

South Hams Audit and Governance Committee



Title:	Agenda						
Date:	Thursday, 28th March, 2024						
Time:	2.30 pm						
Venue:	Council Chamber - Follaton House						
Full Members:	<p style="text-align: center;">Chairman Cllr Bonham</p> <p style="text-align: center;">Vice Chairman Cllr Nix</p> <p><i>Members:</i></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">Cllr Dennis</td> <td style="width: 33%;">Cllr Presswell</td> </tr> <tr> <td>Cllr Hancock</td> <td>Cllr Rake</td> </tr> <tr> <td>Cllr Oram</td> <td>Cllr Yardy</td> </tr> </table>	Cllr Dennis	Cllr Presswell	Cllr Hancock	Cllr Rake	Cllr Oram	Cllr Yardy
Cllr Dennis	Cllr Presswell						
Cllr Hancock	Cllr Rake						
Cllr Oram	Cllr Yardy						
Interests – Declaration and Restriction on Participation:	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.						
Committee administrator:	Democratic.Services@swdevon.gov.uk						

1. Apologies for Absence	
2. Urgent Business Brought forward at the discretion of the Chairman;	
3. Division of Agenda To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;	
4. Declarations of Interest In accordance with the Code of Conduct, Members are invited to declare any Disclosable Pecuniary Interests, Other Registerable Interests and Non-Registerable Interests including the nature and extent of such interests they may have in any items to be considered at this meeting;	
5. Grant Thornton - Audit Opinion on the 2022/23 Statement of Accounts	1 - 40
6. Audited Annual Statement of Accounts, Annual Governance Statement and Audited Summary Accounts 2022/23	41 - 210
7. Bishop Fleming - Audit Plan for the 2023/24 Statement of Accounts	211 - 226
8. Proposed Internal Audit Plan for 2024/25	227 - 246
9. Update on Progress on 2023/24 Internal Audit Plan	247 - 270
10. Internal Audit Tracker	271 - 276
11. Shared Services Methodology 2023/24	277 - 280

12. Task and Finish Group Updates - verbal update

(a) St Ann's Chapel and Housing Offer – verbal update that first meeting has been held

(b) Yealm Energy – verbal update that first meeting has been held

13. Budget Book 2024/25

Report to follow

14. Committee Workplan

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The Audit Findings for South Hams District Council

Year ended 31 March 2023

19 March 2024

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Contents



Your key Grant Thornton team members are:

Jackson Murray

Key Audit Partner

E Jackson.Murray@uk.gt.com

Gail Turner-Radcliffe

Manager

E Gail.Turner-Radcliffe@uk.gt.com

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit and Governance Committee.

Jackson Murray

For Grant Thornton UK LLP

Date: March 2024

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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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Hams District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed remotely from November to March 2023. Our findings are summarised on pages 5 to 19. We have identified two adjustments to the financial statements relating to information provided by the Council's external advisors. First, the Council's Local Government Pension Scheme IAS 19 valuation was updated by the external actuary that has resulted in a £2.4m adjustment to the Council's Comprehensive Income and Expenditure Statement and Balance Sheet. Second, the Council's external property valuer applied an incorrect build cost to a single asset, which resulted in a £0.3m increase in its valuation in the Balance Sheet with the additional gain accounted for through the Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is substantially complete, subject to the following outstanding matters;

- final senior quality review of audit file and resolution of any resultant queries.

Once completed, we will be in a position to issue our audit opinions following;

- receipt of signed management representation letters; and
- receipt and review of the final sets of signed financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unmodified. We have been able to satisfy ourselves that the Council has made proper arrangements in securing economy, efficiency and effectiveness in its use of resources.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, which is summarised on page 21, and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit and Governance Committee in December 2023. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit. Working papers and responses were of a good quality and we would like to thank the finance team for their support throughout the audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 28 March 2024, as detailed in Appendix G. These outstanding items are set out on page 3.

2. Financial Statements



Our approach to 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.

Materiality levels remain the same as reported in our audit plan.

Amount Qualitative factors considered

	Amount	Qualitative factors considered
Materiality for the financial statements	£1.14m	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year and monitors spend against this, therefore gross expenditure was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 2% was an appropriate rate to apply to the expenditure benchmark.
Performance materiality	£0.86m	No historic material misstatements or significant deficiencies in the control environment, stable management structure and no significant change in the operation of the Council compared to prior years.
Trivial matters	£57k	Calculated as a percentage of headline materiality and in accordance with auditing standards.



2. Financial Statements: Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risk identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent revenue transactions (ISA240)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of material fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • there are adequate controls in place to deter and identify material fraud; and • the culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable. <p>This remains unchanged from our planning considerations as reported through our Audit Plan.</p>
Risk of fraud related to expenditure recognition (PAF Practice Note 10)	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.</p> <p>We have determined that the risk of material fraud arising from expenditure recognition can be rebutted because, per Practice note 10, misstatements may arise where the audited body is under pressure to meet externally set targets. This environment does not exist at the Council.</p> <p>This remains unchanged from our planning considerations as reported through our Audit Plan.</p>

2. Financial Statements: Significant risks

Risk identified in our Audit Plan

Commentary

Management override of controls

We:

- evaluated the design and implementation of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

We completed a reconciliation of journals by using a completeness tool, which gave us assurance that the data we were using was complete and accurate. The journals data provided has been agreed and reconciled back to the financial statements.

We challenged management and sought further evidence for our sample of journals and have gained assurance over the business rationale of these entries and have concluded that the entries were reasonable and appropriate. Our testing of journal entries posted in the year did not identify any indication of management override of controls.

We did not identify any significant changes in estimation techniques adopted between years (more information on our work on the Council's key estimates can be found on pages 12 to 15).

Valuation of Investment Properties

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation. This included testing to rental or lease contracts to check the annual income for properties;
- used an auditor's expert with knowledge of investment property valuations to consider the rental yield figures used in valuation calculations for appropriateness; and
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register.

Management employs an external expert in order to undertake valuations of investment properties, which are all valued on an annual basis as at 31 March 2023.

Management relies on the external valuer as an expert to undertake the valuations of the investment properties and where considered necessary, management will challenge the valuer as to what assumptions and source data have been used in the calculations. The review and challenge of the valuation is carried out by an internal asset manager who is also a chartered member of RICS and who has sufficient knowledge as to the investment property portfolio of the Council.

Our audit work has not identified any issues in respect of valuation of investment property.

2. Financial Statements: Significant risks

Risk identified in our Audit Plan

Commentary

Valuation of land and buildings

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Management have employed an external expert in 2022/23 in order to undertake the valuation of its land and buildings. The Council revalues its land and buildings on a five yearly basis to ensure that the carrying value of land and buildings in the Council's financial statements is not materially different from the fair value at year end.

We evaluated the competence, capability and objectivity of the valuer and were satisfied that they are relevant experts and have sufficient knowledge and extensive experience of the valuation of the Council's assets through the various Local Authorities that they represent.

We noted an error in the external valuer's calculation of one asset whereby an incorrect build rate had been used. This has resulted in the specific asset being understated by £0.3m and further details can be found in Appendix D.

A recommendation has also been made in respect of a difference in the Revaluation Reserve between the Council's general ledger and a Fixed Asset Register report. We are satisfied that the financial statements and ledger are correct. We have raised this matter in Appendix B.

See page 12 for details of our testing.

Other than the points above, our audit work has not identified any issues in respect of valuation of land and buildings.

2. Financial Statements: Significant risks

Risk identified in our Audit Plan

Valuation of the pension fund net liability

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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£5.49m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

The key assumptions used in the calculation which we will consider are the assumed:

- Discount rate
- Pension Increase rate
- Salary growth
- Life expectancy

Based on the issues above, we have identified valuation of the Council's pension fund net liability as a significant risk.

Commentary

We:

- updated 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 evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested 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;
- undertook 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
- obtained 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.

We have reviewed the assumptions in the actuarial report and deemed that they are reasonable and within the expected range disclosed in the auditor's expert's report.

We deemed that the information provided by the Council was accurate and complete.

The draft financial statements included a pension asset of £162k. We challenged the actuary as to whether they had considered IFRIC 14 and as a response the actuary amended the year-end valuation to a net liability of £2.2m, noting that CIPFA issued guidance on the impact of IFRIC 14 in November 2023, after the publication of the draft financial statements. See Appendix D for further details.

The data provided by the Actuary is consistent with the balance sheet and disclosures of pension assets and liabilities.

Other than the points above, our audit work has not identified any issues in respect of valuation of the pension fund net liability.

2. Financial Statements: new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>Payroll software</p> <p>The Council transferred payroll systems in April 2022 from Teamspirit to iTrent.</p>	<p>We:</p> <ul style="list-style-type: none"> • obtained an understanding of the process used for new system implementation; • reviewed the data migration activity and results; and • completed an assessment of the IT General Controls in order to consider their design effectiveness. 	<p>We have obtained an understanding of the process used for new system implementation and reviewed the data migration activity. We noted nine small variances in the legacy figures between the old and new system, however the signed documentation provided to us by the Council shows that these were subsequently agreed with the Consultant overseeing the process and were not material to the financial statements.</p>

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £69.5m	<p>Other land and buildings comprises £21.4m (PY: £20m) of specialised assets which are leisure centres and public conveniences, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings £48m (PY: £46.5m) are not specialised in nature and are required to be valued at existing use in value (EUV).</p> <p>The Council has engaged an external valuer to complete the valuation of properties as at 31 March 2023 in line with their five yearly cyclical basis. 44% (PY: 41%) of total assets were revalued during 2022/23.</p> <p>Management place reliance on the work of their expert, and we saw evidence of challenge of the assumptions and valuations by management as part of the valuation process. Management have considered the year end value of non-valued properties totalling £38.9m (PY: £39.4m) to determine whether their carrying value could be materially different to their current value had they been valued in year. We have performed a calculation using indices and have determined that there is not a material difference between the expected fair value and carrying value. The total year end valuation of land and buildings was £69.5m (PY: £66.5m), a net increase of £3m (PY: £43k) from 2021/22 (£66.5m) when valuation and other movements were taken into account, such as capital additions and depreciation.</p>	<p>As part of our audit work, we have challenged management to provide corroborating information and evidence to support the valuations such as lease contracts and other equivalent documents that they have supplied to the valuer. We also challenged management and their expert to understand the methods and assumptions used.</p> <p>As a result of using an external valuer, there has been a change in the way that leisure centres have been valued in this financial year. In previous years, data provided by Sports England was used to calculate valuations but this changed to calculate using the DRC methodology for 2022/23 which resulted in an increase of £1.3m. We challenged this approach and considered whether a prior period adjustment was necessary but concluded that the approach taken was satisfactory. We have reviewed the calculations of the valuer and noted for one asset an incorrect build cost had been used, with a £341k impact – see page 33 for more detail.</p> <p>During our work we noted that the Council does not hold the gross internal floor (GIA) used in some of the calculations as they have relied on their expert. We also noted that the valuation records do not contain the last valuation date along with the valued amount. We have raised recommendations to management in regard of these – see appendix A.</p> <p>We have used our internal expert to review the yields used in the EUV calculations for reasonableness and note no issues.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £16.9m	<p>The Council has engaged an external valuer to complete the valuation of properties as at 31 March 2023.</p> <p>Investment Properties comprise £16.9m (PY: £18.6m) of assets held to generate rental income such as retail units, which are required to be valued at Fair Value (FV) at year end, reflecting the market value, i.e. the price that would be received to sell the asset.</p> <p>The total year end valuation of investment property was £16.9m, a net decrease of £1.7m from 2021/22 (£18.6m).</p>	<p>From our review of the source data provided to the valuer and challenge of the assumptions adopted we did not identify any issues regarding the rental agreements and inputs into the valuation.</p> <p>As stated in our audit plan, we engaged our own auditor's expert to assess the yield assumptions used by management's expert in their valuation. No issues were identified following this work.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £2.2m	<p>The Council's post-audit net pension liability at 31 March 2023 is £2.2m (PY £52.6m) comprising the Devon Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 31 March 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £50.5m net actuarial gain during 2022/23.</p>	<p>With the use of the consulting actuary as an auditor's expert, we have confirmed that management's actuaries are competent, capable and objective.</p> <p>We considered that the significant risk in respect of pension fund valuation related to the assumptions used in the calculation, rather than the methodology used with is standard and in accordance with the requirements of the CIPFA Code and accounting standards. We make use of the consulting actuary (PwC) to assess the reasonableness of the assumptions adopted and set out below our consideration of these assumptions.</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.8%</td> <td>4.80%-4.85%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.90%</td> <td>2.65%-2.95%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.95%</td> <td>3.40%-5.40%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>21.8/23.1</td> <td>19.5-22.1 / 20.9-23.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>22.9/24.4</td> <td>22.9-24.5 / 24.3-25.9</td> <td>●</td> </tr> </tbody> </table> <p>Our work includes procedures to ensure the completeness and accuracy of the underlying information used to determine the estimate. We review the data provided by the Council and the Pension Fund and corroborate this to supporting payroll data used elsewhere in our audit procedures. We also obtain assurances from the auditor of the Devon Pension Fund over the processes and controls in place.</p> <p>As part of our audit challenge to the actuary, they confirmed that they had not considered the impact of IFRIC 14 in their valuation, noting that CIPFA issued guidance on the impact of IFRIC 14 in November 2023, after the publication of the Council's draft financial statements. This changed the value from a £162k net asset in the draft financial statements to a £2.2m net liability in the audited financial statements.</p> <p>We are satisfied that the updated estimate is reasonable and that the disclosures within the financial statements are adequate.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.8%	4.80%-4.85%	●	Pension increase rate	2.90%	2.65%-2.95%	●	Salary growth	3.95%	3.40%-5.40%	●	Life expectancy – Males currently aged 45/65	21.8/23.1	19.5-22.1 / 20.9-23.4	●	Life expectancy – Females currently aged 45/65	22.9/24.4	22.9-24.5 / 24.3-25.9	●	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	4.8%	4.80%-4.85%	●																								
Pension increase rate	2.90%	2.65%-2.95%	●																								
Salary growth	3.95%	3.40%-5.40%	●																								
Life expectancy – Males currently aged 45/65	21.8/23.1	19.5-22.1 / 20.9-23.4	●																								
Life expectancy – Females currently aged 45/65	22.9/24.4	22.9-24.5 / 24.3-25.9	●																								

2. Financial Statements: key judgements and estimates













Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £0.9m	The Council is responsible for repaying a proportion of successful rateable value appeals and management calculates the level of provision required. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £0.6m in 2022/23.	We have reviewed management's calculations and note that they appear to be appropriate. We have no issues to report with regard to provisions.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Minimum Revenue Provision - £486k	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt, known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £486k, which is a decrease of £2k compared with the MRP charge in 2021/22.</p>	<p>We assess that the Council's policy on MRP complies with the statutory guidance and noted no changes in policy from last year. We considered that the MRP charge was appropriate.</p> <p>Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment





- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
Civica	ITGC assessment (design and implementation effectiveness only)					Journals	n/a
Northgate	ITGC assessment (design, implementation and operating effectiveness)					n/a	n/a
iTrent	ITGC assessment (design and implementation effectiveness only)					n/a	We undertook a review of the transition to iTrent including data migration and no issues noted

Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which is included in the Audit and Governance Committee papers.
Confirmation requests from third parties	We requested confirmation requests from the Council's banking providers and organisations with which the Council had invested and borrowed. All of these requests were returned with positive confirmation and no issues were noted.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. The final version of the financial statements includes some minor changes agreed as part of the audit process.
Audit evidence and explanations	All information and explanations requested from management was provided.

2. Financial Statements: other communication requirements



Our responsibility

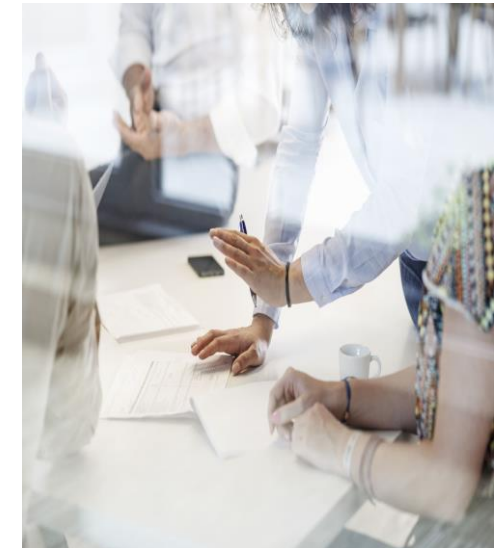
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability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

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Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates; the Council's financial reporting framework; the Council's system of internal control for identifying events or conditions relevant to going concern; and management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified; and management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • if we have applied any of our statutory powers or duties; or • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that detailed work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2022/23 audit of South Hams District Council in the audit report, as detailed in Appendix G, when we issue the audit opinion.</p>



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit and Governance Committee in December 2023.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures on the Housing Benefit Subsidy return in accordance with procedures set out by the DWP.	£32,400*	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is expected to be £32,400* for 2022/23 in comparison to the total fee for the audit of £56,460 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been previously reported to the Audit and Governance. None of the services provided are subject to contingent fees.

*Proposed fee

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Management Letter of Representation
- H. Audit opinion
- I. Audit letter in respect of delayed VFM work

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified five recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	<p>Retention of Councillor information</p> <p>During our work we noted that a related party declaration was not provided, even though the Councillor was present for the full financial year. This information could not be obtained retrospectively as the Councillor has now left the Council.</p> <p>In addition, we noted that one Councillor failed to fully respond to the disclosure requirements. Again, this information could not be obtained retrospectively as the Councillor has now left the Council.</p>	<p>We would recommend that management maintain a central register each financial year showing what information is needed and any information outstanding so that this can be followed up in a timely manner.</p> <p>Management response</p> <p>We hold a log of the Related Party Declarations recording which forms have been returned every year. Unfortunately in 2022/23 we were unable to obtain a declaration despite chasing the information in a timely manner. Several attempts were made to obtain the declarations before Councillors left the Council but unfortunately they were unsuccessful.</p>
Medium	<p>Cyber Security Training</p> <p>As part of our review of the Council's cyber security programs, we reviewed compliance of employees against organised cyber security training and identified a significant number of outstanding training courses.</p> <p>Cyber security training is usually designed to alert employees to the potential of cyber security attacks. A lack of attendance at the appropriate training may leave the Council vulnerable to Cyber Security attacks.</p>	<p>We would recommend that management reviews the attendance logs and ensures that for any employees shown as outstanding, this training is completed in a timely manner.</p> <p>Management response</p> <p>Managers are issued with a list of the names of their staff who have not completed the training and will be asked to prioritise the completion of training by their teams as a matter of urgency by their Head of Service or Director. Implications such as network access restrictions for non-completers are under consideration.</p>

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Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	<p>Use of unsupported software</p> <p>The Councils' accounting software, Civica Financials, has not been upgraded for a long time with end of support for the application dating back to 2019. The application currently sits on the Council's servers, with the last security patches happening five years ago. There is the risk of data loss or breaches not being detected in a timely manner.</p>	<p>We would recommend the management upgrade the software to ensure that the latest version is in use and support is available if needed.</p> <p>Management response</p> <p>It is recognised that the use of unsupported software represents a risk to the organisation. We have been actively working with Civica to upgrade the software. The web-based software was not user-friendly and the team has spent time looking at the various options. We are currently working on a project plan to upgrade to the latest 'UX' version which appears to be a lot more user friendly. This will include moving to a cloud based solution, providing enhanced security and reduced risk. The upgrade to the latest 'UX' version of the software was scheduled for Autumn 2023 but was delayed mainly due to the timing of the 2022/23 Audit. The risks around the delay in implementation have been discussed with both Civica and SLT and mitigations have been put in place. This upgrade will be the team's main priority after closing the 2023/24 Accounts.</p>
Low	<p>Payroll reports</p> <p>Management could not provide "Change in circumstances report" detailing any changes to employment for individuals in the period.</p>	<p>We would recommend that management hold discussions with its payroll software provider to determine how the change in circumstances report can be generated.</p> <p>Management response</p> <p>HR will discuss with iTrent, our payroll software provider, the development of a report that will provide this change in circumstances information.</p>
Low	<p>Reconciliation between RAM asset system and the General Ledger</p> <p>Management use software called RAM to maintain their accounting records for property, plant and equipment on an asset by asset basis and import the totals from this software into the general ledger. During our audit we noted a £1.2m difference between the revaluation reserve recorded in RAM and that recorded in the general ledger.</p> <p>This relates to an historic correction related to a specific asset. Management do not use the RAM report to produce the financial statements, however it is important that the records on the two systems match.</p>	<p>We would recommend that Management investigates the discrepancy between the RAM software and the general ledger and performs periodic reconciliations to ensure that no difference is carried forward.</p> <p>Management response</p> <p>We are confident that the fixed asset figures in the accounts and the general ledger are correct. This recommendation relates purely to the fixed asset software used in the background. We will work with the software supplier to address the impact of this historic correction in RAM and ensure the revaluation reserve reconciles going forward.</p>

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Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of South Hams District Council's 2021/22 financial statements, which resulted in two recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note two are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Journal system controls</p> <p>We reported in the prior that 6 members of the finance team have 'level 9' access rights in the Civica system which allows them to edit and delete journals. One of these officers also has the access rights to edit and delete other people's journals as well as create new users. This remains the case for the year ended 31 March 2023. From an audit perspective therefore, journal entry user access rights did not have appropriate segregation of duties in 2022/23.</p> <p>We are aware of a mitigating control that another user downloads a monthly report showing changes in user access rights including whether new users are created. There are also regular budget reviews to detect unusual postings.</p> <p>We have previously reported that the journal system uses retrospective authorization of journals over £25k. We note that this only applies to journals with individual debit transactions over £25k, for example, if a journal was made of 26 lines of £1k, or credit balances over £25k, it would not be picked up in the authorisation reports. Management and Those Charged With Governance should note the risk of the unreviewed journals that do not meet this threshold.</p>	<p>Management have provided the following comments:</p> <p>The Head of Finance and the S151 Officer have reviewed this risk and are happy that there are mitigating controls in place. Journals over £25k are reviewed promptly and this is built into the workplan and individual PCIs which are reviewed on a regular basis by the Head of Finance. Cost Centres with a balance over £30k are also reviewed by the Head of Finance on a quarterly basis.</p> <p>To check all journals that total over £25k would create significant extra work. The risk and the mitigating controls in place have been looked at and we feel that this is robust enough to not warrant the extra work.</p> <p>We are happy with the mitigating control that an Accountant reviews changes in user access rights and new users on a monthly basis. For 2023/24 onwards, HR provide a weekly report of starters, leavers and internal movers.</p> <p>We would however still consider this to be a risk for 2022/23.</p>
X	<p>Input data for valuations</p> <p>For some of the assets tested by ourselves in year, evidence supporting the gross internal floor area (GIA) used in valuation calculations was obtained externally by external valuers. Currently, there is no internal record of measured surveys for the internal areas of assets held which would be best practice. We reported this in the prior year.</p>	<p>Management are happy that the gross internal area is available and have relied on their experts.</p> <p>We would however consider this risk to stand for 2022/23 as the Council do not hold this information.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

D. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
During our audit work we challenged management's external actuary as to whether they had considered IFRIC 14 in the IAS 19 valuations of the pension fund. They confirmed that they had not, and the net pension asset of £162k in the draft financial statements was updated to a £2.2m liability as at 31 March 2023.	Dr Other comprehensive income – remeasurements of the net defined benefit liability £2,353	Cr Pension asset (£162) Cr Pension liability (£2,191)	£2,353	None
We noted an error in the build cost assumptions used in the Kingsbridge Leisure Centre valuation calculations by the external valuer. The impact of this would increase the value of the building by £341k.	Cr (Surplus) or deficit on revaluation of Property, Plant and Equipment £341k	Dr Kingsbridge Leisure Centre building £341k Cr Revaluation Reserve £341k	£341k	None
Overall impact	£2,353	(£2,353)	£2,353	None

D. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Adjusted?
Audit fees – An estimate had been made by management in relation to the fees for grants and certification work of £10k however this should be revised to £32k.	✓
Accounting policies – amendments were noted to enhance the accounting policies and ensure that these were compliant with the CIPFA Code.	✓
Various small wording and typo adjustments throughout the narrative statement and financial statements	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.



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Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Reason for not adjusting
<p>As we have reported in previous years, the Council's investments with CCLA are designated as Fair Value through Other Comprehensive Income (FVOCI). The terms of the agreement allow redemption on demand and in our view the investment does not therefore meet the designation criteria to be held as FVOCI under IFRS 9. At 31 March 2023 the CCLA investments total £2.6m.</p> <p>In our view, the investment should be classified as Fair Value through Profit and Loss. The annual loss in value of £979k has therefore been incorrectly debited to Other Comprehensive Income rather than the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. There is currently a Statutory Override in place that allows Fair Value movements to be reversed to an unusable reserve so there would continue to be no impact on the General Fund from this reclassification.</p>	<u>In year</u>	No changes to total usable or unusable reserves	Individually and cumulatively not material
	Dr (Surplus) or Deficit on Provision of Services £979k		
	Cr Other Comprehensive Income and Expenditure £979k		No impact on the General Fund
	<u>Cumulative</u>		
	Dr Other Comprehensive Income and Expenditure £325k		
	Cr (Surplus) or Deficit on Provision of Services £325k		

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee
Scale fee	£40,110
Additional work on Value for Money (VfM) under new NAO Code – note that as a joint report was issued for 2021/22 and 2022/23, we have discounted this from the previously proposed £9,000	£4,500
Infrastructure assets	£2,500
Journals testing	£3,000
ISA 540	£2,100
Enhanced audit procedures for payroll – change of circumstances	£500
Enhanced audit procedures for Collection Fund – reliefs testing	£750
Increased audit requirements of revised ISAs 315/240	£3,000
Total audit fees (excluding VAT)	£56,460
Non-audit fees for other services	Proposed fee
Audit Related Services	
Agreed upon procedures on the Housing Benefit Subsidy return in accordance with procedures set out by the DWP. Note that work remains underway	£32,400

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69)).

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

These changes will impact audits of financial statement for periods commencing on or after 15 December 2022.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures; the identification and extent of work effort needed for indirect and direct controls in the system of internal control; the controls for which design and implementation needs to be assess and how that impacts sampling; and the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism; an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence; increased guidance on management and auditor bias; additional focus on the authenticity of information used as audit evidence; and a focus on response to inquiries that appear implausible.
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors; and additional communications with management or those charged with governance.
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Council with an unmodified audit report.

DRAFT Independent auditor's report to the members of South Hams District Council

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of South Hams District Council (the 'Authority') for the year ended 31 March 2023, which comprise the Comprehensive Income & Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

G. Audit opinion

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Chief Financial Officer

As explained more fully in the Statement of Responsibilities / Approval of the Accounts, 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 Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the

G. Audit opinion

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012)).

We enquired of management and the Audit & Governance Committee concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management and the Audit & Governance Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Authority's financial performance for the year.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud; and
- journal entry testing, with a focus on journals that altered the Authority's financial performance including those posted by senior finance personnel, unapproved journals, journals posted by any unapproved users and journals posted by users with increased system access privileges.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and building valuations, investment property valuations and the valuation of the net defined pension liability. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
- knowledge of the local government sector;
- understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation;
 - guidance issued by CIPFA/LASAAC and SOLACE; and
 - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This

G. Audit opinion

description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter.

- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of South Hams District Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Jackson Murray, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

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Report to: **Audit and Governance Committee**
Date: **28 March 2024**
Title: **Annual Statement of Accounts 2022/2023**
Portfolio Area: **Finance – Cllr J Brazil**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken:

Author: **Alexandra Walker** Role: **Principal Accountant**
Pauline Henstock **Head of Finance Practice and Deputy S.151 Officer**
Contact: **01803 861345** alexandra.walker@swdevon.gov.uk
01803 861377 pauline.henstock@swdevon.gov.uk

Recommendations:

It is recommended that Members approve:

1. The wording of the Letter of Representation (Appendix A)
2. The audited Statement of Accounts for the financial year ended 31 March 2023 (Appendix B).
3. The Annual Governance Statement post audit (Appendix C)
4. The audited Summary of Accounts for the financial year ended 31 March 2023 (Appendix D).

1. Executive summary

- 1.1 This report presents a summary of net revenue and capital expenditure for Members' consideration and seeks approval of the audited Statement of Accounts for 2022/23. **Following approval of the accounts, the Chairman of the Audit and Governance Committee is required to sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. **Following approval of its wording, the Chairman of the Audit and Governance Committee and the Section 151 Officer (Director of Strategic Finance) are required to sign the Letter of Representation.**

1.2 **The 2022/23 Audit has identified two notional adjustments to the Draft South Hams Accounts which were considered by the Audit and Governance Committee on 27 July 2023 :** <https://democracy.swdevon.gov.uk/documents/g1902/Public%20reports%20pack%2027th-Jul-2023%2009.30%20South%20Hams%20Audit%20and%20Governance%20Committee.pdf?T=10>

1.3 Both of the adjustments to the 2022/23 accounts relate to information provided by external advisors.

Fixed Assets valuation – Kingsbridge Leisure Centre

1.4 One adjustment related to an incorrect calculation provided by the external valuer on one of the Council's fixed assets. The Council's external property valuer applied an incorrect build cost to an asset, which resulted in a £0.3million increase in its valuation in the Balance Sheet with the additional gain accounted for through the CIES.

Pension valuation as at 31 March 2023

1.5 The second adjustment was due to CIPFA (Chartered Institute of Public Finance and Accountancy) advice on the treatment of pension assets (IFRIC 14) which was only forthcoming after the draft accounts were published and therefore this was purely down to a timing issue. This changed the actuary's advice on the valuation of the pension position as at 31 March 2023.

1.6 The Council's Local Government Pension Scheme IAS19 valuation was updated by the external actuary after the 2022/23 accounts were closed which resulted in a £2.35 million adjustment to the Council's Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet.

1.7 During the audit Grant Thornton challenged the actuary as to whether they had considered IFRIC 14 in the IAS 19 valuations of the pension fund. IFRIC 14 looks at the limit on a defined benefit asset, the minimum funding requirements and their interaction. The actuary confirmed that they had not considered IFRIC 14 in their IAS 19 report and consequently the net pension asset of £162,000 in the draft accounts moved to a £2.19 million pension liability as at 31 March 2023 (this compares to a pension liability of £52.62 million at 31 March 2022).

1.8 This purely recognises the fact that the Council will still need to pay employer's pension contributions into the pension scheme on an annual basis. The difference between the 2022/23 pension position shown in the draft and audited accounts relates to the application of the asset ceiling of £2.35 million by the actuary as shown in the following table:

Impact of applying the pension asset ceiling to the pension position (IFRIC 14) in 2022/23	31 March 2023 £000
Pension asset – as shown in the 2022/23 draft accounts presented to Audit Committee on 27 July 2023	(162)
Pension asset ceiling – applied to the pension asset position as at 31 March 2023	2,353
Pension liability – as shown in the 2022/23 audited accounts presented to Audit Committee on 28 March 2024 <i>(this equates to the present value of the unfunded obligation of the pension scheme)</i>	2,191

- 1.9 The effect of the asset ceiling has been determined by the actuary on the basis of the limitation on the Council’s ability to recover the full economic benefit of its assets through reductions in future employer’s contributions because of the minimum funding requirement imposed on it by the funding strategy for the Scheme. The Council is currently committed to paying contributions into the Pension Fund at a higher rate than that at which future service costs will be accrued. On these projections, the Council will be unable to reduce future contributions to recover the £162,000 net pension asset that would otherwise apply. It is important for Members to note that the adjustment to the pension position is made to better reflect the practical operation of the funding strategy. It does not indicate that the council has paid £162,000 into the pension fund that it will never benefit from.

These adjustments are both notional and don’t impact on the Council’s revenue position and the surplus generated in 2022/23 of £57,000.

- 1.10 Therefore the Audited Accounts for 2022/23 presented to Members of the Audit and Governance Committee today, are in essence the same set of Accounts which the Audit Committee considered at their meeting in July, except for the two adjustments identified and a few minor disclosure changes.** *These adjustments and disclosure changes are detailed further in the Audit Findings report from Grant Thornton, a separate item on this Audit and Governance Committee agenda.*

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 Accounts and Audit Regulations require that the 2022/23 audited accounts and opinion is published by 30 September 2023. However, the 2022/23 audit was delayed by Grant Thornton due to their lack of staffing capacity. The audit commenced at the beginning of November 2023 and was completed in March 2024.
- 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 (Appendix B) 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 Standards.
- 2.6 The Annual Governance Statement (AGS) for 2022/23 shown in **Appendix C** reflects the reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The 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. The surplus on the General Fund in 2022/2023 of £57,000 is essentially a break-even position. **The 2022/23 budget was £10.46 million and therefore the surplus of £57,000 means that the actual net spend was 0.5% less than the budget.** This surplus will go into the Council's Unearmarked Reserves which now stand at £2.113 million. The main variations from budget are shown on Page 9 of the Narrative Statement in the Statement of Accounts.

Capital Expenditure

- 3.2 Capital expenditure represents monies spent on the purchase, construction, or major refurbishment of assets. The Council's capital expenditure amounted to £9.379 million in 2022/23. The main areas of expenditure were as follows:

- Dartmouth Health and Wellbeing Hub (£3.83m)
- St Ann's Chapel housing scheme (£1.56m)
- residential renovation grants including disabled facilities grants (£1.14m)
- Green Homes grants (£0.91m)
- Batson Harbour Depot/Commercial Units (£0.78m)
- Affordable Housing (£0.28m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (see Note 32 of the Statement of Accounts for 2022/23).

Audit of Accounts

- 3.3 The draft SOA was considered by the Audit and Governance Committee on 27 July 2023. These accounts are required to be audited by the Council's external auditors Grant Thornton, who give their opinion on the draft accounts. The annual audit was undertaken remotely and commenced at the beginning of November 2023 and was completed in March 2024.

- 3.5 Grant Thornton have substantially completed their audit of the financial statements for 2022/23 and subject to the final review queries being resolved, **Grant Thornton anticipate issuing an unqualified audit opinion following this Audit and Governance Committee meeting.**

In essence, the audited accounts for 2022/23 are the same set of accounts that were considered by the Audit Committee in July. There are only two notional adjustments and a few disclosure changes to the draft accounts as detailed above in paragraphs 1.2 to 1.9, which have no impact on revenue.

The Grant Thornton external audit opinion states that 'Working papers and responses were of a good quality and we would like to thank the finance team for their support throughout the audit.'

3.6 **Summary Accounts**

In light of the length of the statutory accounts a shortened version was prepared for 2022/23. The audited summary of the Accounts in Appendix D is a more user friendly document which can be easily read by members of the public and our businesses to get an understanding of the financial position of the Council for 2022/23. The only changes to the draft summary accounts that were considered by the Audit and Governance Committee in December 2023 relate to the two adjustments detailed above in paragraphs 1.2 to 1.9. The audited summary accounts for 2022/23 have now been attached in Appendix D as the Audit has been completed.

3.7 **Value for Money (VFM) arrangements**

On 14 December 2023 the Audit and Governance Committee considered an interim Auditor's Annual Report from the Council's external auditors, Grant Thornton. This gave commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

The report stated that 'The Council has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources. Our work has not identified any significant weaknesses in arrangements.'

4. Proposed Way Forward

- 4.1 The Council Constitution delegates approval of the Accounts to the Audit and Governance Committee. The Council is also required to sign a Letter of Representation every year, which gives representations to the Council's external auditors. The Chairman of the Audit and Governance Committee and the Section 151 Officer (Director of Strategic Finance) are required to sign the Letter of

Representation. The letter is attached at Appendix A. It is recommended that Members approve the wording of the Letter of Representation.

5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>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.</p> <p>The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS).</p> <p>The Council Constitution delegates approval of the Accounts to the Audit and Governance Committee.</p>
Financial implications to include reference to value for money		<p>The financial implications to this report are that a surplus of £57,000 was generated in 2022/2023. This means that the Council's actual net spend for 2022/2023 was 0.5% less than the budget set for the year.</p> <p>On 14 December 2023 the Audit and Governance Committee considered an interim Auditor's Annual Report from the Council's external auditors, Grant Thornton. This gave commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>The report stated that 'The Council has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources. Our work has not identified any significant weaknesses in arrangements.</p>
Risk		<p>Public Accountability – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 which is recognised by statute as representing proper accounting practice.</p> <p>Resource Planning – the Council takes into account any significant issues when developing the Council's Medium Term Financial Strategy.</p>

Supporting Corporate Strategy		The Annual Statement of Accounts and Annual Governance Statement support all of the Delivery Plans within the Council's strategic vision, 'Better Lives for All'.
Climate Change - Carbon / Biodiversity Impact		None directly arising from this report.
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

Appendix A – Letter of Representation
Appendix B – Audited Statement of Accounts 2022/23
Appendix C – Annual Governance Statement 2022/23
Appendix D – Audited Summary Accounts 2022/23

Background Papers:

None

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A



Direct telephone: 01803 861413
E-Mail: lisabuckle@swdevon.gov.uk

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0EL

Our ref: Letter of Representation
28 March 2024

Dear Sirs

South Hams District Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of South Hams District Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of land and buildings, the valuation of investment properties and the valuation of the net defined benefit pension liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent;
 - b. none of the assets of the Council has been assigned, pledged or mortgaged; and
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

- xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
 - a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements;
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

- xv. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

Information Provided

- xvi. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit & Governance Committee at its meeting on 28 March 2024.

