities and Contingent Assets**

#### **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 as an expense 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.

## **SECTION 3 NOTES TO THE ACCOUNTS**

When payments are eventually made, they are charged to the provision carried 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 now 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 (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Authority.

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. The Council operates a disclosure de minimis policy for contingent liabilities and assets of £50,000.

### **Contingent Assets**

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

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **s) 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 in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **t) Revenue Recognition**

With the adoption of accounting standard IFRS 15, revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

The analysis carried out to date indicates that there will be no material impact on the revenue recognised in relation to the significant contracts entered into by the Council. A review will take place each year to identify whether any disclosure is necessary.

### **u) Revenue Expenditure Funded from Capital under Statute (REFCUS)**

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

### **v) Section 106 Deposits**

Developer contributions are initially treated as Capital Receipts in Advance unless a clear capital use is identified in the terms of the agreement, in which case they are defined as Capital Contributions Unapplied.

### **w) Shared Services**

West Devon Borough Council and South Hams District Council have been in a shared services arrangement since 2007. Following the implementation of the joint Transformation Programme (T18), all of the Councils' non-manual workforce are shared across both Councils.

Officers have produced a methodology for recharging the salary costs of shared officers based on the most appropriate cost driver and ratio to best reflect the officer's split of workload between the two Councils. Examples of the cost drivers used are caseloads, call volumes, property numbers, number of claims or cases processed etc, and other methods such as time recording. The work carried out includes establishing from the Heads of Practice/Group Managers the relevant recharge requirements for all of the non-manual workforce. On an annual basis, the Audit Committee approve the methodology for recharging the salary cost of shared officers.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **x) VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### **y) Accounting for Local Taxes**

Billing authorities act as agents, collecting council tax and business rates on behalf of the major preceptors (including government for business rates) and, as principals, collecting council tax and business rates for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and business rates. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted.

#### **Accounting for Council Tax and Business Rates**

The council tax and business rates income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and business rates 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 business rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

### **z) Minimum Revenue Provision**

The Council is not required to use Council Tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards provision for the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

## **SECTION 3 NOTES TO THE ACCOUNTS**

### **40. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Authority in the 2019/20 financial statements i.e. from 1 April 2019.

The Authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new/amended standard that has been issued, but is not yet required to be adopted by the Authority.

The Accounting Standards that have been issued but have not yet adopted are:

- Amendments to IAS 40 Investment Property : Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

These Standards are not anticipated to have a material impact on the Council's financial performance or financial position.

In addition IFRS 16 *Leases* will require local authorities that are lessees to recognise leases on their balance sheets as right-of-use assets with corresponding lease liabilities. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

### **41. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 39, 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:

- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs.
- The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this information an assessment was made about the likely success rate of appeals and their value.

## SECTION 4 COLLECTION FUND

### COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2019

This account reflects the statutory requirements for the Council as a billing Authority to maintain a separate Collection Fund. The statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and business rates.

2017/18 Business Rates £000	2017/18 Council Tax £000		2018/19 Business Rates £000	2018/19 Council Tax £000
		<b>INCOME</b>		
-	(37,093)	Income from Council Tax		(39,054)
(9,970)	-	Business Rates Receivable	(10,637)	-
(416)	-	Transitional Relief	(400)	-
<b>(10,386)</b>	<b>(37,093)</b>		<b>(11,037)</b>	<b>(39,054)</b>
		<b>EXPENDITURE</b>		
		<b>Precepts, Demands and Shares*:</b>		
5,124	-	Central Government	-	-
922	25,293	Devon County Council	5,797	26,781
-	3,517	Devon & Cornwall Police Authority	-	3,788
103	1,627	Devon & Somerset Fire Authority	98	1,690
4,099	5,642	West Devon Borough Council (net including Towns/Parishes)	3,930	5,889
3	-	Business Rates written off and change in impairment allowance	70	-
-	506	Council Tax written off and change in impairment allowance	-	461
267	-	Business Rates increase/(decrease) in provision for appeals	590	-
84	-	Business Rates – Costs of collection	84	-
		<b>Distribution/collection of previous year's estimated surplus/(deficit):</b>		
17	-	Central Government	37	-
3	778	Devon County Council	7	433
-	111	Devon and Cornwall Police	-	60
-	52	Devon and Somerset Fire Authority	1	28
14	178	West Devon Borough Council	30	96
<b>10,636</b>	<b>37,704</b>		<b>10,644</b>	<b>39,226</b>
<b>250</b>	<b>611</b>	<b>MOVEMENT ON BALANCE</b>	<b>(393)</b>	<b>172</b>



## SECTION 4 COLLECTION FUND

### \*Business Rates Pilot Status 2018/19

The move towards 75% Business Rate Retention of business rates growth is expected to be in place by 2020. Devon was selected as one of 10 areas to take part in a national pilot allowing Councils to retain a higher share of business rates growth in 2018/19. This pilot status is reflected in the movement in the Preceptor's Shares above for 2018/19 with no surplus due to Central Government and Devon County Council's share increasing from 9% to 59% in 2018/19. The pilot is for one year, 2018/19 and has generated an extra £460,000 of business rate income for the Borough Council.

### 1. COUNCIL TAX AND COUNCIL TAX BASE

In 2018/19, the Council's average Band D Council Tax was £1,896.23. The charge for each band is a ratio of band D. The 2018/2019 charges therefore were:

Band	Ratio to Band D	Band D Council Tax (£)
<b>Disabled</b>		
<b>A</b>	5/9	1,053.46
<b>A</b>	6/9	1,264.15
<b>B</b>	7/9	1,474.85
<b>C</b>	8/9	1,685.54
<b>D</b>	1	1,896.23
<b>E</b>	11/9	2,317.61
<b>F</b>	13/9	2,739.00
<b>G</b>	15/9	3,160.38
<b>H</b>	18/9	3,792.46

These charges are before any appropriate discounts or benefits. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2018/19 was **20,117.85** as calculated below (19,948.77 in 2017/18).

## SECTION 4 COLLECTION FUND

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
<b>Dis A</b>		11.25	11.25	5/9	6.25
<b>A</b>	3,474.00	(579.75)	2,894.25	6/9	1,929.50
<b>B</b>	6,411.00	(724.50)	5,686.50	7/9	4,422.83
<b>C</b>	5,332.00	(490.50)	4,841.50	8/9	4,303.56
<b>D</b>	4,138.00	(276.00)	3,862.00	1	3,862.00
<b>E</b>	3,359.00	(222.25)	3,136.75	11/9	3,833.81
<b>F</b>	1,764.00	(81.25)	1,682.75	13/9	2,430.64
<b>G</b>	1,015.00	(75.50)	939.50	15/9	1,565.83
<b>H</b>	83.00	(8.75)	74.25	18/9	148.50
<b>Total</b>	<b>25,576.00</b>	<b>(2,447.25)</b>	<b>23,128.75</b>		<b>22,502.92</b>
Less allowance for non-collection					(675.09)
Plus adjustment for armed forces dwellings					19.60
Other adjustments including Council Tax Support					(1,729.58)
<b>Tax base</b>					<b>20,117.85</b>

### 2. Rateable value

The total business rates rateable value at 31 March 2019 was £32,228,374. This compares to £32,137,924 at 31 March 2018. The standard business rates multiplier was 49.3p in 2018/19 (2017/18: 47.9p). Without reliefs this would generate a total income of £15,888,588.38 (2017/18 £15,394,065.59). These figures are a snapshot only and differ from the value of business rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

## SECTION 4 COLLECTION FUND

### 3. Collection fund balance

2017/18 Business Rates £000	2017/18 Council Tax £000		2018/19 Business Rates £000	2018/19 Council Tax £000
(402)	(1,312)	Fund balance at 1 April	(152)	(701)
250	611	Deficit/(surplus) for year	(393)	172
<b>(152)</b>	<b>(701)</b>	<b>Fund balance as at 31 March – deficit/(surplus)</b>	<b>(545)</b>	<b>(529)</b>

The balance on the Collection Fund is split between the preceptors as follows:

2017/18 Business Rates £000	2017/18 Council Tax £000		2018/19 Business Rates £000	2018/19 Council Tax £000
(76)	-	Central Government**	(39)	-
(13)	(492)	Devon County Council**	(283)	(372)
-	(68)	Devon and Cornwall Police	-	(52)
(2)	(32)	Devon and Somerset Fire Authority	(5)	(24)
<b>(91)</b>	<b>(592)</b>	<b>Total deficit/(surplus) due to Preceptors</b>	<b>(327)</b>	<b>(448)</b>
(61)	(109)	West Devon Borough Council	(218)	(81)
<b>(152)</b>	<b>(701)</b>	<b>Fund balance as at 31 March – deficit/(surplus)</b>	<b>(545)</b>	<b>(529)</b>

#### \*\*Business Rates Pilot Status for 2018/19

The balance due to Central Government as at 31 March 2019 relates to their share (50%) of the difference between the actual surplus at 31 March 2018 (£183,000) and the estimated surplus calculated in the 2018/19 NNDR1 Return (£105,000). Unlike the other Business Rates Preceptors, Central Government's Collection Fund balance is not increased by a share of the current year surplus following the Devon Authorities successful bid for Pilot status in 2018/19. In addition the larger balance due to Devon County Council at 31 March 2019 reflects their increased share of business rates for 2018/19 from 9% to 59%. The pilot is for one year, 2018/19 and has generated an extra £460,000 of business rate income for the Borough Council. £143,516 of this pilot gain has been used to fund the 2018/19 revenue base budget and the balance of £316,484 has been transferred into a new Financial Stability earmarked reserve.

## **SECTION 5 STATEMENT OF RESPONSIBILITIES / APPROVAL OF THE 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 Section 151 Officer & Strategic Finance Lead
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts

### ***The Chief Financial Officer's responsibilities***

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

In preparing this Statement of Accounts, the Chief Financial Officer 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
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error,

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and its income and expenditure for the year ended 31 March 2019.

.....

**Lisa Buckle BSc (Hons), ACA**  
**Section 151 Officer & Strategic Finance Lead**

**29 May 2019**

**SECTION 5 STATEMENT OF RESPONSIBILITIES / APPROVAL OF THE ACCOUNTS**

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

I confirm that these accounts were approved by the Audit Committee as its meeting held on TBA.

Signed on behalf of West Devon Borough Council

.....

**Councillor M Davies**

Chairman of the Audit Committee

***SECTION 6 AUDITORS REPORT***

**The Auditors' report will be received following the annual audit of the accounts.**

## **SECTION 7 GLOSSARY OF TERMS**

### **GLOSSARY OF TERMS**

<b>ACCRUALS</b>	A sum included in the account to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts have been prepared.
<b>ACTUARIAL GAINS &amp; LOSSES</b>	These are changes in actuarial deficits or surpluses that arise because either actual experience or events have not been exactly the same as the assumptions adopted at the previous valuation (experience gains and losses) or the actuarial assumptions have changed.
<b>BALANCES</b>	The surplus or deficit on any account at the end of the year. Amounts in excess of that required for day to day working may be used to reduce the demand on the Collection Fund.
<b>BUSINESS IMPROVEMENT DISTRICT (BID)</b>	A Business Improvement District is a partnership between a local Authority and the local business community to develop projects and services that will benefit the trading environment within the boundary of a clearly defined commercial area.
<b>CAPITAL EXPENDITURE</b>	Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.
<b>CAPITAL RECEIPTS</b>	Income received from sale of assets which is available to finance other capital expenditure or to repay debt on assets financed from loans.
<b>CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY</b>	The governing body responsible for issuing the statement of recommended practice to prepare the accounts.
<b>COLLECTION FUND</b>	A separate fund which must be maintained by a district for the proper administration of Council Tax and Non Domestic Rates.
<b>CURRENT SERVICE COST</b>	Amount chargeable to Services based on the Actuary's assessment of pension liabilities arising and chargeable to the financial year.

## **SECTION 7 GLOSSARY OF TERMS**

<b>CURTAILMENTS</b>	The amount the Actuary estimates as costs to the Authority of events that reduce future contributions to the scheme, such as granting early retirement.
<b>DEFINED BENEFIT SCHEME</b>	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
<b>DEMAND</b>	The charging authorities own Demand is, in effect, its precept on the fund.
<b>FAIR VALUE</b>	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
<b>FEES &amp; CHARGES</b>	In addition to the income from charge payers and the Governments, Local Authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.
<b>FINANCIAL INSTRUMENTS</b>	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
<b>GOVERNMENT GRANTS</b>	Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.
<b>IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)</b>	Provisions against income to prudently allow for non collectable amounts.
<b>INTEREST COST</b>	For the pension fund this represents the discount rate at the start of the accounting period applied to the liabilities during the year based on the assumptions at the start of the accounting period.
<b>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) &amp; THE CODE OF PRACTICE (CODE)</b>	Formal financial reporting standards adopted by the accounting profession and to be applied when dealing with specific topics within its accounting Code. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.



