

# West Devon Audit Committee



West Devon  
Borough  
Council

<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Tuesday, 27th September, 2016</b>
<b>Time:</b>	<b>2.00 pm</b>
<b>Venue:</b>	<b>Chamber - Kilworthy Park</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Davies</p> <p style="text-align: center;"><b>Vice Chairman</b> Cllr Moody</p> <p><i>Members:</i> Cllr Jory Cllr Watts Cllr Stephens</p>
<b>Interests – Declaration and Restriction on Participation:</b>	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
<b>Committee administrator:</b>	Member.Services@swdevon.gov.uk

**1. Apologies for absence**

**2. Declarations of interest**

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

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

**3. Items Requiring Urgent Attention**

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

**4. Confirmation of Minutes**

**1 - 2**

Meeting held on 19 July 2016

**5. External Audit Report 2015/16**

**3 - 30**

Report of KPMG

**6. Annual Statement of Accounts 2015/16**

**31 - 162**

Report of the Section 151 Officer

**7. Annual Treasury Management Report 2015/16**

**163 - 174**

Report of the Section 151 Officer

**8. Strategic Risk Assessment - Regular Update**

**175 - 190**

Report of the Group Manager – Business Development

**9. Internal Audit Charter & Strategy 2016/17**

**191 - 210**

Report of the Devon Audit Partnership

**10. Update on Progress on the 2016/17 Internal Audit Plan 211 - 220**

Report of the Devon Audit Partnership

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# Agenda Item 4

At a Meeting of the **AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the 19<sup>th</sup> day of **July 2016** at **10.00am**

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

Cllr B Stephens  
Cllr J Yelland

Cllr N Jory  
Cllr W G Cann OBE

**Officers in attendance:** Finance Community of Practice Lead (S151 Officer  
Accountant Business Partner  
Case Manager, Strategy & Commissioning

**Also in attendance:** Cllrs C Edmonds and Executive Director  
(Service Delivery and Commercial Development)

**\*AC 10 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Cllrs L Watts & J B Moody and representatives from KPMG (the Council's External Auditors). The meeting proceeded to note that Cllr Yelland (for Cllr Watts) and Cllr Cann OBE (for Cllr Moody) were acting in the capacity of Substitute Members for this meeting.

**\*AC 11 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 5 July 2016 were confirmed and signed by the Chairman as a correct record.

**\*AC 12 DRAFT STATEMENT OF ACCOUNTS**

In his capacity as Lead Hub Committee Member for Support Services, Cllr Edmonds introduced the Draft Statement of Accounts.

The Section 151 Officer then took Members through the key points within the Narrative Statement. The Council's Accounts for 2015-16 reported an underspend of £32,000, meaning that actual spend for the year was 0.4% less than the Budget set. Answering concerns in regard to pension liability after Brexit, the S151 Officer explained that the Council would be in a better position to confirm what the percentage payable by the employer for employers' pension's contributions would be by December 2016. This was following results of the Triennial Pension Revaluation which took place in March 2016.

Currently, the percentage payable was 25.8% and it was possible that Devon County Council might look to review the strategy of the investment of pension fund money.

Furthermore for West Devon's own position, it was possible that the payback period for the recovery of the deficit could be extended to

25 years as an option for the Council to consider (NB it was currently 20 years). Twenty five years was the Fund average deficit recovery period.

In regard to Business Rates, the S151 Officer reiterated that the Council needed to be mindful of being in the safety net position within the pool, but she felt assured that West Devon would not be in the same position next year as this was mainly due to the increase in the provision for business rates appeals.

During discussions, several questions were raised by Members. The S151 Officer gave an update on several prospective tenants looking to utilise space at Kilworthy Park. In addition, an agent had also been commissioned to assist in promoting the office space.

In regard to the payable payment period, the S151 Officer stated that 84% of invoices had been paid within 30 days.