Yours faithfully

Name: Councillor L Bonham

Position: Chairman of the Audit and Governance Committee

Date: 28 March 2024

Name: Mrs L Buckle

Position: Corporate Director for Strategic Finance

Date: 28 March 2024

Signed on behalf of the Council



**South Hams District Council
Audited Statement of Accounts
2022/2023**



**South Hams
District Council**

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Statement of Accounts 2022/23

The Statement of Accounts 2022/23 can be made available in large print, Braille, tape format or other languages upon request.

South Hams District 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 2022/23 Statement of Accounts by Councillor Julian Brazil, Leader of South Hams District Council



As the newly elected Leader of the Council, I am pleased to welcome you to the 2022/23 Statement of Accounts for South Hams District Council. In 2022 we have had a cost of living crisis, with high inflation and households facing higher bills across the board and in particular in relation to energy. The Council has supported our communities and residents during these difficult economic circumstances.

In October, the Council agreed a cost of living action plan which has seen us work with partners to publish weekly newspaper articles signposting support, launching a scheme providing electric blankets and slow cookers to residents and acting quickly to process £4.2million of council tax energy support payments of £150 to 28,175 households in the District. We have also developed support programmes for those who have fled the war in Ukraine, by supporting 220 guests from Ukraine who have arrived in the District as part of the Homes for Ukraine scheme.

The Council took much pride in the opening of the Dartmouth Health Hub on 9th May 2023 where we have worked in partnership with the NHS Trust to deliver a modern GP facility for local residents. The Hub will provide access to a broad range of Health and Wellbeing Services under one roof, including community nurses, therapists, Dartmouth Caring and Wellbeing Pharmacy.

During 2022/23 we also received confirmation that the District would benefit from £1million of UK Shared Prosperity Funding. This funding will enable the delivery of a range of projects to encourage people to use sustainable travel for work and leisure as well as providing support and advice to businesses on decarbonising their activities.

Last year also saw the Council take the waste service back in house in October 2022 and performance has really improved and I would like to thank the whole team for all their hard work in making this happen. In the Autumn we will be rolling out a weekly recycling service for all residents which will help us to further improve recycling across the South Hams.

Following the recent elections, we now have the chance to start enacting some of the exciting and ambitious plans and policies that we have. Our vision for the South Hams is a place where people and nature can thrive, resilient in the face of an increasingly uncertain future. A new Corporate Strategy will be developed later this year setting out how we will deliver on these ambitions.

The housing crisis continues to be a cause of frustration for us and a significant concern for many local people. The provision of affordable and social housing will be a top priority for the Council moving forward. The Council is building eight affordable homes at St Ann's Chapel near Bigbury which will be completed this year.

We will also provide leadership on tackling environmental concerns and take direct action to tackle climate change and biodiversity loss. At the heart of this is the need to work in partnership with communities and to involve them in all aspects of the work of the Council and the journey ahead. We have finished the year with our finances reporting a small surplus of £57,000 against budget (0.5% of a £10.464m net budget for 2022/23) which is a good position to be in moving ahead to the future.

Councillor J Brazil, Leader of the Council

Foreword by the Chief Executive



There's been a huge amount on the agenda this year; we've been working hard to respond to the housing crisis, continued to take action on climate change, worked hard to support local business and the economy with securing UK Shared Prosperity Funding, and offered all the support we can to residents to help them through the cost-of-living crisis that we are all facing.

We've also played our part in successfully implementing the Homes for Ukraine scheme across the District and have progressed a number of key construction projects including the new harbour office and workshops at Batson and affordable homes at St Ann's Chapel.

In January 2023, the Council released its plans to spend £1m of UK Shared Prosperity funding to help support the economy and reduce carbon emissions across the District. The Council has agreed to the commissioning of a Local Cycling and Walking Infrastructure Plan to improve both walking and cycling routes across South Hams. This will inform the Council's next steps in developing more inclusive and eco-friendly travel provisions and infrastructure. The Council's roll-out of its specialist advisors programme will see wider business support and consultancy across the South Hams business community. Partnerships will be developed across the local agriculture sector, knowledge organisations, businesses and tech companies to develop a community of research and development in order to ensure the culture of regenerative farming. Feasibility studies and future planning of local marine activities and provisions will help to support the decarbonisation of the local marine economy.

During the year, £0.9m has been invested in properties across the District through the Green Homes Grant scheme, which uses Government funding to install energy efficiency measures for households on low incomes. This has seen the installation of 16 air source heat pumps, 63 solar panels, 8 storage heaters and 10 property insulations over 85 properties.

We have been unrelenting in seeking and attempting to deliver efficiencies and improve services. The Council has taken a hard look at where it can save money to keep balancing the books and has a track record of strong financial management over many years.

Our strategic financial planning enables the Council to make fully informed decisions and to deliver the quality of services that our residents, visitors and businesses have every right to expect. The Council has once more managed to balance its budget exceptionally well, whilst continuing to provide a level of good service to residents of the District. Our staff have continued to impress me with their efforts to support the people and communities of South Hams. There's more to do, including rolling out the Devon Aligned Service for waste in the Autumn.

Finally, I am immensely proud that South Hams and West Devon Councils won the category of 'Senior Leadership Team of the Year' at the MJ Awards in June. It is great recognition for South Hams and West Devon for the work we're doing to make a difference in our communities and for everything that our Councillors and staff achieve together as one team.

Andy Bates, Chief Executive

Message from the Section 151 Officer and Corporate Director for Strategic Finance - 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 2023 and how the Council has performed against the budget set for 2022/23
- Be assured that the financial position of the Council is secure, with a degree of resilience.

This Narrative Statement provides information about South Hams District 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.

The current economic climate has seen the Bank of England increase the Bank Base rate to 5%, the highest level in 15 years, in order to tackle surging inflation. This follows a difficult few years, with the COVID 19 pandemic and a rise in energy and fuel costs and higher inflation and interest rates. This has put added pressure on the finances of Councils up and down the country, including South Hams District Council.

Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response and recovery. Key to the authority's financial resilience are our reserves, which are at a prudent level. We continue to support our residents and businesses through this period of uncertainty.

Through its Council Tax Reduction scheme, the District Council will ensure that those who are in financial hardship are able to pay less Council Tax, while receiving the full range of support services. At the moment, the Council is supporting 4,900 households and has awarded £5.6m to reduce residents' bills through the scheme. To help prevent further worry, financial advice is also offered. In April 2023, the Council has administered a new Government business rates relief scheme which has provided vital support to a further 1,200 businesses in the retail, leisure and hospitality sector, helping them respond to adapting consumer needs. It is hoped that this support will be a boost to our high streets and town centres.

The Council is on a stable financial footing and this will help the Council manage the uncertainty of the future reforms of Local Government finances such as the Fair Funding Review, New Homes Bonus scheme and the business rates baseline reset. There is no indication yet of the detailed local government funding levels for 2024/25 and beyond and therefore there are many uncertainties in preparing for the challenges we know we will face in the near future.

Mrs Lisa Buckle BSc (Hons), ACA

Corporate Director for Strategic Finance (S151 Officer)

NARRATIVE STATEMENT – INTRODUCTION

- Each year South Hams District 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 2022/23 budget for South Hams was £10.464 million. A surplus of £57,000 means that the actual net spend was 0.5% less than the budget. This saving of £57,000 will go into the Council's Unearmarked Reserves which now stand at £2.11 million.* The main components of the General Fund budget for 2022/23 and how these compare with actual income and expenditure are set out below:

	Budget £000	Actual £000	Difference Cost/ (Saving) £000
Cost of services (after allowing for income and reserve contributions)	10,588	11,571	983
Parish Precepts	3,134	3,134	-
Interest and Investment income	(123)	(1,146)	(1,023)
Amount to be met from Government grants and taxation including parish precepts	13,599	13,559	(40)
Financed from:			
Business Rates (baseline funding level)	(1,928)	(1,928)	-
Business Rates (achieved over baseline funding level)	(346)	(346)	-
Business Rates Pooling Gain	(300)	(300)	-
Council Tax (including parish precepts)	(10,196)	(10,196)	-
Surplus on Collection Fund	(181)	(181)	-
Rural Services Delivery Grant	(428)	(428)	-
Lower Tier Services Grant	(87)	(88)	(1)
Services Grant	(133)	(133)	-
Business Rates Levy Surplus Grant	-	(16)	(16)
SURPLUS FOR 2022/23	-	(57)	(57)

3. The movement in the General Fund Balance is shown in the Movement In Reserves Statement in Section 2B and can be summarised as follows:

	£000
General Fund Balance (un-earmarked revenue reserve) at 1 April 2022	(2,056)
Surplus for the 2022/23 financial year	(57)
General Fund Balance (un-earmarked revenue reserve) at 31 March 2023	(2,113)

*On including the earmarked reserves, Total General Fund Reserves are £17.5 million.

4. **The 2022/23 budget for South Hams was £10.464 million but the actual net spend was 0.5% lower, providing a surplus of £57,000 for the year, as set out within these Accounts.**
5. The table below shows a reconciliation of the position shown on the bottom of the Comprehensive Income and Expenditure Statement and the reported surplus for the 2022/23 financial year.

	£000
Total Comprehensive Income and Expenditure Statement	(51,742)
Surplus on the revaluation of Property, Plant and Equipment	4,481
Deficit on the revaluation of Financial Instruments	(979)
Remeasurements of the net defined benefit pension liability	54,862
Transfers from earmarked reserves	(5,415)
The detail of the items below are shown in Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations' in the General Fund Balance column.	
Adjustments primarily involving the Capital Adjustment Account	(3,250)
Adjustments primarily involving the Capital Grants Unapplied Account	165
Adjustments primarily involving the Capital Receipts Reserve	149
Adjustments primarily involving the Pensions Reserve	(4,432)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	11
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	6,155
Adjustments primarily involving the Accumulated Absences Account	(62)
Surplus for the 2022/23 financial year	(57)

6. A summary of the main variances to budget in 2022/23 is provided below:

ANALYSIS OF VARIATIONS 2022/23 (% column shows variation against budget)	£000	% variation
Reductions in expenditure/additional income		
Treasury Management Income – extra investment income on the Council's investments following the recent successive increases in interest rates to 4.5% as the Bank of England looks to tackle surging inflation.	(1,023)	831.7%
Car parking pay and display income and fine income – additional net income from extra usage, especially in the coastal car parks and extra fine income of £88,000. This equates to 14.5% of the total income budget of £3.162m.	(460)	14.5%
Employment estates – additional income due to high occupancy rates and regular rent reviews.	(280)	31.6%
Dartmouth Lower Ferry - extra income of £209K (26%) has been achieved against the budgeted income of £0.82m – this has offset additional running costs of the ferry as shown below.	(209)	25.3%
Increases in expenditure/reduction in income		
National pay award – the national employer's pay offer for 2022/23 of £1,925 on all NJC pay points was significantly higher than the budgeted provision of 3%. The pay award resulted in additional salary costs.	410	221.6%
Planning income shortfall – Planning income is down by £350,000 (32%) against the budgeted income target of £1.08million.	350	32.3%
Additional salary and agency costs (partly in the waste and legal teams). The Council also shares its staffing workforce with West Devon BC. In 2022/23 there was a higher apportionment of staff costs of £86K to South Hams DC due to the Council bringing the waste service back in house from 3 October 2022 (as per the Audit Committee report on 9th March 2023).	220	2.9%
Dartmouth Lower Ferry – fleet refurbishment, equipment costs and additional fuel costs – offset by additional ferry income of £0.2m as shown above.	187	166.4%
Waste contract inflation – the actual rate of inflation on the contract was 12.2% and was significantly higher than the budgeted provision of 3%. Contract inflation was based on fuel inflation, wage inflation and consumer price index, all of which were higher than when the budget was set.	180	138.5%
Waste – additional vehicle repairs and maintenance costs due to an ageing fleet (new vehicles are being purchased in 2023/24).	79	31.9%
Higher inflation on utility costs on all Council services – An increase in utility (mainly electricity) prices due to the rise in energy costs and inflationary pressures.	155	54.5%
Additional Insurance costs – higher insurance costs which are inflation linked and a significant amount is linked to bringing the waste service back in house in Oct.	130	41.4%
ICT software and support contracts – additional costs from above inflation increases, increased number of users on the Council's network, increase in remote working and disability access legislation compliance.	92	16.8%
Homelessness costs – additional expenditure on temporary accommodation over and above what is claimable through the DWP subsidy. This is due to a number of factors beyond the Council's control such as the housing crisis and a lack of accommodation.	90	37.3%
Other small variances	22	-
TOTAL SURPLUS FOR 2022/23	(57)	(0.5%)

The 2022/23 Budget for South Hams was £10.464 million but the actual net spend was 0.5% lower, providing a surplus of £57,000 as shown above.

KEY AREAS TO NOTE FROM THE 2022/23 STATEMENT OF ACCOUNTS

Pension Liability

7. 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. The Net Cost of Services within the Comprehensive Income and Expenditure Statement includes current service costs and past service costs. Net Operating Expenditure includes the Council's share of the return on pension's assets and the net interest cost of the Council's liability due to under-funding.
8. During the autumn of 2022 the Actuary undertook the latest 3-yearly review of the Pension scheme and costs; with the next review due in 2025/26. The Local Government Pension Scheme has been reviewed nationally to ensure it meets the objectives of being viable and acceptable to both employees and the employer.
9. The draft accounts for 2022/23 included a small net pension asset of £162,000 as at 31 March 2023. However, the actuary's interpretations of IFRIC 14 evolved after the draft accounts were published following guidance from CIPFA (Chartered Institute of Public Finance and Accountancy) on the treatment of pension assets (IFRIC 14), and a coalescence amongst auditors regarding a preferred approach to asset ceilings.
10. IFRIC 14 looks at the limit on a defined benefit asset, the minimum funding requirements and their interaction. Consequently, following the revised IAS19 figures from the actuary, the net pension asset of £162,000 in the draft accounts moved to a £2.19 million pension liability as at 31 March 2023 (this compares to a pension liability of £52.62 million at 31 March 2022). This purely recognises the fact that the Council will still need to pay employer's pension contributions into the pension scheme on an annual basis. The difference between the 2022/23 pension position shown in the draft and audited accounts relates to the application of the asset ceiling of £2.35 million by the actuary as shown in the following table:

Impact of applying the pension asset ceiling to the pension position (IFRIC 14) in 2022/23	31 March 2023 £000
Pension asset – as shown in the 2022/23 draft accounts presented to Audit Committee on 27 July 2023	(162)
Pension asset ceiling – applied to the pension asset position as at 31 March 2023	2,353
Pension liability – as shown in the 2022/23 audited accounts presented to Audit Committee on 28 March 2024 (<i>this equates to the present value of the unfunded obligation of the pension scheme</i>)	2,191

11. The effect of the asset ceiling has been determined by the actuary on the basis of the limitation on the Council's ability to recover the full economic benefit of its assets through reductions in future employer's contributions because of the minimum funding requirement imposed on it by the funding strategy for the Scheme. The Council is currently committed to paying contributions into the Pension Fund at a higher rate than that at which future service costs will be accrued. On these projections, the Council will be unable to reduce future contributions to recover the £162,000 net pension asset that would otherwise apply. It is important for Members to note that the adjustment to the pension position is made to better reflect the practical operation of the funding strategy. It does not indicate that the council has paid £162,000 into the pension fund that it will never benefit from.
12. The pension liability of £2.19 million is a significantly improved position than the previous year (pension liability of £52.62 million). This is as a result of the actuary reducing life expectancy projections and an increase in interest rates affecting the discount rate for liabilities. The IAS19 position is derived by calculating the pension assets and liabilities at 31 March 2023. This large reduction in the pension liability for South Hams is mainly due to a change in financial assumptions (£56.1 million). This relates to an increase in the discount rate from 2.6% at 31 March 2022 to 4.8% at 31 March 2023. Accounting regulations prescribe that accounting valuations of pension liabilities should use a discount rate based on corporate bond yields. As interest rates have gone up, so have corporate bond yields and therefore the discount rate applied to our accounting liabilities.
13. The Council's liability relating to the Devon County Council defined benefit pension scheme is included within the Balance Sheet and further details are shown in Note 35. The pension liability is a snap-shot valuation in time, based on assumptions. The true value is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term.

14. The amount the Council contributes to the Pension Fund is re-assessed every three years; the most recent review was in the autumn of 2022 and took effect from April 2023. The Council has adjusted its pension contributions in line with the Actuary's recommendations, which have been factored into the Medium Term Financial Strategy (MTFS).

Business Rates

15. 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.
16. 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.
17. In 2022/23 there has been a £1,485,000 reduction in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £594,000). The balance on the Business Rates Collection Fund at 31 March 2023 is a surplus of £5,957,000 (£6,351,000 deficit in 2021/22). South Hams District Council's share of the surplus is 40% (£2,383,000).
18. Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income due to the complex accounting arrangements for Business Rates. In 2022/23 the balance of the Business Rates Retention Scheme (BRRS) earmarked reserve reduced by £2.57m to £1.98m as at 31 March 2023. This included a transfer of £1.45m from the Business Rates Retention Earmarked Reserve to support the costs of bringing the Waste and Recycling Service back in house from October 2022. Some of this additional business rates income is due to timing differences in the way the Collection Fund operates and part of the funding will be needed to meet future years' budgets for business rates, in particular as business rates baselines are due to be re-set in the future.
19. In addition, a new earmarked reserve was created in 2020/21 called the s31 Compensation Grant (Business Rates) Reserve. This was set up to hold the s31 grant received in 2020/21 and 2021/22 totalling £8.73m to offset the business rate reliefs given to businesses during the pandemic and the 2020/21 Tax Income Guarantee s31 grant for Business Rates (£0.79m). Under current Collection Fund accounting rules, the s31 grants received are not discharged against the Collection Fund deficit

until the following year. In 2021/22 £5.25m of s31 grant was discharged to the Business Rates Collection Fund and a further £3.07m in 2022/23. This compensation grant will continue to be applied to the Collection Fund to smooth the impact of the Business Rates deficit. The balance on this reserve as at 31 March 2023 is £1,194,000.

Waste, recycling, street and toilet cleaning services

20. Throughout 2022/23, the Council continued to address issues with its Waste and Recycling service, provided by an external contractor, FCC,
21. On 12 July 2022, Executive considered a report, with advice from the Council's Waste Working Group. The Waste Working Group advised that the Council and FCC Environment have reached a mutual agreement to end their contract for waste, recycling, street and toilet cleaning services.
22. Both parties agree that the past few years have presented a number of extremely challenging circumstances.
23. In the best interests of the residents of the South Hams, it was proposed that the services will be operated by the Council from Monday 3 October 2022. This decision was subsequently approved by Full Council on 14 July 2022. The Council and FCC Environment worked closely together to ensure a smooth transfer of the services. The services returned to the full control of the Council on 3 October 2022.
24. There were exceptional one-off transitional costs of £1.5m in 2022/23 for bringing the waste and recycling service back in house in October 2022. This was referenced in reports to Council on 12 July and 22 September 2022 and had the support of the cross Party Waste Working Group. A further £1.5m will be spent in 2023/24 on transitional costs. The £3m was funded from the business rates retention reserve which was approved by Council prior to the waste service being brought back in-house in October 2022. In addition a further £0.5m was spent on one-off project implementation costs, with the Council receiving third party funding towards these costs.
25. Since that point, performance has improved significantly. As reported to the Executive on 13th April 2023, there has been a fundamental improvement in performance and in February 2023, for the first time in over three years, the service has achieved the national industry standard performance target of no more than 80 missed bins per 100,000 collections. The Council also took steps to launch a chargeable garden waste service from March 2023. The focus is now on continuing to improve the service and deliver a Devon Aligned Service for all properties in the district not already on the scheme. It is anticipated that this will start in October 2023.

Plymouth and South Devon Freeport

26. The Plymouth and South Devon Freeport is a private company limited by guarantee which was incorporated on 16 May 2022. Plymouth City Council is the accountable body for the Freeport. For the purposes of Group Accounting, the Freeport has been assessed as a joint venture as no single member or two members working together can make decisions. Control can only be exerted by all three members acting jointly. Group accounts are not required to be prepared in 2022/23 on the basis of materiality.

Trading Company

27. South Hams District Council and West Devon Borough Council set up a trading company, Servaco Ltd, on 4th September 2014. This is a company limited by shares. The company has not traded in 2021/22 and a set of statutory dormant Accounts will be filed with Companies House for the period 1 April 2021 to 31 March 2022. At Council on 15 December 2022 Members approved to close down this dormant company, Servaco Ltd with effect from 31 March 2023.

Sherford Community Land Trust Limited

28. As part of the conditions of the S106 agreement for the new town of Sherford a limited company was created on 13th July 2018 to handle the various requirements of the S106 agreement. The company is limited by guarantee without share capital. It has seven directors, made up of one representative from each of the local authorities (South Hams District Council, Plymouth City Council and Devon County Council) and one representative from each of the developers. Group accounts are not required to be prepared as the Council's interest is below 20% and therefore it does not have enough influence to be an associate.

Housing

29. For the first time in a generation, South Hams District Council is building its own affordable homes for local people. This is another step in the plan to tackle the housing crisis facing residents in the South Hams. To mark the start of the building works, Councillors attended the official turf cutting event in St Ann's Chapel, near Bigbury on 3rd May 2022, where 8 affordable homes are being built, with 3 open market units and 2 serviced plots. The severe shortage of affordable rented and shared ownership accommodation, particularly in coastal areas like St Ann's Chapel, resulted in the Council declaring a housing crisis. They will be high quality, energy efficient homes and will be low cost to heat and run. Air source heat pumps and low water use fittings form part of the design, along with electric car charging points. With the current energy crisis, this

will be great news for future tenants to keep their bills low and manageable.

30. The Council's determination to do everything in its power to ease the area's housing crisis is paying off, with new affordable homes being built over the last four years. Since 2019, 619 new affordable homes have been built in the South Hams. These include 39 new homes in Ivybridge and 12 specialist homes at Elmhurst Lodge in Dartington. Elmhurst Lodge offers local people with learning difficulties their very first taste of independent living.
31. The Council is also accessing the Government Local Authority Housing Fund and S106 contributions to purchase up to 7 properties initially to provide temporary accommodation for Ukrainian refugees arriving in the UK under the Homes for Ukraine Scheme. It is anticipated these purchases will be undertaken during 2023/24.

Borrowing

32. In 2022/23 the long term borrowing of the Council reduced from £14,284,000 (21/22) to £13,825,000. Short term borrowing increased from £96,000 to £459,000. This is due to the profiling of the debt repayments where long term borrowing has moved to short term borrowing. Total borrowing as at 31 March 2023 has reduced from £14,380,000 to £14,284,000. No further external borrowing took place during 2022/23.

Capital spending

33. The Council spent £9.3m on capital projects in 2022/23. The main areas of expenditure were as follows:
 - Dartmouth Health and Wellbeing Hub (£3.83m)
 - St Ann's Chapel housing scheme (£1.56m)
 - residential renovation grants including disabled facilities grants (£1.14m)
 - Green Homes grants (£0.91m)
 - Batson Harbour Depot/Commercial Units (£0.78m)
 - Affordable Housing (£0.28m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 32).

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

34. At 31 March 2023 the Council had investments of £1.5 million with the CCLA Property Fund and £2 million with the CCLA Diversified Income Fund.
35. 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, South Hams District 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 these investments 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.
36. A summary of the position of these equity instruments as at 31 March 2023 is shown below:

	Purchase cost	Fair Value at 31 March 2023	Movement in Financial Instruments Revaluation Reserve 2022/23
	£000	£000	£000
Equity Instrument			
CCLA Local Authorities Property Fund	1,500	1,314	(259)
CCLA Diversified Income Fund*	2,000	1,312	(720)
TOTAL	3,500	2,626	(979)

*The CCLA Diversified Income Fund experienced a downward revaluation of £720,000 in 2022/23. The outlook for global economic growth continues to be weaker. Inflation is likely to remain above target rates for some time, interest rates in most areas will still be negative in real terms. This backdrop placed some downward pressure on investments during 2022. However, the CCLA fund continued to outperform the benchmark. CCLA will maintain the portfolio's emphasis on real assets such as good quality equities and alternatives, adding selectively to fixed income as attractive opportunities are identified to support continued performance for this long term investment.

FINANCIAL NEEDS AND RESOURCES

37. 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.
38. General Fund reserves (which include earmarked reserves) have decreased by £5.358m from the preceding year and stand at £17.537 million at 31 March 2023. This is due to a reduction in Earmarked Reserves of £5.415m. This follows the application of some of the s31 Business Rates compensation grant (£3.07m) received in 2020/21 and 2021/22 which was held in the s31 Compensation Grant Business Rates Reserve.
39. The total Earmarked Reserves balance at 31 March 2023 of £15.424m includes £1.19m held in the Business Rates s31 Compensation Grant Reserve. This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the s31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2023/24 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.
40. The General Fund Balance (un-earmarked reserve) has increased by £57,000 in 2022/23 and totals £2.113 million following the surplus from 2022/23 of £57,000. 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.
41. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2023 amounts to £3.33 million compared to £3.45 million at the end of the previous year.
42. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account, Financial Instruments Revaluation Reserve 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.

43. 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 position in the balance sheet has reduced the reported net worth of the Authority by £2.19 million at 31 March 2023. 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.
44. It is important to gain an understanding of the accounts to appreciate the nature of this reported position, 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.

Annual Governance Statement (AGS)

45. 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 2022/23.

Cost of Living Response

46. During 2022/23, the increasing cost of living has remained a real issue for South Hams communities.
47. In October 2022, the Council adopted an action plan for supporting residents which included:-
 - a. Promoting support and advice available through online and printed media campaigns with partners such as Citizens Advice and local community energy groups
 - b. Launching grant fund schemes to enable local community groups to provide direct support for the health and wellbeing of residents
 - c. Ensuring that all Government funding was quickly processed to those who needed it
 - d. Extending the financial support for Citizens Advice to support an increase in capacity to support more residents.

Corporate Strategy – Better Lives for All

48. During the year we continued to deliver against Council agreed priorities as set out in our Corporate Strategy, Better Lives for All.
49. Good progress was made and the year 3 delivery plans adopted by Council in March 2023.



50. Following elections in May 2023 and the formation of the new Council, work has already commenced to begin to develop our next corporate strategy, responding to the changing needs of our residents and communities. It is anticipated that this will be adopted in Autumn 2023.

Organisational Development Plan

51. To ensure that the Council continues to have sufficient, and aligned resources to deliver on its corporate priorities, during 2022/23 we developed and began to implement an Organisational Development Plan. This plan focuses on three core strands of activity:-



52. The plan has a number of specific and measurable actions and will be a significant focus for delivery over the coming two years.

LOOKING FORWARD TO THE FUTURE AND NEXT STEPS

Continuing to respond to the housing crisis

53. The Council has set out its priorities for this next four year term with a particular focus on ensuring housing that meets the needs of local residents.
54. On 28 June 2023, the Executive considered and agreed a report that updates on steps the Council proposes to take to support social housing residents take action against their landlord where they have highlighted significant issues but there has been no progress to resolve.
55. We will finalise the development of the affordable housing in St Ann's Chapel and progress plans to purchase properties under the Local Authority Housing Fund, initially as temporary accommodation for Ukrainian refugees arriving in the UK under the Homes for Ukraine Scheme.

Climate Emergency Response

56. This year we will be in the fourth year of delivering our Climate and Biodiversity Emergency Action Plan. We will be continuing to deliver on those actions including ensuring the Council delivers on commitments including progressing plans for an electric vehicle fleet and continuing with our wild flowering on Council land. We will also take steps to form a Climate and Biodiversity Advisory Panel, working closely with our key partner, Sustainable South Hams.

Developing our Corporate Priorities

57. Discussions are already underway between the Senior Leadership Team and Executive Lead Members to develop the next iteration of the Council's Corporate Strategy.
58. The development of the new strategy will be undertaken throughout the summer and into the Autumn, ensuring that it aligns to our 2024/25 budget setting process and Medium Term Financial Strategy updates.

Our financial future

59. The financial standing of the Council is secure in the immediate future, but there is still much work to do to ensure the long term financial sustainability of the Council. The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2025/26 at the earliest. In addition the timing of the cessation of the current New Homes Bonus scheme is not clear, but if it does continue, it will be smaller in value with no historic legacy payments.

60. Pushing these major changes back to 2025/26 means that they can be aligned with the next spending review period (the current spending review runs to 2024/25). 2025/26 now looks like it is shaping up to be a very significant financial year for local government, incorporating a new spending review and funding reforms.

Going Concern

61. As highlighted above there is a high degree of uncertainty about future levels of funding for local government. However, the S151 Officer is keeping a close watch on developments and planning for this longer-term uncertainty. The Council has a strong track record of financial prudence and as a result has set aside Reserves.
62. For example, at Council on 10 February 2022 Members approved the creation of a new earmarked reserve, the Financial Stability reserve. It was resolved that £280,000 be transferred from Unearmarked Reserves to a Financial Stability Earmarked Reserve as part of the process of closing the 2021/22 Accounts, to be available for any future financial pressures from future local government funding reforms and any other budget pressures.
63. Based on the S151 Officer's management assessment (which has included consideration of the Government support available, the Council's current level of reserves, the level of working capital including cash and investments, a sensitivity analysis on forecast cashflows, income from local taxation and borrowing headroom etc.), there is no material uncertainty and as a result the Accounts for 2022/23 are prepared on a going concern basis.

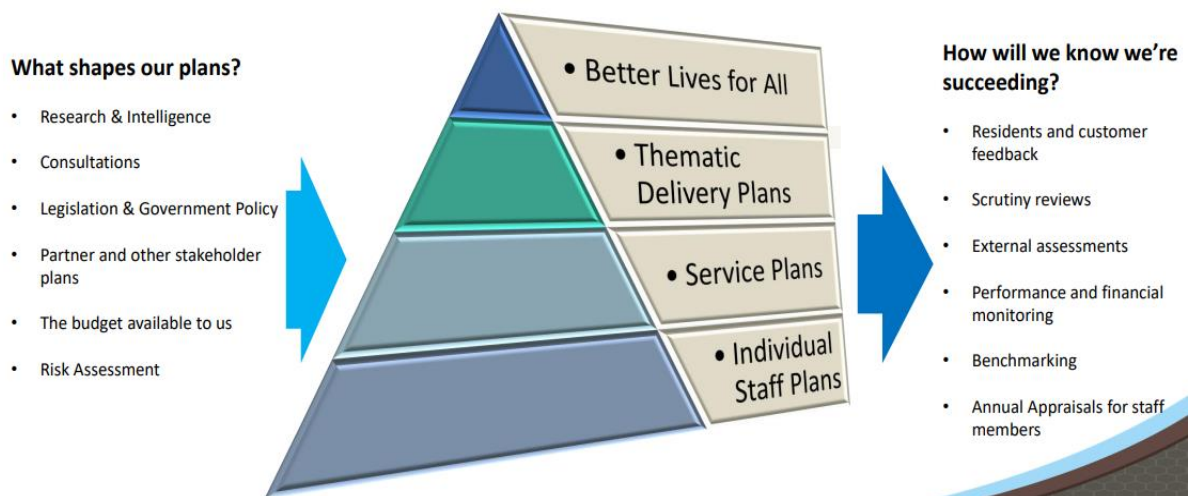
Issue of the Accounts

64. The Corporate Director for Strategic Finance authorised the audited Statement of Accounts 2022/23 for issue on 28 March 2024. Events taking place after this date are not reflected in the financial statements or notes.

CORPORATE PERFORMANCE FOR 2022/23

The Council adopted its 'Better Lives for All' strategy in September 2021 and regularly reports on the performance of the delivery plan to both Overview and Scrutiny and the Executive. At the end of the year, the performance for the priorities within the strategy is as set out below. Overall, positive progress has been made across all themes. Each theme has a lead officer and lead Executive Member who meet regularly to monitor progress.

Performance Management: The Golden Thread From Strategic priorities to individual targets



Highlights of activities delivered under each theme during the year are set out below.

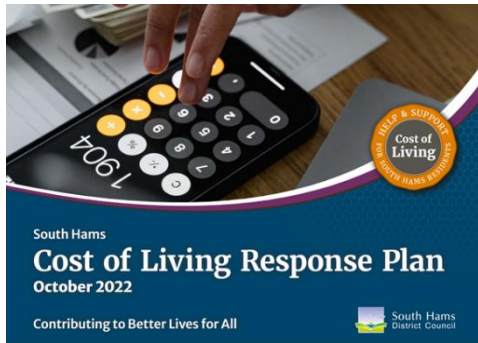
Adapting and Mitigating Climate Change

In 2019, we declared a Climate and Biodiversity Crisis in response to global warming and a decline in biodiversity. During the past year we have continued to make good progress in delivering against our climate and biodiversity action plan including:-

- Carrying out a public consultation which informed the development of our Electric Vehicle Charging strategy.
- Worked with other organisations in Devon to contribute to the development of the Devon Carbon Plan – endorsing it at Council in December 2022.
- Secured funding through the Public Sector Low Carbon Skills fund to produce a fully costed decarbonisation plan for our Leisure Centres.
- Awarded over £55,000 to groups working with hard to reach and disengaged groups through our climate engagement fund, with a further £100,000 awarded to support infrastructure projects such as e-bikes in Totnes and Dartmouth.
- Utilising Green Homes Grants, installed 16 air source heat pumps, 63 solar panels, 8 storage heaters and 10 property insulations all to increase energy efficiency of properties in the District.

Strengthening Community Wellbeing

There is no doubt that this year has been another challenging year for our residents, as we've emerged from two years of varying restrictions from the Global Pandemic, we're now all facing continuing increase in the cost of living. Many residents have also stepped up this year to support Ukrainians fleeing war. Specific actions delivered this year include:-



- Quickly acting to process £4.2m of Government energy support payments of £150 to 28,175 households in response to the Cost of Living crisis.
- Awarding £40,000 to community groups delivering projects through the winter focused on the health and wellbeing of residents.
- Delivered 52 disabled facilities grant projects enabling residents to stay in their own homes.
- Allocated £475,000 of S106 contributions to community facilities projects.

Improving Homes

In September 2021, the Council declared a housing crisis. South Hams has seen over the past few years, issues with affordability, availability of properties and a huge increase in short term holiday lets. The level of second home ownership in South Hams means that house prices have been pushed upwards, hugely problematic for our younger generation and first-time buyers. The Council's 12-point action plan to tackle the crisis has helped see a significant improvement in addressing these issues. From 2019 to date, 619 new affordable homes have been delivered in South Hams. This is thanks to the great working relationships we have with our registered provider partners. More new homes are due to be completed at Sherford and Ivybridge at the end of March and work continues to offer even more new homes in the future.



Specific achievements during the year include:

- Progressing build of 8 affordable homes at St Ann's.
- 15 Housing Association tenants being supported in to smaller properties as part of our 'downsize' scheme.
- Purchased two properties for housing first to support rough sleepers into temporary accommodation.
- Agreed an updated homelessness strategy setting out how we will reduce homelessness in the district.

Thriving Economy

During this year we have taken steps to secure funding through the UK Shared Prosperity Fund to support businesses with a number of projects focused on supporting them to decarbonise their activities – particularly in the marine and construction sectors. This year we also:-

- Progressed plans for a Freeport for South West Devon and Plymouth.
- Agreed a new business rates relief scheme which will provide vital support to a further 1,200 businesses in the retail, leisure and hospitality sectors which will be implemented on 1st April 2023.



Protecting, conserving and enhancing our built and natural environment

During the year we have taken many steps to ensure that our built and natural environment is protected, conserved and enhanced. We've simplified our planning process and supported neighbourhoods to shape their own futures through neighbourhood plans. Specific actions during this year include:-

- Supported the making of neighbourhood plans for Frogmore & Sherford, Modbury, Kingsbridge, West Alvington and Churchstow & Dartmouth.
- Secured £485,000 of Government funding to help develop a more accessible and integrated Joint Local Plan using technology for better engagement



- Adopted the Plymouth and South West Devon Climate Emergency Planning statement – setting out new planning requirements for developments to minimise carbon emissions.
- Progressed with a new harbour office and marine business units at Batson Creek.

Quality Council Services

This year has again seen the council and its services adapt quickly to ensure that the district was supported to meet challenges, in particular the significant increases in the cost of living and bringing our waste service back under the direct control of the council. Other activities during the year include:

- Carrying out a refit of our Dartmouth Lower Ferry – a vital part of ensuring we're ready for a busy Summer 2023.
- Increased how much a residents can earn while still accessing Council Tax reduction – during the year we supported 4,999 working age and pensioners with CT reduction.
- Extended funding for our key partners such as Citizens Advice and Community Transport schemes for a further two years in recognition of the key role they play in supporting our residents in particular in respect of support for Cost of Living.