## **SECTION 7 GLOSSARY OF TERMS**

<b>LIBID</b>	Acronym for the London Inter-bank Bid Rate, being the interest rate at which a market maker or underwriter will offer to buy bonds and securities.
<b>MINIMUM REVENUE PROVISION (MRP)</b>	This is a statutory requirement to make an annual calculation of an amount or MRP considered prudent to offset against borrowings made under the Prudential Borrowing rules.
<b>PAST SERVICE COST</b>	These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.
<b>PRECEPT</b>	The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.
<b>PROJECTED UNIT METHOD</b>	<p>An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:</p> <ul style="list-style-type: none"><li>a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases,</li><li>b) the accrued benefits for members in service on the valuation date.</li></ul> <p>The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.</p>
<b>RATEABLE VALUE</b>	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
<b>REVENUE EXPENDITURE</b>	Recurring items of day to day expenditure consisting principally of Salaries and Wages, Debt Charges and general running expenses etc.

**SECTION 7 GLOSSARY OF TERMS**

<b>SETTLEMENTS</b>	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability.
<b>STRAIN ON FUND CONTRIBUTIONS</b>	Additional employers pension contributions as a result of an employee's early retirement
<b>SUNDRY CREDITORS</b>	Amounts owed by the Authority at 31 March.
<b>SUNDRY DEBTORS</b>	Amounts owed to the Authority at 31 March.

**West Devon Borough Council  
Annual Governance Statement  
2018 – 2019**

**1. Scope of Responsibility**

West Devon Borough Council is responsible for ensuring that:

- its business is conducted in accordance with legal requirements and proper standards
- public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, West Devon Borough Council is also responsible for ensuring that there is a sound system of governance (incorporating the system of internal control) and maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, including arrangements for the management of risk. A Statutory Officers' Panel was set up in 2015 and a key role of this Panel is strategic risk management.

West Devon Borough Council and South Hams District Council have been shared services partners since 2007. As two of the very first Councils to share a Chief Executive in 2007, the Councils have been bold in challenging the traditional local government model and have always been at the forefront of radical change and innovation.

In early 2015 a completely new leadership team was appointed to lead the organisation through the transformation programme, become more customer-focused, save money and explore ways of generating income for the Council. The Councils have been led by a small leadership team and from February 2018 onwards, interim senior leadership arrangements have been put into place. A report will be brought to Council recommending a new structure within six months of the 2019 Council elections.

The role of the Senior Leadership Team (SLT) is to implement the plans and policies to support the strategic direction of the Council as set by Members. SLT are supported by an Extended Leadership Team (ELT). The ELT includes the principal people managers and professional lead officers in areas such as Housing, Planning, Environmental Health, Asset Management, Environment Services and Waste and Support Services such as Finance, Legal, and Human Resources.

The Council's Strategic Finance Lead is the officer with statutory responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.

The S.151 Officer, who acts as the Chief Financial Officer (CFO), has responsibility for the administration of the financial affairs of the Council; will contribute to the corporate management of the Council, in particular through the provision of professional financial advice; will provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all Members and will support and advise Members and officers in their respective roles; and will provide financial information to the media, Members of the public and the community. (Constitution Article 10)

The CFO leads the promotion of good financial management including through the provision and publication of Financial and Contract Procedure Rules. The Council's S.151 Officer is a qualified accountant.

A review of the Council's arrangements against the CIPFA guidance on the Role of the Chief Finance Officer in Local Government has concluded that the recommended criteria have been met in all areas.

## **2. The Purpose of the Governance Framework**

The governance framework comprises the cultural values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community. The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate, cost-effective services have been delivered.

A significant part of the framework is the Council's system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risks 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 process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

The governance framework was in place at West Devon Borough Council for the year ended 31 March 2019 and is expected to continue up to the date of approval of the Accounts by the Audit Committee.

This Statement explains how West Devon Borough Council has met the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and Society of Local Authority Chief Executive's (SOLACE) Framework Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016.

Included within this framework are seven core principles of governance:

**PRINCIPLE A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

All Council decisions incorporate a legal implications section which are published on the Council's website. Officers and Members receive support from Legal Services in considering legal implications and if specialist legal advice is required then the Council will engage external advisors. The Section 151 Officer and Monitoring Officer have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal and financial requirements and for reporting any such instances to Members.

In addition the Council undertakes the following to ensure a strong commitment to ethical values and behaving with integrity:

- Staff are assessed against a set of key behaviours (known as 'IMPACT') to establish the right values and culture
- The Council's whistle-blowing policy, known as the Confidential Reporting Policy, is available to all staff on the Council's Intranet (including Frequently Asked Questions) and is also publicised internally on an occasional basis to maintain its profile. It was last reviewed and adopted by Members in July 2016 and is reviewed annually (along with the Council's regulatory framework) by the Statutory Officers' Panel and remains fit for purpose.
- The Council's Constitution also defines the roles of Members and officers. Part 5 of the Constitution includes a Protocol on Councillor / Officer Relations. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted Members of Council bodies in their dealings with officers where appropriate.
- There are codes of conduct in place for Members and Officers which include arrangements for registering interests and managing conflicts of interest. The Officers Code of Conduct was reviewed and agreed with the Unions in 2017-18. A Members Code of Conduct is in place and is fit for purpose.
- The Overview and Scrutiny Committee is responsible for overseeing the Members' Code of Conduct and good governance by Members and its terms of reference are set out in the Constitution
- There is an effective Audit Committee in place with clear terms of reference.

## **PRINCIPLE B - Ensuring openness and comprehensive stakeholder engagement**

All Committee and Council meetings are open to the public, with papers available in advance on the Council's website (save where 'Exempt' under the Local Government Act 1972 following formal evaluation of the public interest).

The Council also undertakes the following to ensure openness and comprehensive engagement:

- Publishes consultations and surveys on the Council website and uses a consultation checklist based on the Gunning Principles to structure consultations to ensure good communication guidelines are adhered to.
- Utilises social media on a daily basis including Twitter, Instagram, Facebook, LinkedIn and YouTube to provide instant information on Council services thus allowing for a free flow of comments from stakeholders.
- Uses dedicated Locality Engagement Officers to attend local events to canvas the opinions of stakeholders to help shape the delivery of Council services.
- Produces specific e-bulletins for various interest groups including Business, Housing, Neighbourhood Planning, etc.
- Publishes an Annual Report available on the Council website which openly demonstrates how Council resources are used.

## **PRINCIPLES C AND D - Defining, optimising and achieving outcomes**

The Council has a number of strategic documents and plans that guide its approach to achieving its vision and ensuring that it remains financially sustainable. The Council's adopted Priorities are confirmed in Article 6 of the Constitution and again are published on the Council's website.

The Council's policies, aims and objectives are well established and monitored at various levels for example forward plans, annual service planning process and personal development reviews.

### **Corporate Strategy**

On 24<sup>th</sup> April 2018, the Hub Committee considered a new, refreshed and more focused five year Corporate Strategy which was recommended and approved by Council. Minute HC80 refers

<http://mg.swdevon.lan/ieListDocuments.aspx?CId=221&MId=460&Ver=4>

## **The Five Year Corporate Strategy 2018 – 2023 has six Corporate Strategy Themes as below:-**

Council – Delivering efficient and effective services

Homes – Enabling homes that meet the needs of all

Enterprise – Creating places for enterprise to thrive and business to grow

Communities – Council and residents working together to create strong and empowered communities

Environment – Protecting, conserving and enhancing our built and natural environment

Wellbeing – Supporting positive, safe and healthy lifestyles and helping those most in need

### **Annual Report for 2018-19**

On 21st May 2019, the Council considered and approved the content of the 2018/19 Annual Report. This sets out the Council's achievements for 2018/19 by each of the new Themes within the Corporate Strategy.

<http://mg.swdevon.lan/ieListDocuments.aspx?CId=271&MId=1200&Ver=4>

### **Joint Local Plan**

On 26 March 2019 the Plymouth and South West Devon Joint Local Plan was formally adopted by Council. The Plan had been subject to examination by two independent Inspectors appointed by the Secretary of State. The Joint Local Plan is only the third joint plan in the country to include strategic and local policies, the first to include a major English city and its neighbouring Councils, and has been prepared in the shortest time of any joint plan in the country.

The Council also undertakes the following to ensure it defines, optimises and achieves outcomes:

- Staff briefings led by Senior Leadership Team articulate the vision and new ways of working
- Regular consultation is undertaken on a range of issues

- Effective budgetary monitoring takes place regularly and is reported quarterly to Members – KPMG concluded in their audit report that ‘the budgeting process can be seen as reliable and prudent’.
- Cashable savings identified in the T18 Programme have been realised
- Performance management and reporting is embedded including quarterly reporting to the Overview and Scrutiny Committee
- Scrutiny teams have delivered tangible outcomes as highlighted in their Annual Report
- The Council regularly engages with other authorities to learn and understand how best practice has been delivered elsewhere.

### **PRINCIPLE E - Developing capacity and capability**

Staff throughout West Devon and South Hams perform well with average days of short term sickness on or above target. HR policies allow a fair and positive relationship between employer and employee.

Regular staff briefings and an online staff appraisal system ensures staff are up to speed with Council priorities. Employees are able to evidence their achievements and identify any training needs through the appraisal process. The Councils are committed to providing opportunities to young people and have an apprenticeship scheme.

The Council also undertakes the following to develop capacity and capability:

- Delivers an induction programme for Officers and Members
- Provides a Member training and development programme
- Promotes to staff the use of “Learning Pool” an extensive online learning resource
- Delivers focused training on specific issues (e.g. complaints, data protection)
- Extended Leadership Team development programme
- Works in partnership with local authorities and other bodies to achieve economies of scale
- Conducts a staff survey to gauge employee satisfaction and assist in improving how the organisation performs. The survey results have shown significant improvement over the past 3 years.
- The Council held its first Staff Awards in 2017/18 and this is an annual event



## PRINCIPLE F - Managing risks and performance

There is a culture of risk ownership and management throughout the Council and in 2018/19, particular focus has been given to health and safety and information security. Risks are logged centrally and are updated regularly.

For each risk, the uncertainties are identified, along with the consequences, likelihood of occurrence and strategic impacts that would result. The Council's Senior Leadership Team review the corporate risk log quarterly and updates are reported to Elected Members via the Audit Committee on a biannual basis.

Elected Members also have the opportunity to raise concerns with the mitigating actions being taken by officers and can suggest new risks for consideration.

A Statutory Officers' Panel which meets quarterly has been set up comprising of the Chief Executive (Head of Paid Service), Strategic Finance Lead (S151 Officer) and the Head of Legal (Monitoring Officer) with other key officers invited as appropriate. Its key roles are to ensure that the Council complies with and manages:

- Governance frameworks
- Strategic risk management, and
- Regulatory framework

The Statutory Officers' Panel has important links with the Audit Committee and the Overview & Scrutiny Committee. It has a rolling programme of works which are set out in a Forward Plan. On 19<sup>st</sup> June 2018, the Audit Committee considered the Annual Report of the Statutory Officers' Panel.

As part of the Statutory Officer's Panel work programme in 2018-19, the Finance Procedure Rules have been updated and reported to the Council's Audit Committee.

All Committee reports include a reference where relevant to the potential impact on the Council's priorities and community plan themes, and address as appropriate any financial, staffing, risk, legal and property implications, and are monitored by appropriate senior officers (including the S151 Officer and the Monitoring Officer).

With regards to managing performance throughout the year we have continued to improve performance to meet the needs of our customers.

We have systematically reviewed areas of poor performance, streamlined processes, embedded new IT solutions and delivered staff training. As a result we have seen a significant reduction in call volumes and an increase in transactions online.

To manage performance the Council ensures the following:

- Continuous managerial review of services to ensure continuous improvement and the economic, effective and efficient use of resources
- Financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Quarterly budget monitoring reports are presented to the Hub Committee.
- Active performance management arrangements including quarterly reports to Overview & Scrutiny Committee on performance measures
- A robust complaints/ compliments procedure is in place and is widely publicised, with the Ombudsman's Annual Report being reported to the Overview and Scrutiny Committee
- Freedom of Information requests are dealt with in accordance with established protocols

### **PRINCIPLE G Implementing good practices in transparency, reporting, and accountability**

The Council follows the Government Communication Service guidance on providing clear and accurate information and has a number of measures in place to demonstrate transparency and accountability.

An Audit Committee meets five times a year and its role is to provide an oversight of the financial reporting and audit processes plus the system of internal controls and compliance with laws and regulations.

The Council also has two internal audit staff managed by the Devon Audit Partnership who provide an opinion on the internal control environment and governance processes. In March 2019 (Minute AC39), it was recommended to Council for West Devon to join the Devon Audit Partnership as a 'non-voting' partner from 1 April 2019 (or as soon as is reasonably practicable thereafter). This was approved by Council in March 2019.

Five applications for exemptions to Contract/Financial Procedure Rules were received in the year, all were accepted.

External audit was provided by KPMG for 2017/18 and in July 2018 they reported that they had concluded that the Council had made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources.

To further ensure transparency the council undertakes the following:

- Provide training to Members on the Overview and Scrutiny Committee on effective scrutiny practices
- Ensure all Member decisions are formally minuted
- Publishes all Council decisions online together with background reports
- Produces an Annual Report detailing Council performance and spend

## **Process for maintaining and reviewing effectiveness of the Council's Governance arrangements**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This responsibility is in practice carried out by Senior Managers, with the Chief Executive informing the Hub Committee of any significant matters warranting their attention. The Council ensures the delivery of services in accordance with Council policies and budgets, which includes long term financial planning, good financial management and ensuring up to date risk management across the Council. The Overview and Scrutiny Committee is responsible for performing a review function and on 26<sup>th</sup> June 2018 they considered their Annual Report for 2017/18, which set out a summary of the work programme they have considered for the previous 2017/18 year.