In response to a Member question, the Accountant Business Partner reported that debt over more than one year old had increased from £130,000 (March 2015) to £164,000 (March 2016). However, overall debt had fallen from £466,000 (March 2015) to £264,000 (March 2016). It was noted that the long term debt was harder to recover than short term debt.

In answer to agency staffing costs, the S151 Officer explained that the £215,000 of unused New Homes Bonus grant funding would be used to employ staff on a fixed term one year contract.

The S151 Officer informed that there was £30,000 set aside in a reserve for homelessness cases and that this reflected an increase in demand due to the benefit cap.

Member expenses were discussed and an overall increase of £10,000 was noted due to an independent review carried out on Member allowances following the establishment of the Hub Committee.

In conclusion, the Chairman thanked The S151 Officer, The Accountant Business Partner and the finance team for their hard work.

It was then **RESOLVED** that the Audit Committee note the Draft Statement of Accounts together with the Technical Appendix for the financial year ended 31 March 2016

(The Meeting terminated at 10.58 am)

Dated this

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Chairman



# External Audit Report 2015/16

West Devon Borough Council

19 September 2016



Agenda Item 5

# Contents

The contacts at KPMG in connection with this report are:

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## Report sections

— Introduction	3
— Headlines	5
— Financial statements	8
— VFM Conclusion	17

## Appendices

1. Audit differences	23
2. Materiality and reporting of audit differences	24
3. Declaration of independence and objectivity	25

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.





# Section one: Introduction



Page 6

**This document summarises:**

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and
- Our assessment of the Authority's arrangements to secure value for money.

## Scope of this report

This report summarises the key findings arising from:

- Our audit work at West Devon Borough Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

## Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.



We previously reported on our work on the first two stages in our Interim Audit Report/Letter 2015/16 issued in June 2016.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

## VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work and we included early findings in our Interim Audit Report 2015/16. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

## Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work. We would particularly like to thank officers for the assistance that they have provided in helping us to familiarise ourselves with the Authority and its processes given that this is our first year as your auditors.



# Section two: Headlines



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Page 8

<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
<b>Audit adjustments</b>	We are pleased to report that we did not identify any material misstatements to the Authority's accounts. We have agreed a number of minor presentational and disclosure changes to supporting notes to the accounts to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').
<b>Key financial statements audit risks</b>	We identified the following key financial statements audit risk in our 15/16 External audit plan issued in March 2016: — Allocation of Shared Costs. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report. No significant issues arose as a result of our work in the above areas.
<b>Accounts production and audit process</b>	We received complete draft accounts on 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. During the accounts production process officers identified a limited number of corrections required to the prior year accounts in relation to the non-domestic (business) rates appeals provision. We are satisfied that the Authority has made appropriate adjustments in relation to this matter. We will debrief with the finance team to share views on the final accounts audit. In particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.



Page 9

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

<b>VFM conclusion and risk areas</b>	<p>We identified the following VFM risks in our External audit plan 2015/16 issued in March 2016.</p> <ul style="list-style-type: none"> <li>— Achievement of Savings Plans; and</li> <li>— Delivery of the T18 Transformation Programme.</li> </ul> <p>We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.</p>
<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>— Final elements of work in relation to payroll reconciliations and pensions;</li> <li>— Final review of IT policies and procedure documents;</li> <li>— Final review of full schedule of shared costs; and</li> <li>— Agreement of bank letters (awaiting letters from the Council's banks).</li> </ul> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the following appropriateness of the allocation of shared costs.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>



# Section three: Financial Statements

# Proposed opinion and audit differences



We have not identified any issues in the course of the audit that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Page 11

## Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 27 September 2016.

## Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £0.5 million which is reduced slightly from that reported to you in our 15/16 External Audit Plan in order to reflect the actual total expenditure per the financial statements. Audit differences below £25,000 are not considered significant.

We did not identify any material misstatements.

The tables on the right illustrate the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016.

We identified a number of minor presentational and disclosure adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). The Authority has addressed where agreed. Any not agreed were immaterial and were presentational changes.

## Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of minor comments in respect of its content which the Authority amended.

Movements on the general fund 2015/16	
£m	£m
Deficit on the provision of services	(1,241)
Adjustments between accounting basis and funding basis under Regulations	2,645
Transfers to earmarked reserves	(1,372)
<b>Increase in General Fund</b>	<b>32</b>
Balance sheet as at 31 March 2016	
£m	£m
Property, plant and equipment	19,660
Other long term assets	234
Current assets	10,549
Current liabilities	(5,977)
Long term liabilities	(23,027)
<b>Net worth</b>	<b>1,439</b>
General Fund	(1,055)
Other usable reserves	(2,868)
Unusable reserves	2,484
<b>Total reserves</b>	<b>(1,439)</b>



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* and *Interim Report 2015/16*, presented to you in March and June 2016 respectively, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for the risk that is specific to the Authority.

### Significant Risk 1 – Allocation of Shared Costs

#### — Risk

The Authority operates shared management structures, systems and services with its neighbour, South Hams District Council. As a result of this arrangement, costs are initially borne by each council individually, and then an exercise is undertaken to ensure that these are shared on an appropriate and consistent basis. This is essential to ensuring that the Authority recognises its full costs and to prevent cross subsidy between the two councils. In order to operate effectively, the allocation of costs must be undertaken on an appropriate basis which reflects the nature of the underlying activities and the way in which the resources are consumed.

#### — Findings

In our *Interim Report 2015/16* we confirmed that we had reviewed the proposed methodology for the allocation of shared costs.

As part of our final audit visit we reviewed the way in which significant elements of shared costs had been allocated to the Authority and confirmed that this had been undertaken in a manner consistent with both prior year and the proposed methodology. No issues were identified as a result of this.

At the time of issuing this report we are still completing our final review of the full shared cost allocation.



# Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

### Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2015/16* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. In addition, we gave particular consideration to the allocation of shared costs as set out on Page 10 of this report.

There are no matters arising from this work that we need to bring to your attention.

# Other areas of focus



In our External Audit Plan 2015/16, presented to you in March 2016, we identified one area of audit focus. This is not considered as a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for this area of audit focus.

### Area of focus 1 – Change in revenue accruals de-minimis policy

#### — Issue

During 2015/16 the Authority has amended its policy in relation to the recognition of revenue accruals. Whereas in prior years a de-minimis of £1,000 was applied, this will be set at £2,500 for 2015/16 onwards.

#### — Findings

We considered the impact that such a change would have had had it been applied to the 2014/15 financial statements and are satisfied that the new threshold should not result in the accounts being unfairly stated. The analysis undertaken to support this assessment indicated that the changed threshold would have reduced debit accruals by £30,251 and credit accruals by £9,119. These amounts are below our triviality reporting thresholds (see Appendix 2)

As part of our final audit work we further considered the change in accruals levels between 2014/15 and 2015/16 and confirmed that the policy change has been accounted for appropriately. As a result of the change in accounting policy, and general movement in balances, the 2015/16 accruals balance was a net debtor of £3.0m compared to a net creditor of £3.3m. Further details are provided on Page 13.



We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	15/16	14/15	Balance (£m)	KPMG comment
<b>Provisions</b>	3	3	£0.7 million <i>(PY: £0.2 million)</i>	The Authority's provisions have increased significantly as a result of the changes to the non-domestic rates appeals provision. We identified no issues in relation to the appropriateness of this provision.
<b>Revenue Accruals</b>	3	2	Revenue Debtors: £2.4 million <i>(PY: £2.8 million)</i> Revenue Creditors: £5.3 million <i>(PY: £6.1 million)</i>	The Authority has revised its approach to calculating revenue accruals during the year and has increased its de-minimis threshold. We have compared the new threshold to that applied at other authorities and have confirmed that it is in line with the general approach adopted.
<b>Property, Plant and Equipment (valuations / asset lives)</b>	3	3	£19.7 million <i>(PY: £21.1 million)</i>	We identified no issues in relation to the way in which the Authority calculates the carrying value of its Property, Plant and Equipment assets. The useful lives are in line with expectation and appropriately qualified experts are used in order to provide valuations.
<b>Pensions</b>	3	3	£20.1 million <i>(PY: £22.1 million)</i>	We identified no issues in relation to the way in which the Authority calculates its pensions liability. The Authority has engaged an appropriately qualified actuarial expert in order to perform the pensions calculations and provide required assumptions. We have reviewed the assumptions and found them to be within our expected ranges.