PRINCIPAL RISKS AND UNCERTAINTIES

A risk and opportunity 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. The latest update was presented to the Audit & Governance Committee on 9th March 2023 and a high-level summary considered by Executive as part of the quarterly Integrated Performance Management Reports.

Our Risk Management Objectives

We have 6 key objectives that guide our approach to Risk Management

1. Adopt a strategic approach to risk management in order to make well informed decisions
2. Integrate risk management into how we run Council services and deliver key projects.
3. Support a culture of well-measured risk taking throughout the Council including setting risk ownership and accountabilities.
4. Accept that even with good risk management and our best endeavours, things can go wrong. We will learn lessons where this happens.
5. Ensure that the Council continues to meet all statutory and best practice requirements in relation to risk management
6. Ensure that risk management continues to be a key and effective element of our Corporate Governance



The following sets out the key strategic risks for the Council as at the last report to Audit Committee in March 2023:

Risk Title:	Adherence to Medium Term Financial Strategy		
What is the risk?	Failure to sustain a robust on-going medium term financial strategy in SHDC with adequate reserves to meet unforeseen circumstances, due to cost pressures and reduced income targets, council decisions, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFS, particularly if national/regional businesses successfully appeal against business rate valuations or litigation proceedings/legal challenges/planning appeals, etc.		
What could cause the risk to occur?	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. a reduction in sales, fees and charges income or business rate appeals. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn, the effects of the pandemic 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.		
Risk Scoring	Likelihood of risk occurring	3 (Possible)	<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> 1. 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 e.g. New Homes Bonus. 2. 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. 3. SLT engaged in the development of the MTFS.
Impact	Financial	4 (Major)	
	Service Quality	4 (Major)	
	Reputation	4 (Major)	
	Legal/Regulatory	4 (Major)	
	Health and Safety	2 (Minor)	
	Morale/Staffing	2 (Minor)	
Current Update (March 2023)	<p>The Executive considered the Medium Term Financial Strategy for the Council in September 2022. The Council has continued to work in partnership with West Devon Borough Council which has allowed South Hams to achieve annual savings of £3.9 million and more importantly protect all statutory front line services. Between both Councils the annual shared services savings being achieved are over £6 million per annum. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.</p> <p>We had expected a longer term financial settlement to be made in December 2022 however Government again made only a single year settlement but with a commitment for consultation on further funding reforms to come forward during 2023.</p> <p>As at the update to Executive in March 2023, the Council is forecasting a budget surplus for the current (22/23) financial year of £127,000 – or 1.2% of our annual budget.</p> <p>In February 2023, Full Council considered the proposals for a balanced budget for 2023/24.</p>		

Risk Title:	Inadequate Staffing Resource		
What is the risk?	The risk is that the Council fails to have the right culture, organisational conditions or resources to deliver our priorities for our communities. Insufficient staffing arrangement resulting in a loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.		
What could cause the risk to occur?	The last few years have seen Local Government stepping up to provide significant and varied support to our residents, communities and businesses in addition to maintaining our core service delivery. This has been a sustained period of the council delivering additional support and services and is likely to continue in to the short-medium term.		
Risk Scoring	Likelihood of risk occurring	5 (Almost Certain)	<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> 1. Continuing to review services and update service plans to ensure that we can meet future demand 2. Reviewing our recruitment campaigns – ensuring that they are effective and targeted 3. Filling key roles with temporary resource to ensure services can continue to be delivered effectively while we progress with the recruitment of permanent employees 4. Developing plans for ‘grow our own’ talent 5. Identifying local recruitment events with a view to attending and highlighting roles available within the Council 6. Assessing the ‘offer’ to employees with other similar organisations
Impact	Financial	4 (Major)	
	Service Quality	4 (Major)	
	Reputation	4 (Major)	
	Legal / Regulatory	4 (Major)	
	Health and Safety	2 (Minor)	
	Morale / Staffing	4 (Major)	
Current Update (March 2023)	<p>The Council currently continues to experience recruitment and retention challenges. In February 2022, the Council introduced a market supplement policy that enables an enhancement to be made to the salary of certain roles in accordance with specified qualifying criteria. All enhancements are initially for a period of 2 years and are kept under review. The Council also undertook a job evaluation exercise on all principal professional and technical roles (level 4) and, with a new criterion that looked at the difficulty in attracting candidates for vacant roles and retaining existing employees. As a result, it is proposed to implement a new pay band for senior, professional and technical roles (level 4B) and slight changes at the top of the salary range for senior and principal officers at Levels 5 and above. A report on this matter will be considered by Executive on 2nd March 2023.</p> <p>The recent staff survey, while reasonably positive, highlighted employees had particular concerns around pay. The changes to pay and grading identified above are also intended to demonstrate a positive response to the genuine concerns of staff facing cost of living pressures. Alongside this a comprehensive organisational development plan has been developed to ensure that the Council makes the best ‘employment offer’, with an end-to-end approach covering recruitment, training and development, talent management and progression, to make us an employer of choice.</p>		

Risk Title:	Health and Wellbeing Service Provision			
What is the risk?	The risk is that following the negative impacts to leisure centres as a result of Covid-19, leisure centres may now face further pressures due to the increased cost of living including through loss of revenue as residents consider where they can save money and through increased cost of operating the centres given the energy price increases and increasing inflation.			
What could cause the risk to occur?	This risk original escalated to the Strategic Risk register as a result of the Covid-19 pandemic forcing the closure of leisure centres, meaning a loss of income. The risk has now changed slightly and the main cause for it to remain on the strategic risk register is the risk that revenues reduce as the cost-of-living crisis deepens.			
Risk Scoring	Likelihood of risk occurring	5 (Almost Certain)		<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> 1. Worked with Fusion Leisure to revise the management fee profile in response to the reductions in income seen through Covid-19 (agreed by Council in Feb 2022) 2. Continue to engage with Fusion to understand issues and support where possible 3. Continue to monitor local and national position (given that all leisure providers will be in the same position) 4. Promote active participation in sport and leisure through Council communication channels
Impact	Financial	4 (Major)		
	Service Quality	2 (Minor)		
	Reputation	2 (Minor)		
	Legal/Regulatory	2 (Minor)		
	Health and Safety	4 (Major)		
	Morale/Staffing	2 (Minor)		
Current Update (March 2023)	<p>The likelihood of this risk occurring has now increased to '5' as leisure Services nationally are now being significantly impacted by the increases to energy costs and other supplies and services, with the issue being further compounded as individuals consider their own levels of expenditure and focus on essential spending – with discretionary spending on items such as leisure being areas where individuals consider making savings.</p> <p>The Council continues to regularly meet with the Chief Executive of Fusion Leisure to understand the impacts. We are actively taking steps to support fusion progress plan for the decarbonisation of its sites which will, longer term, result in a reduction of energy costs – although does not address the immediate impacts.</p>			

Risk Title:	Business Continuity		
What is the risk?	The risk is that we do not develop and keep maintained robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems leading to inability to deliver key council services.		
What could cause the risk to occur?	Developing and maintaining robust Business Continuity Plans requires significant and sustained focus. During Covid-19 response, the Councils risk profile has changed as we have relied much heavier on working in different ways (for example more staff working from home the majority of time) and with significant pressures being placed on some of our key delivery partners/contractors. Work is required to update our BCPs to the changing environment that we are operating in. We are also entering a period where extreme weather events increase the risk of a business continuity event triggering.		
Risk Scoring	Likelihood of risk occurring	3 (Possible)	<p><u>What are we doing to reduce the risk?</u></p> <ul style="list-style-type: none"> • Having two HQ locations is main mitigating factor - however an outage of power/ICT at either location would lead to a serious disruption of service. • Agile working further reduces reliance on two office buildings. • Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. • Business Continuity plans have been updated - priority areas - ICT Networking - Payroll & Creditors Payments; other plans need to be made more robust – further work underway for the new year
Impact	Financial	5 (Catastrophic)	
	Service Quality	5 (Catastrophic)	
	Reputation	4 (Major)	
	Legal/Regulatory	2 (Minor)	
	Health and Safety	3 (Moderate)	
	Morale/Staffing	3 (Moderate)	
Current update (March 2023)	<p>Positive progress has been made and we have increased the resilience of our business continuity arrangements with new hardware in place to enable a more stable IT environment and more frequent off-site backups.</p> <p>Cyber-security training has been rolled out to all employees and members so that everyone is better able to identify potential threats to our IT operating environment. Significant progress has also been made in updating our Business Continuity and recovery plan for our IT service, working with sector experts to ensure they are as robust as possible.</p> <p>An officer planning day was held in January to develop an update business continuity planning framework and to lead business continuity planning moving forward. We have also undertaken a successful power-cut test of our IT systems. This was successful and saw back-up systems operate as expected.</p>		

Risk Title:		Delivery of Waste and Recycling Service	
What is the risk?	The risk is that the Council fails to adequately plan and deliver its Waste and Recycling service following the return to its control from the previous contractor.		
What could cause the risk to occur?	<p>There are a number of issues that could result in issues to delivering the Waste and Recycling service including:-</p> <ul style="list-style-type: none"> - Insufficient staff resource - Incorrect rounds planning 		
Risk Scoring	Likelihood of risk occurring	2 (Unlikely)	
	Impact	Financial	4 (Major)
		Service Quality	5(Catastrophic)
		Reputation	5 (Catastrophic)
		Legal/Regulatory	4 (Major)
		Health and Safety	3 (Moderate)
		Morale/Staffing	4 (Major)
What are we doing to reduce the risk?			<ol style="list-style-type: none"> 1. Appointed a dedicated project manager to support the Head of Service with the co-ordination and management of the transfer of services back to the Council. 2. Developed a detailed project and resourcing plan with weekly project team meetings monitoring and managing progress 3. Continuing to engage with the existing contractor to ensure relevant and timely transfers of data and knowledge to enable a successful transfer 4. Developing a comprehensive Communication Plan to manage expectations of Day one service
Current Update (March 2023)	Since the service has been returned to the control of the Council, service performance has stabilised and improved significantly. We have taken steps to reduce the amount of agency resources to provide further resource stability. Officers continue to manage the service provision closely		

Section 2

Core Financial Statements

SECTION 2A COMPREHENSIVE INCOME & 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 (Note 4) and the Movement in Reserves Statement (Section 2B).

2021/22 Restated*				2022/23		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Segment	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
26,171	(18,740)	7,431	Customer Service & Delivery**	30,875	(18,826)	12,049
5,412	(4,026)	1,386	Strategic Finance***	2,842	(956)	1,886
14,111	(11,202)	2,909	Place & Enterprise****	17,217	(12,515)	4,702
5,150	(2,518)	2,632	Governance & Assurance	6,200	(3,145)	3,055
50,844	(36,486)	14,358	Cost of Services	57,134	(35,442)	21,692
		3,023	Other operating expenditure (Note 9)			3,166
		61	Financing & investment income and expenditure (Note 10)			1,271
		(17,033)	Taxation and non-specific grant income (Note 11)			(19,507)
		409	(Surplus) or Deficit on Provision of Services			6,622
		(1,418)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(4,481)
		(12,608)	Remeasurements of the net defined benefit liability			(54,862)
		(325)	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income			979
		(14,351)	Other Comprehensive Income and Expenditure			(58,364)
		(13,942)	Total Comprehensive Income and Expenditure			(51,742)

*The 2021/22 Cost of Services has been restated in 2022/23 following a review of the Organisational Structure. The total cost of services figures remain the same, only the presentation of the individual service groups has changed.

**The increase in Customer Service and Delivery gross expenditure in 2022/23 of £4.7m is mainly due to the return of the Waste & Recycling Service in house from October 2022

***The reduction in Strategic Finance gross expenditure and gross income relates to the payment and receipt of Covid Business Grants respectively in 2021/22.

**** The increase in Place & Enterprise gross expenditure mainly relates to payment of the Green Homes grant of £0.9m, payment of District Household Support Grants of £0.4m in 2022/23, additional notional capital charges and the 2022/23 pay award.

SECTION 2B: MOVEMENT IN RESERVES STATEMENT

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.

2022/23	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2022/23 £000
Balance at 31 March 2022 carried forward	2,056	20,839	22,895	2,950	504	26,349	30,723	57,072
Movement in Reserves during 2022/23								
Total Comprehensive Income and Expenditure	(6,622)	-	(6,622)	-	-	(6,622)	58,364	51,742
Adjustments between accounting basis and funding basis under regulations (Note 7)	1,264	-	1,264	(30)	(95)	1,139	(1,139)	-
Transfers to/from Earmarked Reserves (Note 8)	5,415	(5,415)	-	-	-	-	-	-
Increase/ (Decrease) in Year	57	(5,415)	(5,358)	(30)	(95)	(5,483)	57,225	51,742
Balance at 31 March 2023 carried forward	2,113	15,424	17,537	2,920	409	20,866	87,948	108,814

SECTION 2B: MOVEMENT IN RESERVES STATEMENT

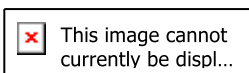
2021/22 Comparative	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2021/22 £000
Balance at 31 March 2021 carried forward	2,122	21,494	23,616	2,848	423	26,887	16,243	43,130
Movement in Reserves during 2021/22								
Total Comprehensive Income and Expenditure	(409)	-	(409)	-	-	(409)	14,351	13,942
Adjustments between accounting basis and funding basis under regulations (Note 7)	(312)	-	(312)	102	81	(129)	129	-
Transfers to/from Earmarked Reserves (Note 8)	655	(655)	-	-	-	-	-	-
Increase/ (Decrease) in Year	(66)	(655)	(721)	102	81	(538)	14,480	13,942
Balance at 31 March 2022 carried forward	2,056	20,839	22,895	2,950	504	26,349	30,723	57,072

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 were sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2022 £000		Notes	31 March 2023 £000
80,245	Property, Plant and Equipment	12	88,658
18,610	Investment Properties	13	16,890
285	Intangible Assets		245
3,605	Long Term Investments	14	2,626
102,745	Long Term Assets		108,419
30,500	Short Term Investments	14	17,900
79	Inventories	12	717
8,862	Short Term Debtors	15	8,378
22,981	Cash and Cash Equivalents	17	14,709
62,422	Current Assets		41,704
(32,532)	Short Term Creditors	18	(16,662)
(96)	Short Term Borrowing	14	(459)
(188)	Revenue Grants in Advance	30	(165)
(1,494)	Provisions	19	(901)
(34,310)	Current Liabilities		(18,187)
(92)	Long Term Creditors	18	(98)
(5,717)	Long Term Revenue Grants in Advance - Section 106 Deposits	30	(6,643)
(14,284)	Long Term Borrowing	14	(13,825)
(52,621)	Pensions Liability	35	(2,191)
(1,071)	Capital Grants - Receipts in Advance	30	(365)
(73,785)	Long Term Liabilities		(23,122)
57,072	Net Assets		108,814
26,349	Usable Reserves	20	20,866
30,723	Unusable Reserves	21	87,948
57,072	Total Reserves		108,814

The notes on pages 37 to 123 form part of these financial statements. The unaudited accounts were issued on 30 June 2023. The audited accounts were issued on 28 March 2024.



Lisa Buckle BSc (Hons), ACA
Corporate Director of Strategic Finance (Section 151 Officer)

SECTION 2D CASHFLOW 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.

2021/22 £000		2022/23 £000
409	Net (surplus) or deficit on the provision of services	6,622
(9,385)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 22)	7,430
2,012	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23)	2,650
(6,964)	Net cash outflows/(inflow) from Operating Activities	16,702
15,649	Net increase/(decrease) in Investing Activities (Note 24)	(7,309)
(7,828)	Net cash outflow/(inflow) from Financing Activities (Note 25)	(1,121)
857	Net (increase) or decrease in cash and cash equivalents	8,272
23,838	Cash and cash equivalents at the beginning of the reporting period	22,981
22,981	Cash and cash equivalents at the end of the reporting period (Note 17)	14,709

Section 3

Notes to the

Financial Statements

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 2023 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
<p>Property, Plant and Equipment</p>	<p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets.</p> <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>The carrying value of Property, Plant and Equipment as at 31 March 2023 is £88.3 million.</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in an impact on the financial statements of approximately £8.8m.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and/or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and/or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> <p>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 reduce by 1 year across all assets, this would have an impact of approximately £251,000 on the Council's finances.</p>

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Pensions Liability</p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. 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, although these valuations could be earlier. 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 2022. This valuation is based upon cash flow and assets values as at 31 March 2023.</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 2025/26 (as at 31 March 2025) and will set contributions for the period from 1 April 2026 to 31 March 2029.</p> <p>The carrying value of the pensions liability as at 31 March 2023 is £2.19 million. See further information on the Pensions Liability in the Narrative Statement.</p> <p>Movements in the value of investments due to current economic uncertainty will affect the valuation of the pension liability. This will include the impact on the value of Investment Properties held by the Local Government Pension Scheme on behalf of South Hams District Council.</p>	<p>The effects on the gross 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 £1.5 million. However, due to the complexities in interactions with the asset ceiling this does not guarantee an equivalent change in the net position.</p> <p>The assumptions interact in complex ways. For example, in 2022/23, the Authority's actuaries advised that the pension liability as at 31 March 2022 has decreased by £56 million as a result of a change in "financial assumptions" and it has decreased by £10 million as a result of a change in "demographic assumptions".</p> <p>Please refer to Note 35 for further information about the assumptions used by the actuaries.</p> <p>If the value of investments is found to have changed from the estimates used by the actuaries, this may impact the overall value of the pension liability. However, as the recognisable value of assets has been restricted to the level of the funded pension obligation we would not expect this to impact the financial statements. For instance, a 2% decrease in the value of investments would have no impact on the net pension liability.</p> <p>The Council's share of these Pension Fund property investments would be material to the Council's net liability, this would also present a material uncertainty on the valuation of the Council's pension assets and liabilities as at 31 March 2023.</p>

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2. MATERIAL ITEMS OF INCOME AND EXPENSE

There are no material items of income and expense in 2021/22 or 2022/23.

3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2022/23 was approved for issue by the Section 151 Officer & Corporate Director for Strategic Finance on 30 June 2023. The draft accounts were reviewed by the Audit and Governance Committee on 27 July 2023 and the audited accounts were authorised for issue on 28 March 2024. This is also the date up to which events after the reporting period have been considered. There are no events which took place after 31 March 2023 which require disclosure.

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 (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by 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. The Expenditure and Funding Analysis also fulfils the requirement to report by segments.

2022/23 – Expenditure and Funding Analysis	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis (Note 5)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Customer Service & Delivery	10,182	1,867	12,049
Strategic Finance	1,790	96	1,886
Place & Enterprise	(1,028)	5,730	4,702
Governance & Assurance	2,185	870	3,055
Net Cost of Services	13,129	8,563	21,692
Other income and expenditure	(7,771)	(7,299)	(15,070)
(Surplus)/Deficit on Provision of Services	5,358	1,264	6,622

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	General Fund Balance £000	Earmarked Reserves £000	Total General Fund Reserves £000
Opening Balance at 31 March 2022	(2,056)	(20,839)	(22,895)
(Increase)/decrease in year	(57)	5,415	5,358
Closing Balance at 31 March 2023	(2,113)	(15,424)	(17,537)

2021/22 Comparatives – Expenditure and Funding Analysis (Restated)*	Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis (Note 5) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Customer Service & Delivery	5,865	1,566	7,431
Strategic Finance	1,326	60	1,386
Place & Enterprise	(1,490)	4,399	2,909
Governance & Assurance	1,881	751	2,632
Net Cost of Services	7,582	6,776	14,358
Other income and expenditure	(6,861)	(7,088)	(13,949)
(Surplus)/Deficit on Provision of Services	721	(312)	409

	General Fund Balance £000	Earmarked Reserves £000	Total General Fund Reserves £000
Opening Balance at 31 March 2021	(2,122)	(21,494)	(23,616)
(Increase)/decrease in year	66	655	721
Closing Balance at 31 March 2022	(2,056)	(20,839)	(22,895)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

5. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

Adjustments between Funding and Accounting Basis				
2022/23	Adjustments for capital purposes (Note A) £000	Net change for the pensions adjustments (Note B) £000	Other Differences (Note C) £000	Total adjustments £000
Customer Service & Delivery	1,039	767	61	1,867
Strategic Finance	83	13	-	96
Place & Enterprise	4,355	1,375	-	5,730
Governance & Assurance	-	870	-	870
Net Cost of Services	5,477	3,025	61	8,563
Other income and expenditure from the Expenditure & Funding Analysis	(2,541)	1,407	(6,165)	(7,299)
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	2,936	4,432	(6,104)	1,264

Adjustments between Funding and Accounting Basis				
2021/22 Comparatives (Restated)*	Adjustments for capital purposes (Note A) £000	Net change for the pensions adjustments (Note B) £000	Other Differences (Note C) £000	Total adjustments £000
Customer Service & Delivery	1,076	483	7	1,566
Strategic Finance	2	58	-	60
Place & Enterprise	3,088	1,311	-	4,399
Governance & Assurance	-	751	-	751
Net Cost of Services	4,166	2,603	7	6,776
Other income and expenditure from the Expenditure & Funding Analysis	(3,333)	1,275	(5,030)	(7,088)
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	833	3,878	(5,023)	(312)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

*The 2021/22 Net Cost of Services has been restated in 2022/23 following a review of the Organisational Structure. The total net cost of services figures remain the same, only the presentation of the individual service groups has changed.

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 and other capital contributions are deducted. 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 FINANCIAL STATEMENTS

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.

Expenditure and Income Analysed by Nature	2021/22	2022/23
	£000	£000
Employee Benefits Expenses*	17,009	21,763
Other Service Expenses	29,677	29,899
Depreciation, Amortisation and Impairment**	4,116	7,198
Interest Payments	366	372
Pension Fund Administration Expenses	63	65
Net Interest on the net defined benefit liability	1,212	1,342
Losses/(Gains) on disposal of non current assets	-	(33)
Total Expenditure	52,443	60,606
Fees, Charges and Other Service Income	(17,002)	(17,756)
Interest and Investment Income***	(153)	(1,169)
Income from Council Tax and Business Rates****	(4,744)	(6,490)
Revenue Grants and Contributions*****	(28,481)	(25,963)
Capital Grants and Contributions*****	(1,237)	(2,501)
Other Income	(417)	(105)
Total Income	(52,034)	(53,984)
(Surplus) or Deficit on Provision of Services	409	6,622

* Employee Benefits Expenses

The increase in Employee Benefit Expenses is mainly due to additional salary costs following the return of the Waste & Recycling Service in house from October 2022 (£2.2m) plus the 2022/23 pay award and an increase in the accounting adjustment for pensions (IAS19) of £0.4m.

** Depreciation, Amortisation and Impairment

The increase in this notional cost relates to impairment on Investment Properties and Leisure Centres.

*** Interest and Investment Income

The additional investment income follows the increase in interest rates in 2022/23.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

****** Income from Council Tax and Business Rates**

The increase in this income stream is mainly from Retained Business Rates in respect of Renewable Energy Schemes (£1.23m). During 2022/23 the Council identified Renewable Energy projects that the billing authority should retain the Business Rates for. The 2022/23 figure also includes the backdated Business Rates retained from these properties. Under current Collection Fund accounting rules, this income will be discharged against the Collection Fund position in future years.

The figure for Council Tax and Business Rates in this statement is shown net of expenditure (precepts to other bodies).

*******Revenue Grants and Contributions**

The reduction in revenue grants in 2022/23 mainly relates to the Covid Business Grants received in 2021/22 (£2.9m).

*******Capital Grants and Contributions**

This increase in capital grants mainly relates to the Green Homes Grant scheme which predominantly took place in 2022/23.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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.

2022/23	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	3,042			(3,042)
Revaluation losses/(gains) on Property, Plant and Equipment	156			(156)
Movements in the market value of Investment Properties	1,720			(1,720)
Amortisation of Intangible Assets	135			(135)
Capital grants and contributions applied	(2,336)			2,336
Revenue expenditure funded from capital under statute (REFCUS)	2,144			(2,144)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	10			(10)
Insertion of items not debited or credited to the CIES:				
Statutory provision for the financing of capital investment	(488)			488
Capital expenditure charged against the General Fund	(1,083)			1,083
Revenue contribution to Capital Outlay – RCCO	(50)			50
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(165)		165	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(260)	260
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(43)	43		-
Costs of disposal funded from capital receipts				

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2022/23	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	(106)	106		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(179)		179
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	6,419			(6,419)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,987)			1,987
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
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	(11)			11
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:				
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*	(6,155)			6,155
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	62			(62)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2022/23	1,264	(30)	(95)	(1,139)

*The large adjustment in 2022/23 regarding the Business Rates Collection Fund Adjustment Account reflects the movement on the Business Rates Collection Fund balance at 31 March 2023 (£5.96m surplus compared to £6.35m deficit at 31 March 2022). During 2021/22 local authorities received further s31 grants to offset the business rate reliefs given to businesses during the pandemic. Under current Collection Fund accounting rules, the s31 grants received in 2021/22 are being discharged against the Collection Fund deficit in 2022/23 onwards.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2021/22 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account (CAA):				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i>				
Charges for depreciation and impairment of non-current assets	3,100			(3,100)
Revaluation losses/(gains) on Property, Plant and Equipment	(217)			217
Movements in the market value of Investment Properties	(50)			50
Amortisation of Intangible Assets	82			(82)
Capital grants and contributions applied	(977)			977
Revenue expenditure funded from capital under statute (REFCUS)	1,201			(1,201)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	357			(357)
<i>Insertion of items not debited or credited to the CIES:</i>				
Statutory provision for the financing of capital investment	(486)			486
Capital expenditure charged against the General Fund	(1,019)			1,019
Revenue contribution to Capital Outlay – RCCO	(123)			123
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(260)		260	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(179)	179
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(360)	360		-
Costs of disposal funded from capital receipts	3	(3)		-

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
2021/22 Comparatives				
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	(418)	418		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(673)		673
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	5,370			(5,370)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,492)			1,492
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
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	(328)			328
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account*:				
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	(4,702)			4,702
Adjustments primarily involving the Accumulated Absences Account:				
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	7			(7)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2021/22	(312)	102	81	129

*The large adjustment in 2021/22 regarding the Business Rates Collection Fund Adjustment Account reflects the reduced deficit on the Business Rates Collection Fund at 31 March 2022 (£6.4m compared to £18.1m at 31 March 2021). During 2020/21 local authorities received s31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the s31 grants received in 2020/21 are being discharged against the Collection Fund deficit in 2021/22 onwards.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 2022/23. The purpose of some of the more significant earmarked reserves are shown below:

Vehicles and Plant Renewals - This reserve is used to purchase vehicles and heavy plant to maintain a modern and efficient Council vehicle fleet. The funding in this reserve is being used to purchase end of life fleet replacements and the fleet required for the roll out of the remaining properties onto the Devon Aligned Service (DAS) in October 2023 (Council report 13th April 2023).

Ferry Repairs and Renewals – This reserve allows for the financing of major repairs required to the tugs and floats used in the Council’s ferry operation and the renewal of those assets.

Planning Policy and Major Developments – This reserve originated to help smooth out annual expenditure on the review and preparation of the Local Plan. In addition it is used to fund one off planning costs and to manage future fluctuations in planning income.

Sustainable Waste Management - This reserve makes some provision to enable the Council to develop sustainable waste initiatives in line with the Government's National Waste Strategy. It is also used to support any unforeseen future waste cost pressures relating to market changes. This reserve also held the value of the 2021/22 contractual performance deductions. Funding has been spent from this reserve in 2022/23 on the one-off set up and implementation costs of bringing the waste and recycling service back in house in October 2022.

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 Retention Earmarked reserve covers any possible funding issues from the new accounting arrangements and to smooth the volatility from business rates income over a period of years.

Affordable Housing (Capital) – This reserve was set up to support capital funding of affordable housing.

Emergency Climate Change Projects - This reserve was set up in 2020/21 for Emergency Climate Change projects in order to give effect to the Council’s Climate Change Action Plan.

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

S31 Compensation Grant (Business Rates) Reserve - This reserve was set up to hold the business rates s31 grants received in 2020/21 and 2021/22 to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the s31 grants received are not discharged against the Collection Fund deficit until the following year.

Recovery and Renewal Plan – This is a new reserve set up as part of the 2021/22 Budget process to support the costs of the Recovery and Renewal Plan and the Council's 20 year vision 'Better Lives for All'.

Affordable Housing (Revenue) – This is a new reserve set up as part of the 2022/23 Budget process to support the revenue funding of affordable housing. This was a one-off contribution into this reserve from New Homes Bonus funding in 2022/23.

Ukraine Humanitarian Crisis Reserve – This reserve was set up in 2022/23 to hold funding received to support the Ukraine Humanitarian Crisis which will be spent in 2023/24.

The total Earmarked Reserves balance at 31 March 2023 of £15.424m includes £1.19m held in the Business Rates s31 Compensation Grant Reserve. This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the s31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2023/24 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

The table below shows the earmarked reserve balances at 31 March 2023 and the movement during 2022/23.

2022/23	Balance at	Transfers	Transfers	Balance at
EARMARKED RESERVES	31.3.2022	Out	In	31.3.2023
	£000	£000	£000	£000
General Fund				
Affordable Housing (Capital)	544	(422)	-	122
Community Parks and Open Spaces	46	(10)	22	58
Grounds Maintenance	149	(77)	14	86
Pension Fund Strain	208	(99)	99	208
Repairs and Maintenance	374	(216)	173	331
Marine Infrastructure	184	-	58	242
Land and Development	72	(16)	7	63
Ferry Repairs and Renewals	530	(41)	117	606
Emergency Climate Change Projects	553	(222)	1	332
Vehicles & Plant Renewals	276	(5)	550	821
COVID-19	209	(175)	-	34
Pay and Display Equipment	186	(32)	21	175
On-Street Parking	44	-	-	44
ICT Development	89	(71)	57	75
Sustainable Waste Management	1,065	(464)	61	662
District Elections	20	(37)	46	29
Planning Policy & Major Developments	531	(82)	50	499
Section106 Agreements (no conditions)	38	(23)	-	15
Revenue Grants	1,725	(638)	437	1,524
Capital Programme	249	(239)	181	191
New Homes Bonus	1,917	(1,092)	1,008	1,833
Business Rates Retention	4,546	(2,570)	-	1,976
Homelessness Prevention	234	(91)	-	143
Housing Capital Projects	408	(45)	-	363
Leisure Services	41	(2)	-	39
Organisational Development	75	(39)	5	41
Environmental Health Initiatives	20	-	68	88
S106 Monitoring	158	(24)	63	197
S106 Technical Support	14	(21)	29	22
Maintenance, Management & Risk	66	-	29	95
Recovery and Renewal Plan	500	(37)	10	473
Financial Stability	280	-	-	280
Maintenance Fund	78	(50)	-	28
Community Composting	200	(13)	-	187
Tree Maintenance	60	(12)	-	48
Joint Local Plan Reserve	-	-	25	25
Affordable Housing (Revenue)	-	-	408	408
Ukraine Humanitarian Crisis	-	-	875	875
Reserves with balances £10k or under (Grouped)	110	(106)	-	4
Sub Total General Fund Reserves	15,799	(6,971)	4,414	13,242

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2022/23	Balance at	Transfers	Transfers	Balance at
EARMARKED RESERVES	31.3.2022	Out	In	31.3.2023
	£000	£000	£000	£000
Business Rates s31 Compensation Grant*	4,260	(3,066)	-	1,194
Sub Total Specific Reserves Business Rates S31 Grant	4,260	(3,066)	-	1,194
Specific Reserves – Salcombe Harbour				
Pontoons	292	-	71	363
Harbour Renewals	192	(13)	44	223
General Reserve	296	(51)	157	402
Sub Total Specific Reserves Salcombe Harbour	780	(64)	272	988
TOTAL EARMARKED REVENUE RESERVES* (See Note on the Business Rates s31 Compensation Grant above)	20,839	(10,101)	4,686	15,424

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2021/22 Comparatives EARMARKED RESERVES	Balance at 31.3.2021 £000	Transfers Out £000	Transfers In £000	Balance at 31.3.2022 £000
General Fund				
Affordable Housing (Capital)	668	(124)	-	544
Community Parks and Open Spaces	49	(20)	17	46
Grounds Maintenance	104	(30)	75	149
Pension Fund Strain	109	-	99	208
Repairs and Maintenance	231	(30)	173	374
Members Sustainable Community	35	-	14	49
Marine Infrastructure	326	(200)	58	184
Land and Development	104	(69)	37	72
Ferry Repairs and Renewals	428	(15)	117	530
Economic Initiatives	23	-	-	23
Emergency Climate Change Projects	400	(47)	200	553
Vehicles and Plant Renewals	143	(417)	550	276
COVID-19	100	(272)	381	209
Pay and Display Equipment	165	-	21	186
On-Street Parking	44	-	-	44
ICT Development	82	(43)	50	89
Sustainable Waste Management	246	(80)	899	1,065
District Elections	10	-	10	20
Beach Safety	14	-	-	14
Planning Policy & Major Developments	217	(56)	370	531
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	1,101	(270)	894	1,725
Capital Programme	181	(143)	211	249
New Homes Bonus	1,803	(954)	1,068	1,917
Business Rates Retention	7,103	(2,557)	-	4,546
Homelessness Prevention	166	(22)	90	234
Housing Capital Projects	194	(117)	331	408
Leisure Services	51	(10)	-	41
Support Services Trading	72	(27)	30	75
Environmental Health Initiatives	20	-	-	20
S106 Monitoring	149	(20)	29	158
Economic Regeneration	49	(25)	-	24
S106 Technical Support	34	(20)	-	14
Maintenance, Management & Risk	37	-	29	66
Recovery and Renewal Plan	-	-	500	500
Financial Stability	-	-	280	280
Maintenance Fund	-	-	78	78
Community Composting	-	-	200	200
Tree Maintenance	-	-	60	60
Reserves with balances £10k or under (Grouped)	120	(120)	-	-
Sub Total General Fund Reserves	14,616	(5,688)	6,871	15,799

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2021/22 Comparatives EARMARKED RESERVES	Balance at 31.3.2021 £000	Transfers Out £000	Transfers In £000	Balance at 31.3.2022 £000
Business Rates s31 Compensation Grant*	6,283	(2,023)	-	4,260
Sub Total Specific Reserves Business Rates	6,283	(2,023)	-	4,260
Specific Reserves – Salcombe Harbour				
Pontoons	227	-	65	292
Harbour Renewals	169	(17)	40	192
General Reserve	199	(23)	120	296
Sub Total Specific Reserves Salcombe Harbour	595	(40)	225	780
TOTAL EARMARKED REVENUE RESERVES (See Note on the Business Rates s31 Compensation Grant below)	21,494	(7,751)	7,096	20,839

Note* - Business Rates s31 Compensation Grant Earmarked Reserve

The total Earmarked Reserves balance at 31 March 2022 of £20.84m includes £4.26m held in the Business Rates s31 Compensation Grant Reserve. This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the s31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2022/23 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

9. OTHER OPERATING EXPENDITURE

2021/22 £000		2022/23 £000
2,960	Parish council precepts	3,134
-	(Gains)/losses on the disposal of non-current assets	(33)
63	Pension administration expenses	65
3,023	Total	3,166

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2021/22 £000		2022/23 £000
366	Interest payable and similar charges	372
(140)	Interest receivable and similar income	(1,147)
(417)	Other investment income	(105)
1,212	Net interest on the net defined benefit liability	1,342
(960)	Investment properties (Note 13)	809
61	Total	1,271

11. TAXATION AND NON-SPECIFIC GRANT INCOME

2021/22 £000		2022/23 £000
	Council Tax	
(9,679)	• Income	(10,196)
(328)	• Collection Fund adjustment	(11)
30	• Collection Fund - distribution of deficit/(surplus)	(181)
	Business Rates	
(11,375)	• Income*	(9,167)
11,464	• Tariff	11,464
1,109	• Levy payment	868
2	• Pooling administration costs	2
(299)	• Pooling benefit	(360)
-	• Disregarded Amounts**	(1,232)
1,372	• Transfer of Collection Fund deficit/(surplus)	(812)
	Non ring - fenced Government Grants:	
(5,789)	• S.31 Business Rate Relief Grants	(5,642)
(1,068)	• New Homes Bonus Grant	(1,008)
-	• Levy Support Grant	(16)
(428)	• Rural Services Delivery Grant	(428)
(82)	• Lower Tier Services Grant	(88)
-	• Services Grant	(133)
(381)	• COVID-19 LA Response Grant	-
(108)	• COVID-19 Sales, Fees & Charges Compensation	-
(236)	• COVID-19 New Burdens Admin Support Grant	(66)
(1,237)	Capital grants and contributions	(2,501)
(17,033)	Total	(19,507)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

*Income from Business Rates in the Comprehensive Income and Expenditure Statement is based on the Government NNDR1 return. The reduction in Business Rates income during 2022/23 of £2.21m relates to the allowance for the Retail, Hospitality and Leisure Relief. However, there was no equivalent adjustment for this Business Rates Relief in the 2021/22 NNDR1 return. For South Hams this reduced the net rates payable in 2022/23 by £2.29m (40% share of total net Rates payable of £5.72m).