### The Audit Committee

The Audit Committee has a specific role in relation to the Council's financial affairs including the internal and external audit functions and monitors the internal workings of the Council (broadly defined as 'governance'). It is responsible for making sure that the Council operates in accordance with the law and laid down procedures and is accountable to the community for the spending of public money. The Audit Committee will provide:-

- i) independent assurance of the adequacy of the risk management framework and the associated control environment
- ii) independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment
- iii) oversees the financial reporting process.

The review of effectiveness of the system of internal control is informed by three main sources: the work of Internal Audit; by managers who have responsibility for the development and maintenance of the internal control environment; and also by comments made by external auditors and other review agencies/inspectorates.

### Internal Audit

The Council's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2011. This responsibility is delegated to the S151 Officer.

The Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources. All audit reports go to the Senior Leadership Team who agree any recommendations. Members receive an annual report of internal audit activity and approve the annual audit plan for the forthcoming year.

The Internal Audit annual report for 2018/19 will be considered by the Audit Committee in June 2019. The report will contain the Head of Internal Audit's Opinion for the 2018/19 year and this view will form part of the final Annual Governance Statement for 2018/19.

### Senior Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a number of significant internal control areas which are subject to review by internal audit. All managers acknowledge their responsibilities and confirm annually that they have implemented and continuously monitored various significant controls.

### External auditors and other review agencies/inspectors

Our external auditors (KPMG) issued their 'External Audit Report ISA260 report' for 2017/18 in July 2018 which was considered by the Audit Committee. The document summarised their key findings in relation to their external audit of the Council for 2017-18 and covered an opinion on the Council's financial statements, the control environment in place to support the production of timely and accurate financial statements and the Council's significant risk areas.

The key messages from KPMG's External Audit report for 2017/18 (presented to the Audit Committee on 24<sup>th</sup> July 2018) were as follows:-

An unqualified audit opinion on the Accounts was issued before 31 July 2018. KPMG's audit of the Accounts did not identify any material misstatements to the Council's Accounts and they agreed a number of minor presentational and disclosure changes to the supporting notes to the Accounts.

No significant issues arose as a result of their work on the allocation of shared costs, the valuation of PPE, Pension Liabilities or Faster Close.

KPMG concluded that "They have identified no significant issues with the Authority's organisational control environment and consider that the overall arrangements that have been put in place are reasonable."

KPMG reported that "The controls over the majority of the key financial systems are sound". However KPMG did note two weaknesses around the monitoring of housing benefit controls and they also noted that there was not a formally documented approach to revaluation review and impairment review for the year end property, plant and equipment process.

**Value for Money (VFM) audit conclusion** – KPMG concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. An unqualified VFM conclusion was issued in 2018.

## Significant Governance Issues

The following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

### ***Issues and action plan from the System of Internal Control***

Issue Identified	Action to be Taken	Responsible Officer
<p><b>Closedown of T18 Transformation Programme</b></p> <p>In 2013, West Devon Borough Council and South Hams District Council embarked on an ambitious and challenging Transformation Programme (T18), to remodel how the Councils worked. This was in light of the acute combined funding gap (£4.7 million) the Councils were facing.</p> <p>The T18 Closedown report was presented to the Hub Committee on 5<sup>th</sup> June 2018.</p> <p>The predicted final spend (£2.767million) is £63,000 less than the budget of £2.83 million. The total annual savings realised from the T18 Transformation Programme were £1.505 million per year. The largest element of these savings were staffing savings. Between 2014 and 2015, the majority of employees at both Councils went through a rigorous recruitment process and the workforce was reduced by 30%. The payback period of the Transformation Programme was just under 3 years.</p>	<p>T18 Closedown Report was considered by the Hub Committee in June 2018.</p> <p>Lessons learnt contained within the report are to be taken into account on future corporate projects.</p> <p>As the Programme is now complete, this will be the last year that the T18 Transformation Programme will feature in the Annual Governance Statement.</p>	<p>Senior Leadership Team S.151 Officer Monitoring Officer Internal Audit Manager Timescale in line with the Programme.</p> <p>S151 Officer</p>

The system of internal control is described in section 2 above.

<b>Issue Identified</b>	<b>Action to be Taken</b>	<b>Responsible Officer &amp; Target Date</b>
<p><b><i>The Joint Local Plan</i></b></p> <p>On 26 March 2019 the Plymouth and South West Devon Joint Local Plan was formally adopted. The Plan had been subject to examination by two independent Inspectors appointed by the Secretary of State. The Joint Local Plan is only the third joint plan in the country to include strategic and local policies, the first to include a major English city and its neighbouring Councils, and has been prepared in the shortest time of any joint plan in the country.</p>	<p>In accordance with Council Minute CM65 (26<sup>th</sup> March 2019), approval was given to the establishment of the Joint Local Plan Partnership Board in accordance with the Joint Local Plan Governance arrangements set out in the Plymouth and South West Devon Joint Local Plan – Delivery and Governance Paper.</p>	<p>Head of Place Making Practice</p> <p>Reporting regularly through the Joint Local Plan Partnership Board</p>
<p><b><i>General Data Protection Regulation (GDPR)</i></b></p> <p>On 25<sup>th</sup> May 2018, the General Data Protection Regulation came into effect.</p> <p>Work has been undertaken in respect of data protection/GDPR readiness and an audit completed.</p>	<p>All employees responsible for the adequacy of data security arrangements within their control. Access to electronic data is only available via Council managed devices.</p> <p>All staff have been and new starters will be completing a data protection awareness course via the Council’s new eLearning tool. Continue to monitor arrangements in place.</p>	<p>Support Services Specialist Manager</p> <p>Regular monitoring by Information Governance Group.</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b><i>Financial Uncertainty</i></b></p> <p>The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending. The Council is still facing a forecast budget gap of £533,000 for 2020 onwards. The Council has had a 38% reduction in Government funding over the last four years, with no main Government Grant now being received (Revenue Support Grant has been reduced to Nil).</p> <p>The Council will continue to implement proposals to meet this financial challenge; these will include progressing investment opportunities and income generating services as well as identifying further efficiencies to reduce costs for the benefit of our community, finding smarter ways of doing things and making our assets work better for us in order to balance the budget next year.</p> <p>The Budget for 2019-20 was approved by Council in February 2019. The waste contract procurement has delivered significant financial savings. Grounds maintenance business review and ICT review to be carried out to deliver either growth opportunity or efficiencies in working methods. Commercial property opportunities being progressed.</p>	<p>The approved net budget for 2019/20 of £7.08 million includes proposals for savings and additional income of £690,000, which includes an annual saving of £254,000 from April 2019 from the re-procurement of the Council's waste collection, recycling and cleansing services contract which was re-tendered during the year.</p> <p>As part of the budget setting process for 2019/20, the Council has agreed to reduce funding or seek efficiencies to ensure statutory delivery outcomes are prioritised.</p>	<p>Senior Leadership Team S151 Officer</p> <p>March 2020</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>The Council responded to consultations on the Fair Funding Review and Business Rates reform in February 2019 and copies were sent to all Members and MPs for West Devon.</p>	<p>Continue to respond to Government consultations as and when they are issued.</p>	<p>S151 Officer In line with consultation timetables</p>
<p>In September 2018, Council approved the Medium Term Financial Strategy which looks at financial planning and management over a five year strategy. It sets out the strategic intention for all of the different strands of funding available to the Council. The Council can now rely on this to inform future decisions. This also helps us to develop a sustainable budget over the medium term and will be reviewed annually. It incorporates key factors such as changes in Government funding, our spending plans and the levels of savings we need to make to achieve a balanced budget.</p>	<p>An updated Medium Term Financial Strategy will be presented to Members in September 2019</p>	<p>S151 Officer September 2019</p>
<p>Commence budget engagement with the wider membership earlier than in the past to enable Members and Officers to jointly develop proposals for savings.</p>	<p>Regular reports to Members and further develop budget engagement process</p>	<p>S151 Officer July 2019</p>
<p>Engage with Devon Pensions on the Council's Pensions Strategy (Actuarial Valuation) for 2020-21 onwards</p>	<p>Initial dialogue already entered into with Devon Pensions.</p>	<p>S151 Officer July 2019</p>
<p>Continue to explore opportunities for investment in commercial property, residential property and council owned assets.</p>	<p>Progress opportunities for investment set out within the Capital Strategy.</p>	<p>Opportunities being progressed S151 Officer Head of Assets Practice</p>



Issue Identified	Action to be Taken	Responsible Officer & Target Date
Review all Fees and Charges for 2020/21 onwards	Report to be presented to the Hub Committee	Head of Finance Practice January 2020
Review all Partnership Grants for 2020/21	Report is scheduled on the Hub Committee Forward Plan to be considered in September 2019	Commissioning Manager & Head of Finance Practice
Keep all Members updated on changes to the Local Government Finance system (e.g. New Homes Bonus and Negative Revenue Support Grant) that will be announced as part of the Spending Review for 2019	On-going as announcements are made by Government. It is likely that until the Relative Needs and Resources review is completed by Central Government, the Council may only receive a one year finance settlement from 2020/21.	S151 Officer September 2019
Confirmed in finance settlement for 2019/20 that negative revenue support grant (RSG) will be taken away for 19/20.		
Possibility of removal of New Homes Bonus (NHB) in 2020 will have a significant negative impact. Central Government is due to consult on the current scheme and may move towards Housing Delivery Test to further incentivise the scheme.	Continue to respond to Government consultations as and when they are issued.	S151 Officer In line with consultation timetables
Larger unknowns on resetting of business rate baseline and fairer funding review which could have a negative impact on finances. These developments will fundamentally change the Local Government Finance environment, which is now characterised by an increased shift towards locally-generated resources, with an accompanying transfer of both risk and opportunity.		

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Review of key services – Peer Review</b></p> <p>In 2018, the Council requested that the Local Government Association (“LGA”) undertake a Peer Challenge of West Devon Borough Council, jointly with South Hams District Council in order to identify their strengths and any areas for improvement.</p> <p>The LGA concluded their review and made a number of recommendations to the Councils in its report.</p> <p><i>On 19<sup>th</sup> March 2019, the Hub Committee considered the Peer Challenge Action Plan. The full report is available on the following link:-</i></p> <p><a href="http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=221&amp;MId=1210&amp;Ver=4">http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=221&amp;MId=1210&amp;Ver=4</a></p> <p><b>The six recommendations were as follows:-</b></p> <p><b>Recommendation 1 – To ensure there is both sufficient strategic capacity and direction to enable the Councils to effectively plan for and deliver their aspirations into the medium term</b></p> <p>Progress is already being made in addressing a number of the recommendations such as developing Corporate Strategy Delivery Plans and undertaking a review of the Council senior management structures</p>	<p>Hub Committee Minute (HC 84) – The Local Government Association (LGA) will be asked to undertake a visit by the end of 2020 to follow up on progress in delivering the action plan.</p> <p>Member Induction Plan</p> <p>Council in March 2019 approved a Joint Working Group being convened with Terms of Reference as an essential part of plotting the future strategic direction.</p> <p>Undertake a review of Senior and Extended Leadership roles to align to best deliver against the Council corporate themes and future priorities</p> <p>Undertake a capacity audit to understand pressure points</p>	<p>Chief Executive By the end of 2020</p> <p>Chief Executive May and June 2019</p> <p>Already approved by Council in March 2019</p> <p>Chief Executive By September 2019</p> <p>Support Services Specialist Manager September 2019</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Recommendation 2 – Strengthen the Councils’ political governance arrangements</b></p> <p>A number of Members did not appear to be able to balance their responsibility for Council-wide and ward representation</p> <p>Both Councils’ backbench Members felt excluded from decision-making.</p> <p><b>Recommendation 3 – Ensure a continued organisational focus on achieving financial sustainability</b></p> <p>It will be important to ensure that financial self-sufficiency becomes the byword over the medium term and focus is maintained to achieve this.</p> <p>Council savings plans would benefit from having more detail.</p> <p>Develop new income streams, for example through rental income derived from commercial property</p>	<p>Ensure that Members are fully aware of the issues facing the Council and the Council priorities. This will be highlighted through the Member induction/re-induction programme</p> <p>Ensure that officers engage with Lead Members on items which will require Member consideration early in the development of the proposal. This will in turn enable the Lead Member of each authority to engage with the wider membership on key proposals. Joint Working Group will consider the merits of using Policy Advisory Groups (PAGs) to engage with backbench Members.</p> <p>Commence budget engagement with the wider membership earlier than in the past to enable Officers and Members to jointly develop proposals for savings.</p> <p>Engage with Devon Pensions on the Councils’ Pensions Strategy (Actuarial Valuation) for 2020-21 onwards</p> <p>Progress opportunities for investment set out within the Capital Strategy.</p>	<p>Chief Executive May/June 2019</p> <p>Senior Leadership Team and Extended Leadership Team Immediate</p> <p>Joint Working Group to consider whether further consideration of PAG’s is necessary.</p> <p>S151 Officer July 2019</p> <p>S151 Officer May 2019</p> <p>Opportunities being progressed S151 Officer Head of Assets Practice</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Recommendation 4 – Prepare a viable future accommodation strategy</b></p> <p>In the short term the Councils should investigate the disposal and the alternative use value of both Councils’ headquarters.</p> <p>The Councils should consider the longer term options for the future accommodation requirements of both Councils.</p>	<p>A report on the Accommodation Strategy was considered by the Hub Committee on 19/3/19 and Minute HC 89 refers. It was agreed at Council in March 19 that approval be given to the formation of a Member Working Group to determine their terms of reference and work through options and make recommendations to the Hub Committee.</p> <p>Accommodation Strategy is on the Hub Committee Forward Plan to be considered by July 2019</p>	<p>Head of Assets with Lead Members By July 2019</p>
<p><b>Recommendation 5 – Clarify partnership priorities and seek to strengthen key sub-regional partnerships</b></p> <p>The relationship with the Dartmoor National Park has many strengths but further work is needed to gain improved outcomes from it</p> <p>Be clear on which partnerships derive the greatest value and ensure the most relevant partnerships receive appropriate resource commitment</p>	<p>Work with Dartmoor National Park to identify areas for closer working such as housing, economic growth and tourism</p> <p>Develop a Partnerships Roadmap to identify current partnerships, the benefits, the reporting structures, the financial contributions and future potential opportunities and engage partners in this process.</p>	<p>Commissioning Manager/ Joint Working Group September/October 2019</p> <p>Customer First Specialist Manager September 2019</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Town and Parish Councils felt the relationship was somewhat one sided. Engage with Parish and Town Councils earlier in respect of proposed service changes so that we work together to effect real change.</p> <p><b><i>Recommendation 6 – It will be essential to ensure clarity on what the new IT is expected to provide and confidence that it will deliver this.</i></b></p> <p>There is an expectation that resolving IT issues, particularly around the IT platform, will resolve most capacity issues but there is a lack of evidence to support this.</p> <p>Work should be undertaken to specify future requirements and costs so that budget provision can be amended if required.</p>	<p>Ensure that a key aspect of Member Induction (re-induction) is the focus on communicating Council key messages and direction to Town and Parish Councils. Consider having Leader Key messages in the Member Bulletins that Members can relay to Town and Parish Councils.</p> <p>Ensure that any recommendations on the future ICT provision are based on comprehensive evidence.</p> <p>Ensure we explore a wide range of options to ensure any future ICT system provides value for money and a good customer experience. If required, commence a procurement for new technology solutions</p> <p>Report scheduled on the Hub Committee Forward Plan for consideration by Members in July 2019</p>	<p>Leader/ Democratic Services Lead</p> <p>(Member induction plan has been developed with a session to include focus on Town and Parish Council engagement)</p> <p>Specialist ICT company already commissioned to undertake evaluation.</p> <p>Group Manager Customer First &amp; Support Services/ Head of IT / Support Services Specialist Manager/ Lead Members</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Channel shift can go further in order to obtain financial savings.</p> <p>A significant number of IT forms online do not successfully link to the back office, leading to double-keying and unnecessary interventions in the back office.</p>	<p>Explore the options for further channel shift</p> <p>Undertake a full evaluation of current IT forms and web site functionality to ensure an improved customer experience and reduction in unnecessary manual work</p>	<p>Customer Contact Lead September 2019</p> <p>Commissioning Manager /Support Services Specialist Manager June 2019</p>
<p><b>Institute of Customer Service – customer satisfaction survey</b></p> <p>In addition to the Local Government Association Peer Review, this year saw the Council commission the Institute of Customer Service to undertake a customer satisfaction survey.</p> <p>The results compared us against public and private sector organisations giving valuable information about what our customer think about how we deliver our services and more importantly, how we can improve them.</p> <p>Customer Satisfaction survey results last year (Autumn 2018) showed that the customer experience is not at the standard that we want or that customers expect.</p> <p>All staff attended a workshop looking at how everyone can make ‘a positive impact’ in delivering our services to the communities we serve.</p>	<p>Embed quick, optional feedback surveys each time the Council electronically contacts a customer.</p> <p>Improve our website by using feedback from the surveys, coupled with findings from Google analytics. This ensures regularly searched information is quick and easy to access. A member of staff is being seconded to be a Web Editor for 6 months, to drive improvements on our website.</p> <p>Website improvement plans include: improving search terms, the ordering of top tasks; better labelling of links and easier to access page content.</p>	<p>Already implemented</p> <p>Group Manager Customer First &amp; Support Services</p> <p>Commissioning Manager October 2019</p> <p>Group Manager Customer First &amp; Support Services</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>On 6<sup>th</sup> November 2019, the Overview and Scrutiny Committee resolved to note the results from the Institute of Customer Service Customer Satisfaction Survey and endorsed an action plan to improve customer service</p> <p>Work is also underway to analyse customer complaints to make sure lessons are learned and that service delivery is improved accordingly.</p>	<p>A customer focus group will be convened ensuring customers are an integral part of this work.</p> <p>To complete the 2019 Survey – the Councils have set a target for improvement of a minimum 5.1 point improvement in the Council’s overall benchmarking score. Thereby bringing the Council’s score in line with the average national UKCSI (UK Customer Service Index) for local councils of 63.4</p>	<p>Commissioning Manager</p> <p>October 2019</p>
<p><b>Senior Leadership Team Interim arrangements</b></p> <p>Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements.</p> <p>A report was presented to Council on 12th February 2019 (Council Minute CM54) that outlined a review of the Staffing Establishment.</p> <p>The Review Panel, consisting of the Leaders of each Council and senior Members recommended that the previous structure incorporating two Executive Directors was replaced with a Chief Executive Officer.</p>	<p>It was resolved that with effect from 21<sup>st</sup> February 2019, the Executive Director for Service Delivery and Head of Paid Service be appointed to the role of Chief Executive and that agreement be given to extending the interim senior management arrangements with a report being brought to Council recommending a new structure within six months of the 2019 Council elections.</p>	<p>Chief Executive</p> <p>September 2019</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>The Panel also recommended that once in post, the Chief Executive brings forward a proposed new senior leadership structure that builds upon the recommendations of the Peer Review and will be along the lines of:</p> <ul style="list-style-type: none"> <li>-Director of Customer Service and Delivery</li> <li>-Director of Place and Enterprise</li> <li>-Director of Governance</li> <li>-Director of Strategic Finance</li> </ul>	<p>Report to be brought to Council recommending a new structure within six months of the 2019 Council elections.</p>	<p>Chief Executive September 2019</p>
<p><b>Internal Audit report on the Tavistock Hotel Proposal</b></p> <p>The Devon Audit Partnership undertook a review on the lessons that could be learnt from the proposal to develop the Abbey Rise Car Park site in the Tavistock.</p> <p>Council on 26<sup>th</sup> March 2019 (Minute CM66) considered ten recommendations contained within the Internal Audit report. A link to the report is shown below:</p> <p><a href="http://mg.swdevon.lan/document/s/s22045/Internal%20Audit%20Report%20Tavistock%20Hotel%20Proposal.pdf">http://mg.swdevon.lan/document/s/s22045/Internal%20Audit%20Report%20Tavistock%20Hotel%20Proposal.pdf</a></p>	<p>It was resolved at Council in March 2019 that an action plan for the ten recommendations contained within the report would be brought back to a meeting of the July 2019 Council.</p>	<p>S151 Officer Head of Assets Practice July 2019</p>



Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Business Continuity Management Strategy and Work Programme</b></p> <p>On 29<sup>th</sup> January 2019, the Hub Committee considered a Business Continuity Strategy and Work Programme (Minute HC70). The Management Strategy and Work Programme was adopted.</p> <p>The Council's internal audit team noted that the failure to have an up to date Business Continuity Strategy was a fundamental weakness and the interim arrangements were not good practice long term. The Strategy and Work Programme approved should overcome these weaknesses.</p>	<p>A full Work Programme is set out as part of the report to the Hub Committee. (Minute HC70)</p>	<p>Senior Specialist (Environmental Health)/ Group Manager for Customer First and Support Services</p> <p>Timescales as set out in Work Programme</p>
<p><b>Health and Safety</b></p> <p>The Internal Health and Safety Audit was carried out in 2018-19 resulting in an opinion of "Improvements Required". Since then a programme of work has been put in place to ensure appropriate measures are in place.</p>	<p>Health &amp; Safety Community of Practice driving improvement programme that requires commitment from all areas and appropriate monitoring by Senior Leadership Team. Good progress being made.</p>	<p>Chief Executive/Head of Practice for Environmental Health</p> <p>April 2020</p>
<p><b>Tree Inspections</b></p> <p>Following a recent Internal Audit report on the grounds maintenance service, it has been identified that there is a limited schedule for tree inspections. Inspections started in Spring 2019.</p>	<p>Work is due to be completed by November 2019.</p>	<p>Head of Environment Service Practice November 2019</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Homes Strategy</b></p> <p>The Council is developing a Homes Strategy which will provide a strategic direction to provide new homes and ensure the best use of the existing stock within the Borough.</p>	<p>The Homes Strategy will be considered in September 2019</p>	<p>Specialist Manager, Customer First September 2019</p>
<p><b>Internal and External Audit Reports</b></p> <p>Some issues have been identified in audit reports by the Council's shared in-house internal audit team and the Council's external auditor, Grant Thornton (previously KPMG). Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed where appropriate.</p>	<p>All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors' 'follow up' procedures.</p>	<p>Extended Leadership Team (ELT) S151 Officer Internal Audit Manager In line with agreed timescales</p>

We propose over the coming year to take steps 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.

## CONCLUSION

The Council is satisfied that appropriate governance arrangements are in place. However it remains committed to maintaining and where possible, improving these arrangements, in particular by addressing the issues identified by Internal Audit and External Audit in their regular reports to the Audit Committee.

**Signed:**

**Cllr N Jory**  
**Leader of West Devon Borough Council**

**Signed:**

**Sophie Hosking**  
**Chief Executive**

**On behalf of West Devon Borough Council**

**Date:** Draft issued 29<sup>th</sup> May 2019

Report to: **Audit Committee**

Date: **25 June 2019**

Title: **Annual Report of the Statutory Officers' Panel (2018-2019)**

Portfolio Area: **Resources and Performance, Cllr Edmonds**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **N/A**

Date next steps can be taken: **25 June 2019**  
(e.g. referral on of recommendation or implementation of substantive decision)

Author: **Catherine Bowen** Role: **Monitoring Officer and Head of Legal**

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**Recommendation:**

**To note the Annual Report of the Statutory Officers' Panel and make any necessary recommendations**

## 1. Executive summary

- 1.1 The Statutory Officers' Panel comprises the officers that the Council must appoint to ensure that it operates fairly and within the law. These officers are the Head of Paid Service, Section 151 (Finance) Officer and the Monitoring Officer. The Panel meets four times a year and has a forward plan of matters that it considers on an annual basis.
- 1.2 The Panel has the appropriate knowledge, expertise and levels of seniority to consider the extent to which the Council complies with, and manages, the following areas:
  - the principles and elements of control and governance frameworks;
  - strategic risk management;
  - fraud and corruption; and
  - regulatory framework (policies and strategies)
- 1.3 The purpose of this report is to inform Members of the work that the Statutory Officers' Panel has carried out over the last financial year (April 2018 to March 2019).

## 2. Work of the Statutory Officers' Panel

- 2.1 The Statutory Officers' Panel (the Panel) meets quarterly and invites other officers as required, such as the Deputy Chief Executive, Internal Auditor, and the Health & Safety Officer.
- 2.2 Over the past financial year (April 2018 to March 2019) the Panel has considered the following issues to ensure that the Council manages and complies with its governance, strategic risk management, fraud and corruption, and regulatory framework requirements.
- 2.3 **Corporate Governance:** the Panel ensures that the Council complies and manages:
  - The Code of Corporate Governance and Annual Governance Statement to ensure that they are presented to the June Audit Committee. The purpose of the Annual Governance Statement is to provide evidence that the Council continuously reviews its internal control and risk management processes and to identify any actions and solutions in a timely way.
  - The annual review of the Council's Constitution and its various parts to ensure that it is fully considered by the Audit Committee before adoption at the Annual Meeting
  - The Annual Report on the Council year, to ensure it is considered at the Annual Meeting
  - Oversight of the review and adoption process for the Corporate Strategy, and underlying corporate themes.
  - Other governance issues as they arise
- 2.4 **Risk Management:** the Panel:
  - Oversees the Council's Risk Management Policy to ensure it complies with current best practice
  - Ensures that the Senior Leadership Team considers the Corporate Risk Register regularly
  - Identifies, evaluates, manages and mitigates strategic and operational risk and that risk management is implemented and embedded across the organisation
- 2.5 **Regulatory Framework:**  
Annual review of the anti-fraud, corruption and bribery strategy, the anti-money laundering policy and the whistle blowing policy to ensure they are fit for purpose and reflect best practice. If amendments are required, the policies are brought to the Audit Committee for consideration.
- 2.6 **Other:** during the year the Panel has also considered:
  - Peer Review: strategic overview of the project, consideration of the Peer Challenge report, ensuring Member engagement, and implementation and resulting action plan
  - Business continuity & emergency planning: particularly in the light of Brexit
  - Induction Programme: oversight and ensuring that a timely and comprehensive Induction Programme was delivered (including external training where appropriate)
  - Oversight of internal audit actions and budgetary framework
  - Oversight of the implementation and embedding of the Health, Safety & Wellbeing plan

## 3. Outcomes/outputs

- 3.1 The Statutory Officers' Panel ensures that the Council deals with the above issues in a timely manner, and identifies any issues so that they are

resolved early on in the process. Ensuring that the Council manages and complies with its governance, risk and regulatory matters ensures that the Council has a sound basis for making decisions and delivering its services.