**During 2022/23 the Council identified Renewable Energy projects that the billing authority should retain the Business Rates for. The 2022/23 figure of £1.23m also includes the backdated Business Rates retained from these properties. Under current Collection Fund accounting rules, this income will be discharged against the Collection Fund position in future years.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

Movements in 2022/23	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2022	68,692	11,435	516	2,183	82,826
Additions	423	358	63	6,165	7,009
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	3,111				3,111
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(630)				(630)
Derecognition – disposals		(773)			(773)
Other movements in cost/valuation - reclassification	21			(21)	-
At 31 March 2023	71,617	11,020	579	8,327	91,543
Accumulated Depreciation & Impairment at 1 April 2022	2,153	7,000	-	-	9,153
Charge for 2022/23	1,463	1,117	-	-	2,580
Depreciation written out to the Revaluation Reserve	(1,370)				(1,370)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(474)				(474)
Derecognition – disposals		(763)			(763)
At 31 March 2023	1,772	7,354	-	-	9,126
Balance Sheet amount at 31 March 2023	69,845	3,666	579	8,327	82,417
Balance Sheet amount at 31 March 2022	66,539	4,435	516	2,183	73,673

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Comparative Movements in 2021/22	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2021	68,313	10,756	454	441	79,964
Additions	14	731	62	1,742	2,549
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	365				365
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	65				65
Derecognition – disposals	(65)	(52)			(117)
At 31 March 2022	68,692	11,435	516	2,183	82,826
Accumulated Depreciation & Impairment at 1 April 2021	1,731	6,038	-	-	7,769
Charge for 2021/22	1,629	1,014	-	-	2,643
Depreciation written out to the Revaluation Reserve	(1,053)				(1,053)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(154)				(154)
Derecognition – disposals		(52)			(52)
At 31 March 2022	2,153	7,000	-	-	9,153
Balance Sheet amount at 31 March 2022	66,539	4,435	516	2,183	73,673
Balance Sheet amount at 31 March 2021	66,582	4,718	454	441	72,195

In accordance with the Temporary Relief offered by the update to the code on infrastructure assets, this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not represent a true and fair view of the asset position to the users of the financial statements.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Infrastructure Assets

	2021/22 £000	2022/23 £000
Balance at start of year	6,954	6,572
Additions	75	131
Depreciation charge for year	(457)	(462)
Balance at end of year	6,572	6,241

	2021/22 £000	2022/23 £000
Infrastructure Assets	6,572	6,241
Other Property Plant and Equipment Assets	73,673	82,417
Total Property Plant and Equipment Assets	80,245	88,658

Depreciation

The Council provides for depreciation on all assets other than freehold land, community assets and investment properties. The provision for depreciation is made by allocating the cost (or revalued amount) less the estimated residual value of the assets over the accounting periods expected to benefit from their use. The straight-line method of depreciation is used. Assets are depreciated in the year following acquisition and in the year of disposal.

Asset lives are reviewed regularly as part of the rolling programme of 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 2023 the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment. The commitments relate to:

- St Ann's Chapel Housing Scheme - £1.73 million
- Dartmouth Health & Wellbeing Hub - £0.10 million
- Batson, Salcombe Harbour Workshop - £0.50 million
- Batson, Salcombe Employment Units - £0.19 million

As a comparison, as at 31 March 2022 the Authority had entered into four contracts for the construction or enhancement of Property, Plant and Equipment totalling £9.24 million.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Revaluations

All material freehold land and buildings which comprise the Authority's property portfolio are revalued by the Council's valuer on a rolling basis.

Valuations of land and buildings were carried out in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Assets are valued in accordance with a five year rolling programme (with ad hoc valuations taking place, for example where assets have been enhanced). In addition, a formal impairment review of the entire holding of land and buildings is undertaken at the end of each financial year, to ensure the carrying value reflects the fair value at the Balance Sheet date. The basis of valuation is set out in the Statement of Accounting policies in Note 38.

	Land and buildings £000	Vehicles, plant, furniture & equipment £000	Total £000
Valued at historical cost	-	3,666	3,666
Valued at current value in:			
2022/2023	30,921		30,921
2021/2022	11,750		11,750
2020/2021	25,683		25,683
2019/2020	1,491		1,491
Total	69,845	3,666	73,511

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.

Inventories – St Ann's Chapel

Inventories have increased from £79,000 as at 31 March 2022 to £717,000 as at 31 March 2023. The increase in Inventories in 2022/23 relates to the St Ann's Chapel Housing scheme which includes the building of 8 affordable homes, 3 open market units and 2 serviced plots.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Total expenditure on the St Ann's Chapel Housing scheme for 2022/23 is £2.14m. Of this spend, £1.56m relates to the 8 affordable homes and 2 serviced plots and this expenditure is included within the Assets under Construction additions shown in the Property, Plant and Equipment movements table. The remaining £0.58m relates to the open market units. These are in the process of production for sale and therefore have been classed as Inventories as at 31 March 2023 and are not included in the Property, Plant and Equipment or Capital Expenditure balances as at 31 March 2023.

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:

A. Income & Expenditure Account	2021/22 £000	2022/23 £000
Rental income from investment properties	(918)	(916)
Direct operating expenses arising from investment properties (this includes the change in valuation on investment properties)	(42)	1,725
Net (gain)/loss	(960)	809

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

B. Movement in fair value	2021/22 £000	2022/23 £000
Balance at start of the year	18,560	18,610
Net gains/(losses) from fair value adjustments*	50	(1,720)
Balance at end of the year	18,610	16,890

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. The Code requires that Investment Properties are measured annually at fair value. The fair value valuation decreased by £1,720,000 at 31 March 2023 amounting to a total of £16.89 million. This decrease in value mainly relates to the Investment Property at Lee Mill, Ivybridge. The valuation has been carried out using the investment method and comparison approach, taking into account prevailing real estate property yields as well as UK 30-year gilt rates.

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' in the Income and Expenditure account, as it is reversed out through the Capital Adjustment Account.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Fair Value Measurement of Investment Property

Observable Inputs – Level 2

The commercial land and buildings are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted using a market-derived discount rate to establish the present value of the net income stream. The approach has been developed using the Council's own data factoring in assumptions such as duration and timing of cash inflows and outflows, rent growth, occupancy levels, bad debt levels and maintenance costs. The Council's commercial land and buildings are therefore categorised as Level 2 based on assumptions on observable inputs in the fair value hierarchy as the measurement technique uses observable inputs to determine the fair value measurements.

Highest and Best Use of Investment Properties

In estimating the fair value of the Council's Investment Properties, it has been established that their current use is the highest and best use of the properties.

Valuation Techniques

There has been no change in the valuation techniques used during the year for Investment Properties.

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 cash flow 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 code requirements, financial assets are now classified into one of three categories:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- **Financial assets held at amortised cost** – These represent loans and loan-type arrangements where repayments of 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.

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 overleaf 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:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	Long-term		Current	
	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000
Financial Assets at Amortised Cost				
Investments*	-	-	30,500	17,900
Cash and Cash Equivalents*	-	-	22,981	14,709
Debtors	-	-	3,542	5,287
Fair Value through Other Comprehensive Income – Financial Assets				
Investments – CCLA Local Authorities’ Property Fund	1,573	1,314	-	-
Investments – CCLA Diversified Income Fund**	2,032	1,312	-	-
Total Financial Assets	3,605	2,626	57,023	37,896
Financial Liabilities at Amortised Cost				
Borrowing	(14,284)	(13,825)	(96)	(459)
Creditors*	(92)	(98)	(19,524)	(3,088)
Total Financial Liabilities	(14,376)	(13,923)	(19,620)	(3,547)

*The reduction in investments, cash and cash equivalents and creditors as at 31 March 2023 partly relates to the timing of the Council Tax energy rebate grant (£4.51m) which was received at the end of 2021/22 and the payments were made on behalf of Central Government at the beginning of 2022/23. In addition the Council also administered various Business Grants on behalf of Central Government in 2021/22 and part of the reduction in investments, cash and cash equivalents and creditors relates to unapplied funding being repaid to Central Government in 2022/23.

**The CCLA Diversified Income Fund experienced a downward revaluation of £720,000 in 2022/23. The outlook for global economic growth continues to be weaker. Inflation is likely to remain above target rates for some time, interest rates in most areas will still be negative in real terms. This backdrop placed some downward pressure on investments during 2022. However, the CCLA fund continued to outperform the benchmark. CCLA will maintain the portfolio’s emphasis on real assets such as good quality equities and alternatives, adding selectively to fixed income as attractive opportunities are identified to support continued performance for this long term investment.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Designated to Fair Value Through Other Comprehensive Income

At 31 March 2023 the Council had investments of £1.5 million with the CCLA Property Fund and £2.0 million with the CCLA Diversified Income Fund. These are the nominal values of the CCLA investments.

Following the adoption of accounting standard IFRS 9 Financial Instruments in 2018/19, investments in equity are 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 elected to designate the CCLA investments 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 these investments 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 that there is no impact on the revenue budget. Any gains or losses on the valuation of the CCLA investments 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) 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 2022/23.

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

The Council had the following investments in equity instruments at 31 March 2023:

Investment	Nominal	Fair Value	Change in Fair Value during 2022/23
	£000	£000	£000
CCLA Property Fund	1,500	1,314	186
CCLA Diversified Income Fund** (see previous page for an explanation of the downward change in Fair Value)	2,000	1,312	688
Total	3,500	2,626	874

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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:

	2021/22	2022/23
	£000	£000
Net gains/losses on: Financial Assets measured at fair value through other comprehensive income	325	(979)
Total Net Gains/(Losses)	325	(979)

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 2022 Fair Value £000	31 March 2023 Fair Value £000
Fair Value Through Other Comprehensive Income CCLA Property Fund and CCLA Diversified Income Fund	Level 2	Inputs other than quoted market prices that are observable for the asset or liability	3,605	2,626
TOTAL			3,605	2,626

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 2022		31 March 2023	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
PWLB Debt – Maturity	(5,490)	(5,571)	(5,490)	(4,947)
PWLB Debt – Annuity	(8,890)	(8,912)	(8,794)	(6,264)
Long Term Creditors	(92)	(92)	(98)	(98)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Heritable Bank

At the 31 March 2023 the Council had £10,542 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that was affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank PLC is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank, Landsbanki.

The Council placed a deposit of £1,250,000 on 25th September 2008 with the Heritable Bank. Of this amount £1,239,458 (99%) has already been repaid to the Council by the Administrators.

The balance outstanding at 31 March 2014 (£72,368) was impaired (written out of the Balance Sheet) in the 2013/14 Accounts.

At the time the deposit was placed, the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits). Both ratings indicated low risk and were within the deposit policy approved by the Council.

Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators have paid sixteen dividends amounting to 99% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

15. DEBTORS

31.3.2022 £000		31.3.2023 £000
	Short Term	
1,964	Central Government bodies	2,330
741	Other Local Authorities	746
	Other debtors	
652	Council Tax	572
2,730	Business Rates*	440
2,775	Other entities and individuals**	4,290
8,862	Total	8,378

*There is a significant decrease in the short term Business Rates debtor as at 31 March 2023. The large debtor as at 31 March 2022 (£2.73m) was due to the deficit position on the Business Rates Collection Fund resulting from the timing differences in the Collection Fund accounting treatment of the s31 compensation grant. The balance on the Business Rates Collection Fund at 31 March 2023 is a surplus of £5,957,000 (£6,351,000 deficit in 2021/22) following the release of s31 compensation grant to the Collection Fund.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

**The large increase in the short term Other Entities and Individuals debtor in 2022/23 of £1.5m mainly relates to an increase in the sundry debtors balance as at 31 March 2023. The balance has increased to £1.74m compared to £0.58m as at 31 March 2022. This reflects the timing of the raising of sundry debt invoices and is a temporary position. For example, S106 deposit invoices totalling £0.5m were raised towards the end of 2022/23.

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:

31.3.2022 £000		31.3.2023 £000
580	Up to one year	491
468	One to three years	304
219	Over three years	218
1,267	Total Debtors for Local Taxation	1,013

17. CASH AND CASH EQUIVALENTS

31.3.2022 £000		31.3.2023 £000
581	Cash held by the Authority	509
22,400	Money Market Funds*	14,200
22,981	Total Cash and Cash Equivalents	14,709

*In line with the reduction in investments as at 31 March 2023, the amount of cash invested in Money Market Funds also reduced by £8.2m. The higher balance at 31 March 2022 relates to the unapplied funding in respect of the various Business Grants which was repaid to Central Government in 2022/23.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

18. CREDITORS

31.3.2022 £000		31.3.2023 £000
	Short Term	
(17,466)	Central Government bodies*	(1,345)
(930)	Other Local Authorities	(1,104)
	Other Creditors	
(1,626)	Council Tax	(2,216)
(8,173)	Business Rates	(7,023)
(4,337)	Other entities and individuals	(4,974)
(32,532)	Total	(16,662)
	Long Term	
(92)	Other entities and individuals	(98)
(92)	Total	(98)

*The significant reduction in the short term Central Government bodies creditor as at 31 March 2023 mainly relates to the repayment to Central Government of unapplied funding in respect of the various Business Grants in 2022/23. In addition the non-discretionary element of the Council Tax energy rebate grant (£4.3m) was received at the end of 2021/22 and the payments were made on behalf of Central Government at the beginning of 2022/23.

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 2022/23 or 2021/22. The breakdown of the 2022/23 provision is shown in the following table:

	Business Rates Appeals £000
Balance at 1 April 2022	1,494
Provisions made in year	99
Amounts used in year	(692)
Balance at 31 March 2023	901

Short term – 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 is made about the likely success rate of appeals and their value. In 2022/23 there has been a £1,485,000 reduction in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £594,000).

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 and plant replacement and the funding of strategic issues. In addition, on an annual basis monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of business rates income volatility in future years. The movements in the 2022/23 Earmarked Reserves balance is explained in detail in the Narrative Statement.

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.

21. UNUSABLE RESERVES

31.3.2022 £000		31.3.2023 £000
31,072	Revaluation Reserve	34,685
54,531	Capital Adjustment Account	52,251
(52,621)	Pensions Reserve	(2,191)
331	Council Tax Collection Fund Adjustment Account	342
(2,540)	Business Rates Collection Fund Adjustment Account	3,615
105	Financial Instruments Revaluation Reserve	(874)
(155)	Accumulated Absences Account	(217)
30,723	Total Unusable Reserves	87,611

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- 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.

31.3.2022 £000	31.3.2022 £000	Revaluation Reserve	31.3.2023 £000	31.3.2023 £000
	30,405	Balance at 1 April		31,072
1,882		Upward revaluation of assets	6,299	
(464)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(1,818)	
	1,418	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		4,481
(590)		Difference between fair value depreciation and historical cost depreciation	(531)	
(161)		Accumulated gains on assets sold or scrapped	=	
	(751)	Amount written off to the Capital Adjustment Account		(531)
	31,072	Balance at 31 March		35,022

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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.

2021/22 £000	2021/22 £000	Capital Adjustment Account	2022/23 £000	2022/23 £000
	54,796	Balance at 1 April		54,531
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
(3,100)		▪ Charges for depreciation of non-current assets	(3,042)	
217		▪ Revaluation gains/(losses) on Property, Plant and Equipment (PPE)	(156)	
50		▪ Revaluation gains/(losses) on Investment Properties	(1,720)	
(82)		▪ Amortisation of Intangible Assets	(135)	
(1,201)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(2,144)	
(357)		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(10)	
	(4,473)	Total		(7,207)
161		Amounts of Revaluation Reserve balance written off on disposal or sale of PPE	-	
<u>590</u>		Adjusting amounts written out of the Revaluation Reserve	<u>531</u>	
	751	Net written out amount of the cost of non-current assets consumed in the year		531
		Capital financing applied in the year:		
673		• Use of the Capital Receipts Reserve to finance new capital expenditure	179	
977		• Capital grants and contributions credited to the CIES that have been applied to capital financing	2,336	
179		• Application of grants to capital financing from the Capitals Grants Unapplied Account	260	
486		• Statutory provision for the financing of capital investment charged against the General Fund	488	
1,019		• Capital expenditure charged against the General Fund	1,083	
123		• Revenue Contribution to Capital Outlay (RCCO)	50	
	3,457	Total		4,396
	54,531	Balance at 31 March		52,251

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 balance on the Pensions Reserve shows the difference between 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.

31.3.2022 £000	Pensions Reserve	31.3.2023 £000
(61,351)	Balance at 1 April	(52,621)
12,608	Actuarial gains or (losses) on pension assets and liabilities**	54,862
(5,370)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(6,419)
1,492	Employer's pensions contributions and direct payments to pensioners payable in the year	1,987
(52,621)	Balance at 31 March*	(2,191)

*As at 31 March 2023, the Council has a Pension Liability of £2.19 million. This is significantly lower than the previous year (pension liability of £52.62 million). This is as a result of the actuary reducing life expectancy projections and an increase in interest rates affecting the discount rate for liabilities. See further information on the Pensions Asset in the Narrative Statement.

**The actuarial gain on pension assets and liabilities has increased by £44.6m in 2022/23 to £57.22m. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2023 of £2.19 million (a pension liability), which compares to a deficit of £52.6 million as at 31 March 2022. This large reduction in the pension liability for South Hams is mainly due to a change in financial assumptions (£56.1 million). This relates to an increase in the discount rate from 2.6% at 31 March 2022 to 4.8% at 31 March 2023.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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.

31.3.2022 £000	Council Tax Collection Fund Adjustment Account	31.3.2023 £000
3	Balance at 1 April	331
328	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	11
331	Balance at 31 March	342

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.

31.3.2022 £000	Business Rates Collection Fund Adjustment Account	31.3.2023 £000
(7,242)	Balance at 1 April	(2,540)
4,702	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*	6,155
(2,540)	Balance at 31 March	3,615

*The large movement in the Business Rates Collection Fund Adjustment Account between 2021/22 and 2022/23 reflects the improved position on the Business Rates Collection Fund at 31 March 2023 (£5.96m surplus compared to a £6.35m deficit at 31 March 2022). During 2021/22 local authorities received further s31 grants to offset the business rate reliefs given to businesses during the pandemic. Under current Collection Fund accounting rules, the s31 grants received could not be discharged against the Collection Fund deficit until the following year in 2022/23.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

31.3.2022 £000	Financial Instruments Revaluation Reserve	31.3.2023 £000
(220)	Balance at 1 April	105
325	Upward revaluation of assets	-
-	Downward revaluation of assets	(979)
105	Balance at 31 March	(874)

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 this Account.

31.3.2022 £000	£000	Accumulated Absences Account	31.3.2023 £000	£000
	(148)	Balance at 1 April		(155)
148		Settlement or cancellation of accrual made at the end of the preceding year	155	
(155)		Amounts accrued at the end of the current year	(217)	
	(7)	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		(62)
	(155)	Balance at 31 March		(217)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

2021/22 £000		2022/23 £000
(3,100)	Depreciation	(3,042)
217	Impairment and downward valuations	(156)
50	Movement in market value of investment properties*	(1,720)
(82)	Amortisation	(135)
486	Increase/(decrease) in Debtors**	1,886
(2,733)	(Increase)/decrease in Creditors***	14,401
12	Increase/(decrease) in Inventories****	638
(3,878)	Movement in pension liability	(4,432)
(357)	Carrying amount of non-current assets held for sale, sold or derecognised	(10)
(9,385)	Total	7,430

*The fair value valuation of Investment Properties decreased by £1.72m at 31 March 2023. For further information please see Note 13 Investment Properties.

**The large increase in debtors in 2022/23 mainly relates to an increase in the sundry debtors balance as at 31 March 2023. The balance has increased to £1.74m compared to £0.58m as at 31 March 2022. This reflects the timing of the raising of sundry debt invoices and is a temporary position. For further information please see Note 15 Debtors.

***The significant reduction in creditors as at 31 March 2023 mainly relates to the repayment to Central Government of unapplied funding in respect of the various Business Grants in 2022/23. For further information please see Note 18 Creditors.

****The increase in inventories as at 31 March 2023 relates to a housing scheme at St Ann's Chapel which includes the building of 8 affordable homes, 3 open market units and 2 serviced plots. The open market units are in the process of production for sale and therefore are classed as inventories as at 31 March 2023. For further information please see Note 12 Property, Plant and Equipment.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

2021/22 £000		2022/23 £000
775	Proceeds from the sale of non-current assets	149
1,237	Other non-cash items charged to the net surplus or deficit on the provision of services*	2,501
2,012	Net cash flows from investing activities	2,650

*This increase relates to capital grants and in particular to the Green Homes Grant scheme which predominantly took place in 2022/23.

24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2021/22 £000		2022/23 £000
2,790	Purchase of Property, Plant and Equipment, Investment Properties and Intangible Assets*	7,235
14,900	Increase/(decrease) in investments**	(12,600)
(775)	Proceeds from the sale of Property, Plant and Equipment, Investment Properties and Intangible Assets	(149)
(1,266)	Other receipts from investing activities (capital grants and contributions)	(1,795)
15,649	Net cash flows from investing activities	(7,309)

*This movement relates to capital expenditure in 2022/23 mainly in respect of Dartmouth Health and Wellbeing Hub (£3.83m).

**The reduction in investments as at 31 March 2023 partly relates to the timing of the Council Tax energy rebate grant (£4.51m) which was received at the end of 2021/22 and the payments were made on behalf of Central Government at the beginning of 2022/23. In addition the Council also administered various Business Grants on behalf of Central Government in 2021/22 and part of the reduction in investments relates to unapplied funding being repaid to Central Government in 2022/23.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2021/22 £000		2022/23 £000
94	Repayments of short and long-term borrowing	96
(7,922)	Other receipts/payments for financing activities*	(1,217)
(7,828)	Total	(1,121)

*The movement between 2021/22 and 2022/23 is due to the significant decrease in short term Business Rates debtors and the increase in the short term Council Tax creditors. For further information please see Note 15 Debtors and Note 18 Creditors.

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, South Hams District Council (SHDC), West Devon Borough Council (WDBC) 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 Devon Building Control Partnership (DBCP) to the three Council areas. This agreement saw the transfer of all staff who had DBCP responsibilities from SHDC or WDBC to TDC. As a result of this change, operational arrangements such as the delivery and management of support service functions, including holding the DBCP financial reserve, passed to TDC. Consequently the balance of the Building Control earmarked reserve was paid over to TDC during 2017/18 (£436,000). SHDC & WDBC retain control over the operation of this reserve and the DBCP by virtue of the partnership and hosting agreement, along with active participation in the controlling Devon Building Control Partnership Committee.

The Summary Accounts for the year will be detailed in the DBCP Accounts, which can be found on Teignbridge District Council's website under the Devon Building Control Partnership Committee 2022/2023.

27. 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 under 'Your Council' in the 'Councillors and Committees' section.

2021/22 £000		2022/23 £000
250	Allowances	253
9	Expenses	14
259	Total	267

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

28. OFFICERS' REMUNERATION

SENIOR EMPLOYEES

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 £
Chief Executive and Head of Paid Service	21/22	125,200	1,200	21,000	147,400
	22/23	127,100	1,500	21,300	149,900
Corporate Director of Governance & Assurance	21/22	77,400	400	12,700	90,500
	22/23	81,400	100	13,700	95,200

Note A: Definition of Senior Employees

A review of the employees that meet the criteria for the definition of a "Senior Employee" in line with Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 [SI 2009 No. 3322] has resulted in the decision to remove employees from the Senior Employees note from 22/23 onwards and in place provide a Remuneration Above £50,000 table.

Note B: Shared Services with West Devon Borough Council

South Hams District Council and West Devon Borough 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

In 2022/23 South Hams District Council reimbursed costs amounting to £145,800 (2021/22 £155,200) in respect of the Senior Leadership Team (SLT) who are employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2022/23 from West Devon Borough Council of £135,400 (2021/22 £131,000) in respect of the above shared senior employees.

Note C: Salary Sacrifice Schemes

South Hams District Council offer various Employee Salary Sacrifice Schemes as part of the employee benefits package. Figures quoted in the remuneration table are before any salary sacrifice deductions are made.

REMUNERATION ABOVE £50,000

The Council is required by statute to disclose the number of employees for the year to which the accounts relate whose remuneration fell in each bracket of a scale in multiples of £5,000, starting with £50,000 (excluding employer pension contributions).

The following numbers do not include the senior employees as disclosed above.

Remuneration Bandings	2021/22	2022/23
£50,000 - £54,999	2	1
£55,000 - £59,999	3	3
£60,000 - £64,999	1	-
£65,000 - £69,999	-	2
TOTAL	6	6

29. 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:

	2021/22 £000	2022/23 £000
Fees payable with regard to external audit services	74	93
Core Audit Fees	62	61
Audit of Grants and Returns	12	32
Rebate from Public Sector Audit Appointments Ltd	(7)	-
Total	67	93

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

30. GRANT INCOME

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

	2021/22 £000	2022/23 £000
Credited to Taxation and Non-Specific Grant Income		
Capital grants and contributions:		
Disabled Facilities Grants	(1,196)	(1,049)
Capital Section 106 deposits	(41)	(357)
Green Homes Grant	-	(907)
Homes England (Clay Park)	-	(125)
Other capital grants and contributions	-	(63)
Non ring - fenced Government grants and contributions:		
New Homes Bonus Grant	(1,068)	(1,008)
S31 Business Rate Relief Grants	(5,789)	(5,642)
Rural Services Delivery Grant	(428)	(428)
Services Grant	-	(133)
Lower Tier Services Grant	(82)	(88)
Levy Account Surplus Grant	-	(16)
COVID-19 LA Response Grant	(381)	-
COVID-19 Sales, Fees & Charges Compensation	(108)	-
COVID-19 New Burdens Admin Support Grant	(236)	(66)
Total	(9,329)	(9,882)
Credited to Services		
Rent Allowance subsidy	(14,207)	(13,443)
Housing Benefit administration subsidy	(182)	(182)
Rent rebate subsidy	(95)	(141)
Discretionary housing payments	(128)	(101)
Council Tax benefit administration subsidy	(89)	(84)
Business Rates cost of collection allowance	(212)	(214)
Homelessness Prevention Grant	(205)	(196)
Neighbourhood Planning Grant	(90)	(60)
Redmond Review Local Audit Fees Grant	(17)	(18)
Recycling credits	(580)	(511)
Revenue Section 106 deposits	(699)	(484)
Electoral Commission – General Elections and European Elections	(199)	(51)
Council Tax Rebate Final Assessment	-	(93)
Business Rates Reliefs New Burdens Grant	-	(57)
Council Tax Energy Rebate Scheme (Discretionary)	-	(174)
Ukraine Humanitarian Crisis	-	(1,167)
Household Support Scheme	-	(460)
Public Sector Low Carbon Skills Fund	-	(71)
COVID-19 Hardship Support Fund	(104)	-
COVID-19 Additional Restrictions Support Grant	(1,668)	-
COVID-19 Additional Restrictions Support Grant (Top Up)	(550)	-

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	2021/22 £000	2022/23 £000
COVID-19 Track & Trace Administration Support Grant	(62)	-
COVID-19 ERDF Reopening High Streets Safely	(139)	-
COVID-19 Local Elections 2021 COVID Secure	(31)	-
COVID-19 Protect & Vaccinate Homelessness Support Grant	(46)	-
COVID-19 Contain Outbreak Management Fund	(98)	(54)
COVID-19 Council Tax Hardship Grant Fund	(131)	-
COVID-19 Local Restrictions Support Grant (Open)	(215)	-
Other grants and contributions	(631)	(1,020)
Total	(20,378)	(18,581)

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:

Capital Grants Receipts in Advance	31 March 2022 £000	31 March 2023 £000
BEIS Green Homes Grant	(1,026)	-
Local Authority Housing Fund (LAHF)	-	(286)
Other grants	(45)	(79)
Total	(1,071)	(365)

Revenue Grants Receipts in Advance	31 March 2022 £000	31 March 2023 £000
Council Tax Rebate Grant	(174)	-
UK Shared Prosperity Fund Core RDEL	-	(89)
UK Shared Prosperity Fund Capacity	-	(20)
Other grants	(14)	(56)
Total	(188)	(165)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	31 March 2022 £000	31 March 2023 £000
Langage Energy Centre	(1,456)	(1,445)
Gara Rock, East Portlemouth	(523)	(522)
Land South East of Torhill Farm, Ivybridge	(474)	(436)
Land at Woodland Road, Ivybridge	(191)	(191)
Bonfire Hill, Salcombe	(152)	(117)
Land at Moorview, Marldon	(81)	(79)
Riverside, Totnes	(91)	(91)
Former Old Chapel Inn, Bigbury	(110)	(12)
Sawmills Field, Dartington	(46)	(46)
Trennels, Herbert Road, Salcombe	(93)	(93)
Webbers Yard, Dartington	(56)	(56)
Venn Farm, Brixton	(50)	(46)
Holywell Stores, Bigbury	(74)	(9)
Former Gas Works, Salcombe	(68)	(68)
Cornwood Road, Ivybridge	(214)	(214)
Land off Palm Cross Green, Modbury	(68)	-
Knighton Road, Wembury	(104)	(104)
Land East of Allern Lane, Tamerton Foliot	(103)	(101)
Land at Cornwood Road, Ivybridge	(143)	(138)
Yealm Hotel, Newton Ferrers	(139)	(139)
Tides Reach Hotel, Salcombe	-	(469)
Little Cotton Farm (Phase 1)	-	(265)
The Oaks, Pinewood Drive, Woolwell	-	(161)
Siding Cross, Wrangaton	-	(75)
Venn Farm (PH1), Brixton	-	(148)
Various other sites	(1,481)	(1,618)
Total	(5,717)	(6,643)

31. 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 30.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2022/23 is shown in Note 27.

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

The Capital Financing Requirement has increased by £4.98m in 2022/23. This mainly reflects the capital expenditure incurred in respect of Dartmouth Health and Wellbeing Hub during the year of £3.83m and borrowing for St Ann's Chapel housing scheme (£0.86m).

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Summary of Capital Expenditure and Financing (incorporating the Capital Financing Requirement)	2021/22 £000	2022/23 £000
<i>Opening Capital Financing Requirement</i>	13,002	13,536
Capital Investment		
Property, Plant and Equipment	882	975
Intangible Assets	166	95
Revenue expenditure funded from capital under statute (REFCUS)	1,201	2,144
Assets under Construction	1,742	6,165
Bank investment		
Total expenditure for capital purposes	3,991	9,379
Sources of Finance		
Capital receipts	(673)	(179)
Capital grants and external contributions	(1,156)	(2,596)
Earmarked reserves	(1,019)	(1,083)
Revenue	(123)	(50)
Total funding	(2,971)	(3,908)
Minimum Revenue Provision	(486)	(488)
<i>Closing Capital Financing Requirement</i>	13,536	18,519
<i>Movement in Capital Financing Requirement</i>	534	4,983
Explained by:		
Increase in underlying need to borrow (supported by government financial assistance)	(132)	3,038
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	666	1,945
Increase/(decrease) in Capital Financing Requirement	534	4,983

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

33. LEASES

Operating Leases

Authority as Lessee

The Authority uses certain land and buildings under the terms of operating leases. The most significant are:

Detail of lease	Term	Expiry date	Segment in CIES
A parcel of land for car parking	6 years	30.05.2023	Place and Enterprise
The fundus of the Salcombe & Kingsbridge Estuary for the provision of harbour activities	21 years	24.03.2028	Place and Enterprise

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

	31 March 2022 £000	31 March 2023 £000
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	248	164
Later than one year & not later than five years	582	595
Later than five years	142	-
Total	972	759

The expenditure charged to the Place and Enterprise line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2021/22 £000	2022/23 £000
Minimum lease payments	252	262
Total	252	262

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 operation of a supermarket	99 years	20.12.2077	Investment Properties
The operation of a supermarket and residential accommodation	35 years	24.03.2031	Investment Properties
The rental of an industrial unit	25 years	31.05.2029	Place and Enterprise
The rental of office accommodation	20 years	24.07.2032	Place and Enterprise
The rental of office accommodation	10 years	29.09.2026	Place and Enterprise

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

	31 March 2022 £000	31 March 2023 £000
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	1,004	1,004
Later than one year & not later than five years	3,993	3,948
Later than five years	31,509	30,550
Total	36,506	35,502

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

34. EXIT PACKAGES AND TERMINATION BENEFITS

The number of exit packages, with total cost per band and total cost of voluntary, compulsory and other redundancies are set out in the table below:

Exit package cost band (incl. special payments)	Number of voluntary redundancies		Number of compulsory redundancies		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	21/22	22/23	21/22	22/23	21/22	22/23	21/22	22/23
£0 - £20,000	-	-	1	1	1	1	796	3,690
TOTAL	-	-	1	1	1	1	796	3,690

Shared Services with West Devon Borough Council

Of the £3,690 cost of exit packages in 2022/23 (£796 in 2021/22), West Devon Borough Council (WDBC) made nil contributions in 2022/23 and 2021/22. In addition, South Hams District Council made no contribution to West Devon Borough Council in respect of their exit package costs in 2022/23 and 2021/22.

35. 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 as at 31 March 2025 and will set contributions for the period from 1

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

April 2026 to 31 March 2029. 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 to the LGPS by the Council in the year to 31 March 2024 is £2.347m. The Actuary has estimated the duration of the employer's liabilities to be 15 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement	2021/22 £000	2022/23 £000
Cost of Services		
<i>Service cost comprising</i>		
- Current Service Cost	4,089	5,012
- Past Service Cost	6	-
<i>Financing and Investment Income and Expenditure</i>		
- Net Interest Expense	1,212	1,342
- Administration Expenses	63	65
Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	5,370	6,419
Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement		
<i>Re-measurement of the net defined benefit liability comprising:</i>		
- Change in financial assumptions	(7,123)	(56,067)
- Change in demographic assumptions	-	(9,718)
- Experience loss/(gain)	417	3,352
- Return on fund assets in excess of interest	(5,902)	4,252
- Other actuarial (gains)/losses	-	966
- Changes in effect of asset ceiling**	-	2,353
<i>Total re-measurement recognised</i>	<i>(12,608)</i>	<i>(54,862)</i>
Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement	(7,238)	(48,443)
<i>Movement in Reserves Statement</i>		
- Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code	5,370	6,419
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
- Employers contributions payable to scheme	1,492	1,987

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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:

Net Pension Liability	31 March 2022 £000	31 March 2023 £000
Present value of the defined benefit obligation	158,337	100,709
Fair value of Fund assets	(108,238)	(103,062)
Deficit/(surplus)	50,099	(2,353)
Present value of unfunded obligation	2,522	2,191
Impact of asset ceiling**	-	2,353
Net defined benefit liability/(asset)*	52,621	2,191

Reconciliation of asset ceiling**	31 March 2022 £000	31 March 2023 £000
Opening impact of asset ceiling	-	-
Interest on asset ceiling	-	-
Actuarial (gains)/losses	-	2,353
Closing impact of asset ceiling	-	2,353

Reconciliation of opening and closing balances of the fair value of Fund assets	31 March 2022 £000	31 March 2023 £000
Opening fair value of Fund assets	103,353	108,238
Interest on assets	2,037	2,780
Return on assets less interest	5,902	(4,252)
Other actuarial (gains)/losses	-	(966)
Administration expenses	(63)	(65)
Contributions by employer including unfunded	1,492	1,987
Contributions by Scheme participants	505	691
Estimated benefits paid plus unfunded net of transfers in	(4,988)	(5,351)
Closing fair value of Fund assets	108,238	103,062

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	31 March 2022 £000	31 March 2023 £000
Opening defined benefit obligation	164,704	160,859
Current service cost	4,089	5,012
Interest cost	3,249	4,122
Change in financial assumptions	(7,123)	(56,067)
Change in demographic assumptions	-	(9,718)
Experience loss/(gain) on defined benefit obligation	417	3,352
Estimated benefits paid net of transfers in	(4,795)	(5,161)
Past service costs, including curtailments	6	-
Contributions by Scheme participants	505	691
Unfunded pension payments	(193)	(190)
Closing defined benefit obligation	160,859	102,900

*As at 31 March 2023, the Council has a Pension Liability of £2.19 million. This is significantly lower than the previous year (pension liability of £52.62 million). This is as a result of the actuary reducing life expectancy projections and an increase in interest rates affecting the discount rate for liabilities.

Pension Asset Ceiling

**The impact of the asset ceiling has been determined by the actuary under IFRIC 14 on the basis of the limitation on the Council's ability to recover the full economic benefit of its assets through reductions in future employer's contributions, because of the minimum funding requirement imposed on it by the funding strategy for the Scheme. The Council is currently committed to paying contributions into the Pension Fund at a higher rate than that at which future service costs will be accrued. On these projections, the Council will be unable to reduce future contributions to recover the £162,000 net pension asset that would otherwise apply. It is important for Members to note that the adjustment to the pension position is made to better reflect the practical operation of the funding strategy. It does not indicate that the council has paid £162,000 into the pension fund that it will never benefit from.

The pension liability as at 31 March 2023 of £2.19 million equates to the present value of the unfunded obligation of the pension scheme.

See further information on the Pensions Asset in the Narrative Statement.