- 3.2 The Panel reviews its action from the previous meeting to ensure implementation and compliance with agreed actions. Success is measured by early identification of issues, and compliance with the statutory requirements which are reflected in positive audit reports.

#### 4. Options available and consideration of risk

- 4.1 The Council has various statutory duties with which it must comply. It is possible for the Council to operate without a Statutory Officers' Panel but the risk of failing to identify issues early on (together with the risk of the Council failing to comply with these requirements) would increase with a potentially higher risk of legal challenges against the Council.

#### 5. Proposed Way Forward

- 5.1 That the Audit Committee consider this report and make any necessary recommendations.

#### 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Council is required by law to appoint a Head of Paid Service, Section 151 (Finance) Officer and a Monitoring Officer to ensure that the Council operates lawfully and fairly, and complies with its fiduciary duties.</p> <p>The Statutory Officers' Panel complies with good practice and ensures that senior officers are aware of and comply with important governance (legal and financial), corporate risk, fraud and other regulatory issues.</p> <p>The Audit Committee is responsible for financial, governance and risk controls.</p>
Financial implications to include reference to value for money	Y	<p>There are no direct financial implications arising from this report but the purpose of the Panel is to ensure that the Council oversees, manages and complies with its financial responsibilities.</p>
Risk	Y	<p>The work carried out by the Statutory Officers' Panel minimises significantly the risk of the Council failing to comply with its requirements under legal and financial governance, risk, systems of internal control and the Council's regulatory framework.</p>
Supporting Corporate Strategy		<p>The Council – compliance with important governance (legal and financial), corporate risk, fraud and other regulatory issues enables the Council to</p>

		delivering efficient and effective services.
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/a
Safeguarding		N/a
Community Safety, Crime and Disorder		N/a
Health, Safety and Wellbeing		N/a
Other implications		N/a

**Supporting Information**

**Appendices:**

None

**Background Papers:**

None

Report to: **Audit Committee**  
Date: **25 June 2019**  
Title: **Internal Audit Annual Report 2018/19**  
Portfolio Area: **Support Services – Cllr C Edmonds**  
Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

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## **Recommendations:**

### **It is recommended that:**

- 1. The Audit Committee note that overall and based on work performed during 2018/19, and that of our experience from previous year's audit, the Head of Internal Audit's Opinion is of "Substantial Assurance" on the adequacy and effectiveness of the Authority's internal control framework.**
- 2. Members note the satisfactory performance and achievements of the Internal Audit Team during 2018/19.**

## **1. Executive summary**

This report summarises the work undertaken by the Council's Internal Audit team during 2018/19, reviews the performance of the Internal Audit service and provides an audit opinion on the adequacy of internal control. The report is particularly relevant to the preparation of the Authority's Annual Governance Statement which is required under the Accounts and Audit (England) Regulations 2015.

This report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2018/19 to 31st March 2019, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by Internal Audit against the 2018/19 annual internal audit plan, as approved by this Committee in March 2018, and
- Providing an opinion on the adequacy of the Council's control environment.

## **2. Background**

The Audit Committee, under its Terms of Reference contained in West Devon Borough Council's Constitution, is required to consider the Head of Internal Audit's annual report, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2018/19 was presented to and approved by the Audit Committee in March 2018. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2018/19, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

## **3. Outcomes/outputs**

The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to present an annual report providing an opinion that can be used by the organisation to inform its governance statement.

In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. Final audit reports, will if applicable, include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

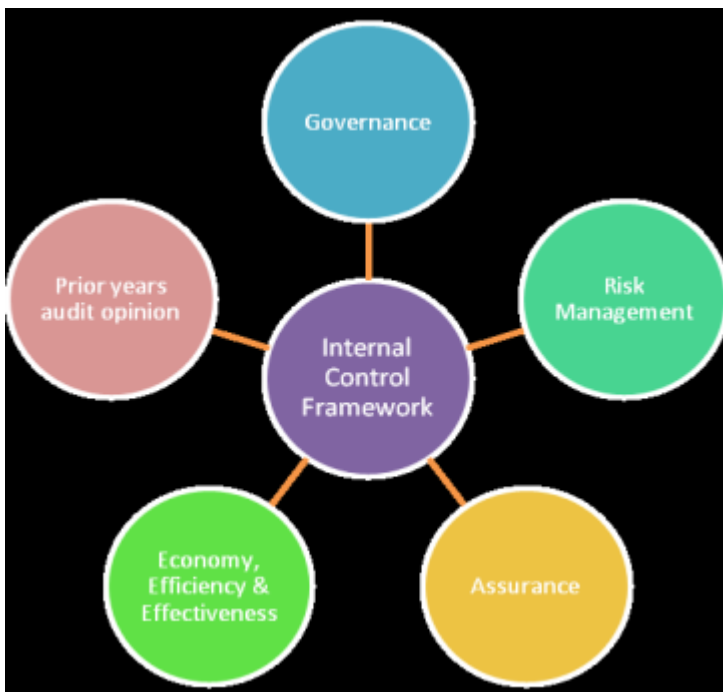


Details of Internal Audit’s opinion on each audit review carried out in 2018/19 have been provided to relevant members of the Senior Leadership Team to assist them with compilation of their individual annual governance assurance statements.

**Overall and based on work performed during 2018/19, and that of our experience from previous year’s audit, the Head of Internal Audit’s Opinion is of “Substantial Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.**

*This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement*

The above statement of opinion is underpinned by our consideration of:



Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
<b>Substantial Assurance</b>	Risk management and the system of internal control are generally sound and designed to meet the organisation’s objectives. However, some weaknesses in design and/ or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and/ or inconsistent application of controls, put the achievement of the organisation’s objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result/ has resulted in failure to achieve the organisation’s objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

## **Key Findings 2018/19**

As stated above we are, overall, able to provide substantial assurance on the internal control framework. During the year a number of audit assignments have been completed for which an audit opinion of “fundamental weaknesses” or “improvements required” has been provided (please refer to appendix B for definitions of “fundamental weaknesses” and “improvements required”).

We set out below some of the key issues of concern identified. It should be noted that agreed management actions plans are in place to address the weaknesses, and we consider that if such actions are completed promptly then the control issue will be addressed. Many of the findings have previously been reported at audit committee meetings during the 2018/19 year.

### Fundamental Weaknesses

#### **Business Continuity** – See Appendix B

A further Follow-Up exercise by Internal Audit during 2018/19 confirms that some improvements have been made since our last review, with on-going work timetabled throughout the coming months. In February 2019, a Business Continuity Management Strategy and Work Programme were approved which appear to provide assurance that the majority of key controls will be in place over business continuity arrangements in the future.

<http://mg.swdevon.gov.uk/documents/s20408/Business%20Continuity%20Management%20Strategy%20and%20Work%20Programme.pdf>

However, a significant amount of work has yet to be completed, primarily concerned with the development of operational Business Continuity Plans, the identification of critical functions, continued training and the testing of plans.

Given this area remains as “Fundamental Weaknesses” another follow-up review will be undertaken by Internal Audit during 2019/20 and the results reported back to management and the Audit Committee.

### Improvements Required

#### **Planning Applications** (previously reported)

Our audit review acknowledges that a number of improvements had already been made to work processes over the previous 12 months and that additional staff had been recruited. However, some improvements remained as work in progress and there are further opportunities which should be considered.

At the time of the audit report, it is too early to state with confidence that the new processes and additional staff resource will be adequate to allow the planning function to operate in a timely and effective manner, as many of the changes had only been made in recent months or had yet to be completed.

Internal Audit are currently completing a follow up review as part of the 2019/20 Audit Plan and the results of our review will be included in our 2019/20 Audit Plan Progress Report that will be presented to members at the next meeting of the Audit Committee.

### **Section 106 Agreements** (previously reported)

Continued work by the Senior Case Manager, Support Services (S106), and related services has delivered additional improvements since our review in 2017/18, with further work underway or planned. The overall direction of travel is considered to be positive. Improvements included:

- Ongoing reconciliation of funds between spreadsheets and General Ledger,
- Direct liaison with other services, such as Land Charges,
- Updating the S106 Register Smartsheet and setting automated reminders from the Register for key target dates,
- Legal Services sending notification of Agreements, with a summary of obligations, to all relevant services,
- Direct communication with developers to obtain updates on progress of building completions,
- Arranging for developers to pay funds direct to Devon County Council and other related third parties,
- Prompt raising of invoices and coding of funds received, and
- Calculation and recovery of monitoring fees.

At the request of Members, a further follow-up review will take place during 2019/20.

### **Business Continuity in the Supply Chain** (previously reported)

The audit review set out to provide assurance that key suppliers have appropriate Business Continuity Plans (BCP's) in place to deal with disruption to their operations which in turn minimise disruption to the Council.

The review found that there is no strategy/policy currently in place which outlines how the Council addresses Business Continuity within its key supply chains. There are also no standard processes as to when suppliers should submit a BCP and there are no guidelines as to when a BCP should be reviewed. It is understood that it depends on the stakeholder involved as to whether BCP is discussed.

In addition, the review found that the Council does not identify the risk factors of the contracts awarded for critical service/supply areas where continuity of service is key and this may leave the Council at unnecessary risk.

Given the audit opinion, time has been allocated in this year's audit plan to carry out a follow-up review.

## **Health and Safety** (previously reported)

Our follow up review, carried out June 2018, found work, largely co-ordinated by the Environmental Health COP Lead, had continued to progress delivery of the Health and Safety action plan, originally drawn up in 2016/17. This had delivered additional improvements since our previous review, particularly in those areas for which the COP Lead has taken direct responsibility, with further work planned. The overall direction of travel was considered to be positive.

Examples of such work include raising health and safety awareness for non-manual staff, clarifying headquarters first aid arrangements, providing lone working training, delivering health and safety training for the Senior Leadership Team (SLT), the Extended Leadership Team (ELT), other team leaders and supervisors and increasing awareness of the need to report accidents and incidents.

Positive work had also commenced to ensure that training needs were identified and delivered for non-manual staff and members, to develop a W2 process for reporting accidents and incidents and to create a single, central register of potentially violent persons. In addition, a Case Manager had been appointed for six months to assist in the administration of health and safety amongst other functions within Customer First.

However, it appeared that delivery of the action plan where the Environmental Health COP Lead does not have direct responsibility, may not be completed without additional support from senior managers and / or additional staff resource. For this reason we escalated the majority of our recommendations to the Senior Leadership Team.

The Commercial Services Group delivers those functions which have the highest health and safety risks, for example, waste collection, transport, grounds' maintenance, the Dartmouth Lower Ferry and Salcombe Harbour. It would appear that policies and procedures were not always being followed within all of these areas, particularly waste and transport, where concerns were exacerbated by two key staff vacancies. The Environmental Health COP Lead had drawn up a work plan of necessary actions and deliverables to ensure that appropriate procedures and practices were in place within waste and transport and were assisting officers within the Commercial Services Group.

Internal Audit are currently completing a further follow up review as part of the 2019/20 Audit Plan to measure how the recommended improvements are progressing and the results of our review will be included in our 2019/20 Audit Plan Progress Report that will be presented to members at the next meeting of the Audit Committee.

## **ICT – Change Management** (previously reported)

Our revised audit opinion remains **Improvements Required** after our follow-up review last June. An understanding of change management has been considerably strengthened and a culture instilled within the ICT COP. Whilst there is a robust change control process in place for major or high impact changes, further work was needed to formalise procedures and ensure that comprehensive audit trails are in place for standard changes. For non-standard changes, procedures are in place to demand thorough scrutiny, mitigations are considered and roll back plans are put in place.

However, several recommendations from 2017/18 remained outstanding. These mainly related to the introduction of formal procedures for standard, repeatable changes, which by their nature are generally of a low risk and low impact. The implementation of these is largely reliant on the ICT Service Desk team, but we understand this has been delayed largely due to limited staff resource and other work pressures.

A further follow-up is included in the 2019/20 Audit Plan.

## **ICT Asset Control** (previously reported)

Following the completion of our follow up work our audit opinion remains as **Improvements Required**. There has been some work to improve the recording and management of IT assets since the previous year, but a number of recommendations in our 2017/18 audit had not been implemented, or in some cases, were actioned, but revised procedures have not been wholly effective and require further consideration. Issues included the ICT Service Desk not being routinely informed when an officer was leaving the Councils, inaccuracies in the IT hardware asset register and the register not recording data to contribute to the management of insurance cover for IT assets.

It is acknowledged that for part of the intervening period, there were resource issues within the Service Desk team, due to long term sickness.

Time has been allocated in the 2019/20 Audit Plan to carry out a follow-up review, to measure progress with the implementation of the recommendations made in our report.

## **Comments and Complaints** (previously reported)

A number of adjustments have been made to the complaints process since our previous audit in 2015/16 and training has been provided to most customer-facing officers. However, our review found several areas where further improvements could be made, to improve the efficiency of handling complaints, through training, resourcing and better use of the W2 system used to record and administer the majority of complaints. Improvements would also enable the Councils to learn more effectively from those complaints received.

In order to assess progress with the implementation of our agreed recommendations, a follow-up review will be scheduled to take place during 2019/20.

### **Council Tax** – (previously reported)

Council Tax bills are accurate and the system is operating with generally satisfactory controls. We acknowledge that improvements have continued to be made over the last year, but there remain some key areas where controls can still be strengthened, principally around recovery and enforcement and confirming continued eligibility to discounts and exemptions. However, we have identified very few areas where it has been necessary to raise additional recommendations.

### **Business Rates** – (previously reported)

The billing and collection of Business Rates sits in the same service area as Council Tax and therefore face similar resource challenges. Areas that require improvement include the monitoring and review of account suppressions and broken arrangements. Assurance can be given that bills are raised and calculated correctly.

### **Creditors** – see Appendix B

The Councils have appropriate and effective controls in place over the payment of Creditors however there is room for improvement in areas such as access rights to the creditors system, the timely raising of purchase orders and the use of purchasing cards.

### **Risk Management** – See Appendix B

In March 2018 it was reported to the Audit Committees that the recommendations within the 2016/17 Risk Management Audit Report would be implemented during the period April to September 2018. However, only one of the recommendations has been significantly progressed, with a revised Risk and Opportunity Management Strategy taken to members for approval in December 2018. We understand that the implementation of the remaining recommendations has been limited by other work pressures.

It is acknowledged that the Lead Members and Senior Leadership Team remain risk focused and consider risks to objectives as part of day to day corporate and business management. A Strategic Risk Register continues to be maintained by the Senior Leadership Team and individual Risk Registers are developed for key Council projects, such as the recent Waste procurement, each of which are subject to routine monitoring and reporting. There are also several other examples of good practice.

However, there is still a need to improve visibility and understanding of risk management at all levels, as well as strengthening existing processes to formally capture risk and opportunity management activities.

In light of this, a further follow up review will be undertaken later in the 2019/20 audit year to re-assess progress with the implementation of audit recommendations.

## **Grounds Maintenance – See Appendix B**

Our review found that overall the Grounds Maintenance service is operated at a Good Standard. However, there was one significant matter arising from the audit, this is highlighted below, and the recommendations made serve to strengthen what are in the main reliable procedures.

However, at the time of the audit we were required to rate the service for West Devon as Fundamental Weaknesses Identified as the Council had no formal inspection routine, recording process and maintenance programme for West Devon trees. This placed the Council at a higher risk and related non-compliance with legislative requirements or risk of insurance liabilities.

Since completion of the audit an inspection plan has been initiated and officers are now completing their review. Taking into consideration the early nature of this plan we have improved our rating for West Devon to Improvements Required and a Follow-Up review is due to take place during 2019/20 to gauge progress in the implementation of our recommendations and the effectiveness of new procedures.

The 2018/19 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.

The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.

**Appendix C** provides a summary of work where the planned work is complete but no audit report produced.

## **Additional Work**

In addition to the planned work as part of the 2018/19 Audit Plan, Internal Audit were asked by the Chief Executive of West Devon Borough Council, to undertake a review on the basis of what lessons could be learnt following the rejection by Members to approve the funding for a proposal to develop the Abbey Rise Car Park site in Tavistock.

The resulting report was presented to the Council's Hub and Overview & Scrutiny Committees and subsequently Full Council in March 2019. The report made a number of recommendations which it was agreed would form the basis of an Action Plan that will be taken to Full Council in July.

<https://mg.southhams.gov.uk/documents/s22045/Internal%20Audit%20Report%20Tavistock%20Hotel%20Proposal.pdf>

## **Non Compliance with Contract or Financial Procedure Rules**

There are no significant issues to bring to the attention of the Committee for 2018/19. Five applications for exemptions to Contract / Financial Procedure Rules have been

received, all were accepted with the exception of one where it was deemed that an exemption was not required.

### **Fraud Prevention and Detection and the National Fraud Initiative**

Counter fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (National Fraud Initiative – NFI) every two years. The NFI exercise identifies potentially erroneous or fraudulent payments in areas such as housing benefits, awards of council tax single person's discounts and creditor payments. In October 2018, a number of data sets of information were provided to the Cabinet Office and a list of potential matches have now been received. It is recognised that some service areas have struggled to find the resource to complete the review of the data matches received. Management have been made aware of the situation.

### **Irregularities**

There are no irregularities to report.

### **4. Options available and consideration of risk**

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations 2015.

### **5. Proposed Way Forward**

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.



## PROVISION OF INTERNAL AUDIT AND PERFORMANCE – 2018/19

There are no national performance indicators in place for internal audit; however the team monitor against local performance indicators as follows:-

Local performance indicator	2018/19	2018/19
	Target	Actual
Percentage of audit plan commenced	95%	96%
Percentage of audit plan completed	95%	91%
Actual audit days as a percentage of planned	95%	100%*
Customer satisfaction (percentage of customers stating that service is "good" or "excellent")	90%	100% **
Draft reports issued within target days	90%	91%
Average level of sickness	2%	3%***
Outturn within budget	Yes	Yes

\* In addition to the planned work, 27 days have been spent on LEAF (Greater Dartmoor Local Enterprise Action Fund) and LAG (South Devon Coastal Action Group) grant work. An initial allocation of 20 days had been made in the 2018/19 Audit Plan.

\*\* During the period we issue client survey forms with our final report and it is pleasing to note that auditees considered that the team continue to provide a good or excellent service.

\*\*\*Sickness relating to officers within the combined internal audit team equates to 15 days in the period 1st April 2018 to 31st March 2019.

## 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 1996 issued by the Secretary of State for the Environment require every local authority to maintain an adequate and effective internal audit.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

## **Supporting Information**

### **Appendices:**

There are no separate appendices to this report.

### **Background Papers:**

Annual Internal Audit Plan 2018/19 as approved by the Audit Committee on 20 March 2018.

■ Status as reported in previous Progress Reports    ✓ Change to Status since 28<sup>th</sup> February 2019

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>2017/18 Plan</b>										
Housing Benefit		■	■	■	■		■			Summary presented to Audit Committee in October 2018
<b>2018/19 Plan</b>										
<b>MAIN FINANCIAL SYSTEMS</b>										
Main Accounting System (inc budgetary control)	20	■	✓	✓	✓		■			Summary in Appendix B below
Creditor (Payments)	15	■	■	✓	✓			■		Summary in Appendix B below
Debtors (Income Collection)	15	■	✓							
Payroll	15	■	■	✓	✓		■			Summary in Appendix B below
Business Rates	15	■	■	■	■			■		Summary presented to Audit Committee in March 2019
Council Tax	15	■	■	■	■			■		Summary presented to Audit Committee in March 2019
Housing Benefits	15	■	✓	✓	✓		■			Summary in Appendix B below
Treasury Management	10	■	■	■	■		■			Summary presented to Audit Committee in March 2019
<b>Main Financial Systems</b>	<b>120</b>									

■ Status as reported in previous Progress Reports    ✓ Change to Status since 28<sup>th</sup> February 2019

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>COMMERCIAL SERVICES</b>										
Salcombe Harbour (S.Hams)	10	■	✓	✓	✓		■			Summary in Appendix B below
Dartmouth Lower Ferry (S.Hams)	8	■	■	■	■	-	-	-	-	Resources used on Theft investigation
Environmental Services – Enforcement Process (Fly Tipping, Abandoned Vehicles etc)	10	■	■	■	■		■			Summary presented to Audit Committee in January 2019
Grounds Maintenance Operations	15	■	✓	✓	✓			■		Originally Fundamental Weaknesses but subsequently upgraded to Improvements Required.  Summary in Appendix B below
Environmental Services - Coastal Work Follow-Up (S.Hams)	3	■	■	■	■		■			Summary presented to Audit Committee in October 2018
Depots & Stores Follow-Up (S.Hams)	3	■	■	■	■			■		Summary presented to Audit Committee in January 2019
Environmental Services – Beach and Water Safety (S Hams)	5	■	■	■	■		■			Summary presented to Audit Committee in October 2018
<b>Commercial Services</b>	<b>54</b>									

■ Status as reported in previous Progress Reports    ✓ Change to Status since 28<sup>th</sup> February 2019

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>CUSTOMER FIRST</b>										
Planning (Applications) – (Completion of 17/18 audit)	10	■	■	■	■			■		Summary presented to Audit Committee in October 2018
Housing - Homelessness	10	■	■	■	■		■			Summary presented to Audit Committee in January 2019
Section 106 agreements (follow up)	5	■	■	■	■			■		Summary presented to Audit Committee in October 2018
Environmental Services – Food Safety – Progress With Food Standards Agency Action Plan	5	■	■	■	■		■			Summary presented to Audit Committee in January 2019
Asset Management (deferred from 17/18)	5									
<b>Customer First</b>	<b>35</b>									
<b>STRATEGY &amp; COMMISSIONING</b>										
Performance Management (KPI's & data quality) (deferred from 17/18)	15									Deferred to 2019/20 Audit Plan



■ Status as reported in previous Progress Reports    ✓ Change to Status since 28<sup>th</sup> February 2019

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
<b>SUPPORT SERVICES</b>										
ICT Audit - Incident Management	25	■	■	■	■		■			Summary presented to Audit Committee in October 2018
ICT Audit – Change Management Follow-up		■	■	■	■			■		Summary presented to Audit Committee in October 2018
ICT Audit Asset Control		■	■	■	■			■		Summary presented to Audit Committee in January 2019
Corporate Information Management (GDPR compliance)	10	■	✓							
Cyber Security	6	■	✓							
Business Continuity Follow-Up (inc BCP exercises)	5	■	■	✓	✓		■ (1)		■ (2)	(1) – Emergency Planning (2) – Business Continuity Summary in Appendix B below
Comments and Complaints	10	■	■	■	■			■		Summary presented to Audit Committee in March 2019



■ Status as reported in previous Progress Reports    ✓ Change to Status since 28<sup>th</sup> February 2019

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
Review of Financial Regulations	5	■	■	■	■					Summary presented to Audit Committee in October 2018.
Cash Collection	3									
<b>Support Services</b>	<b>69</b>									
<b>OTHER ESSENTIAL ITEMS</b>										
Audit Management including:- - Audit planning, - Monitoring & reporting, Audit Committee	28	■	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 21 June 2018,
Annual Governance Statement	2	■	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2018 Audit Committee under separate cover
Exemptions from Financial Regulations	5	■	-	-	-	-	-	-	-	
Grants - Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	20	■	-	-	-	-	-	-	-	27 days spent on claims
Contingency & Advice	10	■	-	-	-	-	-	-	-	
<b>OTHER ESSENTIAL ITEMS</b>	<b>65</b>									
<b>Total Days</b>	<b>430</b>									

## **Planned Audit 2018/19 – Final Reports**

The following tables provide a summary of the audit opinion and main issues raised in the reports issued to managers. In all cases (unless stated) an action plan has been agreed to address these issues.

### **Definitions of Audit Assurance Opinion Levels**

#### **High Standard**

The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.

#### **Good Standard**

The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

#### **Improvements Required**

In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.