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 2023, they have rolled forward the value of the Employer's liabilities calculated for the funding

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

valuation as at 31 March 2022, using financial assumptions that comply with IAS19.

To calculate the asset share they have rolled forward the assets allocated to South Hams District Council as at 31 March 2022 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 demographic assumptions are projected using the CMI_2020 Model and are summarised in the table below:

Basis for estimating assets and liabilities	31 March 2022 CMI_2020	31 March 2023 CMI_2020
Mortality assumptions (in years):		
<i>Longevity at 65 for current pensioners</i>		
- Men	22.7	21.8
- Women	24.0	22.9
<i>Longevity at 65 for future pensioners (in 20 years)</i>		
- Men	24.0	23.1
- Women	25.4	24.4
Financial assumptions (in percentages):		
- Salary increases	4.2%	3.9%
- Pension increases (CPI)	3.2%	2.9%
- Discount rate	2.6%	4.8%

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	101,427	102,900	104,408
Projected service cost	2,399	2,481	2,567
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	103,012	102,900	102,789
Projected service cost	2,483	2,481	2,480
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	104,323	102,900	101,510
Projected service cost	2,568	2,481	2,397
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	107,190	102,900	98,799

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Sensitivity analysis	£000s	£000s	£000s
Projected service cost	2,568	2,481	2,397

The estimated asset allocation for South Hams District Council as at 31 March 2023 is as follows:

Employer asset share	31 March 2022		31 March 2023	
	£000	%	£000	%
Gilts	14,396	13%	-	0%
UK equities	9,647	9%	8,130	8%
Overseas equities	54,434	50%	46,168	45%
Property	10,198	10%	9,034	9%
Infrastructure	6,112	6%	9,266	9%
Target return portfolio	10,005	9%	7,163	7%
Cash	1,278	1%	1,224	1%
Other bonds	2,214	2%	22,037	21%
Alternative assets	(46)	0%	40	0%
Total	108,238	100%	103,062	100%

Of the total fund asset at 31 March 2023, 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 2023	
		% Quoted	% Unquoted
Fixed interest government securities	UK	0%	0%
	Overseas	0%	0%
Corporate bonds	UK	7%	0%
	Overseas	0%	0%
Equities	UK	7%	0%
	Overseas	44%	0%
Property	All	0%	9%
Others	Absolute return portfolio	7%	0%
	Private equity	0%	1%
	Infrastructure	0%	9%
	Derivatives	0%	0%
	Multi sector credit fund	12%	0%
	Private debt	0%	3%
	Cash/Temporary investments	0%	1%

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Net current assets	Debtors	0%	0%
	Creditors	0%	0%
Total		77%	23%

McCloud Judgement

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

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud case. The consultation closed on 8 October 2020 and a ministerial statement in response to this was published on 13 May 2021, however a full response to the consultation is still awaited; the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown.

The actuary valuation within the financial statements includes an allowance for the McCloud judgement.

36. CONTINGENT LIABILITIES

The transfer of the Council's housing stock in March 1999 resulted in a capital receipt of some £42m. As the stock transfer had to take place over a very short timescale, wide warranties were given to South Hams Housing (now LiveWest, previously Liverty) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). These warranties were granted for 35 years from 1999. The purpose of these warranties is to safeguard the housing company if any of the main assumptions on which the transfer price was calculated turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Unfortunately, owing to the uncertainties surrounding any potential claim, it is not practicable to make an estimate of the total value of liabilities (if any).

37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

Financial Instruments held by the Council are detailed in Note 14. The Council's activities expose it to a variety of financial risks:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- **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.

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 31 March 2022 and is available on the Council's website (Minute 76).

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.

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 2022/23 was approved by Council on 31 March 2022 and is available on the Council's website (Minute 76).

The Council's Counterparty limits are as follows:

- £6.0 million for Money Market Funds
- £1.5 million on CCLA Property Investment Fund
- £2.0 million on CCLA Diversified Income Fund
- £6.0 million on term deposits with banks and building societies with the UK (£7.0 million with Lloyds Bank PLC, the Council's bank).

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 2023 and is reflected in the current figure of £543,000. This compares to £486,000 in 2021/22. 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.

Amounts Arising from Expected Credit Losses

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

	Balance at 31 March 2023	Historical Experience of Default	Estimated Maximum Exposure to Default and Uncollectability at 31 March 2023
	£000	%	£000
Deposits with Bank and Financial Institutions			
Blackrock Money Market Fund	6,000	0.000%	-
Deutsche Money Market Fund	2,500	0.000%	-
LGIM Money Market Fund	5,700	0.000%	-
Debt Management Office	1,900	0.001%	-
Standard Chartered Bank	6,000	0.012%	1
Barclays Bank PLC	4,000	0.013%	1
Lloyds Bank PLC	6,000	0.023%	1
Total	32,100		3

Liquidity risk

The Council 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

The Council 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 Council 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.

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 £1.5 million in the CCLA Local Authorities Property Fund and £2.0 million in the CCLA Diversified Income Fund. At the end of each financial year the value of the Local Authority's investments are adjusted to equal the number of units held, multiplied by the published bid price.

The above investments have 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.

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's 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 Council'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:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	Approved minimum limits	Approved maximum limits	31 March 2022		31 March 2023	
	%	%	£million	%	£million	%
Less than 1 year	0%	10%	0.096	0.7%	0.099	0.7%
Between 1 and 2 years	0%	10%	0.459	3.2%	0.461	3.2%
Between 2 and 5 years	0%	50%	1.392	9.7%	1.400	9.8%
Between 5 and 10 years	0%	50%	2.375	16.5%	2.390	16.7%
Between 10 and 20 years	0%	50%	3.642	25.3%	3.678	25.8%
More than 20 years	0%	100%	6.416	44.6%	6.256	43.8%
Total			14.380	100.0%	14.284	100.0%

38. ACCOUNTING POLICIES

a) General Principles

The **Statement of Accounts** summarises the Authority's transactions for the 2022/23 financial year and its position at the year end of 31 March 2023. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations 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 2022/23, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the Local Government Act 2003).

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- 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 – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the **Statement of Financial Position** (also known as the Balance Sheet).
- 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 **Statement of Financial Position** (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 expenditure the de minimis has remained at £5,000 in 2022/23

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:

Type of Investment	Settlement Terms	Gain/Loss on Sale	Cash Equivalent
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

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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 Council's cash management.

d) Material Items of Income and Expense

When items of income and expense are material (in excess of £500,000), their nature and amount is disclosed separately, either on the face of the **Comprehensive Income and Expenditure Statement** (CIES) or in the notes to the accounts, depending on how significant the items are to an understanding of the Council'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.

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- amortisation of intangible assets attributable to the service.

The Council 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 Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before 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 Council to terminate 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 end at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the *General Fund Balance* to be charged with the amount payable by the Council to the pension fund or pensioner in 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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Employees of the Council 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 Council.

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 Council are included in the **Statement of Financial Position** (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 Council are included in the **Statement of Financial Position** (Balance Sheet) at their fair value.

For further information please refer to Note 35.

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
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – 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.

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- **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 Council 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 Council 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:

- 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

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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 **Statement of Financial Position** (Balance Sheet) when the Council 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** (CIES) 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 **Statement of Financial Position** (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).

Financial Assets Measured at Amortised Cost

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Financial assets measured at amortised cost are recognised on the **Statement of Financial Position** (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 **Statement of Financial Position** (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).

The Council has made an irrevocable election to designate its equity instruments 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 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*.

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.

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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 Council 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 Council 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 Council 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 Council 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.

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 Council when there is reasonable assurance that:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- the Council 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 **Statement of Financial Position** (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.

k) Heritage Assets

Heritage assets are assets that are held by the Council 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.

l) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council 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 Council. 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 Council can be determined by reference to an active market. In practice, no intangible asset held by the Council 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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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) Inventories

Inventories are included in the **Statement of Financial Position** (Balance Sheet) at the lower of cost and net realisable value.

n) 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. As a non-financial asset, investment properties are measured at highest and best use.

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*.

o) Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Council 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 Council recognises on its **Statement of Financial Position** (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.

p) Leases

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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 **Statement of Financial Position** (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.

q) Overheads and Support Services

Costs of overheads and support services are only recharged to services requiring full cost recovery including Salcombe Harbour. Apart from these exceptions support services are shown in the Customer Service and Delivery

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

service group within the **Comprehensive Income and Expenditure Statement**, which is in line with the Council's internal reporting method.

r) 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 Council 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

The Council does not capitalise borrowing costs incurred while assets are under construction. The cost of assets acquired other than by purchase is deemed to be fair value unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the authority.

Assets are then carried in the **Statement of Financial Position** (Balance Sheet) using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – current 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 **Statement of Financial Position** (Balance Sheet) at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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:

- 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, Vessels 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 **Statement of Financial Position** (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:

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. This formal impairment review is undertaken by the Council's Valuer. 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 and maximum useful lives are:

Asset	Typical Useful Life	Maximum Useful Life
Buildings	Up to sixty years	Up to eighty years
Infrastructure	Up to twenty years	Up to fifty years
Refuse vehicles	Up to seven years	Up to ten years
Light vans	Up to seven years	Up to seven years
Marine vessels	Up to fifteen years	Up to fifteen years
IT equipment	Up to three years	Up to three years

For some assets, a residual value is held on the Asset Register. The residual value is the estimated amount which would currently be realised from the disposal of the asset after deducting selling costs. Residual values are recorded as £15,000 for Ferry Tugs and £6,000 for Ferry Floats, both of which are used in the operation of the Dartmouth Ferry. Refuse vehicles purchased before 2015/16 also have a residual value of £2,000.

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*.

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 Assets Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets Held for Sale and their recoverable amount at the date of the decision not to sell.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 **Statement of Financial Position** (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*.

s) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a present 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.

If it is not clear whether an event has taken place on or before the Balance Sheet date, it is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the Balance Sheet date. The present obligation can be legal or constructive.

Provisions are charged as an expense to the appropriate service line in the **Comprehensive Income and Expenditure Statement** in the year that the Council becomes aware of the obligation and are measured at the best estimate at the **Statement of Financial Position** (Balance Sheet) date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the **Statement of Financial Position** (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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 Council.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council 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 Council. 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 **Statement of Financial Position** (Balance Sheet) but disclosed in a note to the accounts. The Council operates a disclosure de minimis policy for contingent liabilities of £50,000.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council 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 Council.

Contingent assets are not recognised in the **Statement of Financial Position** (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. The Council operates a disclosure de minimis policy for contingent assets of £50,000.

t) Reserves

The Council 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 Council – these reserves are explained in the relevant policies.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

u) 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. Material revenue sources will be disclosed on the face of the **Consolidated Income and Expenditure Statement** and as part of Note 2, Material Items of Income and Expenditure.

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.

Further details of specific revenue recognition are provided in policies b) Accruals of Income and Expenditure and z) Accounting for Local Taxes.

v) 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 Council 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.

w) Section 106 Deposits

Where repayment conditions exist, developer contributions are treated as revenue receipts (Long Term Liabilities in the Statement of Financial Position, also known as the Balance Sheet) unless a clear capital use is identified in the terms of the agreement. In the latter case they are defined as Capital Receipts in Advance. Where no conditions are attached to the agreement, they are either treated as capital grants unapplied or credited directly to services if revenue in nature.

x) Shared Services

South Hams District Council and West Devon Borough 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 officers 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 and Governance Committee approve the methodology for recharging the salary cost of shared officers.

y) VAT

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

z) 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 Council'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 Council'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 **Statement of Financial Position** (Balance Sheet) includes the Council'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.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due are under the statutory arrangements will not be made, the asset is written down and a change made to the taxation and non-specific grant income and expenditure line in the **Comprehensive Income and Expenditure Statement**. The impairment loss

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

is measured as the difference between the carrying amount and the revised future cash flows.

aa) 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.

39. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Council in the 2023/24 financial statements i.e. from 1 April 2023.

The Council 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 Council.

In response to the Covid-19 pandemic and an urgent consultation being ran across Local Government in February 2022, CIPFA/LASAAC deferred the implementation of IFRS 16 'Leases in the Public Sector' until the 2024/25 financial year, with an effective date of 1 April 2024.

Following this deferral to 1 April 2024, it is not yet possible to determine the impact of IFRS16 on the Council's financial performance or financial position.

40. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 38, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The main critical judgement made in the Statement of Accounts is:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs. The methodology for the apportionment of costs (predominantly staffing costs) are split on a defined basis which reflects the level of caseload attributable to each individual service. The methodology and mechanisms used to calculate the cost allocations are reviewed and reported to the Audit and Governance Committee on an annual basis. The final actual shared services split formulae are adjusted if they exceed a tolerance level of 3% from the original estimate.

SECTION 4. COLLECTION FUND

COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2023

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.

2021/22 Business Rates £000	2021/22 Council Tax £000		2022/23 Business Rates £000	2022/23 Council Tax £000
		INCOME		
	(83,021)	Income from Council Tax		(86,382)
(22,865)	-	Business Rates Receivable	(25,442)	-
28	-	Less: Transitional Relief	160	-
(22,837)	(83,021)		(25,282)	(86,382)
		EXPENDITURE		
		Precepts, Demands and Shares:		
14,219	-	Central Government	11,459	-
2,559	57,879	Devon County Council	2,062	60,919
-	9,060	Devon & Cornwall Police	-	9,650
284	3,447	Devon & Somerset Fire Authority	229	3,593
11,375	9,679	South Hams District Council (net including Towns/Parishes)	9,167	10,196
(2,029)	-	Business Rates written off and change in impairment allowance	204	-
-	491	Council Tax written off and change in impairment allowance	-	435
(354)	-	Business Rates increase/(decrease) in provision for appeals	(1,485)	-
-	-	Disregarded Amounts	1,402	-
212	-	Business Rates – Costs of collection	214	-
		Distribution/collection of previous year's estimated surplus/(deficit):		
(7,592)	-	Central Government	(5,139)	-
(1,366)	(181)	Devon County Council	(925)	1,084
-	(28)	Devon and Cornwall Police	-	170
(152)	(11)	Devon and Somerset Fire Authority	(103)	65
(6,074)	(30)	South Hams District Council	(4,111)	181
11,082	80,306		12,974	86,293
(11,755)	(2,715)	MOVEMENT ON BALANCE	(12,308)	(89)

SECTION 4. COLLECTION FUND

1. Council Tax and Council Tax Base

In 2022/23, the Council's average Band D Council Tax was £2,155.30 (£2,090.55 in 2021/22). The charge for each band is a ratio of band D. The 2022/23 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	1,197.39
A	6/9	1,436.87
B	7/9	1,676.34
C	8/9	1,915.82
D	1	2,155.30
E	11/9	2,634.26
F	13/9	3,113.21
G	15/9	3,592.17
H	18/9	4,310.60

These charges are before any appropriate discounts. 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 2022/23 was **39,139.70** as calculated below (38,298.32 in 2021/22).

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A	-	11.75	11.75	5/9	6.53
A	5,079	(879.00)	4,200.00	6/9	2,800.00
B	8,832	(1,061.50)	7,770.50	7/9	6,043.72
C	9,021	(863.75)	8,157.25	8/9	7,250.89
D	8,190	(616.00)	7,574.00	1	7,574.00
E	7,130	(462.50)	6,667.50	11/9	8,149.17
F	3,952	(190.75)	3,761.25	13/9	5,432.92
G	3,087	(163.50)	2,923.50	15/9	4,872.50
H	352	(20.50)	331.50	18/9	663.00
Total	45,643.00	(4,245.75)	41,397.25		42,792.73
Less allowance for non-collection					(1,069.82)
Plus adjustment for armed forces dwellings					70.00
Other adjustments including Council Tax Support					(2,653.21)
Tax base					39,139.70

SECTION 4. COLLECTION FUND

2. Rateable Value

The total business rates rateable value at 31 March 2023 was £88,573,592. This compares to £86,993,036 at 31 March 2022. The standard business rates multiplier was 51.2p in 2022/23 (2021/22 51.2p). Without reliefs this would generate a total income of £45,349,679.10 (2021/22 £44,540,434.43). 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. In 2022/23 the Government continued to fund a Retail, Hospitality and Leisure Relief scheme in response to the Covid-19 pandemic.

3. Collection Fund balance

2021/22 Business Rates* £000	2021/22 Council Tax £000		2022/23 Business Rates* £000	2022/23 Council Tax £000
18,106	(28)	Fund balance at 1 April	6,351	(2,743)
(11,755)	(2,715)	Deficit/(surplus) for year	(12,308)	(89)
6,351	(2,743)	Fund balance as at 31 March – deficit/(surplus)	(5,957)	(2,832)

*Business Rates Position

During 2021/22 local authorities received further s31 grants to offset the business rate reliefs given to businesses during the pandemic. Under current Collection Fund accounting rules, the s31 grants received could not be discharged against the Collection Fund deficit until the following year. The balance on the Business Rates Collection Fund as at 31 March 2023 has moved from a £6.35m deficit to a £5.96m surplus following the release of this s31 compensation grant to the Collection Fund in 2022/23.

SECTION 4. COLLECTION FUND

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

2021/22 Business Rates* £000	2021/22 Council Tax £000		2022/23 Business Rates* £000	2022/23 Council Tax £000
3,175	-	Central Government	(2,978)	-
572	(1,982)	Devon County Council	(536)	(2,045)
-	(312)	Devon and Cornwall Police	-	(324)
64	(118)	Devon and Somerset Fire Authority	(60)	(121)
3,811	(2,412)	Total deficit/(surplus) due to Preceptors	(3,574)	(2,490)
2,540	(331)	South Hams District Council	(2,383)	(342)
6,351	(2,743)	Fund balance as at 31 March – deficit/(surplus)	(5,957)	(2,832)

*Business Rates Position

The balance on the Business Rates Collection Fund as at 31 March 2023 has moved from a £6.35m deficit to a £5.96m surplus following the release of s31 compensation grant received in 2021/22 to the Collection Fund. This balance is shared between the Preceptors and South Hams District Council as shown in the table above. The Preceptors element of this surplus is reflected in the significant reduction in the Business Rates Debtor as at 31 March 2023 detailed in Note 15.

SECTION 5. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS.

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs. In this Authority, that officer is the Section 151 Officer & Corporate Director of Strategic Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- 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 (which includes the financial statements) 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;
- 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 of its income and expenditure for the year ended 31 March 2023.



.....
Lisa Buckle BSc (Hons), ACA
Corporate Director of Strategic Finance (Section 151 Officer)

28 March 2024

SECTION 5. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS.

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit and Governance Committee at its meeting held on 28 March 2024.

Signed on behalf of South Hams District Council

.....

Councillor L Bonham

Chairman of the Audit and Governance Committee

SECTION 6. AUDITORS REPORT.

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

SECTION 7. GLOSSARY OF TERMS

ACCRUALS	A sum included in the accounts to cover income or expenditure attributable to an accounting period for goods received or works done, but for which payment has not been received/made by the end date of the period for which the accounts have been prepared.
ACTUARIAL GAINS AND LOSSES	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.
BALANCES	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.
CAPITAL EXPENDITURE	Expenditure on the acquisition of an asset or expenditure which adds to and not merely maintains the value of an existing asset.
CAPITAL RECEIPTS	Income received from sale of assets which is available to finance other capital expenditure or to repay debt on assets financed from loan.
CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)	The governing body responsible for issuing the statement of recommended practice to prepare the accounts.
COLLECTION FUND	A separate fund which must be maintained by a district for the proper administration of council tax and business rates.
CURRENT SERVICE COST	Amount chargeable to Services based on the Actuary's assessment of pension liabilities arising and chargeable to the financial year.
CURTAILMENTS	This is the amount the Actuary estimates as the cost to the Authority of events that reduce future contributions to the scheme, such as granting early retirement.

SECTION 7. GLOSSARY OF TERMS

DEFINED BENEFIT SCHEME	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).
DEMAND	The charging authorities own Demand is, in effect, its precept on the fund.
FAIR VALUE	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.
FEES AND CHARGES	In addition to the income from charge payers and the Government, local authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.
FINANCIAL INSTRUMENTS	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.
GOVERNMENT GRANTS	Payments by Central Government towards the cost of local authority services, including both Revenue and Capital.
IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)	Provisions against income to prudently allow for non collectible amounts.
INTEREST COST	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.
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND THE CODE OF PRACTICE (CODE)	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

MINIMUM REVENUE PROVISION (MRP)	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.
PAST SERVICE COST	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.
PRECEPT	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.
PROJECTED UNIT METHOD	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.
RATEABLE VALUE	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.
REVENUE EXPENDITURE	Recurring items of day to day expenditure consisting principally of salaries and wages, and general running expenses etc.
SETTLEMENTS	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.
STRAIN ON FUND CONTRIBUTIONS	Additional employers pension contributions as a result of an employee's early retirement.
SUNDRY CREDITORS	Amounts owed by the Council at 31 March.
SUNDRY DEBTORS	Amounts owed to the Council at 31 March.

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South Hams
District Council

South Hams District Council

Annual Governance Statement 2022/23

(Audited)

1. Scope of Responsibility

Introduction

South Hams District 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, South Hams District 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.

Governance Responsibilities

The role of the Chief Executive is to implement the plans and policies that support the strategic direction of the Council as set by Members. The Chief Executive leads the Senior Leadership Team consisting of the Directors of Strategic Finance, Customer Service and Delivery, Strategy & Governance and Place & Enterprise, who are in turn supported by Assistant Directors and Heads of Service.

The Council's Director of Strategic Finance is a qualified accountant 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' or 'Chief Financial Officer'

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 Governance Framework

The Council's Governance Arrangements

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.

Governance Responsibilities

The governance framework was in place at South Hams District Council for the year ended 31 March 2023 and is expected to continue up to the date of approval of the Accounts by the Audit and Governance Committee.

This Statement explains how South Hams District Council has met the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and set out in the 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 as set out to the right.

- Principle A: Behaving with Integrity, demonstrating a strong commitment to ethical values and respecting the rule of law
- Principle B: Ensuring openness and comprehensive stakeholder engagement
- Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits
- Principle D: Determining the intervention necessary to achieve intended outcomes
- Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Principle F: Managing risks and performance through robust strong financial management
- Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

Principle A: Behaving with Integrity, demonstrating a strong commitment to ethical values and respecting the rule of law

Steps we take to uphold the principle

In order to promote ethical behaviours amongst Members and Officers, the Council has a number of policies such as those relating to procurement, whistleblowing, counter fraud and anti-money laundering. The Council also reviews and adopts annually its Constitution which comprises rules of procedure and codes of conduct.

All Council decisions incorporate a legal implications section within the report and these are published on the Council's website as part of our agenda packs.

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 including:

- ✓ Having Codes of Conduct in place for Members and Officers which include arrangements for registering interests and managing conflicts of interest. This is supported by an e-learning course for officers and face to face training through Member Induction.
- ✓ The Council's Constitution defines the roles and protocol of Members and officers in their dealings with each other.
- ✓ Staff are assessed against a set of key behaviours to establish the right organisational values and culture both during the recruitment process and throughout the year through the Performance Management process.
- ✓ The Council has effective counter fraud and anti-corruption arrangements which are maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPA, 2014). The Council also participates in the National Fraud Initiative (NFI).
- ✓ The Council's whistle-blowing (Confidential Reporting) policy, has been updated and approved at Full Council on 19th May 2022 and subsequently promoted to staff
- ✓ Operating a robust information governance regime including promoting a culture of openness and encouraging reporting and investigation of data breaches. 21 breaches were reported through the year, none meeting the threshold to report to the Information Commissioner.
- ✓ Commissioning an Annual IT Health check from an accredited external security specialist who found our overall security to be 'Excellent'

Principle B: Ensuring openness and comprehensive stakeholder engagement

Steps we take to uphold the principle

All Council business is conducted in public unless legislation deems it appropriate for it to be considered in private.

During this year we have taken further steps to enhance the technology enabling remote participation at meetings (for non-committee members and officers). This has meant that other partner agencies have been able to participate in meetings such as Overview & Scrutiny who may not typically have been able to attend.

During the year the Council has undertaken a number of consultation & engagement exercises including the following topics:

- Council Tax reduction scheme
- My Place, My Views consultation
- Homelessness Strategy development
- Electric Vehicle Charging Points
- Budget engagement with businesses

In addition the Council undertakes the following to ensure a strong commitment to ethical values and behaving with integrity including:

- ✓ 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.
- ✓ Streams all public council meetings to Youtube and Facebook live enabling anyone to access the content of meetings.
- ✓ 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.
- ✓ Prepares an Annual Report, extracts of which are in the Statement of Accounts (Section 1 – Narrative Statement)

Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits

Steps we take to uphold the principle

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 set out in the Better Lives for All Strategy and detailed delivery plans. These can be seen [here](#). These include:

- a commitment to mitigating climate change and increasing biodiversity
- promoting the coastal and visitor economy
- Supporting the strategic employment and infrastructure
- Supporting town and businesses
- Ensuring we have a sustainable built and natural environment
- Buying local where possible

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.

In addition the Council undertakes the following to define outcomes in terms of sustainable economic, social and environmental benefits:

- Demonstrates the work of the Council through an Annual Report of Achievements
- Provides quarterly updates to Executive on progress against our adopted priorities
- Shows how the Council supports its priorities in the decisions it makes in each report that the Council considers
- Demonstrates its commitment to sustainability in the planning applications it determines
- Delivery of more EV installations on Council land
- Working with partners on an approach to tackling rural poverty
- Facilitating urban tree planting

Principle D: Determining the interventions necessary to achieve intended outcomes

Steps we take to uphold the principle

The Council has implemented an enhanced performance management framework to report on the progress against our adopted Better Lives for All strategy. This framework includes:-

- Quarterly Integrated Performance Management Reports to Executive
- Monthly 'Deep-dives' in to a specific theme by Overview & Scrutiny Committee
- Six monthly Key Performance Indicator reports considered by Overview & Scrutiny
- Six-monthly Strategic Risk reports to Audit & Governance Committee setting out the key risks in achieving our ambitions
- An Annual Report of achievements aligned to our strategic priorities

During this year, the performance management framework has been further enhanced with the implementation of a number of officer boards and we have taken further steps to enhance our performance management framework including :

- Establishing a Strategic Delivery Board consisting of the Senior Leadership Team, Assistant Directors and other Heads of Service as required. This board has oversight of key strategic programmes including corporate strategy delivery.
- Establishing a Performance Board to be responsible for overseeing organisational performance and to take operational service based decisions around resource deployment and management
- Establishing Waste, Planning and Capital Programme Management boards to oversee progress of these key service areas.
- Audit report tracking

Partnerships & Governance

The Council has several partnerships that help to deliver our Strategic Priorities. Regular updates are provided by key partnerships to Members with them being provided either formally to the Overview & Scrutiny Panel or informally through the weekly Member Bulletin.

During 2022/23, the Council has taken steps to extend funding to those key partners that contribute to our priorities. Agreement was made to extend funding for partners such as Citizens Advice, Council for Voluntary Service and community transport schemes for a further two years. We have also increased funding to Citizens Advice in recognition of the additional collaboration required to respond to the Cost of Living Challenges.

Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Steps we take to uphold the principle

Through regular staff briefings, e-bulletins, team meetings and an online staff appraisal system, South Hams District Council ensure that all staff understand our corporate priorities and how their work contributes to them.

During 2022/23 there has been a significant focus on organisational development (including a clear OD Plan developed with input from staff) and people management with the bringing together of core functions (HR, Comms, Organisational Development and Strategy).

In September we carried out an employee survey (delivered by the LGA). This has enabled us to identify the key drivers to unlocking further potential within the organisation as well as benchmarking with other similar authorities. We will be following this up with a further survey during 2023/24 to see how we're progressing.

In addition the Council undertakes the following to develop the entity's capacity of its leadership and the individuals within it:

- Delivered a Management Development Programme for a cohort of over 30 senior officers within the Council
- Provided a Member training and development programme
- Promoted to staff the use of "Learning Pool" an extensive online learning resource
- Delivered focused training on specific issues (e.g. complaints, data protection, information security)
- Worked in partnership with local authorities and other bodies to achieve economies of scale -West Devon for our full Shared Services, Teignbridge District Council for Procurement support and Plymouth City Council through our Joint Local Plan.
- Conducted a staff survey to gauge employee satisfaction and assist in improving how the organisation performs.
- Held a Staff Awards ceremony to recognise outstanding performance, and highlighted compliments paid to staff from customers and colleagues in the weekly staff bulletin

Principle F: Managing risks and performance through robust internal control and strong public financial management

Steps we take to uphold the principle

There is a culture of risk ownership and management throughout the Council with Strategic Risks being 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.

Elected Members have the opportunity to raise concerns with the mitigating actions being taken by officers and can suggest new risks for consideration. In addition to continuing to report risks to the Council's Audit Committee twice a year, an overview of the risk profile is provided to the Executive on a quarterly basis.

All Committee reports include a reference, where relevant, to the potential impact on the Council's priorities and corporate strategy themes, and address as appropriate any financial, staffing, risk, legal and property implications.

In addition, the Council undertakes the following to manage risks and performance:-

- 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 considered by the Executive.
- Active performance management arrangements including regular reports to Overview & Scrutiny Panel and Development Management Committee on performance measures.
- Identifies key risks for each service as part of its annual service planning cycle
- Maintains risk registers for significant projects – capital programme, future IT etc.
- 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 Panel.
- Freedom of Information requests are dealt with in accordance with established protocols.
- Fraud/Irregularity - There have been no irregularities to report regarding the day-to-day operation of the Council. However, there have been 23 cases investigated (value of £96,577) which relate to COVID-19 business grant applications. None of these were proven to be fraud but were errors or non-compliance with the grant conditions. As a result, £77,050 has been repaid to the Council and central Government. Any cases identified have been reported to Devon Audit Partnership's Counter Fraud Team and to the National Anti-Fraud Network (NAFN).

Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

Steps we take to uphold the principle

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 & Governance Committee meets between five and six 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 A.53/18), it was recommended to Council for South Hams to join the Devon Audit Partnership as a 'non-voting' partner. This was approved by Council in March 2019 with the Council joining the partnership as a non-voting partner from 1 April 2019.

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 Executive 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, the Council's Constitution, good financial management and ensuring up to date risk management across the Council.

In addition the Council undertakes the following to implement good practices in transparency, reporting and audit:-

- Appointing an external auditor (Grant Thornton) for 2022/23 to make conclusions on our accounting and value for money arrangements
- Ensured all Member decisions are formally minuted
- Streams all of its public meetings online
- Publishes all Council decisions online together with background reports
- Produces an Annual Report detailing Council performance and spend

How we ensure the Governance Framework and controls are effective

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.

The Audit & Governance Committee

The Audit & Governance 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 & Governance Committee 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. oversight of the financial reporting process.

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 function operates in accordance with best practice professional standards and guidelines to independently and objectively review 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. The Senior Leadership Team consider all Internal Audit reports and ensure that agreed recommendations are implemented.

The Internal Audit annual report for 2022/23 was considered by the Audit & Governance Committee on 9th March 2023 (Minute AG.36/22). The report contains the Head of Internal Audit's Opinion for the 2022/23 year which is that of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework

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.

External Auditors and other review agencies/ inspectorates

Our external auditors (Grant Thornton) have issued their 'Audit Findings report for the Council' for 2022/23 and this will be considered by the Audit and Governance Committee on 28 March 2024. The document summarises their key findings in relation to their external audit of the Council for 2022/23 and contains 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 'Audit Findings' report concludes that Grant Thornton have substantially completed an audit of the financial statements and subject to outstanding queries being resolved, they anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 28 March 2024.

Value for Money Arrangements

Grant Thornton's Value for Money work provides a commentary on the work the Council have undertaken to address the key elements of governance, financial sustainability and how to improve economy, efficiency and effectiveness.

The Value for Money arrangements for 2021/22 were not able to be considered during 2022/23 due to capacity issues for our Auditor, Grant Thornton. **A joint Value for Money report was undertaken for 2021/22 and 2022/23.**

On 14 December 2023 the Audit and Governance Committee considered an interim Auditor's Annual Report from the Council's external auditors, Grant Thornton. This gave commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The report stated that 'The Council has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources. Our work has not identified any significant weaknesses in arrangements.'

Significant Governance Issues

Over the coming pages, we set out key issues for the Council during the year and the actions we will take to address any weaknesses identified in our governance system. The issues identified within this section of the report are informed by our own testing and assessment including any significant risks from our Strategic Risk Register.

Issue Identified	Action to be taken	Responsible Officer and target date
<p><u>Financial Uncertainty</u></p> <p>The Executive considered the Medium Term Financial Strategy for the Council in September 2022. The Council has continued to work in partnership with West Devon Borough Council which has allowed us to achieve annual savings of £3.9m and more importantly, protect frontline services.</p> <p>The Council does however continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending and the additional pressures as a result of inflationary increases to its goods and services. We had expected a longer term financial settlement to be made in December 2022 however Government again made only a single year settlement. It did however set a commitment for consultation on further funding reforms to come forward during 2023.</p> <p>In February 2023, Full Council considered, and agreed, a balanced budget for 2023/24</p>	<p>The Council will continue to lobby Government for fairer funding for rural services, and respond to the committed consultation on funding reforms which we anticipate to be launched in 2023.</p> <p>Following the commencement of the new Council term in May 2023, officers will work with the Leader and his Executive to update the Medium Term Financial Strategy and review the existing capital programme and reserves. This activity will be aligned to the development of a new Corporate Strategy for the next 4 year period.</p>	<p>Director Strategic Finance – 2023</p> <p>Director Strategic Finance – September 2023 Executive meeting</p>

Issue Identified	Action to be taken	Responsible Officer and target date
<p><u>Delivery of Waste and Recycling</u></p> <p>In the 2021/22 Annual Governance Statement, we highlighted the issues being experienced by our waste contractor in delivering the Waste and Recycling Service.</p> <p>Throughout 2022/23, the Council continued a significant focus on trying to resolve issues with its waste and recycling service.</p> <p>On 12 July 2022, Executive considered a report, with advice from the Council’s Waste Working Group. The Waste Working Group advised that the Council and FCC Environment have reached a mutual agreement to end their contract for waste, recycling, street and toilet cleaning services. Both parties agree that the past few years have presented a number of extremely challenging circumstances.</p> <p>In the best interests of the residents of the South Hams, it was proposed that the services will be operated by the Council from Monday 3 October 2022. This decision was subsequently approved by Full Council on 14 July 2022.</p> <p>The Council developed a project team to ensure a smooth transition of services back to the Council, with the services returning to the Council’s control as planned on 3 October.</p> <p>Since the service has been returned to the control of the Council, service performance has stabilised and improved significantly. We have taken steps to reduce the amount of agency resource employed to further provide stability for the service. The introduction of a chargeable garden waste service progressed and launched in March 2023. As reported to the Executive on 13th April 2023, there has been a fundamental improvement in performance and in February 2023, for the first time in over three years, the service has achieved the national industry standard performance target of no more than 80 missed bins per 100,000 collections.</p>	<p>The Council is now progressing plans to purchase end of life fleet replacements and the fleet required in order to roll out the remaining properties (approx. 23,000) onto the Devon Aligned Services (anticipated to be in October 2023). The estimated cost is £2.16m and the Council is utilising the Vehicle and Plant Earmarked reserve and the one-off implementation budget to purchase the fleet. The rationale for implementing this service is to improve recycling rates and reduce recyclable materials entering the residual waste stream, ultimately contributing to the national climate change targets.</p> <p>The Council also intends to progress with improvements to the Torr Depot in order to provide further performance improvements.</p>	<p>Assistant Director Waste and Operations – October 2023</p> <p>Assistant Director Waste and Operations – October 2023</p>

Issue Identified	Action to be taken	Responsible Officer and target date
<p><u>Inadequate Staffing Resource</u></p> <p>During 2022/23, the risk that the Council is unable to retain existing and attract new staff has continued to increase, to the point where it is an issue rather than a risk.</p> <p>The last few years have seen Local Government stepping up to provide significant and varied support to our residents, communities and businesses in addition to maintaining our core service delivery. In addition to increasing the pressure on our workforce, it has resulted in longer term changes to recruitment and retention.</p> <p>Throughout 2022/23, the Council has experienced recruitment and retention challenges. In February 2022, we introduced a market supplement policy that enables an enhancement to be made to the salary of certain roles where there is a demonstrable difficulty in recruiting (such as Planning and Legal Officers). These supplements are for an initial 2 year period and kept under review.</p> <p>The Council has also undertaken a job evaluation exercise on all principal professional and technical roles, comparing salaries to other similar employers and considering any recruitment and retention challenges. Steps taken have ensured that all Council employees will have received a minimum 6% pay increase since April 2022.</p>	<p>The Council will continue to monitor the issue and impacts of recruitment and retention challenges. In January 2023 we developed a comprehensive Organisational Development Plan setting out all of the steps we will implement to place the Council as an employer of choice, supporting and developing our workforce to deliver our future priorities. The delivery of this plan will be a significant focus throughout 2023/24.</p> <p>In the Autumn, we will undertake a further employee survey and, if required, adapt our plans in response.</p>	<p>Assistant Director Strategy and Organisational Development – 2023/24 ongoing</p>

Issue Identified	Action to be taken	Responsible Officer and target date
<p>Health and Wellbeing Service Provision</p> <p>Leisure services continue to be provided at the leisure centres. Leisure services nationally continue to be significantly impacted by the increases to energy costs and other supplies and services, with the issue being further compounded as individuals consider their own levels of expenditure and focus on essential spending – with discretionary spending on items such as leisure being areas where individuals consider making savings.</p> <p>The Council continues to regularly meet with the Chief Executive and Financial Director of Fusion Leisure to understand the impacts. We are actively taking steps to support the fusion progress plan for the decarbonisation of its sites which will, longer term, result in a reduction of energy costs – although this does not address the immediate impacts. Plans are already in place and have been approved to install solar panels on each leisure centre. The Council will apply to the Swimming Pool Support Fund, with applications being opened in the Summer. This was the £60m of new government funding that was announced in the Spring 2023 Budget. The Government funding is being distributed by Sport England although the amounts of funding available to leisure centres is likely to be minimal. Total memberships of the four leisure centres are 93.4% of the pre-covid levels in March 2020 (4,542 in March 2023, compared to 4,865 in March 2020).</p>	<p>The Council has regularly met with the Chief Executive of our outsourced Leisure Service (Fusion Leisure) to monitor the impacts. We are actively taking steps to progress plans for the decarbonisation of its sites which will, longer term, result in a reduction of energy costs – although this will not address the immediate impacts.</p> <p>The Director of Place and Enterprise and Section 151 Officer will work with the provider and bring further updates to Members as required.</p>	<p>The Director Place and Enterprise and Section 151 Officer – 2023/24</p>

Issue Identified	Action to be taken	Responsible Officer and target date
Internal Audit Recommendations	<p>During the year, the Council’s internal audit team have carried out a number of reviews in order to provide an annual opinion of the adequacy and effectiveness of the Councils internal control framework. At the meeting of the Audit and Governance Committee on 9th March 2023, the Head of Internal Audit concluded an opinion of Reasonable Assurance for the 2022/23 financial year. This means that following Internal audits undertaken during the year, the Internal Audit team consider that there are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified with the most significant recommendations being as follows.</p> <p><u>Building Maintenance Works Scheduling – Follow Up Audit (Limited Assurance)</u></p> <p>This follow up Audit has carried forward a number of High Priority recommendations which relate to:-</p> <ul style="list-style-type: none"> •Creating a formal building maintenance strategy and delivery plan to guide and prioritise building maintenance work. •Review the resourcing and roles and responsibilities of the Building Maintenance Team, and prioritise their work •Consider the balance between planned and reactive maintenance work and review the staff resource allocated <p><u>Procurement Audit (Limited Assurance)</u></p> <p>Two high priority recommendations were made</p> <ul style="list-style-type: none"> •Follow an appropriate procurement route when current energy contracts expire •Maintaining a central contract register 	<p>Head of Assets – Target date June 2023</p> <p>Head of Assets – July 2023</p> <p>Head of Assets – March 2024</p> <p>Head of Assets – Target September 2024</p> <p>Assistant Director Strategy – Feb 2023</p>

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 and Governance Committee.

Signed:

Signed:

Cllr Julian Brazil

Andy Bates Chief Executive

Leader of South Hams District Council

**On behalf of South Hams
District Council**

Date: 28 March 2024

Summary Accounts 2022/23



South Hams
District Council

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	Actual 2021/22 Restated £million	Actual 2022/23 £million
Spending on Services		
Customer Service & Delivery* (mainly frontline services such as Waste and Recycling, Grounds Maintenance and Revenues and Benefits)	7.431	12.049 ¹
Strategic Finance (including Pension Costs, Corporate Management and Finance)	1.386	1.886
Place & Enterprise** (including Housing, Car Parking, Dartmouth Lower Ferry, Salcombe Harbour, Assets and Environmental Health)	2.909	4.702
Governance & Assurance (including Planning, Land Charges, Elections, Legal Services, Democratic Services and Insurance)	2.632	3.055
Cost of Services	14.358	21.692
Removal of technical accounting adjustments e.g. depreciation, revaluation and IAS19 retirement benefits	(6.776)	(8.563)
Cost of Services – excluding technical accounting adjustments	7.582	13.129
Income from Investments and other Adjustments***		
Investment Properties	(0.910)	(0.911)
Interest and Investment Income	(0.140)	(1.146)
Interest payable and repayment of principal debt	0.852	0.859
Other adjustments	2.254	(1.507)
Net Cost of Services – to be met by local taxation and government grants	9.638	10.424
Income from local taxes and government grants***		
Council Tax income	(6.719)	(7.061)
Deficit/(Surplus) on Council Tax Collection Fund	0.030	(0.181)
Business Rates	(2.653)	(2.574)
Non ringfenced government grants	(0.510)	(0.665)
Total income from local taxes and government grants	(9.852)	(10.481)
Surplus for the year (to be added to the General Fund Balance)	(0.214)	(0.057)

THE COST OF COUNCIL SERVICES FOR 2022/23

The Comprehensive Income and Expenditure Account (CIES) details the cost of running Council Services between 1 April 2022 and 31 March 2023, where the money came from to finance those costs along with the surplus at the year end.

¹ For example, this figure should be read as £12.049 million

* The increase in Customer Service and Delivery expenditure in 2022/23 of £4.7m includes the cost of bringing the Waste & Recycling Service back in house from October 2022 and some one-off transitional costs for this service.

** The increase in Place & Enterprise expenditure mainly relates to payment of the Green Homes grant of £0.91m in 2022/23.

*** Income figures are shown in brackets.

The 2022/23 budget for South Hams was £10.46m but the actual net spend was 0.5% lower, providing a surplus of £57,000 for the year.

SUMMARY OF THE FINANCIAL POSITION 2022/23

There were a number of factors which contributed to the overall surplus of £57,000 in 2022/23. These can be summarised as follows:

In 2022/23 the Council incurred additional costs and a shortfall in income of £1.92m (equating to 18% of the Council's net budget of £10.46m). Many of the additional costs were as a result of the current economic climate with high inflation and the cost of living crisis. The extra costs incurred in the year included the impact of the local government pay award (£0.41m) and extra inflation (over the amount budgeted) for the waste contract, utility costs, IT costs and insurance costs totalling (£0.56m). In addition, the Council experienced a shortfall in planning income of £0.35m.

These extra costs and shortfall in income were offset by the Council generating additional investment income from treasury management of £1.02m, as a result of the Council realising the opportunity from high interest rates. Overall, £1.97m of additional income (equating to 19% of the Council's net budget of £10.46m) was generated from the extra investment income, additional net income from car parking from extra usage, high occupancy rates and regular rent reviews generating extra income from the Council's employment estates and additional income from the Dartmouth Lower Ferry.

The difference between the higher costs and the additional income achieved in 2022/23 equates to the overall surplus of £57,000.

Waste Service

There were exceptional one-off transitional costs of £1.5m in 2022/23 for bringing the waste and recycling service back in house in October 2022. This was referenced in reports to Council on 12 July and 22 September 2022 and had the support of the cross party Waste Working Group. The £1.5m was funded from the business rates retention reserve which was approved by Council prior to the waste service being brought back in-house in October 2022. In addition a further £0.5m was spent on one-off project implementation costs, with the Council receiving third party funding towards these costs. There has been a fundamental improvement in performance for the waste and recycling service, such that in February 2023, for the first time in over 3 years, the service achieved the national industry standard performance target of no more than 80 missed bins per 100,000 collections.

BORROWING

In 2022/23 the long term borrowing of the Council reduced from £14.28m (2021/22) to £13.82m. Short term borrowing increased from £0.1m to £0.46m. This is due to the profiling of the debt repayments where long term borrowing has moved to short term borrowing. Total borrowing as at 31 March 2023 has reduced from £14.38m to £14.28m. No further external borrowing took place during 2022/23.



BALANCE SHEET

The Balance Sheet shows what the Council owns, owes or is owed.

BALANCE SHEET	31 March 2022 £million	31 March 2023 £million
Net Assets		
Building, Land & Assets owned by the Council	99.140	105.793
Money Owed to the Council	8.941	9.095
Investments – long term and short term*	34.105	20.526
Cash and Cash Equivalents*	22.981	14.709
Money Owed by the Council*	(33.883)	(17.290)
Provisions – Business Rates Appeals	(1.494)	(0.901)
Pension Liability**	(52.621)	(2.191)
S106 Deposits	(5.717)	(6.643)
Borrowing – long term and short term	(14.380)	(14.284)
Total Net Assets	57.072	108.814
FINANCED BY:		
Usable Reserves		
General Fund Balance	2.056	2.113
Earmarked Reserves***	20.839	15.424
Capital Reserves	3.454	3.329
Unusable Reserves		
Capital Finance & Revaluation of Assets	85.603	87.273
Collection Fund Adjustment Accounts	(2.209)	3.957
Pension Reserve**	(52.621)	(2.191)
Other Unusable Reserves	(0.050)	(1.091)
Total Reserves – Usable and Unusable	57.072	108.814

* The reduction in investments, cash and cash equivalents and money owed by the Council as at 31 March 2023 partly relates to the timing of the Council Tax energy rebate grant (£4.51m) which was received at the end of 2021/22 and the payments were made on behalf of Central Government at the beginning of 2022/23. In addition the Council also administered various Business Grants on behalf of Central Government in 2021/22 and part of the reduction in investments, cash and cash equivalents and money owed by the Council relates to unapplied funding being repaid to Central Government in 2022/23.

** As at 31 March 2023, the Council had a Pension Liability of £2.19million. This is a significantly improved position than the previous year (pension liability of £52.62 million). This is as a result of the actuary reducing life expectancy projections and an increase in interest rates affecting the discount rate for liabilities.

*** Earmarked reserves have reduced by £5.4m in 2022/23. This mainly relates to an accounting adjustment in respect of Business Rates (£3.07m), transitional costs for the Waste and Recycling service of £1.45m and capital expenditure of £1.08m.

CAPITAL PROGRAMME

Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £9.38m in 2022/23. The main areas of expenditure were Dartmouth Health and Wellbeing Hub (£3.83m), St Ann's Chapel housing scheme (£1.56m), residential renovation grants (£1.14m), Green Homes grants (£0.91m) and Batson Harbour Depot/Commercial Units (£0.78m).

A breakdown of the main types of capital expenditure and the sources of funding are shown below:

CAPITAL PROGRAMME FOR THE YEAR	2021/22 £million	2022/23 £million
Capital Expenditure		
Property	0.015	0.410
Other Land	0.137	0.207
Plant & Equipment	0.730	0.358
IT Software	0.166	0.095
Disabled Facilities Grants & Regulatory Reform Order Grants	1.114	1.136
Green Homes Grants	-	0.914
Other Private Housing	0.087	0.094
Assets Under Construction e.g. Dartmouth Health and Wellbeing Hub	1.742	6.165
Total expenditure for capital purposes	3.991	9.379
Sources of Finance		
Capital Receipts	(0.673)	(0.179)
Government Grants and Other Contributions	(1.156)	(2.596)
Earmarked Reserves	(1.019)	(1.083)
Revenue	(0.123)	(0.050)
Borrowing from previous years used for capital projects	(1.020)	(5.471)
Total capital financing	(3.991)	(9.379)

The full set of audited accounts for 2022/23 can be found at the following link on the Council's website:

www.southhams.gov.uk/your-council/budgets-and-finance/budgets-and-spending/annual-accounts

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Appendices

1. Required communications with the Audit and Governance Committee.

Welcome

The purpose of this report is to give you an overview of the nature and scope of our audit work and bring to your attention the key aspects of the audit. The document also ensures that there is good communication between us, as auditors, and you.

If you have any queries regarding the plan, including the arrangements noted below, then please do not hesitate to contact us.

This Audit Plan has been prepared for the sole use of the management and those charged with governance of the Council. Except where required by law or regulation, this report should not be made available to any other parties without our prior written consent. No responsibilities are accepted by Bishop Fleming towards any party acting or refraining from action as a result of this plan.

We are issuing our 2023/24 External Audit Plan now, as it is our intention to issue your Audit Plan as close the year-end to which it relates, to ensure that there is timely discussion of the key areas of focus. We are aware that your 2022/23 external audit has not yet completed, so there may be some further changes to our approach, depending on the outcomes from that process. We will communicate any changes with you, as our audit progresses.

Nathan Coughlin – Key Audit Partner

T: 01752 234333

E: ncoughlin@bishopfleming.co.uk

1. General Audit Information

1.1. Engagement objectives and scope

The scope of our work is set in accordance with the National Audit Office's Code of Audit Practice (The Code) and the International Standards on Auditing (ISAs) (UK). Our work is planned to provide a focused and robust audit. We are required to provide an independent opinion as to whether the financial statements:

- give a true and fair view of the financial position of the Council at the year end and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Throughout the audit we will also ensure that, in line with the latest Auditing Standards, we communicate on a regular basis with those charged with governance.

We are also required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024. The Code of Audit Practice requires us to report on the Council's arrangements under three specified reporting criteria:

- Financial sustainability – how the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance – how the Council ensures it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

The respective responsibilities of the audited body and the auditor are summarised in The Code. They are also set out in the PSAA Statement of Responsibilities of auditors and audited bodies issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as your external auditor.

At the time of writing this Plan, there are a number of consultations ongoing. A Joint statement explaining the package of measures and how the various elements are intended to interact has been published on the Department for Levelling Up, Housing and Communities website. The outcomes of these consultations may impact on our audit plan and we will discuss any changes to our proposed work and timetable with management and the Audit and Governance Committee as events become clearer.

1.2. Audit reports

Financial statements

On completion of our audit work on the financial statements, we will issue our Audit Completion Report to the Audit and Governance Committee, which will set out our findings.

In our Auditor's Report we will report on the basis under which the financial statements have been prepared and whether they give a true and fair view. The audit report will also:

- report on whether other information presented with the audited financial statements (for example, the Narrative Report and Annual Governance Statement) is materially consistent with the financial statements or our knowledge obtained in the audit; and
- conclude on the appropriateness of management's use of the going concern basis of accounting.

The form and content of our Auditor's Report may need to be amended in light of our audit findings.

We are required to report to you by exception the following matters, if:

- the Annual Governance Statement does not comply with "Delivering Good Governance in Local Government: Framework 2016 Edition" published by CIPFA/SOLACE; or
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; or
- we make a written recommendation to the Council under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

Where no matters are identified, this will also be confirmed.

Value for Money arrangements

On the completion of our work on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we will issue our Auditor's Annual Report to the Audit and Governance Committee. This will provide a commentary on the Council's arrangements under the three specified criteria. The report will also set out whether any significant weaknesses were identified and any relevant recommendations.

1.3. Audit materiality

In planning and performing our audit work we will consider whether the financial statements are free from 'material misstatement'.

Materiality is an expression of the relative significance of a particular matter in the context of the financial statements as a whole. In general, misstatements, including omissions, are considered to be material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The assessment of whether a misstatement is material in the context of the financial statements is a matter of professional judgement and will have regard to both the size and the nature of the misstatement, or a combination of both. It is also affected by our perception of the financial information needs of users of the financial statements. Thus, different materiality levels may be appropriate when considering different aspects of the financial statements.

If there are any areas of specific concern in which you would like us to pay particular attention to then we will be pleased to discuss this with you, and whether our audit approach can be readily adapted to accommodate such a level in that area, or whether it will be more appropriate for a special exercise to be carried out on the area.

Our basis of materiality has been set as follows:

	Basis of materiality
South Hams District Council	2% of gross expenditure This equates to £1.213m (based on the unaudited 2022/23 statement of accounts)

Whilst the level of materiality is applied to the financial statements as a whole, we must also address the risk that any identified unadjusted audit differences are material when considered in aggregate. To reduce the risk of this being the case, we apply a lower level of materiality which we utilise within our work, known as Performance Materiality. This is set at a lower level than overall materiality and is determined by our assessment of the element of audit risk that pertains to the internal control environment of the Council.

We will report any misstatements that are above the amount that we consider to be clearly trivial. This amount has been set at £61k at the planning stage.

1.4. Risk assessment and significant risks

Financial statements

When planning our audit work, we will seek to minimise the risk of material misstatements occurring in the financial statements. To do this, we consider both the risk inherent in the financial statements themselves and the control environment in which the Council operates. We then use this assessment to develop an effective approach to the audit.

This risk assessment directs our testing towards the balances and transactions at the greatest risk of material misstatement so as to minimise the risk of undetected material misstatements. However, we do not test every group of transactions or balances but carry out sample testing of balances and transactions.

Therefore, there is an inherent and unavoidable risk that some material misstatements may not be detected and therefore audit procedures should not be relied upon to detect all material misstatements, fraud, irregularities or instances of non-compliance.

Based on our knowledge of the Council, we have identified the following as significant risk areas to be addressed during the audit. We understand that CIPFA LASAAC will be consulting on temporary changes to the Code of Practice on Local Authority Accounting to reduce burdens on those who prepare and audit local body accounts. These proposed changes include extending overrides on infrastructure assets, simplifying the professional revaluation of operational property, and reducing disclosure requirements around net pension assets and liabilities for at least 2 years. This may affect the significant risks we have currently identified and the approach we have proposed to address these risks. This is our initial assessment of audit risk based upon our work completed to date. Our conclusions may change, and additional risks may be identified as we complete additional planning procedures. We will provide the Audit and Governance Committee details of any changes in our risk assessments.

Risk	Audit Approach
Management override of controls (required under the ISAs)	<p>We are required by auditing standards (ISA 240) to consider fraud and management override of controls to be a significant risk for all audits as no matter how strong a control environment, there is the potential for controls to be overridden or bypassed. To address this risk, we will:</p> <ul style="list-style-type: none"> • Review the reasonableness of accounting estimates and critical judgements made by management; • Test material journals processed at the year-end; and • Test other journals with key risk attributes. <p>In testing journals, we will use data analytics tools to interrogate the whole population of journals posted in the year and focus on those with key risk factors.</p>
Fraud in revenue recognition (required under the ISAs)	<p>There is also a rebuttable presumption under auditing standards that revenue may be misstated due to improper recognition of revenue. This presumption may be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud in revenue.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams of the Council, we have concluded that the risk of fraud arising from revenue recognition can be rebutted because our initial assessment is that:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical framework of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable.
Fraud in expenditure recognition	<p>Practice Note 10: Audit of Financial Statements and regularity of public sector bodies in the United Kingdom sets out that the risk of fraud related to expenditure is also relevant. We therefore need to consider whether we have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>Our initial assessment is that we do not consider this to be a significant risk for South Hams District Council because:</p> <ul style="list-style-type: none"> • Our work to date has suggested that expenditure is well controlled, and the Council has a strong control environment; and • The Council has clear and transparent reporting of its financial plans and financial position.
Valuation of land and buildings	<p>There is a risk over the valuation of these assets due to the values involved and the high degree of estimation uncertainty, due to the sensitivity of the estimate to changes in key assumptions and judgements. To address this risk, we will:</p> <ul style="list-style-type: none"> • Document our understanding of the processes and controls put in place by management, and evaluate the design of the controls; • Review the instructions provided to the valuer and the valuer's skills and expertise, in order to determine if we can rely on the management expert; • Write to the valuer to confirm the basis on which the valuation was carried out; • Confirm that the basis of valuation for assets valued in year is appropriate based on their usage; • Review the appropriateness of assumptions used in the valuation of land and buildings. For assets not formally revalued in the year we will assess how

Risk	Audit Approach
	<p>management has satisfied itself that these assets are not materially different from the current value at the year-end;</p> <ul style="list-style-type: none"> • Review accuracy and completeness of information provided to the valuer, such as floor areas; • Test a sample of revaluations made during the year to ensure that they have been input correctly into the Council's asset register; and • Form our own expectations regarding the movement in property values and comparing this to the valuations reflected in the Council's financial statements, following up valuation movements that appear unusual.
Valuation of investment properties	<p>There is a risk over the valuation of these assets due to the values involved and the high degree of estimation uncertainty, due to the sensitivity of the estimate to changes in key assumptions and judgements. To address this risk, we will:</p> <ul style="list-style-type: none"> • Document our understanding of the processes and controls put in place by management, and evaluate the design of the controls; • Review the instructions provided to the valuer and the valuer's skills and expertise, in order to determine if we can rely on the management expert; • Write to the valuer to confirm the basis on which the valuation was carried out; • Confirm that the basis of valuation for assets valued in year is appropriate based on their usage; • Review the appropriateness of assumptions used in the valuation; • Review accuracy and completeness of information provided to the valuer, such as floor areas; • Test a sample of revaluations made during the year to ensure that they have been input correctly into the Council's asset register; and • Form our own expectations regarding the movement in property values and comparing this to the valuations reflected in the Council's financial statements, following up valuation movements that appear unusual.
Valuation of the pension fund net liability	<p>There is a risk over the valuation of the pension fund net liability due to the values involved and the high degree of estimation uncertainty, due to the sensitivity of the estimate to changes in key assumptions. To address this risk, we will:</p> <ul style="list-style-type: none"> • Document our understanding of the processes and controls put in place by management, and evaluate the design of the controls; • Review the instructions provided to the actuary and the actuary's skills and expertise, in order to determine if we can rely on the management expert; • Consider the accuracy and completeness of the information provided to the actuary; • Ensure that the disclosures in the financial statements in respect of the pension fund liability are consistent with the actuarial report from the actuary; • Carry out 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 • Obtain assurances from the auditor of Devon County Council Pension Fund in respect of the controls around 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.

We will report back to you as part of our completion audit work, on the outcome of our work addressing these areas.

Value for money arrangements

As part of our planning work, we have also considered whether there are any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on.

We have not identified any risks of significant weakness at this stage. We will keep our risk assessment under continual review and any changes will be communicated to those charged with governance.

1.5. Control environment

Through our audit planning procedures, we will continue to develop our understanding of the control environment in which the Council operates.

At the time of issuing our Audit Plan, our initial view is that the control environment in which the Council operates is effective and we will tailor our audit approach accordingly. In the current year, we anticipate that our audit approach will focus on substantive procedures.

1.6. Adjusted and unadjusted items

Of the potential audit adjustments that we identify during our audit work, some may require adjustment. The decision to make an adjustment to the financial statements is one that the Council will need to make.

At the conclusion of the audit, we shall provide you with a schedule of potential adjustments that we identified during our audit work.

We will require you to confirm that you have considered the items and whether you have decided to adjust them in the financial statements; this will be included in the letter of representation.

We shall also provide you with a schedule, detailing those items that we identified during our audit work, which have not been adjusted for in the financial statements. This summary will not include errors that are 'clearly trivial', defined by us as those errors which individually account for no more than 5% of our materiality level.

We will require you to confirm that you have duly considered these unadjusted errors and that you have decided not to adjust for them in the financial statements; this will also be included in the letter of representation.

1.7. Fraud

While the Council has the ultimate responsibility for the prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit, including making enquiries of management and those charged with governance.

1.8. Prior year recommendations

We will follow up on the progress made by the Council in addressing the recommendations made by the Council's previous auditor in respect of deficiencies reported in their ISA260 Audit Report.

2. The Audit Team

Responsible individual:
Email: Nathan Coughlin
ncoughlin@bishopfleming.co.uk

Manager:
Email: Mark Bartlett
mbartlett@bishopfleming.co.uk

Nathan and Mark will also be leading the audit services to West Devon Borough Council to ensure a joined up service that minimises the disruption for your finance teams.

3. Timetable

A full audit timetable has been included below:

South Hams District Council YEAR END: 31 March 2024	
Date	Requirement
Feb - April 2024	<ul style="list-style-type: none">• Meetings with management• Meetings with Chair of Audit and Governance Committee• Review of predecessor auditor's files
Feb - April 2024	Planning procedures undertaken, examining systems and controls in place.
From w/c 29 July 2024 – September 2024	Audit fieldwork to be undertaken, completing work on significant risk areas and other material balances.
October 2024	Audit completion meeting with year-end draft Audit Completion Report
Autumn 2024	Audit and Governance Committee
Autumn 2024	Accounts to be approved.

Our main aim for the current year is to pull back the date of the audit sign-off into the Autumn. You are expecting your 2022/23 audit to be signed off shortly, but the delays have impacted upon our initial plans over the volume of work we could complete before the year end. The agreed timetable will still require significant efforts from the shared finance team to achieve with the prior year audit work being completed in early 2024 impacting business as usual requirements. We are satisfied that the proposed timetable will be a positive step in pulling forward the approval of the financial statements compared to the current audit cycle.

The audit fieldwork will be run concurrently with the audit of West Devon Borough Council as agreed with the finance team as the most effective way to complete the work given the aligned systems and processes. We will work with management to agree a detailed timetable of when information will be ready for audit and we will seek to select items for testing in advance of our fieldwork where appropriate and efficient to do so.

4. Audit Fees

South Hams District Council, in line with most other local government bodies, opted into the national scheme run by Public Sector Audit Appointments (PSAA) for the appointment of its external auditor for the five-year period with effect from 2023/24. PSAA set the scale fee for the audit of South Hams District Council under the contract. The audit scale fee set by PSAA for the Council and our proposed variations are set out below:

PSAA scale fee 2023/24	£132,051
Proposed fee variations:	
ISA 315	£ TBC

The scale fees set by PSAA:

- are based on the expectation that complete and materially accurate financial statements, with supporting working papers, will be available within agreed timeframes (as set out in [PSAA's Statement of Responsibilities document](#)); and
- reflect as far as possible the predecessor auditor's previous assessment of audit risk and complexity.

Where work was substantially more or less than envisaged by the scale fee, we will propose that the fees should be varied. PSAA determine the outcome of any fee variations. The proposed fee variations set out above reflect issues that were not reflected in the scale fee when it was set by PSAA.

As the individual responsible for the project management of the audit, Mark Bartlett will monitor the position in relation to any issues that could potentially give rise to a fee variation and discuss them with the s.151 officer at the earliest opportunity.

There are no non-audit fees proposed at the planning stage.

ISA 315

The proposed fee variation in relation to ISA 315 is in respect of a significant change to auditing standards that applied for the first time for your audit for the year ended 31 March 2023. Due to the timing of the tender process, the impact of this has not been built into the audit scale fees.

In summary the main changes were as follows:

- The introduction of five new inherent risk factors to aid in risk assessment; subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud.
- The introduction of a new spectrum of risk, at the higher end of which lie significant risks.
- The requirement for "sufficient, appropriate" evidence to be obtained from risk assessment procedures as the basis for the risk assessment.
- The introduction of more requirements in relation to gaining an understanding of the entity's IT environment, including requirements to identify and assess risks of material misstatement arising from the use of IT related to the IT applications and other aspects of the entity's IT environment.

5. Ethical Issues

In order to comply with professional and ethical standards we are required to communicate to you all significant facts and matters that, in our professional judgement, may affect the firm's independence. This is for reference only, and unless you wish to make any comments, there is no need to respond.

5.1. Threats & safeguards

The standards require us to consider the perceived potential threats to our objectivity and independence in carrying out the audit. We are not providing any other audit related or non-audit related services. We have not identified any threats to the firm's independence.

5.2. Overall assessment

We can confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. 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.

5.3. Maintaining objectivity & independence

As a firm we have policies and procedures in place to monitor auditor objectivity and independence on a regular basis. If any additional threats are identified, we will of course advise you immediately.

We also perform an annual review of completed audit engagements for quality control purposes.

If you would like to discuss any of the above, please contact us.

Appendices

1. Required communications with the Audit and Governance Committee

Under the auditing standards, there are certain communications that we must provide to the Audit and Governance Committee as those charged with governance. These include:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Plan
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Plan
With respect to misstatements: <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • enquiries of those charged with governance to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud. 	Audit Completion Report Discussions at audit committees
Significant matters arising during the audit in connection with the entity's related parties.	Audit Completion Report
Significant findings from the audit including: <ul style="list-style-type: none"> • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters significant to the oversight of the financial reporting process or otherwise identified during the audit that we believe will be relevant to the Committee when fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations	Audit Completion Report Discussions at audit committees
Significant matters in relation to going concern.	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity.	Audit Completion Report
Confirmation of independence and objectivity of the firm and engagement team members.	Audit Plan Audit Completion Report



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Agenda Item 8

Report to: **Audit and Governance Committee**
Date: **28 March 2024**
Title: **Proposed Internal Audit Plan for 2024-25**
Portfolio Area: **Cllr Julian Brazil – Leader of the Council**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Paul Middlemass** Role: **Audit Manager**

Contact: Paul.Middlemass@devon.gov.uk **07736 155687**
Tony.Rose@devon.gov.uk **01392 383000**

Recommendations:

It is recommended that:

The proposed Internal Audit Plan for 2024-25 at Appendix A be approved.

1. Executive summary

1.1 The purpose of this report is to provide Members with the opportunity to review and comment upon the proposed internal audit plan for 2024/25.

1.2 The audit plan sets out the proposed audit resource allocated to each audit area, although the plan needs to remain flexible to respond to changing risks and priorities of the Authority given the significant changes across the public sector and the country.

2. Background

2.1 All principal Local Authorities, including South Hams District Council, are subject to the Accounts and Audit (England) Regulations 2015, which state:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

2.2 The Public Sector Internal Audit Standards require that the Head of Internal Audit must “establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. When completing these plans, the

Head of Internal Audit should take account of the organisation's risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation's business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.

2.3 This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the 2024/25 year in accordance with the above requirements.

2.4 Whilst South Hams District Council and West Devon Borough Council operate as two unique councils, services are delivered by one integrated organisation. To reflect those shared services working arrangements, the 2024/25 audit plan is presented as one combined plan. Where there are risks or issues that relate specifically to one council and not the other, the audit plan will be varied to include those areas of work as appropriate.

3. Outcomes/outputs

3.1 We have created a four-year plan to ensure all core council areas are periodically audited which we have discussed with management. More significant or important areas are audited more frequently in their period. The focus of the paper in this meeting is on the plan for the year 2024/25. Member input to the plan is useful to ensure that the audit plan will cover areas of most concern. That said, the plan will be reviewed and amended in year as required to reflect emerging issues.

4. Options available and consideration of risk

No alternative operation has been considered as the failure to develop a risk-based plan to determine the priorities of internal audit activity which is consistent with the priorities of the organisation would be contravene the Public Sector Internal Audit Standards and the Accounts and Audit Regulations 2015.

5. Proposed Way Forward

On agreement to the plan, we will undertake our audits while agreeing audit timing to ensure our work is delivered at the most appropriate time for the council.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control, and governance processes, considering public sector internal auditing standards.</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.
Supporting Corporate Strategy	Y	This plan and the work of Internal; Audit supports all the Council's corporate strategy themes.
Climate Change – Carbon / Biodiversity Impact	Y	<p>None directly arising from this report. The Internal Audit function, managed by Devon Audit Partnership is mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to support the audit process, although it is inevitable that on-site verification may be required at times.</p> <p>The team use an audit management system (Ideagen) which enables managerial review to take place remotely, thus also saving the need for travel.</p>
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:

Appendix A – Draft Internal Audit Plan for 2024-25

Background Papers:

None

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A

Internal Audit Plan 2024-25

South Hams District Council

Audit and Governance Committee

Tony Rose
Head of Audit Partnership

28 March 2024



Auditing for achievement

Introduction

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) which set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within the Council the role of the Board within the Standards is taken by the Council's Audit and Governance Committee and senior management is the Council's Leadership Team.

This Council's Internal Audit Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the Devon Audit Partnership (DAP) as represented in the audit framework (at Appendix 2), and the scope of Internal Audit work. The PSIAS refer to the role of "Chief Audit Executive". For the Council this role is fulfilled by the Head of Devon Audit Partnership.

The Audit and Governance Committee, under its Terms of Reference contained in the Council's Constitution, is required to review the Internal Audit Plan to provide assurance on the governance framework (see Appendix 3).

The Chief Audit Executive is responsible for developing a risk-based plan which considers the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation as represented in Appendix 4.

The audit plan represents the proposed internal audit activity for the year and an outline scope of coverage. At the start of each audit the scope is discussed and agreed with management with the view to providing Senior Management and members with assurance on the control framework to manage the risks identified. The plan will remain flexible, and any changes will be agreed formally with management and reported to Audit and Governance Committee.

Expectations of the Audit and Governance Committee for this annual plan

Members are requested to consider:

- the annual governance framework requirements.
- the basis of assessment of the audit work in the proposed plan.
- the resources allocated to meet the plan.
- proposed areas of internal audit coverage in 2024-25.

Following consideration of the above, the Audit and Governance Committee are required to approve the proposed audit plan.

Tony Rose

Head of Audit Partnership

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Introduction

Development of the Plan

Audit Plan Summary

Fraud Prevention and Detection

Partnership working with other auditors

Appendices

1 – Detailed audit plan

2 – Audit Framework

3 – Annual Governance Framework

4 – Audit Needs Assessment

5 – Audit delivery Cycle

6 – Sector Risk Model

Development of the Internal Audit Plan

This year's audit plan has been developed through discussions with Senior Management, and consideration of the Council's risk register and plan. It is also informed by previous audit findings, and our awareness of current themes in Devon and elsewhere.

Within the plan, we have provided good coverage of Council Corporate risks, and current public sector risks (see Appendix 6). Audit coverage for the year is in the region of 426 days compared to 436 planned for 2023/24. To help identify future resource requirements and ensure good coverage of risk areas over the period we maintain an indicative four-year plan, but our focus for this meeting is to agree the audit days for 2023/24. The plan is a combined plan for South Hams and West Devon, but it indicates those audits relevant to each council only.

We have provided coverage of all Corporate Risks and include Follow Up audits for any Limited Assurance opinion audits provided in 2023/24.

Audit Plan Summary

Audit days per Directorate 24/25



Our audit plan at Appendix 1 is grouped into the different management areas as shown in this chart, with the number of days to be provided. The specific audits for each area are detailed in the plan. We also provide detail on when it was last audited, and the assurance opinion provided.

Within the management areas, we identify the following types of audits:

Key Financial Systems audits focused on the process and systems dealing with most of the Council's income and expenditure and which have a significant impact on the reliability and accuracy of the annual accounts. These include Payroll, Creditors, Main Accounting System, Council Tax, Housing Benefit. This work will provide assurance that core controls continue to be effective despite the changing environment. We also undertake work to certify grants.

Risk based audits, particularly those relating to:

- **Strategic Risk** which has a significant impact on the council.
- **Operational Risk** which may impact on individual service areas.

We provide indicative days for each audit to show the expected time to complete the audit. However, actual time to deliver may vary depending on the findings, but also other factors such as ease of audit access. The timing of the audit will be agreed with the business area to ensure it does not impact on business operations. Most of the audits will be delivered by the two auditors directly employed by the council, who are managed by DAP. Some other audits will be undertaken using specialised DAP resource, such as for Cyber Security.

In accordance with the PSIAS, the plan is flexible, to reflect and respond to the changing risks and priorities of the Authority. As a result, it will be regularly reviewed and updated to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in six months' time to ensure it continues to reflect the key risks and priorities.

Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review.

Appendices 1 to 5 provide more detail on the framework underpinning the internal audit plan.

Other Essential Activity

This includes areas such as Audit Management, support to the National Fraud Initiative and Grant work. During 2023/24, auditor resource continued to support additional Covid-19 business grant work above what was included in the plan resulting in the requirement to carry over work into 2024/25. We have estimated 20 days for this work.

We also include Audit Management in this area. This is work supporting effective and efficient audit services to the Council and ensuring the internal audit function continues to meet statutory responsibilities. In some instances, this work will result in a direct output (i.e., an audit report) but in other circumstances the output may simply be advice or guidance. It includes:

- Preparing the internal audit plan and monitoring implementation.
- Preparing and presenting monitoring reports to Leadership and the Audit and Governance Committee.
- Assistance with the Annual Governance Statement.
- Liaison with other inspection bodies such as External Audit.
- Financial Regulations Exemptions, and waivers.
- Corporate Governance - Internal Audit has become increasingly involved in corporate governance and strategic issues; this involvement is anticipated to continue.

Fraud Prevention and Detection and Internal Audit Governance

Fraud is a recognised risk area for the public sector and effective counter fraud activity assists in the protection of public funds and accountability. Our Counter Fraud Service continues to support work by the council to identify its fraud risks and consider effectiveness of its controls. To support this the authority is encouraged to agree a separate plan of counter fraud work. An annual Counter Fraud Assessment is also provided by our Counter Fraud Manager.

Our Counter Fraud service also oversees investigations, instances of suspected fraud and irregularities referred to it by managers and can also carry out testing of systems considered most at risk to fraud. Our services will liaise with the Council to focus resource on identifying and preventing fraud before it happens. This work is informed by the Fraud Strategy for Local Government “Fighting Fraud Locally”, and the publication “Protecting the English Public Purse”. Additional guidance recently introduced by CIPFA, in their ‘Code of practice on managing the risk of fraud and corruption’, and the Home Office ‘UK Anti-Corruption Plan’, are also relevant.

Partnership working with other auditors

We continue to work to develop effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We participate in a range of internal audit networks, both locally and nationally, which provide for a beneficial exchange of information and practices. This often improves the effectiveness and efficiency of the audit process, through avoidance of instances of “re-inventing the wheel” in new areas of work which have been covered in other authorities. The most significant partnership working arrangement that we currently have with other auditors continues to be that with the Council’s external auditors, One West, and Audit Southwest (Internal Audit for NHS).