#### **Fundamental Weaknesses Identified**

The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Planned Audit 2018/19 – Final Reports

Subject	Audit Findings	Management Response
<p><b>Main Accounting System</b></p>	<p><b>Audit Opinion - Good Standard</b></p> <p><b>Conclusions</b>                      Our review of 2018/19 confirmed that, in general, the setting and subsequent control of budgets is well managed, with controls in place and operating. We have made several recommendations which would contribute to 'good housekeeping' or to the strengthening of existing controls, some of which we understand are being progressed at the time of writing. The most notable of these is in respect of system access rights and it was noted that steps had been taken to review access rights to the General Ledger and carry out quarterly checks going forward.</p> <p>We were able to confirm that many of the recommendations we made in 2017/18 have been implemented, although a small number do remain outstanding. The most significant of these are opportunities which would contribute to more efficient use of staff resource within the Finance COP, including:</p> <ol style="list-style-type: none"> <li>1. Introducing the planned self-serve for budget holders, through use of the e-budgeting module and the payroll budgeting module; and</li> <li>2. Implementing use of the facility to make automated accruals (which does rely on correct use of commitment accounting).</li> </ol> <p>The required level of controls is largely in place over the management and administration of the main accounting system and budgetary control.</p>	<ol style="list-style-type: none"> <li>1. This is on the Finance COP Work Plan as a high priority piece of work. The Senior Specialist - Accountant Business Partner is to oversee completion of the roll out by the Specialist - Accountant during the current financial year.</li> <li>2. Agreed. It would be most appropriate to combine training in the use of commitments, to be delivered by the Support Services Case Management Manager with budget monitoring training to be delivered by the Finance COP.</li> </ol>
<p><b>Creditors</b></p>	<p><b>Audit Opinion – Improvements Required</b></p> <p><b>Conclusions</b>                      Despite an audit opinion of 'Improvements Required', we were able to confirm that, generally, controls are in place to manage the payment of creditors, with the majority of payments being made accurately and on a timely basis. Action has been taken, or is in progress, to address many of the recommendations we made last</p>	<ol style="list-style-type: none"> <li>1. Agreed in principle. Leavers can only be disabled, not deleted, otherwise any transactions they may have completed are removed. Subsequent to the issue of the audit report, the Support Services Case Manager was tasked with reviewing all users with access to the Civica Financials modules, with the aim of disabling any</li> </ol>

**APPENDIX B**

Subject	Audit Findings	Management Response
	<p>year, although several do remain outstanding. We have repeated these and other issues identified during our 2018/19 review, which would contribute to both the strengthening and the enforcing of controls over payments being made, the most significant of which are:</p> <ol style="list-style-type: none"> <li>1. The need to complete a review of access rights to the creditors system and associated limits for those officers able to authorise orders and payments;</li> <li>2. The desirability of reviewing the use of purchase cards and whether more efficient methods of payment are available for some purchases;</li> <li>3. Ensuring that receipts/invoices are submitted for all items paid for by purchase card, to allow VAT to be reclaimed;</li> <li>4. Investigating the possibility of providing creditors with the option to securely register their personal and bank details on-line, to both provide an improved customer service and to gain efficiencies;</li> <li>5. Reminding officers of the requirement to raise a purchase order at the time of commissioning goods or services, rather than once the invoice has been received; and</li> <li>6. Ensuring that all relevant officers understand the procurement requirements within Contract Procedure Rules, when purchasing goods or services.</li> </ol>	<p>historic leavers on the system (current leavers are now disabled by the Service Desk) and this was done in late January 2019.</p> <p>The risk of leavers still having access is only felt to be medium as their Council account is deleted by ICT and there is limited chance of an existing officer being able to log in using a leaver's account and also an audit trail would be left on the system.</p> <p>It is difficult to further enhance the separation of duties with only a small team and so this risk is accepted.</p> <p>When the Councils move to the web-based Civica Financials system, user access will be suspended if an individual doesn't use the system for a set period of time, which should contribute to better management of users.</p> <ol style="list-style-type: none"> <li>2. Agreed. A number of options are being considered to reduce the overall need to use purchase cards, including the opening of appropriate business accounts.</li> </ol> <p>Although the two business accounts do not particularly offer a saving in staff time, some discounts may be available to business account holders.</p> <ol style="list-style-type: none"> <li>3. Card holders will be advised that if they do not provide receipts for all purchases, then their card will be blocked. In addition, the spreadsheet currently completed by cardholders each month will be amended so that VAT can be shown separately.</li> <li>4. Agreed. Civica have now developed a module that fulfils this function and will be available to SHDC and WDBC in the next iteration.</li> <li>5. Agreed. It appears that the Support Services Case Management team had ceased to return those invoices to suppliers which did not quote an order number as they felt that it created too much work.</li> </ol>

Subject	Audit Findings	Management Response
		<p>However, the importance of orders will be explained and the team will be instructed that they must continue to return such invoices to suppliers.</p> <p>6. The cases highlighted in the audit report have been reviewed to ascertain the circumstances behind the issues raised. Corrective action is being taken where appropriate.</p>
<p><b>Payroll</b></p>	<p><b>Audit Opinion - Good Standard</b></p> <p><b>Conclusions</b></p> <p>The current arrangements for delivering the payroll function are operating effectively as possible under current arrangements, with suitable key controls in the majority of areas.</p> <p>Due to the limitations of the current software, it is not possible to gain further significant efficiencies, for example by removing the need to perform a number of key calculations manually such as starters, leavers and maternity pay.</p> <p>We have made several recommendations to strengthen existing controls, including:</p> <ol style="list-style-type: none"> <li>1. Making more detailed sample checks of travel and subsistence claims.</li> <li>2. Evidencing working practice by ensuring that there is a record of who has completed and who has checked calculations and reconciliations; and</li> <li>3. Considering alternative payroll software and/or service delivery options, in order to create additional efficiencies.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. Parameters to be included, to allow more detailed checks to be completed of travel and subsistence claims, will be determined, with a view to making quarterly checks of around ten journeys. In addition, and more immediately, a memo will be sent to all staff advising them that if receipts are not submitted to support items included on their travel and subsistence claims, no payment will be made.</li> <li>2. Agreed. A reminder will be issued to relevant staff that a record should be kept of who completed and checked calculations and reconciliations.</li> <li>3. Agreed. SLT are currently reviewing options regarding the payroll service. Work is being undertaken assessing outsourced service providers and other options. This will lead to a discussion on whether certain services are suitable for sharing / delivering from one location or host organisation.</li> </ol>

Subject	Audit Findings	Management Response
<p><b>Housing Benefit</b></p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b> Benefit processing is generally undertaken accurately and performance against the key indicators of processing speed for new claims and changes in circumstances has been good, with reported performance for both councils being below the target number of processing days, as well as having improved since 2017/18.</p> <p>There remain several areas where action could be taken to further strengthen existing controls or gain efficiencies, the most significant of which are:</p> <ol style="list-style-type: none"> <li>1. The continued appropriateness of the level of access to the Northgate system for individuals, including staff who change roles within the Council;</li> <li>2. The consideration of the future use of Risk Based Verification; and</li> <li>3. An increase in the number of quality assurance checks and arrangements for ensuring that related recommendations are carried out.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. The majority of issues raised, namely, unknown users, those with duplicate accounts or those who have changed roles, have already been addressed and it will be ensured that those which haven't are completed. On-going checks of appropriateness of access rights will also be made. The accounts with system administrator access, highlighted in the audit report, will be reviewed and amended as appropriate. Some of those named do require access to Northgate revenues, but not Northgate benefits. It will be confirmed with the Service Desk how new accounts are being set up, i.e. are accounts of other users being copied or are access rights being tailored to each individual.</li> <li>2. Agreed. Now that SHDC and WDBC are in full service Universal Credit areas, the number of new claims received has fallen significantly and continues to reduce. The Risk Based Verification software was therefore being used very little and the annual licence, costing £11k per annum, was no longer economically justifiable.</li> <li>3. Agreed. Discussions have already commenced about how to review the quality checking process. As the number of new claims received reduces (the majority of new customers now have to claim Universal Credit through Job Centres) there will be increased capacity to review more claims, both as a percentage of the total received and per officer, giving more accurate error rates. Responsibilities are to be reviewed in order that some of this capacity can be transferred to the CF Senior Case Managers making the checks. If errors are consistently found to be being made by an individual, then the review of claims assessed by them would be increased. If the Senior Case Managers are spending more time making checks, they will be completing fewer claim assessments. Therefore it is likely that claims which they have assessed will be excluded from the sample</li> </ol>

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Subject	Audit Findings	Management Response
		<p>to be reviewed and separate arrangements will be made to review their work, with the Specialist – Benefits possibly making random checks of their work. In addition, a process will be put in place to confirm that recommendations made by the quality checkers are actioned.</p>
<p><b>Treasury Management</b></p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b></p> <p>Based on our work we can confirm that the Councils are adhering to legislative requirements and have appropriate and effective controls in place over the day to day treasury management operations.</p> <p>We noted a small number of relatively minor issues and we have made recommendations accordingly, including:</p> <ol style="list-style-type: none"> <li>1. The Fidelity Guarantee may not cover all those officers who can authorise CHAPS payments for treasury management; and</li> <li>2. Although we are advised that there are only two companies offering treasury management advice to local authorities, the appointed provider should be appointed in line with Contract Procedure Rules.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. This is currently being addressed and the need for DBS checks is being discussed with HR. The cost implication of the checks means that the Fidelity Guarantee cover will also need to be reviewed and limited only to relevant posts, rather than all staff, which are covered by the current arrangements.</li> </ol> <p>As part of the review, it will be ensured that the Fidelity Guarantee cover reflects working practice by including all those officers who action payments on behalf of the Councils.</p> <ol style="list-style-type: none"> <li>2. Agreed. The Specialist – Accountant has been tasked with obtaining quotations from the two known providers of treasury management advice, for a two or three year contract for treasury management services. This has been completed for 2019/20, with the award of a one year contract.</li> </ol>
<p><b>Grounds Maintenance</b></p>	<p><b>Audit Opinion – Fundamental Weakness upgraded up Improvements Required</b></p> <p><b>Conclusions</b></p> <p>We have raised previously that officers should review the Grounds Maintenance Operation to ensure that it is providing a service that customers require and at a cost that offers the best value for money. This has also been tied into ensuring that the rates charged to external organisations consider all costs to the service and so ensure their full recovery. With the end of the ground maintenance contracts due at West Devon in 2019 and the need to review the service the Head of Environment Services Practice has taken on a project to address these and other related issues,</p>	<p>We have started the inspection of the trees for West Devon. This has been split between the Mobile Locality Officers and external contractor and is due to be completed by November 2019. Once all of the information is received this will provide a plan on the work required over the winter period, and beyond, to manage the trees. This will be a large ongoing issue with the level of Ash dieback.</p> <ol style="list-style-type: none"> <li>1. We have looked at tree management software and the costs are prohibitive and so we are looking in-</li> </ol>

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Subject	Audit Findings	Management Response
	<p>Internal Audit highlighted issues that will aid in this review of the service and will add to the project consideration of future service delivery.</p> <p>At the time of the audit, the lack of a planned tree inspection and maintenance process placed West Devon at high risk. However, following completion of the audit the Senior Specialist Environment Services has confirmed that since April an inspection procedure has now been instigated that will include West Devon. This inspection process is due to be completed by the end of 2019 and will contribute to mitigating the high risk reported. Remedial tree work will then be completed during the winter months.</p> <p>Other items of significance include:</p> <ol style="list-style-type: none"> <li>1. The reliance on manual record keeping as part of the new tree inspection procedure for West Devon.</li> <li>2. The online mapping system requires major updating of tree data for West Devon, due to the lack of tree inspections.</li> <li>3. Records of machinery should be updated to include evidence of disposals as well as full inventory of existing equipment.</li> <li>4. The need to review costs and overheads, especially where there is an increased appetite to tender for external work, to ensure all costs, including management salaries, are incorporated into the grounds maintenance ledger codes.</li> <li>5. Ensuring that the service meets the requirements of both internal and external customers.</li> </ol>	<p>house to use the current inspection software to export suitable reports to update the related tree database.</p> <p>Further work will be ongoing to improve the process and provide more automation where possible.</p> <ol style="list-style-type: none"> <li>2. Further work will be ongoing to improve the asset mapping process and provide more automation where possible. Plans are underway to update the tree mapping data.</li> <li>3. Agreed this is something that we have been working on and the inventory should now be up-to-date.</li> <li>4. Agreed, this is something that will be considered in the review of the service.</li> </ol> <p>An exercise has been completed on the Salcombe contract to determine the resources used and the work completed to date. Currently calculations show that the contract is performing just inside the contracted sum. This needs to be extended further to understand the service requirements and will be included in the review of the service.</p> <p>Talks are taking place between the service and business accountants on how the Councils can account and recharge for service costs, such as on costs etc. in a commercial environment.</p> <ol style="list-style-type: none"> <li>5. Agreed this is something that we need to focus on and use to drive to change and improvement.</li> </ol> <p>Further discussions are needed with services to determine the level of performance required.</p> <p>Work is underway to update the Concerto Asset Management software and the information obtained will be used to evaluate the service's performance.</p>



Subject	Audit Findings	Management Response
<b>Risk Management Follow-Up</b>	<p><b>Audit Opinion – Improvements Required</b></p> <p><b>Conclusions</b>            In March 2018 it was reported to the Audit Committees that the recommendations within the 2016/17 Risk Management Audit Report would be implemented during the period April to September 2018. However, only one of the recommendations has been significantly progressed, with a revised Risk and Opportunity Management Strategy been taken to members for approval in December 2018. This document replaces the previous Joint Risk Management Policy (2012) and the separate Risk Management Strategy (2013). We understand that the implementation of the remaining recommendations has been limited by other work pressures.</p> <p>It is acknowledged that the Lead Members and Senior Leadership Team remain risk focused and consider risks to objectives as part of day to day corporate and business management. A Strategic Risk Register continues to be maintained by the Senior Leadership Team and individual Risk Registers are developed for key Council projects, such as the recent Waste procurement, each of which are subject to routine monitoring and reporting. There are also several other examples of good practice.</p> <p>However, there is still a need to improve visibility and understanding of risk management at all levels, as well as strengthening existing processes to formally capture risk and opportunity management activities, including:</p> <ol style="list-style-type: none"> <li>1. Identification of risk and opportunity through consistent business planning processes, and setting of risk appetites to provide focus;</li> <li>2. Building risk capability, providing training, where necessary, for those involved in risk management and raising awareness of others;</li> <li>3. Capturing proportionate timely risk and opportunity information within established management processes;</li> <li>4. Ensuring that opportunities, as well as risks, are captured in the Strategic Risk and Opportunity Register;</li> <li>5. Developing risk and opportunity registers at an operational level, to link to the Strategic Risk and Opportunity Register;</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. Senior staff in particular need to be more consistent in how they identify and manage risks, including the ELT. Whilst there is a case for enhancing the awareness of risks for staff at all levels, it will be necessary to tailor the information provided according to roles and responsibilities.             Consideration will be given as to how best to address a consistent approach to risk identification and management, as well as the appropriate communication of risks.</li> <li>2. Agreed. All members will receive some risk management training as part of the Induction programme delivered immediately after the elections. The on-going member development programme also covers risk management in more detail, with more in-depth training for those members in key roles, such as Audit Committee. Consideration will be given to using the Devon Audit Partnership training package.             Officer training needs will be considered as part of the review of communications referred to in 1 above.             Training should commence with ELT and be cascaded down from there.             Consideration will also be given to what information should be included in the staff Induction programme.</li> <li>3. Agreed. For those formal projects referred to the Project Board, risk assessments are carried out and risk registers created. Processes for specific projects have recently been reviewed to include business planning. However, there is not felt to be a need to formalise processes at day-to-day operational or strategic levels.</li> </ol>

Subject	Audit Findings	Management Response
	<p>6. Ensuring the availability of real-time risk and opportunity information, to be utilised in decision making; and</p> <p>7. Formalising horizon scanning for both risks and opportunities, at all levels of management, and capturing the results.</p> <p>The existing organisational model and culture, with clear leadership and encouragement for well managed risk taking, provides the right business environment to raise the Councils' risk management maturity to a level where this helps to drive the organisations in achieving their objectives. Developing a robust framework and tools, that will support and empower members and officers, will increase the effectiveness of risk and opportunity management arrangements, enabling an authority-wide culture that protects reputation, improves resilience, reduces unexpected losses, demonstrates good governance and better places the Councils to meet their strategic objectives and priorities.</p>	<p>The Risk Management training to be delivered to ELT in the summer will cover the capture of information and the creation of opportunity registers.</p> <p>Ownership of risks and opportunities will be recorded on the registers and ELT will be requested to periodically raise risk management at team meetings.</p> <p>4. Agreed. The capture of opportunities will be considered as part of the review of the Strategic Risk and Opportunity Register and when providing training to ELT regarding operational registers.</p> <p>5. Agreed. The planned Risk Management workshop, to be delivered to ELT in the summer, will address the need for a consistent approach to operational risk and opportunity registers, how to identify risks and opportunities at an operational level and the linkages with the strategic risk and opportunities register.</p> <p>6. It will be ensured that all operational risk and opportunity registers are stored in the ELT S\drive, to ensure that they are visible to all of ELT and SLT.</p> <p>7. Agreed. There is already adequate sharing and dissemination of information regarding potential future issues, between SLT and ELT. SLT attend all ELT meetings for half an hour; and SLT provide feedback to ELT each week, regarding what was discussed at SLT meetings.</p> <p>However, arrangements will be made for new and emerging risks and opportunities to be recorded within both the strategic and operational registers, the former to be overseen by the Monitoring Officer, the latter by ELT.</p>

Subject	Audit Findings	Management Response
<p><b>Contract Management Strategy and Process</b></p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b></p> <p>The management of contracts is spread across all disciplines of the Councils and there is no overarching strategy or policy currently in place which outlines guidance on how the Councils should manage contracts nor a shared standard approach to administration and governance.</p> <p>There are variety of officers involved in the administering and managing of contracts, with a range of contract management skills and experience. However, there is no specific training programme related to contract management.</p> <p>There is a corporate Contract Register but there are indications that it does not include all contracts or details of agreements held by the Councils.</p> <p>Local Authorities can spend a large amount of resources managing contracts and this may not be formally recorded or analysed to provide effective costing for future resource requirement or if the service provisions change in the future. There is a risk that where contracts are under resourced the benefits of the contract will not be realised.</p> <p>Some of the more significant actions to be completed include:</p> <ol style="list-style-type: none"> <li>1. A comprehensive review of contracts be undertaken which could potentially enable a more coherent management of contracts across the Councils in partnership with officers from various services.</li> <li>2. The development of a corporate role for contract management who could oversee all of the Councils' contracts and ensure that they are cost effective, performing satisfactorily and amended and/or updated where required.</li> <li>3. To provide a consistent approach to the management of contracts across the Councils. This can be partly achieved by ensuring there is a Contract Strategy in place.</li> <li>4. Identifying officers who are involved with managing contracts and providing individual or corporate training specific to their roles.</li> <li>5. Ensuring that the Contract Register is complete and regularly maintained to</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. SLT are planning a restructure and this is likely to result in the formation of a Director of Governance, who will be more focused on areas such as risk, contracts, procurement and so will develop the improvements in best value for the Councils.</li> <li>2. As above</li> <li>3. Agreed. This is something that should be expanded and linked to the Procurement Strategy, which does cover some of the contract requirements.</li> <li>4. External training in contract management will be available for key officers in June 2019.</li> <li>5. We are confident that the main contracts are recorded. ICT are developing a database to record all ICT related contracts.</li> </ol> <p>Additional input might be needed to ensure that all relevant information is captured and this will be considered for the future with introduction of the Director of Governance.</p> <ol style="list-style-type: none"> <li>6. Agreed this could be completed once the contract has been agreed. This should be completed by officers and overseen by the Director of Governance.</li> </ol>

Subject	Audit Findings	Management Response
	<p>reflect changes to contracts as a result of variations to those already existing or those that have just been awarded.</p> <p>6. The creation of a Contract Checklist detailing the main requirements and trigger points of a contract agreement and assigning these to relevant services and appropriate service officers.</p> <p>In addition, a review of some of the significant contracts currently in place identified weaknesses in the management of contracts which are not uncommon and therefore the Councils should be mindful of the following:</p> <ul style="list-style-type: none"> <li>• The loss of key workforce resources following implementation, particularly those involved in the procurement phase, can mean added disruption and a shortage of resources and knowledge;</li> <li>• Ineffective contracts that do not set out clear requirements in the delivery of the Councils' and supplier's intentions and goals, such as deadlines and outcomes, and so made it harder to manage and bring parties to account;</li> <li>• Parties working with differing requirements and outcomes with limited options for reappraisal and with limited flexibility from the supplier;</li> <li>• That, in isolated cases, for example the CIVICA contract, there may be a need to have a disproportionately high amount of resources to manage the supplier than initially envisaged. This creates difficulties in planning the resources required and places added strain on the project management;</li> <li>• Poor supplier leadership, knowledge and products leading to additional meetings, user mistrust, a lack of system and issue ownership and limited transparency between parties; and</li> <li>• The lack of a formal plan on how the Councils could or would exit a Contract prior to or at the end of the agreement.</li> <li>• Having a clear central record or recording system to accurately log administration requirements;</li> <li>• Having a contract checklist of the significant requirements and agreements, such as insurance requirements and payment schedules;</li> <li>• Having a robust process for recording and monitoring changes and variations;</li> <li>• Identification of the contract risks and mitigations;</li> <li>• Current copies of contract agreements are not complete;</li> <li>• Contracts have not been subject to market testing for a number of years;</li> </ul>	

Subject	Audit Findings	Management Response
<p><b>Business Continuity Plans (BCP) Follow Up</b></p>	<p><b>Audit Opinion – Fundamental Weaknesses Identified</b></p> <p><b>Conclusions</b></p> <p>Our 2018/19 Follow-Up review confirms that some improvements have been made, with on-going work timetabled throughout the coming months. However, due to the number of outstanding actions yet to be completed, our audit opinion must remain the same as in 2017/18.</p> <p>In February 2019, a Business Continuity Management Strategy and Work Programme were approved which appear to provide assurance that the majority of key controls will be in place over business continuity arrangements in the future. However, a significant amount of work has yet to be completed. Work is on course to deliver the earliest targets within the Work Programme, although continued progress is reliant on the availability of staff resource. We have therefore raised a general recommendation regarding adherence to the Strategy and delivery of the Work Programme, as well as raising a number of more detailed recommendations. Some of the more significant actions to be completed include:</p> <ol style="list-style-type: none"> <li>1. Development of operational Business Continuity Plans;</li> <li>2. The identification of critical functions, to be restored in the event of an incident and maximum tolerable periods of disruption;</li> <li>3. Ensuring that relevant officers continue to receive appropriate training and experience; and</li> <li>4. Ensuring that Business Continue Plans are regularly validated.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. BCP templates have been issued to Heads of Practice in stages, with varying deadlines, in order to stagger their return, allowing review of each by the Senior Specialist.</li> </ol> <p>At the time of the issue of the audit report, some areas had not fully engaged with the process, for example, a copy of the waste contractor’s BCP had yet to be provided by the Waste COP. Some information relating to the contractor’s BCP arrangements have since been passed to the Senior Specialist for review.</p> <ol style="list-style-type: none"> <li>2. Agreed. Heads of Practice are to identify and prioritise critical data as part of their BCPs and the information will be provided to the Head of ICT Practice (MW), in order that this can be built into the ICT BCP.</li> </ol> <p>All BCPs submitted by Heads of Practice are being reviewed by the Senior Specialist to ensure that they adequately cover all high risk areas.</p> <p>Some issues have already been identified as requiring further work, for example, identifying the criticality of those tasks completed by Case Management and Localities on behalf of individual Communities of Practice.</p> <p>In some cases, although all risks have been covered, mitigating actions identified and maximum periods of tolerable disruption stated, there is insufficient detail and so more information is being requested.</p> <p>The Senior Specialist has carried out a Council-wide review of some risks to business continuity, for example, identifying those fuel-critical services to</p>

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Subject	Audit Findings	Management Response
		<p>allow prioritisation in the event of a fuel shortage following the outcome of Brexit negotiations.</p> <p>3. Agreed. All Heads of Practice have been required to attend a training course in writing BCPs and the Senior Specialist (JK) has offered one-to-one training to assist in this area for any individuals who feel that this would be beneficial, for which there has been some take up. Also, the Devon Emergency Planning Service (DEPS) templates provide guidance to those officers completing them.</p> <p>General business continuity training has already been delivered to ELT. One-to-one training has been offered, Other training will be delivered as the need arises. For example, it is planned to deliver a 'Crisis Communications' training event in the coming months.</p> <p>4. Agreed. The ELT business continuity exercise run in 2018 is to be repeated in 2019, which will allow a comparison of responses on each occasion, in order to assess progress. A different scenario will then be run in 2020.</p>

## Planned Audit 2018/19 – Work Complete (No Audit Report)

Subject	Comments
<p><b>Waste Collection and Front Line Services Procurement</b></p>	<p>Internal Audit have provided support and challenge to the project team established to oversee the</p> <p>Audit have attended regular Project Team meetings, present at the receipt and opening of Outline Solutions from bidders as well as the subsequent moderation of evaluators scores. In addition, Audit took part in “dialogue sessions” with bidders which form part of the “Competitive Dialogue” procurement process. Audit continued its role during the mobilisation phase until the start of the contract on 1<sup>st</sup> April 2019.</p>
<p><b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b></p>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2017-18 financial year. The S151 Officer presented the 2017-18 AGS to the Audit Committee on 24 July 2018 with the final accounts for Member approval.</p>
<p><b>Exemptions to Financial Procedure Rules</b></p>	<p>Five applications for Contract / Financial Procedure Rules were received during 2018/19, all were accepted with the exception of one where it was deemed that an exemption was not required.</p>

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Proposed Workplan for the Audit Committee for the 2019/20 financial year

Committee Meeting	Proposed workplan/timetable for Audit Committee 2019/20
23 July 2019	<ul style="list-style-type: none"> <li>i) Grant Thornton External Audit report (ISA 260) 2018/19;</li> <li>ii) Grant Thornton Update report;</li> <li>iii) Audited Statement of Accounts 2018/19 and Annual Governance Statement 2018/19;</li> <li>iv) Annual Treasury Management report for 2018/19; and</li> <li>v) Budget Book for 2019/20 (updated from March 2019 for final salary estimates).</li> </ul>
29 October 2019	<ul style="list-style-type: none"> <li>i) Grant Thornton Update report;</li> <li>ii) Six monthly update – Strategic Risk Assessment;</li> <li>iii) Six monthly update – Strategic Debt review;</li> <li>iv) Internal Audit Charter &amp; Strategy; and</li> <li>v) Update on Progress on the 2019/20 Internal Audit Plan.</li> </ul>
21 January 2020	<ul style="list-style-type: none"> <li>i) Grant Thornton Annual Audit Letter and Closure of the Audit Letter;</li> <li>ii) Grant Thornton Annual Grant Certification Letter;</li> <li>iii) Grant Thornton Update report; and</li> <li>iv) Update on progress on the 2019/20 Internal Audit Plan.</li> </ul>
24 March 2020	<ul style="list-style-type: none"> <li>i) Grant Thornton - External Audit Plan 2019/20;</li> <li>ii) Grant Thornton – Interim Audit Report 2019/20;</li> <li>iii) Grant Thornton Update report;</li> <li>iv) Treasury Management update ;</li> <li>v) 2020/21 Internal Audit Plan;</li> <li>vi) Draft Budget Book 2020/21;</li> <li>vii) Cost Methodology for Shared Services 2019/20;</li> <li>viii) Annual Review of Council Constitution;</li> <li>ix) Update on Progress on the 2019/20 Internal Audit Plan;</li> <li>x) Six monthly update – Strategic Risk Assessment; and</li> <li>xi) Six monthly update – Strategic Debt review.</li> </ul>

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