Appendix 1: SHWD Proposed Internal Audit Plan 2024-25

Council	Audit Area	AUDIT	Last Audited	Description / Corporate Risk	2024/25	2025/26	2026/27	2027/28
S.Hams & W.Devon	Core Financial System	Council Tax	2023/24 (tbc)		10	10	10	10
S.Hams & W.Devon	Core Financial System	Housing Benefits	2023/24 (tbc)	Undertake Q2/3 along with other Revenues reviews.	10	10	10	10
S.Hams & W.Devon	Core Financial System	Business Rates (NDR)	2023/24 (tbc)		10	10	10	10
S.Hams & W.Devon	Operational Risk	Building Maintenance & Works Commissioning	2021/22 (Limited Assurance); 2022/23 (Limited Assurance)	Final confirmation that weaknesses identified in previous reports have been addressed.	10		10	
S.Hams & W.Devon	IT Audit	ICT / Cyber Security Audit	2022/23 Cyber Security Malware & Ransomware (Reasonable Assurance); 2023/24 (Reasonable Assurance)	MEDIUM RISK: CYBER SECURITY Focus on Patch Management (15 days) and Firewalls (15 days) DAP Cyber Resource to be used for this audit.	30	30	30	30
S.Hams & W.Devon	Strategic Risk	New ICT Systems	Not applicable	System procurement / implementation. Perhaps review outcomes of the FIT Future IT Project - SMT request to do in 24/25.	8			
S.Hams & W.Devon	Strategic Risk	Comments & Complaints	2023/24 (Reasonable Assurance)	Corporate system for recognising, recording & responding to comments & complaints.			10	
S.Hams	Operational Risk	Household Waste & Recycling Collection	2023/24 (TBC)	MEDIUM RISK: DELIVERY OF WASTE AND RECYCLING SERVICE Service brought back in house Oct 22.			10	
S.Hams	Operational Risk	Commercial (Trade) Waste Collection	2017/18	Service brought back in house for SHAMS Oct 22.	10			10
West Devon	Operational Risk	Contract Management - Household Waste & Recycling	2023/24 (TBC)				10	
S.Hams	Operational Risk	Depots & Stores Control	2019/20 (Improvements Required)	Control of Vehicle, Plant, Fuel, Fuel Cards and Fuel Containers, New software to capture assets - review assets/vehicle/store controls. Deferred from 23/24.	10			10
S.Hams & W.Devon	Operational Risk	Grounds Maintenance	2019/20 (Good Standard)	Audit deferred from 23//24.	15			15
S.Hams Only	Operational Risk	Markets	2023/24 (Limited Assurance)	Follow Up of Limited Assurance - confirm controls over market income and management Includes all Markets.	10			10
S.Hams & W.Devon	Operational Risk	Car Parking	2023/24 (TBC)	Including income collection and enforcement			10	
TOTAL DAYS					123	60	110	105

Strategy and Governance

Council	Audit Area	AUDIT	Last Audited	Description / Corporate Risk	2024/25	2025/26	2026/27	2027/28
S.Hams & W.Devon	Strategic Risk	Corporate Governance	2023/24 (tbc)	Compliance with CIPFA Corporate Governance code			15	
S.Hams & W.Devon	Strategic Risk	Culture & Ethics	16/17 (Good Assurance)	Deferred from 23/24, to be undertaken Sept 24. To be undertaken by DAP expert.	10			10
S.Hams & W.Devon	Strategic Risk	Counter Fraud arrangements	2022/23 - Annual Assurance	Annual report on Fraud arrangements, undertaken by Ken Johnston.	3	3	3	3
S.Hams & W.Devon	Procurement	Procurement	2023/24 (Reasonable Assurance)	Specific for 24/25 to confirm compliance wht the Procurement Act.	5		10	
S.Hams & W.Devon	Operational Risk	Elections / Electoral Registration	2023/24 (Substantial Assurance)	Arrangements to manage elections. Not looked at for some years and new managers in both councils.	10			5
S.Hams & W.Devon	Operational Risk	Members Allowances	2023/24 (Reasonable Assurance)	Administration of Members expenses			6	
S.Hams & W.Devon	Strategic Risk	Corporate Strategy and Plans	2022/23 (Substantial Assurance)	Management and direction of strategic priorities	10		10	
S.Hams & W.Devon	Strategic Risk	Performance Management inc KIP's & Data Quality	2023/24 (Reasonable Assurance)	Key performance indicators and the quality of source data (data quality). PIs - meaningful, add value, reported accurately, guidance notes.		10		
S.Hams & W.Devon	Strategic Risk	Risk Management	2022/23 (Reasonable Assurance)		10		10	
S.Hams & W.Devon	Strategic Risk	Management of Partnerships	2022/23 (Reasonable Assurance)			10		
S.Hams & W.Devon	Strategic Risk	Climate Change	2022/23 (Reasonable Assurance)	Meeting the Net Zero target, Adaptation and Mitigation.	10		10	
S.Hams & W.Devon	Operational Risk	Business Continuity / Emergency Planning	2022/23 (Reasonable Assurance)	MEDIUM RISK: BUSINESS CONTINUITY	10		10	
S.Hams & W.Devon	Strategic Risk	Safeguarding	2020/21 (Reasonable Assurance)			10		10

S.Hams & W.Devon	Strategic Risk	Community Engagement & Consultation	NA	Effectiveness of council in engaging with the public, including on consultations. Advisory work in 24/25 to provide input to the new Community Development Framework.	5		10	
S.Hams & W.Devon	IT Audit	Social Networking, Communications & Media	2023/24 (Substantial)	High reputational risk, and important communication tool			7	
S.Hams & W.Devon	Operational Risk	Travel and Subsistence	2023/24 (Reasonable Assurance)	Compliance with internal policies & HMRC requirements to retain receipts for VAT purposes.		10		10
S.Hams & W.Devon	Strategic Risk	Recruitment	2023/24 (Reasonable)	MEDIUM RISK: INADEQUATE STAFFING RESOURCES Includes right to work, DBS checks, checking of professional qualifications.		10		10
S.Hams & W.Devon	Operational Risk	Health and Safety	2020/21 (Reasonable Assurance)	Safety of staff and public impacted by council work		10		10
S.Hams & W.Devon	Operational Risk	Health and Wellbeing (Staff)	2022/23 (Reasonable Assurance)	MEDIUM RISK: HEALTH AND WELLBEING SERVICE	10		10	
S.Hams & W.Devon	Operational Risk	Planning - Development Management	2023/24 (TBC)	Review of the planning process (meeting timescales) and new system (planned for end 23/24 or later).				10
S.Hams & W.Devon	Operational Risk	Section 106	2022/23 (Reasonable Assurance)				10	
S.Hams & W.Devon	Operational Risk	Project Management	2023/24 (Reasonable Assurance)	Framework and specific projects.			10	
S.Hams & W.Devon	Operational Risk	Insurance Service	2023/24 (Reasonable Assurance)					7
				TOTAL DAYS	83	63	121	75

Finance

Council	Audit Area	AUDIT	Last Audited	Description / Corporate Risk	2024/25	2025/26	2026/27	2027/28
S.Hams & W.Devon	Key Financial System	Creditors	2023/24 (Reasonable Assurance)		15	15	15	15
S.Hams & W.Devon	Key Financial System	Debtors	2023/24 (Reasonable Assurance)		15	15	15	15
S.Hams & W.Devon	Key Financial System	Main Accounting System (inc budgetary control)	2023/24 (Substantial Assurance)	MEDIUM RISK: ADHERENCE TO MEDIUM TERM FINANCIAL STRATEGY	15	15	15	15
S.Hams & W.Devon	Key Financial System	VAT	2022/23 (Reasonable Assurance)	Requested review by a VAT specialist similar to HMRC inspection.	10			
S.Hams & W.Devon	Key Financial System	UK Shared Prosperity Fund	2023/24 (Reasonable Assurance)	Review & sign off of grants paid out from the Shared Prosperity Fund	10	10		
West Devon	Key Financial System	Okehampton Railway Station Levelling Up Fund	2023/24 (Substantial Assurance)	Arrangements of DCC & WD to deliver the work commissioned via the Grant etc.	10	10		
S.Hams & W.Devon	Key Financial System	Treasury Management	2023/24 (Substantial Assurance)		5	5	5	5
S.Hams & W.Devon	Grant Certification	Net Gain Biodiversity Grant	Not applicable	Certification of grant scheme in March 2025	3			
S.Hams & W.Devon	Grant Certification	Homes Energy Grant Phase 2	Not applicable		5			
S.Hams	Key Financial System	Electric Seaway grant sign off	Not applicable	Review and sign off of £90k grant on Electric Seaway. To support return for Mar 25.	5	5		
				TOTAL DAYS	93	75	50	50

Place and Enterprise

Council	Audit Area	AUDIT	Last Audited	Description / Corporate Risk	2024/25	2025/26	2026/27	2027/28
S.Hams & W.Devon	Operational Risk	Environmental Services (Health & Safety)	Not Known	Fly tipping, Abandoned vehicles, Air quality		8		8
S.Hams & W.Devon	Operational Risk	Food Safety	2023/24 (Reasonable Assurance)	Follow up of 23/24 audit to confirm food checks being undertaken	10			10
S.Hams & W.Devon	Operational Risk	Commercial Properties and Rent	2023/24 (Reasonable Assurance)			10		10
S.Hams & W.Devon	Operational Risk	Asset Management / Strategy	2022/23	Strategy for investing in new properties and the disposal/utilisation of existing properties.		10		
S.Hams & W.Devon	Operational Risk	Housing	2023/24 (Reasonable Assurance)	Includes: Housing Strategy & RSL's & Housing Standards			10	
S.Hams & W.Devon	Operational Risk	Homelessness	2023/24 (Reasonable Assurance)	MEDIUM RISK: HOMELESSNESS		10		10
S.Hams & W.Devon	Operational Risk	SeaMoor Lotto	NA	Management of the lottery	5			5
S.Hams Only	Operational Risk	Dartmouth Lower Ferry	2022/23 - Consultancy on finance system	Operation of the Ferry	10		10	
S.Hams Only	Operational Risk	Salcombe Harbour	2023/24 (Reasonable Assurance)	Management of Harbour operations		10		10
S.Hams Only	Operational Risk	Freeport	NA	Management of the Freeport project - including review of the Company. In conjunction with wider DAP support for several councils.	10			
				TOTAL DAYS	35	48	20	38

Audit Management

Task	2024/25	2025/26	2026/27	2027/28
Completion of Previous Year Plan	20	20	20	20
Audit Management (Audit Plan, Monitoring, Reporting, Audit Committee)	32	32	32	32
Annual Internal Audit Report	2	2	2	2
Exemptions from Financial Regulations	3	3	3	3
National Fraud Initiative	5	5	5	5
Contingency, Advice & Emerging Risks	30	30	30	30
TOTAL DAYS	92	92	92	92
2023/24 days = 436	426	338	393	360

Note - while the days in 2025/26 are currently less than for 2024/25, we expect the number to be about 430 days. Additional days will be added for follow up (such as Limited Assurance Opinions) Grant work, and other work to review new issues and concerns.

Appendix 2 - Audit Framework

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015 amended 2021, which state:
 “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance”.
 DAP, through external assessment, demonstrates that it meets the Public Sector Internal Audit Standards (PSIAS).

The Standards require that the Chief Audit Executive must “establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. When completing these plans, the Chief Audit Executive should take account of the organisation’s risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation’s business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.

This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.



We will seek opportunity for shared working across member authorities. In shared working Devon Audit Partnership will maximise the effectiveness of operations, sharing learning & best practice, helping each authority develop further to ensure that risk remains suitably managed.

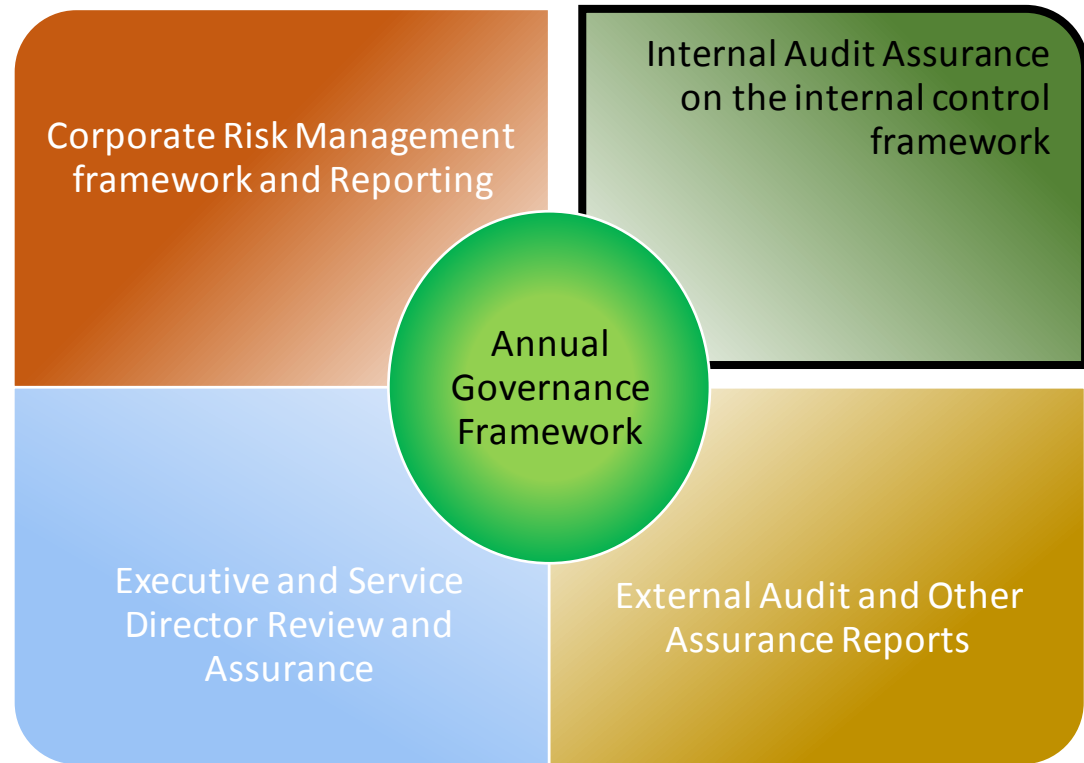
Appendix 3 - Annual Governance Framework Assurance

The Annual Governance Statement provides assurance that:

- The Authority's policies have been complied with in practice.
- high quality services are delivered efficiently and effectively.
- ethical standards are met.
- laws and regulations are complied with.
- processes are adhered to.
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:

- be prepared by senior management and signed by the Chief Executive.
- highlight significant events or developments in year.
- acknowledge the responsibility on management to ensure good governance.
- indicate the level of assurance systems and processes can provide.
- provide a narrative on the process followed to ensure that governance arrangements remain effective. This will include comment upon.
 - The Authority.
 - Audit and Governance Committee.
 - Risk Management.
 - Internal Audit
 - Other reviews / assurance
- Provide confirmation that the Authority complies with CIPFA's recently revised International Framework – Good Governance in the Public Sector. If not, a statement is required stating how other arrangements provide the same level of assurance.



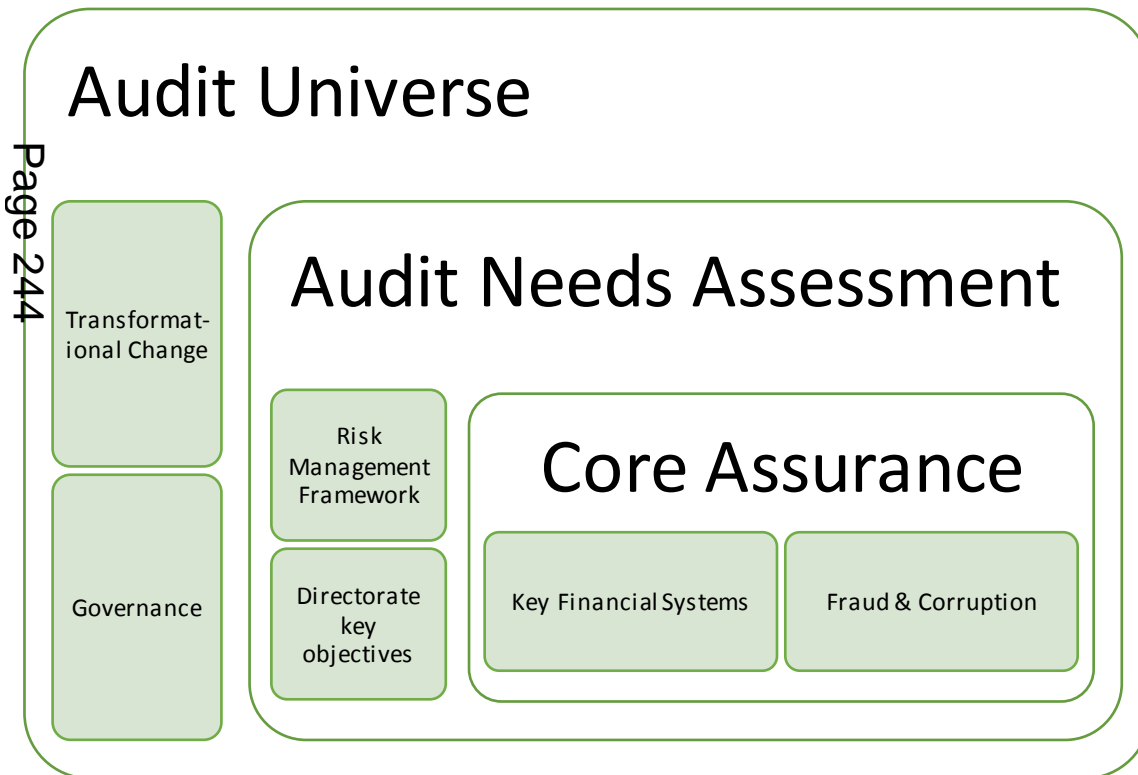
The AGS needs to be presented to, and approved by, the Audit and Governance Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by the Annual Governance process, SLT, Internal Audit, and other assurance providers (e.g., Audit Southwest) that the statement meets statutory requirements.

Appendix 4 - Audit Needs Assessment

Our process to create the audit plan includes discussions with management, review of risk registers, consideration of previous work. We also consider the Audit Universe we maintain for the council. Ultimately, our requirement is to undertake a broad-based audit plan of work that supports provision of an end of year assurance report to support the council's own governance statement.

The result is the Internal Audit Plan set out earlier in this report.



The audit plan for the year plan has been created by:

Consideration of risks identified in the Authority's strategic and operational risk registers

Review and update of the audit universe

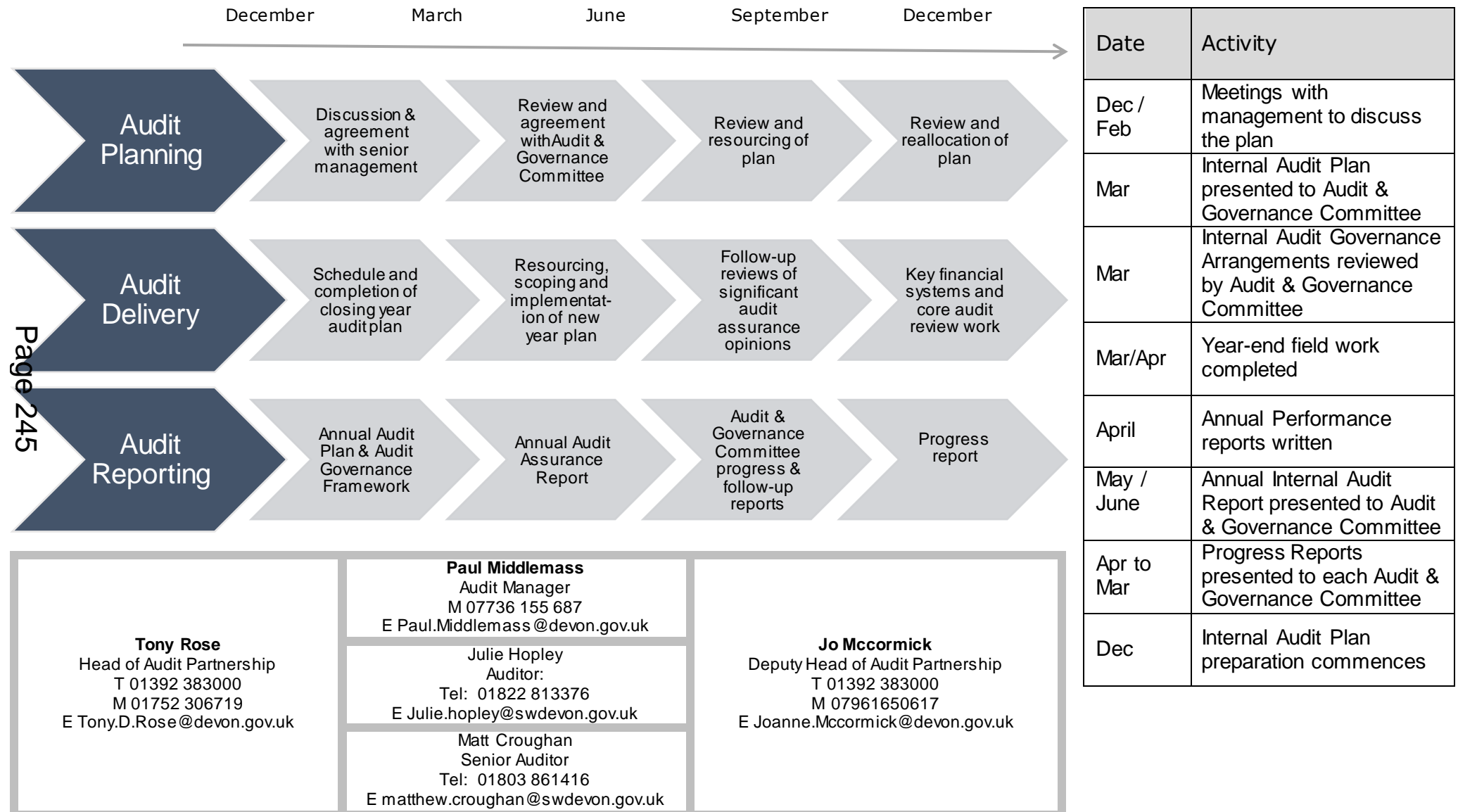
Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operations, programs, and corporate initiatives

Taking into account results of previous internal audit reviews

Taking into account Internal Audit's knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council's delivery plans

Requirements to provide a "collaborative audit" approach with the external auditors

Appendix 5 - Our Audit Team and the Audit Delivery Cycle



Appendix 6 Sector Risk Model (European organisations polled by the Institute of Internal Auditors – Risk in Focus 2024)

Key Risk areas of organisations who responded:

Cyber security remains the number one concern for almost everyone.

Human Capital – staffing has become more important given shortages in professional and other manpower.

Changes in laws and regulations are also important although a slight reduction since last year.

Macroeconomic and geographical uncertainty has slightly reduced in importance.

Climate change has reduced as a key risk area.

What are the top five risks your organisation currently faces?

Business continuity and operational resilience moved up two places this year in response to continuing global turmoil with market changes coming in as a new category.

■ 2024
■ 2023



Agenda Item 9

Report to: **South Hams Audit and Governance Committee**

Date: **28 March 2024**

Title: **Update on the 2023-24 Internal Audit Plan**

Portfolio Area: **Cllr Julian Brazil – Leader of the Council**

Wards Affected: **All**

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

Author: **Paul Middlemass** Role: **Audit Manager**

Contact: Paul.Middlemass@devon.gov.uk **07736 155687**
Tony.d.Rose@devon.gov.uk **01392 383000**

Recommendations:

Progress made against the 2023/24 internal audit plan, and key issues arising are noted and approved.

1. Executive summary

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team.

2. Background

The Audit and Governance Committee, under its Terms of Reference contained in South Hams District Council's Constitution, is required to monitor, and review the internal audit programme and findings, and the associated 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 purpose and role of Internal Audit, and of the related Council responsibilities is also contained in the Internal Audit Charter and Strategy.

3. Outcomes/outputs

Members will note the assurances provided on the audited areas and seek management assurance that identified weaknesses are being addressed.

The table below details the assurances we have provided for 2023/24:

Audit	Business Area	Assurance Opinion	Comments
Energy Bill Support Scheme	Strategic Finance	Substantial	
Insurance	Strategy and Governance	Reasonable	
Food Safety	Place and Enterprise	Reasonable	
Council Tax Rebate Checks	Strategic Finance	Reasonable	
Project Management	Strategy and Governance	Reasonable	
Travel and Subsistence	Strategy and Governance	Reasonable	
Counter Fraud Resilience and Assessment Report	Strategy and Governance	NA	Provided as separate report in Dec 23 meeting.
Devon Building Control Partnership	NA	Reasonable	Organisation hosted by Teignbridge; provided as a partnership for South Hams, West Devon, and Teignbridge.
Treasury Management	Strategic Finance	Substantial	
Main Accounting	Strategic Finance	Substantial	
Comments and Complaints	Customer Services and Delivery	Reasonable	
Electoral Registration	Strategy and Governance	Substantial	
Members Allowances	Strategy and Governance	Reasonable	
Creditors	Strategic Finance	Reasonable	
Changing Places Fund Grant	Strategic Finance	Grant Certified	
UK Shared Prosperity Fund	Strategic Finance	Substantial	
Housing	Place and Enterprise	Reasonable	
Homelessness	Place and Enterprise	Reasonable	
Performance Management including KPIs and Data Quality – Follow Up	Strategy and Governance	Reasonable	
Markets	Customer Services and Delivery	Limited	
Debtors	Strategic Finance	Reasonable	
Procurement	Strategy and Governance	Reasonable	

Commercial Properties and Rents – Follow Up	Place and Enterprise	Reasonable	
Cyber Security	Customer Services and Delivery	Reasonable	
Recruitment	Strategy and Governance	Reasonable	
Homes England Grant Compliance	Strategic Finance	Reasonable	

4. Options available and consideration of risk

No alternative operation has been considered as the function of internal audit is a requirement of Corporate Governance.

5. Proposed Way Forward

That Audit and Governance Committee notes the results of Internal Audit work undertaken since the last meeting.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</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.
Supporting Corporate Strategy	Y	This Progress Report and the work of Internal Audit supports all the Council's corporate strategy themes.
Climate Change – Carbon / Biodiversity Impact	Y	None directly arising from this report. The Internal Audit function, managed by Devon Audit Partnership is mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to support the audit process, although it is inevitable that on-site verification may be required at times.

		The team use an audit management system (Ideagen) which enables managerial review to take place remotely, thus also saving on the need for travel.
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

Attachments:

A – Internal Audit Progress Report

Background Papers:

Internal Audit Plan 2023/24 as approved by Audit and Governance Committee.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A

Internal Audit Progress Report 2023-24

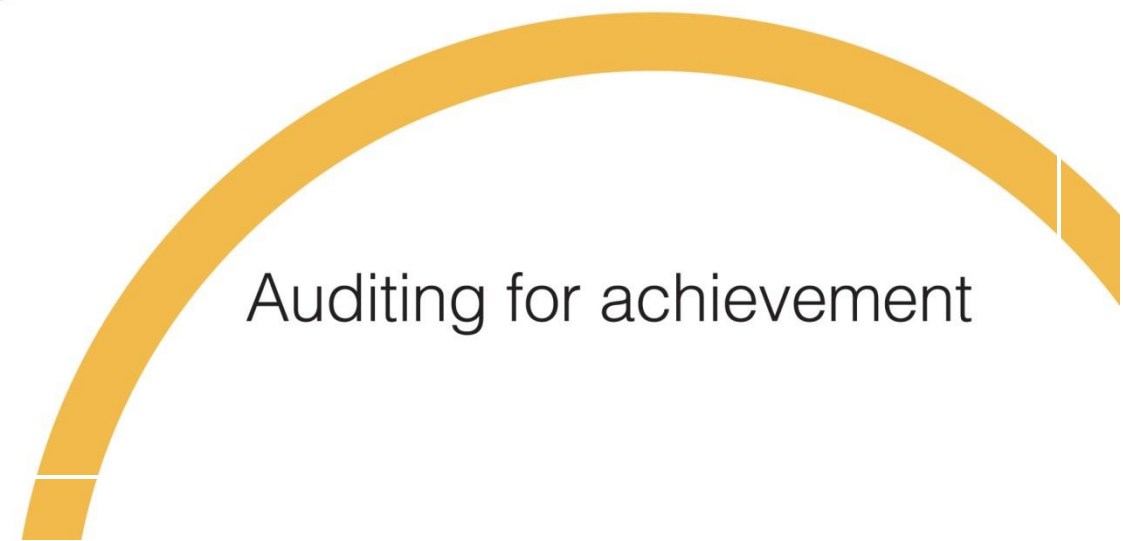
South Hams Audit & Governance Committee

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28 March 2024

Tony Rose
Head of Audit Partnership

Paul Middlemass
Audit Manager



Auditing for achievement

Introduction

The Audit and Governance Committee, under its Terms of Reference contained in South Hams District Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 introduced the requirement that all Authorities carry out an annual review of the effectiveness of their internal audit system and incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2023-24 was presented and approved by the Audit and Governance Committee in March and July 2023. The following report and appendices set out the background to audit service provision and provides a position statement on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report contributes to that annual opinion.

Expectations of the Audit and Governance Committee from this progress report

Audit Committee members are requested to consider:

- the assurance statement within this report.
- the basis of our opinion and the completion of audit work against the plan.
- the revised audit plan provided.
- audit coverage and findings provided.
- the overall performance and customer satisfaction on audit delivery.

In review of the above the Audit and Governance Committee are required to consider the assurance provided alongside that of the Executive Committee, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework and satisfy themselves from this assurance that the internal control framework continues to be maintained.

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Opinion Statement

Overall, based on work performed during 2022/23 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control

This opinion statement will support Members in their consideration for signing the Annual Governance Statement.

Internal Audit assesses whether key, and other, controls are operating satisfactorily within audit reviews. An opinion on the adequacy of controls is provided to management as part of each audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified.

Implementation of action plans is the responsibility of management but may be reviewed during subsequent audits or as part of a follow-up process.

Directors and Senior Management are provided with details of Internal Audit's opinion for each audit review to assist them with compilation of their individual annual governance assurance statements at year end.

Substantial Assurance	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

Executive Summary of Audit Results

Key Financial Systems

Our audit of Debt Management (Reasonable Assurance) reported good controls over debt management. We noted a figure of £9.7m for all debt on 30 Nov 23. 75% of the debt was less than a year old, increasing likelihood it would be recovered. The Head of Revenues and Benefits is presenting a report to the Executive Committee in the next few months on the Revenues and Benefits Service (12 Month Review).

We also signed off the Homes England Grant received by the council to fund affordable housing. The subsequent Homes England compliance assessment provided a Green Satisfactory rating and assessed a low risk of misapplication of public funds.

Risk Based Audits

We provided Reasonable Assurance opinions for the following:

For Cyber Security Governance, we report progress to develop an appropriate governance structure to monitor and manage this high-risk area.

We undertook audits on Housing and Homelessness and noted the initiatives underway to address homelessness and reduce the burden on council budgets.

In the Recruitment audit we noted procedures were effective but identified opportunities such as creation of a Recruitment Policy to provide clarity to all involved, including recruiting managers.

We undertook follow up work on the following Limited Assurance audits and assessed that work to implement management actions meant that they could now be assessed as Reasonable.

For the Performance Management KPIs (Follow Up), we identified the significant improvements to procedures for gathering and reporting data.

For the Procurement (Follow Up) we noted good work to address weaknesses. However, we note significant work is required to ensure the council is ready for the new Procurement Act which comes into force in October 2024.

For the Commercial Properties and Rent (Follow Up) we noted the good control framework to manage and monitor commercial properties and ensure rents are set appropriately and collected

Finally, we provided a Limited assurance for Totnes Market. Controls. Improvements are needed over the controls to operate and manage the market to ensure good financial control and protect council traders and the involved officers.

Appendix 1 of this report provides more detail on the audits delivered since the last Committee meeting with the overall assurance opinion and recommendations.

Where a “substantial assurance” or “reasonable assurance” of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of “limited assurance” has been provided then issues were identified during the audit process that required attention. We have provided a summary of key issues reported that are being addressed by management. We are content that management are appropriately addressing these issues.

Counter Fraud Work

Recent assessments state that there is an epidemic of fraud cases. Fraud now account for 40% of all crimes; it is anticipated that this will further increase by 25% in the coming years ([see Fraud and the Justice System](#)). The government has responded with formation of the Public Sector Fraud Authority. Given this landscape, it is important for councils to have effective measures to reduce the risk and impact of fraud.

We have provided a Counter Fraud Resilience and Assessment report and helped update the Anti-Fraud, Bribery and Corruption Policy, Response Plans, and Whistleblowing Policy. These were discussed at the December 2023 Audit and Governance Committee.

Management is aware that suspected fraud issues can be referred to our specialist counter fraud team.

The data analysis exercise of those receiving Single Person Discounts on Council Tax has started. This is being undertaken by Liberata and paid for by Devon County Council. Initial figures indicate an uplift of £244,786 from the removal of 332 persons, of which the council gets 8%.

Internal Audit Recommendation Tracking

We have recently provided details of all recommendations from Aug 23 to Feb 24 for officers to track.

In addition to monitoring by the council’s Performance Board, we review closure of High priority recommendations. We also review implementation of all recommendations while undertaking future audits in the area concerned.

Value Added

It is important that the internal audit service seeks to “add value” whenever it can. We consider internal audit activity has added value to the organisation and its stakeholders by:

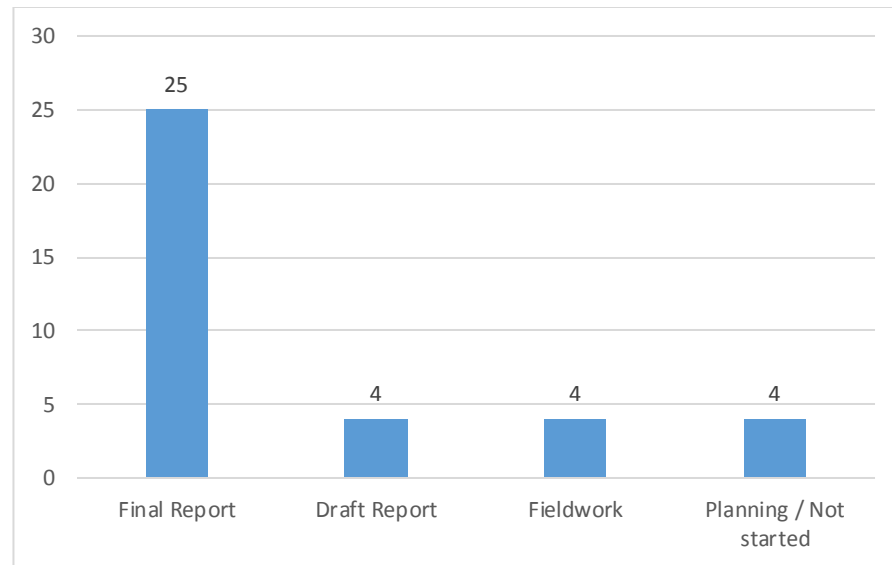
- Providing objective and relevant assurance.
- Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.
- Adjusting the audit plan when needed to provide real time assurance.
- Comparing and contrasting controls across the different Devon Councils that we support.

Audit Coverage and Performance Against Plan

Appendix 2 provides detail on delivery of the audit plan. During the year additional or ongoing grant reviews i.e., Covid-19 Business Grants) were undertaken at client request which has taken resource away from the original plan. Some audits were also paused while management undertake reviews. That said, we are making reasonable progress to deliver most of the plan to inform the annual audit report.

The chart below shows the status of audits at each stage. We are on track to deliver 90% of our audits for the year.

Chart: Delivery of the 2023-24 audit plan



Customer Satisfaction

For every audit we ask the client to complete a customer satisfaction form. We have had the following returned to us recently.

Audit	Overall Score
Procurement	Excellent
Health and Wellbeing	Excellent
Pay	Excellent
Regeneration and Investment	Excellent
Council Tax Rebate Checks	Excellent

DAP Member event – 16 Nov 23

DAP delivered an event for Audit Committee members and officers on 16 November 23. Feedback was positive on the event.

Recruitment of Independent Audit and Governance Committee members

DAP has been supporting the appointment of independent members to District Audit Committees. Prospective candidates will be interviewed first by the Head of DAP and S151 officer, and then by committee members.

Appendix 1 – Summary of audit reports and findings

Audit / Assurance Opinion	Summary, risk exposure and management actions
Debt Management Reasonable Assurance	<p>The Council has a good focus on debt collection. The overall debt at the end of 2022/23 has increased over the five-year period since 2018/19 from £7.1m to £9.7m. That said, most of the debt (75%) was less than a year old on 30 November 2023 meaning it is more likely to be recovered. For context, for collection of Council Tax and Business Rates, the council was in the top quartile for Council Tax and 2nd quartile for Business Rates, in comparison to other councils (Council Tax collection rate of 98.55%, and Business Rates 97.95% in 2022-23)</p> <p>The values below are the debt held on 31 Mar 23:</p> <p>Council Tax - £4,841,155 (The annual amount of council tax billed by SHDC per year is in the region of £86 million)</p> <p>Business Rates - £1,783,854 (The annual amount of business rates billed by SHDC per year is in the region of £25 million)</p> <p>Sundry Debt - £1,744,854 (this includes a number of large invoices relating to Section 106 agreements which have been raised near the year end and thus increasing sundry debt levels)</p> <p>Housing Benefit Over payments - £730,253</p> <p>Car Parking PCNs - £45,850</p> <p>Salcombe Harbour - £536,899 (Salcombe Harbour carries very little debt, the vast majority being less than 30 days old, but the value appears elevated at the year end due to the timing of when invoices are issued for annual mooring fees)</p> <p>Dartmouth Ferry - £3,411.</p> <p>There are processes to monitor and manage debt collection and staff resources appear sufficient. Internal assistance is provided by the Legal service if decided this was the most appropriate debt recovery method. However, there is opportunity to make more effective use of external debt collection agencies,</p>

	<p>these currently only being used for revenues debts.</p> <p>Although debt write offs are occurring, these reduced during the five-year period but are now improving. The existing write off policy only refers to revenue and benefit debts which may lead to inconsistent decisions regarding write offs across different services. (The Head of Revenues and Benefits has undertaken work to update the write off policy for all debts including sundry debt).</p> <p>There is appropriate focus on improving efficiency, to better use systems and resources and to review processes to improve debt recovery and management. Without appropriate technical knowledge, best use may not be made of the debtor system, requiring additional manual input, for example to produce meaningful management reports.</p> <p>The financial software is no longer supported by the system provider, including the debtor system resulting in increased Cyber risk. There is a contractual commitment to update to the most recent software version in the middle of 2024; this was delayed from 2023/24 due to the availability of ICT resource and to avoid the annual final accounts work. Aged data remains on the system, but it is intended to implement the archiving module by the end of 2023/24, subject to other work priorities. Both issues were raised in the 2023/24 Main Accounting System audit.</p> <p>There is opportunity to improve the information provided to all services, as has been done for Assets, and for improved reports on debts to support resource prioritisation on debt recovery. Performance measures would help monitor the effectiveness of existing resource and recovery methods and allow assessment of the impact of changes to procedures.</p> <p>We agreed five Medium and four Low priority management actions.</p> <p>The five medium recommendations were on a policy for aged credits (value of £30K), a write off policy which has been implemented, further communications between the assets and finance team and a revised corporate debt policy which has been implemented.</p>
<p>Cyber Governance</p> <p>Reasonable Assurance</p>	<p>We identified a developing governance structure within the organisation, which is progressing positively. The newly developed risk management framework, including the recently formed Performance Board, provide the organisation with a platform to discuss and manage operational and corporate risks. There are clear lines of communication to ensure that decision makers have access to appropriate information to enable them to make informed decisions, with IT being involved from the procurement process, to acting as subject matter experts to decision makers.</p> <p>There is scope to strengthen the Cyber governance framework; this includes:</p>

- Continuing to fully embed the developing Cyber Response plans throughout the organisation, e.g., there are documents still in draft (e.g., IT Disaster Response plan), specific playbooks requiring further detail; with other playbooks awaiting creation, and the organisation completing limited testing of responses plans (both full / part invocations and table-top exercises).
- From the training completion records provided, Members have a low completion rate of mandatory training. Furthermore, we understand that there are varied levels of knowledge in relation to IT / Cyber risks for Members.
- An approved and formalised IT Strategy for the organisation is not in place (It has recently been taken to Senior Leadership Team)
- There is no ring-fenced budget for IT security within the 23-24 Budget Book, with reliance on reserves for capital items that relate to IT security (a budget of £75k has recently been added for Business Continuity and Cyber Security).
- There are two management actions which have exceeded their target dates from the 22/23 Malware and Ransomware audit report, and one management action where the risk has been accepted due to mitigations in place. One of the mitigations relates to network segmentation which remains an outstanding action in relation to implementation of Nutanix Flow.

Although there are areas as outlined above that could be strengthened, we note the ongoing positive direction of travel in relation to the Risk Management Framework and Performance Board, supporting their overall cyber governance.

We agreed one High, six Medium, and four Low Management Actions.

The High management actions related to ensuring that the different elements of the cyber response plans are introduced (for instance the IT Disaster Recovery Plan is still in draft).

Housing Reasonable Assurance

The Council is working closely with registered housing providers and using its officers and financial resources to provide an effective plan for developing more affordable housing.

The Housing Strategy and Action Plan has been updated and approved by members. These are appropriately focused on meeting the declared housing crisis. This includes procurement of seven properties from the Government Local Authority Housing Fund. South Hams will also use capital, DCC and S106 funding of £1.3m and £953k LAHF for a total combined spend of £2.3m. These properties will be used for temporary accommodation of people arriving under the Afghan resettlement scheme, Homes for Ukraine and when no longer required for future housing needs of the Council as temporary

accommodation.

The Councils have also proposed schemes for the procurement or conversion of existing assets to provide additional Council owned long term rental accommodation. This is to reduce the increasing costs of providing temporary accommodation and to reduce the increasing length of stay of these tenants. The Housing Head of Service has estimated that each property could save in the region of £25k annually on temporary accommodation costs.

We consider the regular reports submitted to members regarding the Housing crisis and plans are beneficial and support the regular update of the Strategies in the annual Action Plans, approved by members.

We agreed management actions related to:

- Reports to members include service performance.
- Details are provided of the costs of providing the SeaMoor Letting service. A current business plan and objectives are also needed to confirm the scheme is meeting its objectives.
- That invoices issued to owners for rent payments include VAT details and rate of VAT.
- That managed property inspections are completed as required.

We agreed eight Medium and eleven Low priority management actions.

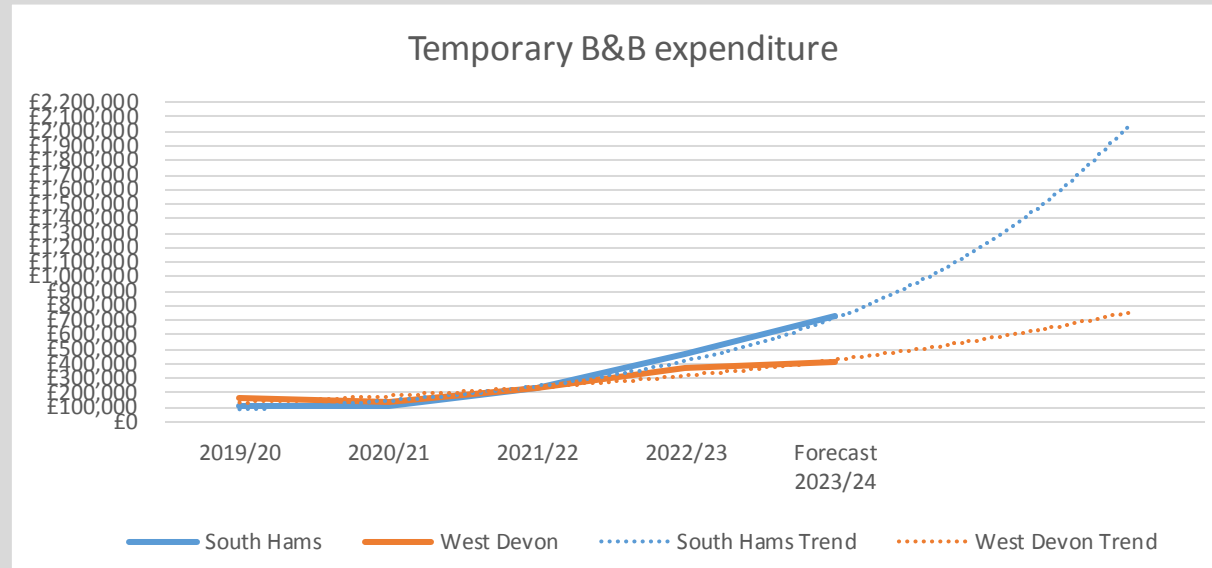
Homelessness

Reasonable Assurance

The Council has a robust Homelessness Strategy in place and is subject to annual input and review by members and partnership organisations. This is supported by an Annual Homelessness Action Plan. Policies and procedures ensure that homelessness prevention schemes are promoted, and applicants appropriately assessed.

The increasing cost impact of homelessness provision is of concern. National temporary Bed and Breakfast spending rose by a third in 2022 compared to 2021. For South Hams similar expenditure has doubled each year since 2020/21 with the expenditure for 2022/23 totalling £469k: a rise of 100% from £230k the previous year. Estimates by the Head of Housing has predicted that figures could reach nearly £703k (£534k with subsidy) for 2023/24 (see chart). This shows the potential costs should current plans have no effect. The plans would increase the South Hams owned housing portfolio to 41 properties. The Housing Head of Service has estimated each property could save approx. £20k to £25k annually on temporary accommodation costs.

Figure Temporary Accommodation Gross Expenditure



The level of expenditure is increasing due factors, including:

- Increased time spent in temporary accommodation.
- The average cost per night increasing from £71 to £100 per night.
- Increased demand.
- Lack of available accommodation for anyone with complex needs or requiring 4 or more bedrooms.

There are currently 34 individuals in temporary accommodation for South Hams.

The Council is actively seeking to reduce reliance on pay nightly accommodation by investing in its own stock of temporary accommodation through opportunities such as Local Authority Housing Fund and property acquisition whilst ensuring any stay is kept to a minimum.

The Councils have identified the increased costs in the Revenue Budget Monitoring reports submitted to members who recognise this as an area of concern. Options for the current year to use existing funding and reserves, will impact on potential future housing project funding. It will depend on the value of future

	<p>increased costs, and how the current supply of Council owned property can offset this. The purchase of Council property is outlined in our Housing Audit 2023/24 Report.</p> <p>We have raised in previous audit reports that there is not a comprehensive list of all rent deposits and loans as a liability to the service. The service should also identify the value and action to be taken on recovery of related debts.</p> <p>The service should also have appropriate measures to support Safeguarding by ensuring Disclosure and Barring Service (DBS) checks are held appropriately for all officers that require them. We have suggested the council create a policy that ensures relevant officers are subject to these checks.</p> <p>Ukraine Refugees - The Council has provided four officers to help support Ukraine and other refugees. The officers involved have supported 236 individuals in South Hams. Officers have also provided valuable support and learning for individuals to help them gain employment and move to long term accommodation. Good reconciliation processes ensure recovery of all accommodation costs from the government.</p> <p>We have advised that a formal Project Management Plan should be introduced to formerly develop the systems and processes related to the refugee programme.</p> <p>We agreed one High, eight Medium and ten Low Priority Management Actions.</p> <p>The High action related to including regular reporting of temporary accommodation costs in the Head of Housing monthly housing update to members.</p>
<p>Recruitment</p> <p>Reasonable Assurance</p>	<p>The councils are largely successful in recruiting to fill vacancies in a good timeframe. There are effective procedures to control recruitment and ensure timely progression from advertising to appointment, although a Recruitment Policy would provide clarity to all involved, including recruiting managers.</p> <p>The HR team have been making improvements to the recruitment process, including launching a new recruitment website to better attract candidates, promote the benefits of working for the Councils and provide a simple, transparent application process.</p> <p>Good progress has been made in introducing i-Trent (the payroll system) to support the process; further significant system-based improvements are proposed, including using reports for basic analysis of the recruitment process. A Recruitment Action Plan would help take these and other improvements forward.</p> <p>An appropriate priority is placed on fair and open competition supported by training, assessment methods, and applicant forms. Advice is provided to recruiting managers at all stages of the process and recruitment and appointment must both be approved by senior management. All recruiting managers</p>

	<p>attended a one-off training event two years ago, which included equal opportunities, diversity, and unconscious bias. The on-going Line Manager Development Programme (LMDP), mandatory for all line managers at L4 and below, includes the same topics. It was decided Heads of Service and above had sufficient experience in recruitment and only needed to be familiarised with local procedures. Going forward there is going to be emphasis of provision of training for all involved in the recruitment process.</p> <p>We obtained feedback from a small sample of new employees, most of which was very positive. We also spoke to several recruiting managers, who again, whilst largely content with procedures, made several suggestions.</p> <p>Like other organisations it has been difficult to fill professional roles such as for planning and legal officers. Appropriate action is underway to address these areas. Other routes to acquire talent include apprenticeships and professional development of current staff.</p> <p>We agreed eight Medium and one Low Priority management action.</p>
<p>Performance Management including KPIs and Data Quality</p> <p>—</p> <p>Follow Up</p> <p>Reasonable Assurance</p>	<p>There have been significant improvements to procedures for gathering and reporting data. Overall, we assess that weaknesses identified in our last audit have been addressed. A refreshed Data Quality Framework on management of corporate performance management data has been published and drawn to the attention of all Heads of Service, alongside awareness raising of the importance of data quality. However, this information has not been cascaded down to those officers with day-to-day responsibility for data capture and reporting. Despite this, most have a good understanding of the need for high quality data, based on experience although some do not always demonstrate best practice.</p> <p>The Framework sets out responsibilities for ensuring data quality and procedures for monthly reporting on a suite of operational Key Performance Indicators (KPIs). The suite of KPIs was determined in consultation with the previous member administration, alongside the current corporate strategies. The KPI outturns are captured in a shared spreadsheet and are examined by the Performance Board who interrogate and use the data to inform service delivery. The Performance Board ensures overall compliance with the Framework. Regular reports are taken to the Overview and Scrutiny Committees. Most data is extracted from secure Council systems, only that relating to services delivered under contract being received from external sources. Proportionate checks are made to confirm accuracy of the data provided.</p> <p>The Councils have moved away from use of a central system (Pentana) to store reporting data to Excel spreadsheets. This manual system impacts on availability of an audit trail, and the ability to exploit the data such as through automated dashboard reports. Councils are increasingly using tools to support</p>

review and analysis of trends and issues. The council should consider whether investment in this area would be beneficial.

We identified one Medium and four Low priority Management Actions.

Procurement - Follow Up

Reasonable Assurance

We provided a Limited Assurance for our report in February 2023. Our current Reasonable Assurance opinion is based on progress to deliver agreed management actions from our previous audit, with most fully or partially actioned. Some have been delayed as they rely on publication of the Procurement Act 2023 which did not happen until October 2023, a year later than expected.

There is also focus on meeting the new requirements of the Procurement Act in the transition year ahead. We have suggested development of an action plan to support this.

Management should prioritise the following to support this transition: some are already supported by management actions:

- Appropriate and expert procurement resource is required to build upon the recent drafted Procurement Strategy and action plan provided from the Devon Districts Procurement Group (DDPG) and to develop and implement a strategy specific to SHDC and WDBC, to ensure the council is ready for the Act and can maximise opportunities to support corporate priorities.
- Development of key performance indicators to assess the effectiveness of the Strategy, and of the Procurement Service, particularly in responding to the new legislation and the potential it offers to advance corporate priorities.
- Additional training specific to the new legislation; management intention is for this to be delivered jointly across the DDPG.
- The single Corporate Procurement Officer provides procurement expertise shared by the three Councils (West Devon, South Hams, and Teignbridge). Management recognise current resource is not sufficient and have prioritised the recruitment of additional resource to ensure procurement best practice and remove the single point of failure at key procurement stages of ProContract, the e-procurement system. The Corporate Procurement Officer will also be away from April 2024 for some time.
- SHDC and WDBC are recruiting a Procurement Support Officer, initially for a fixed one-year term, to assist with the administrative burden and provide continuity.

- The Councils do not have a complete contract register although it has been added to since our last audit. This impacts on the ability to provide the procurement data detailed in the 2015 Transparency Code which is required by Department for Levelling Up, Housing and Communities. The additional resource highlighted above will focus on this work.

We agreed six Medium and three Low Priority management actions, these include some from our previous report.

Commercial Properties and Rent – Follow Up

Reasonable Assurance

Our Reasonable Assurance opinion is based on good progress to deliver agreed management actions from our previous audit, with all fully or partially implemented. The Councils have a good control framework to manage and monitor their commercial properties and ensure rents are set appropriately and collected. There is focus on ensuring software is used effectively to create efficiencies and support best practice. Management should continue to build on progress to date by prioritising completion of the following partially implemented actions:

- Develop Liberty workflow processes, particular for tasks which involve Estates, Finance Business Support and/or Legal.
- Hold regular meetings with Finance Business Support to review debt recovery progress.
- Ensure the Concerto software is used effectively to help administer and manage the commercial estate properties effectively.
- Ensure the external consultant completes work to review service charges for all properties and maintain them in the future.

Progress in improving the administration and management of the commercial property portfolio has been largely achieved by better use of the Concerto software. Key data is now held for all properties, and this may be expanded to include other categories of data. A data cleanse has been carried out and is nearing completion.

Several key performance indicators (KPIs) are now measured, including occupancy rates, rental income, and outstanding rent. Work has been done to better understand the cause of trends, for example, whether occupancy rates are high because rents are artificially low. The Head of Assets receives regular updates on all the KPIs and are included in Performance Board reports. Occupancy rates are formally reported to members.

A report was developed for the Performance Board, providing an overall health check of the commercial properties, to include outstanding rent reviews, Council rents versus open-market rents, rent arrears, etc.

A similar level of reporting is to be maintained.

The Estates team remain mindful of whether individual properties continue to meet corporate objectives. Alternatives are considered for those which do not perform as well as expected, such as selling or re-purposing the property. Future considerations are taken into considered, besides current performance. For example, a property may be in a strategic location that may benefit the authority in the future.

The process for rent reviews has been considered and aligned across the Estates team. This, alongside use of Concerto to provide reminders of when lease events fall due, has led to improved timeliness of rent reviews. The corporate workflow system, Liberty, has been used to improve the Legal work request process, enabling the Legal team to respond more promptly to requests for new or revised leases.

Invoices are no longer issued for 'peppercorn' rents, which are not economically viable to collect. However, they remain necessary for low value insurance recharges.

The need for Legal assistance with debt recovery has been reduced by reviewing Estates working practices. More active intervention is taken when tenants do not pay rent on time, to avoid arrears arising in the first instance. If a debt remains unpaid for more than sixty days, action is taken.

We agreed two High, three Medium and one Low priority management actions.

The High Management actions relate to:

- **The review and update of service charges should be completed.**
- **The review and update of existing property database on Concerto should be completed.**

Totnes Markets

Limited Assurance

The Council has operated a successful market at Totnes for years and has a thriving attendance both by traders and customers. We have confirmed that although procedures are in place regarding the market operation, income collection, trader compliance and market trader allocations, there are several instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved to ensure that they control these weaknesses. We have agreed recommendations on operation and control of the markets to further improve the controls and protect the officers managing them and market users.

Management has already highlighted that the current regulations and procedures need review to ensure they are still compliant and protecting both the Council and the market traders. We identify the following areas to consider:

- That policies and procedures are updated and issued promptly to market traders, and these are signed by each trader, including casuals, on a regular basis and that actions taken should there be any contraventions.
- That all trader's insurance and other compliance requirements are shown to have been checked accurately, this should be completed promptly and updated regularly and include casual traders. This should be supported by a centralised database of trader records managed under the required Data Protection and related regulatory and market policies.
- To confirm that the correct income is received for all stalls. To protect the integrity of the officers responsible for collecting rents, an audit trail should be available. Reconciliations should be completed and retained between the expected rents, the number of traders attending each market, the daily income, refunds recorded on the Square system and ultimately to the banking received.
- To protect the role of the Market Inspectors in the charging of rents and allocation of pitches there should be sufficient separation of duties.
- An audit trail to support any rent discounts to agreed tariffs, management approval and refund records.
- Undertaking independent reviews and documented spot checks of the markets, traders present and checks to income received. Continued regular checks of traders and market health and safety compliance.
- Comprehensive records to support pitch allocation, such as a scoring system, should be held to back up the allocation of permanent and casual pitches for each market and these are completed in agreement with the approved allocation policies.
- New and existing improvements to the management of the market to be set out in the required policies and procedures and that officers are required to confirm that they will abide with these procedures. Regular independent checks should be held to confirm compliance.
- That there is a coordinated approach to the management of the market and where required data and resources are actively shared and co-ordinated.

We agreed two High, seven Medium and eight Low priority management actions.

The High actions related to:

- **Ensuring an accurate record of expected traders and comparing it to income received.**
- **Checking that traders Public Liability Insurance are up to date.**

Appendix 2 – Progress to deliver the audit plan.

Audit	Business Area	Assurance Opinion	Comments
Final Report issued / Work Completed			
Energy Bill Support Scheme	Strategic Finance	Substantial	
Insurance	Strategy and Governance	Reasonable	
Food Safety	Place and Enterprise	Reasonable	
Council Tax Rebate Checks	Strategic Finance	Reasonable	
Project Management	Strategy and Governance	Reasonable	
Travel and Subsistence	Strategy and Governance	Reasonable	
Counter Fraud Resilience and Assessment Report	Strategy and Governance	NA	Provided as separate report in Dec 23 meeting.
Devon Building Control Partnership	NA	Reasonable	Organisation hosted by Teignbridge; provided as a partnership for South Hams, West Devon, and Teignbridge.
Treasury Management	Strategic Finance	Substantial	
Main Accounting	Strategic Finance	Substantial	
Comments and Complaints	Customer Services and Delivery	Reasonable	
Electoral Registration	Strategy and Governance	Substantial	
Members Allowances	Strategy and Governance	Reasonable	
Creditors	Strategic Finance	Reasonable	
Changing Places Fund Grant	Strategic Finance	Grant Certified	

Audit	Business Area	Assurance Opinion	Comments
UK Shared Prosperity Fund	Strategic Finance	Substantial	
Homelessness	Place and Enterprise	Reasonable	
Housing	Place and Enterprise	Reasonable	
Performance Management including KPIs and Data Quality – Follow Up	Strategy and Governance	Reasonable	
Debtors	Strategic Finance	Reasonable	
Procurement	Strategy and Governance	Reasonable	
Commercial Properties and Rents – Follow Up	Place and Enterprise	Reasonable	
Cyber Security	Customer Services and Delivery	Reasonable	
Recruitment	Strategy and Governance	Reasonable	
Homes England Grant	Strategic Finance	Reasonable	South Hams only
Okehampton Railway Station Levelling Up grant	Strategic Finance		West Devon only

Audit	Business Area	Comments
Draft Report		
Salcombe Harbour	Place and Enterprise	
Safeguarding	Strategy and Governance	
Social Networking, Communications and Media	Strategy and Governance	We have provided an initial summary report to officers to inform development work. We will provide a formal audit report in Quarter 4.
Fieldwork		
Building Maintenance and Works – Follow Up	Customer Services and Delivery	We have monthly meetings with officers to discuss work to improve controls and implement our recommendations. An update audit report will be provided in Quarter 4.
Household Waste and Recycling	Customer Services and Delivery	
Car Parking	Customer Services and Delivery	
Planning – development management	Strategy and Governance	Include review of S106.

Planning / Not Yet Started		
Business Rates	Customer Services and Delivery	Follow up of Limited Assurance report, start mid Mar 24.
Council Tax	Customer Services and Delivery	Follow up of Limited Assurance report, start mid Mar 24.
Housing Benefits	Customer Services and Delivery	Start early Mar 24.
Contract Management: Waste and Recycling	Customer Services and Delivery	Start mid Mar 24.

Audit	Business Area	Comments
Deferred to 2024/25		
Corporate Governance	Strategy and Governance	Start Apr / May
Culture and Ethics	Strategy and Governance	Deferred to 2024/25
Health and Safety	Strategy and Governance	Start Apr 24
Environmental Services (Health and Safety)	Place and Enterprise	Start Apr 24
Grounds Maintenance	Customer Services and Delivery	Start Apr / May 24
Depot and Stores Control	Customer Services and Delivery	Start Apr 24

Report to: **Audit and Governance Committee**
Date: **28 March 2024**
Title: **Internal Audit Recommendations Tracker**
Portfolio Area: **Councillor Julian Brazil
Leader South Hams District Council**
Wards Affected: **All**
Author: **Neil Hawke** Role: **Assistant Director Strategy**

Contact: Neil.Hawke@swdevon.gov.uk

Recommendations:

That the Audit and Governance Committee note the progress update against implementation of Internal Audit Recommendations as set out in this report.

1. Executive summary

- 1.1 The Council's Internal Audit team carry out a planned programme of audits to inform business development and ensure compliance with policy and procedure.
- 1.2 A key part of each audit is the making of recommendations and identification of opportunities. These are considered by relevant managers and, where agreed, implementation timescales are set out in the final audit.
- 1.3 This report sets out an update on progress against Internal Audit recommendations since the previous update in September 2023.

2. Background

- 2.1 Since 2021, 486 High, Medium, or Low recommendations made by Internal Audit have been due for completion.
- 2.2 The Council has assessed progress against those recommendations and set the results out in this report.

- 2.3 It should be noted that management of the Internal Audit tracker and progress against recommendations is now carried out by the Councils Performance Board, consisting of Director of Customer Service Delivery, Director of Strategy and Governance, Assistant Director Strategy, and the Head of Customer Services & Improvement. This board has been in place since late 2022 to drive organisational performance and risk management.
- 2.4 The tracker is a detailed Excel spreadsheet that requires Heads of Service to provide updates on recommendations under the following headings:-
- Complete – action complete as agreed or closed due to no longer being required (for example a recommendation that is no longer relevant due to changes to process or systems).
 - In progress – work is underway to implement but not fully complete.
 - Not yet started.
- 2.5 While recommendations can be made and indicative timescales given, these can be required to move due to operational priorities. Decisions and this are made by Directors and Heads of Service on a risk basis.
- 2.6 The following table sets out the status of recommendations made by the Internal Audit team since 2021 and the priority of the recommendation (High / Medium/ Low). It also includes details on those 'High' priority recommendations that are overdue.

2.7 Target Implementation Year: - 2021

Total recommendations due for completion during the year:- 181

Note that the figures as at the previous report are shown as (xx)

Priority	Completed	In Progress	Not Started	Total
High	24	0 (2)		24
Medium	128 (107)	12 (33)		140
Low	16 (14)	1 (3)		17
Total	168 (143)	13 (38)		181
%	93% (79%)	7% (21%)		100%

There are no longer any high priority recommendations remaining in progress. The focus is now on closing the Medium priority recommendations.

2.8 Target Implementation Year: - 2022

Total recommendations due for completion during the year:- 170

Note that the figures as at the previous report are shown as (xx)

Priority	Completed	In Progress	Not Started	Total
High	42 (31)	6 (14)	0 (3)	48
Medium	74 (65)	23 (30)	0 (2)	97
Low	23 (17)	1 (6)	1 (2)	25
Total	139 (113)	30 (50)	1 (7)	170
%	82% (67%)	17% (29%)	1% (4%)	100%

The recommendations that are still 'In Progress' and with a 'High' priority are as follows:-

2.8.1 Creditors: The provision of agricultural planning advice should be procured in line with Contract Procedure Rules. **Update March 2024**
- There is a limited market for this advice and while the intention is still to carry out a procurement, it is unlikely to result in a significantly different outcome to the current provision.

2.8.2 Debtors: It should be ensured that managers are aware of the need to take legal action promptly, for those debts which are of sufficient value to warrant being pursued through the courts. **Update March 2024** :- we continue to take steps to increase the capacity within the Legal team to progress this action with priority on higher value debts.

2.8.3 Dartmouth Lower Ferry:- As we have previously reported, the Head of Maritime (CSS) should contact the eHarbour company with regard to enabling the addition of recording 'error' transactions onto the eHarbour system, against individual operatives, prior to the completion of the daily Bank Report. **Update March 2024:-** We have requested this from the software provider but the functionality isn't available with the system. We will continue to raise this to them.

2.8.4 Debtors:- We support the intention to ensure that all officers are using the web-based version of Civica Financials, including seeking training for officers from the software supplier. **Update March 2024:-** The Head of Finance in conjunction with the Head of Revenues and Benefits will oversee this. Finance team members have received training from Civica however it is considered that the 'web' version is

not currently user friendly for the wider organisation. Work continues with the software provider to address this, and training will be rolled out in 2024. Budget holders still have access to manage budgets via the non-web version.

2.8.5 Business Rates 2021/22:- We support the intention to commence procurement for a new Enforcement Agent Contract. **Update March 2024:-** Procurement will commence by the end of March.

2.8.6 Grounds Maintenance:- The prioritisation of the work delivered by the Property and Ground Maintenance teams should be primarily guided by the Assets strategy, to ensure that the strategic objectives and priorities of the wider Assets service are met. **Update March 2024:-** We are currently developing an updated Asset Management Strategy which will address this later this year.

2.9 Target Implementation Year: - 2023

Total recommendations due for implementation:- 135

Note that the figures as at the previous report are shown as (xx)

Priority	Completed	In Progress	Not Started	Total
High	10 (1)	3 (3)		13
Medium	40 (7)	25 (9)	0 (2)	65
Low	24 (0)	33 (0)		57
Total	74	61	0	135
%	55% (30%)	45% (63%)	0% (7%)	100%

The recommendations that are still '**In Progress**' due for completion during 2023 and with a '**High**' Priority are as follows:-

2.9.1 Housing Benefits – Introduction of more efficient or alternative Housing Benefit Overpayment should be considered. **Update March 2024** – this is considered as part of the Enforcement Agents Contract retender due to commence before the end of March 2024.

2.9.2 Building Maintenance (Follow-up) A property maintenance strategy should be put in place which is informed by the Councils strategic priorities and themes as well as building condition and legislative requirements. **Update March 2024** - We're reviewing our in house depot services to ensure they are aligned and resourced to provide ongoing maintenance. In

parallel, we have reviewed the processes by which our estate is managed and maintenance items are catalogued, which is informing the depot structure, skill set and capacity. This work will culminate in the Head of Land and Property encapsulating into an updated Asset Management Plan for adoption this year.

2.9.3 SHWD Markets. A review should be undertaken of all traders public liability insurance to ensure suitable cover is in place. Update **March 2024:-** We continue to check the Public Liability of Market traders and are developing an online system to capture this upfront when traders book. In the meantime we continue to check with traders that they have suitable insurance.

3. Proposal and Next Steps

- 3.1 Overall, since 2021, 78% of the recommendations made have been completed with a further 21% in progress. All Internal Audit recommendations will continue to be monitored by the Performance Board and managed to completion by the relevant Director and Head of Service.
- 3.2 It is recommended that the Audit & Governance Committee note progress against the Internal Audit recommendations tracker and request a further update in six months' time to monitor progress against the above progress.

4. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Internal Audit function is important to advising Managers on compliance and improvement opportunities and therefore an important aspect of the Councils overall governance framework.
Financial implications to include reference to value for money.	Y	Ensuring recommendations are implemented is important to ensuring value for money and compliance in delivering our services.
Risk	Y	Ensuring audit recommendations are implemented is important to managing

		overall risk to the Council and its services
Supporting Corporate Strategy	Y	Council Services
Consultation & Engagement Strategy	N	
Climate Change - Carbon / Biodiversity Impact	N	
Comprehensive Impact Assessment Implications		
Equality and Diversity	NA	
Safeguarding	NA	
Community Safety, Crime and Disorder	NA	
Health, Safety and Wellbeing	NA	
Other implications	NA	

Supporting Information

Appendices:

None

Background Papers:

None

Report to: **Audit and Governance Committee**
Date: **28 March 2024**
Title: **Shared Services Methodology 2023/24**
Portfolio Area: **Finance – Cllr J Brazil**

Wards Affected: **All**

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

Author: **Pauline Henstock** Role: **Head of Finance Practice**

Contact: **Email: pauline.henstock@swdevon.gov.uk**

Tel: 01803 861377

Recommendation:

- 1. That the Audit and Governance Committee notes the methodology of the shared services apportionment of costs between South Hams District Council and West Devon Borough Council for 2023/24, as attached in Appendix A.**

1. Executive summary

- 1.1** The methodology for the apportionment of costs (predominantly staffing costs) between South Hams District Council and West Devon Borough Council is set out in the attached Appendix. The staffing costs of a particular service team are split on a defined basis as set out. The split of costs reflects the level of caseload which is attributable to each Council's individual service.

2. Background

- 2.1 This report is the annual report to the Audit and Governance Committee which sets out the methodology and mechanisms that are being used to calculate the cost allocations between the two Councils.
- 2.2 South Hams District Council and West Devon Borough Council have been shared service partners since 2007. The Councils have a shared non-manual workforce.
- 2.3 Appendix A sets out the methodology and the percentage on which staff costs and other related costs for each service are split between South Hams District Council and West Devon Borough Council. The caseload statistics are the actual caseloads for each service mainly for the period April 2023 to the end of December 2023 (9 months).
- 2.4 The final actual shared services split formulae have only been adjusted if they exceed a tolerance level of 3% from the original estimate of the shared services split. Anything where the difference between the actual and the estimate is 3% or below has not been changed.

3. Outcomes/outputs

- 3.1 The review of shared services splits will create **additional staffing costs for South Hams of £41,100 in 2023/24** which equates to less than 0.4% of the Council's total salary budget of £11.4m.
- 3.2 There has been a higher allocation of salary costs to South Hams in 2023/24 from the service areas of customer contact centre and planning enforcement and the Head of Legal Practice.
- 3.3 Most service areas remain unchanged or below the tolerance level set at 3%. Details of all the allocations and the methodologies used are set out in Appendix A.

4. Options available and consideration of risk

- 4.1 Our external auditors identify the sharing of costs between South Hams District Council and West Devon Borough Council as a key risk area. On an annual basis, our auditors review the shared services allocations to ensure they are reasonable and appropriate, consider any changes from the prior year basis, test the calculations of transferred costs, and confirm that their work has not identified any issues with the allocation of shared costs. Bishop Fleming will carry

out testing on the 2023/24 shared services allocations as part of the Final Accounts Audit.

5. Proposed Way Forward

5.1 Shared service allocations and the methodologies used are reviewed on an annual basis. Further reports will be brought to the Audit and Governance Committee.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Council is legally required to maintain adequate governance and financial arrangements to ensure a fair allocation of shared costs is absorbed by each individual Council.
Financial implications to include reference to value for money	Y	The review of shared services splits will create additional staffing costs for South Hams of £41,100 in 2023/24 which equates to less than 0.4% of the Council's total salary budget.
Risk	Y	The allocation of shared costs is identified by our external auditors as one of the key financial statement audit risks. On an annual basis, our auditors review the shared services allocations to ensure they are reasonable and appropriate and confirm that their work has not identified any issues with the allocation of shared costs. Bishop Fleming will carry out testing on the 2023/24 shared services allocations as part of the Final Accounts Audit.
Supporting Corporate Strategy		The apportionment of shared service costs supports all of the Delivery Plans within the Council's strategic vision, 'Better Lives for All'. For 2024/25 the Council has approved a Council Plan.
Climate Change – Carbon / Biodiversity Impact		None directly arising from this report.

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

Appendices

Appendix A – List of shared service apportionments for 2023/24

Proposed Workplan for the Audit & Governance Committee for the 2024/25 Municipal Year

Draft Committee Meeting Date	Agenda Items
18 July 2024 (p.m.)	<ul style="list-style-type: none"> i) Draft Annual Statement of Accounts and Annual Governance Statement 2023/24 ii) Annual Treasury Management Report 2023/24 iii) Internal Audit Annual Report 2023/24 iv) Internal Audit update report v) Strategic Risk Register vi) Fraud Risk Assessment and Annual Fraud report 2023/24 vii) Annual Standards report from the Monitoring Officer viii) A & G Task and Finish Group Updates ix) Committee Workplan
17 October 2024 (to be brought forward to the end of September, depending on the External Audit)	<ul style="list-style-type: none"> i) Audited Annual Statement of Accounts and Annual Governance Statement 2023/24 ii) Bishop Fleming – Audit Opinion on the 2023/24 Statement of Accounts iii) Bishop Fleming – Value for Money assessment 2023/24 iv) Treasury Management Update Report to 30 June 2024 v) Investment Properties – Update and Monitoring Report; vi) Update on Progress on 2024/25 Internal Audit Plan; vii) A & G Task and Finish Group Updates viii) Committee Workplan
12 December 2024	<ul style="list-style-type: none"> i) Bishop Fleming Sector update reports ii) Bishop Fleming – External Audit Plan for the 2024/25 Statement of Accounts i) Update on Progress on 2024/25 Internal Audit Plan ii) Strategic Risk Register iii) Treasury Management Mid-Year Report 2024/25; iv) Ombudsman Annual Review Letter; v) A & G Task and Finish Group Updates vi) Committee Workplan

6 March 2025 (p.m.)	<ul style="list-style-type: none">i) Proposed Internal Audit Plan for 2025/26;ii) Update on Progress on 2024/25 Internal Audit Plan;iii) 2025/26 Capital Strategy; 2025/26 Treasury Management Strategy; and 2025/26 Investment Strategy;iv) Budget Book 2024/25;v) Shared Services Methodology 2023/24;vi) A & G Task and Finish Group Updatesvii) Committee Workplan
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