Page 15

# Accounts production and audit process



We note that the quality of the accounts and the supporting working papers was of a high standard.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Page 16

## Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority has a strong financial reporting process. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 30 June 2016.
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> , which we issued in May 2016 and discussed with the finance team, set out our working paper requirements for the audit.  The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i> .
<b>Response to audit queries</b>	Officers resolved audit queries in a reasonable time.

## Narrative statement

The production of a narrative statement was a new requirement for 2015/16 (as opposed to the explanatory foreword produced in prior years). Whilst the content of the narrative foreword is not covered by our opinion, we review it for consistency with the financial statements and consider it in the context of the new Audit & Accountability Regulation requirements.

The Authority provided a draft narrative statement on 30 June 2016 and we note that it was a good draft which included a range of non-financial information in line with the applicable content requirements.

## Prior period adjustments

In preparing the draft financial statements, the Authority identified a number of areas where corrections were required to the figures reported in the 2014/15 financial statements. These related to non-domestic rates appeal provision being held in creditors.

We reviewed the accounting adjustments being made in relation to each of the above errors and are satisfied that they are appropriate.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit letter and close our audit.

Page 17

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of West Devon Borough Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and West Devon Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix three in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Finance Community of Practice Lead for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have requested specific representations in relation to:

- The appropriateness of the allocation of shared costs; and
- The appropriateness of the non-domestic rates provision.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.



# Section four: Value for Money



**Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We follow a risk based approach to target audit effort on the areas of greatest audit risk.**

**We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.**

Page 19

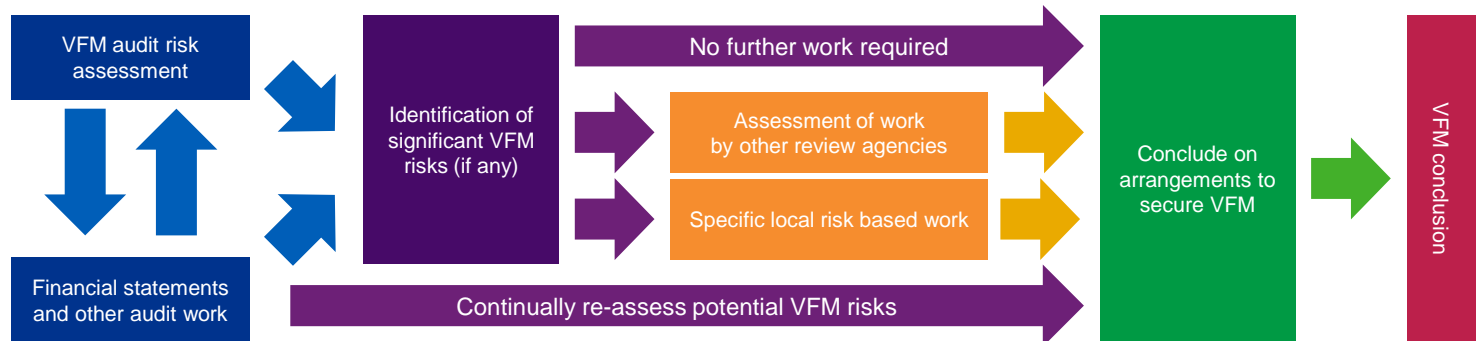
### Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



### Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

**Overall criterion**

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

Informed  
decision  
making

Sustainable  
resource  
deployment

Working with  
partners and  
third parties

✓

✓

✓

Met
Met
Met

# Specific VFM Risks



We have identified a number of specific VFM risks. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Page 20

## Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- Completed specific local risk based work.

## Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this on the following pages.




# Specific VFM Risks (cont.)



We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Page 21

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Authority identified the need to make savings of £1m in 2015/16. When we undertook our planning work the forecast (as contained in the December 2015 Budget Monitoring Report) showed that the Authority would deliver an underspend of approximately £70,000. The March 2016 budget monitoring report updated this to an underspend of £60,000.</p> <p>The Authority's budget for 2016/17 forecast a budget surplus of £669,292 as a result of the full savings being realised in relation to the ongoing transformation plan and due to the additional Rural Services Delivery Grant that the Council has been allocated in 2016-17 by Central Government. Subsequent years show further funding gaps however, resulting in a total net budget gap of £1,068,674 for the period to 2020/21 being identified in the February 2016 Budget Report. Further significant savings will be required in 2017/18 onwards to address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to have a significant impact on the Authority's financial resilience.</p> <p>This is relevant to the <b>informed decision making</b> and <b>sustainable resource deployment</b> sub-criteria of the VFM conclusion.</p>	<p><b>Specific risk based work required:</b> Yes</p> <p>The Authority has delivered an outturn of £32k underspend against the approved budget for 2015/16 as a result of:</p> <ul style="list-style-type: none"> <li>— Additional net savings and additional income in relation to delivery of services (£18k); and</li> <li>— Additional interest and investment income generated during the year (£14k).</li> </ul> <p>The Authority identified savings throughout its operations and monitored the delivery of these through its regular financial monitoring processes. Whilst overspends were identified in relation to a number of specific services, these were offset by additional savings identified during the year.</p>


# Specific VFM Risks (cont.)



We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Page 22

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>As part of its response to the central government funding reductions, and in order to improve the efficiency of its operations, the Authority has initiated a major transformation programme ("T18"). This programme results in significant changes to the way in which services are delivered and back office functions undertaken. As part of the transformation programme, all staff roles and responsibilities have been redefined and a more unified model has been developed whereby staff act as key points of contact for service users and work across services rather than operating as separate teams.</p> <p>The establishment of this new working model has resulted in significant one-off investment costs, both in terms of redundancy costs and those relating to the establishment of new processes and delivery structures. The Authority expects that such costs will be exceeded by the ongoing recurrent annual savings that will be achieved by way of the programme. The predicted payback period of the programme is 2.75 years.</p> <p>This is relevant to the <b>informed decision making, sustainable resource deployment</b> and <b>working with partners and third parties</b> sub-criteria of the VFM conclusion.</p>	<p>The Authority's internal audit service undertook a review of the processes relating to the management of the T18 Transformation Programme. Whilst this identified a number of recommendations for improvement, no significant issues were reported.</p> <p><b>Specific risk based work required:</b> Yes</p> <p>We reviewed the various committee reports relating to the T18 Transformation and confirmed that Members had been appropriately informed of the progress of the programme throughout the year.</p> <p>The implementation of the T18 programme has not been without challenges, particularly in relation to the implementation of appropriate IT solutions to support the new working arrangements. The Authority is continuing to make progress in relation to this.</p> <p>We note, that there has been a need to make additional investments in relation to the programme above those initially set out in the business plan. This was in the form of additional fixed term temporary transitional staffing resources of £216,000. As a result of this, the benefits of the programme have not been realised as early as hoped and this additional cost has slightly increased the payback period of 2.75 years. This investment was subject to appropriate approval within the Authority.</p>



# Appendices

**Appendix 1: Audit differences**

**Appendix 2: Materiality**

**Appendix 3: Independence and objectivity**

# Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

## Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

## Corrected audit differences

We are pleased to report that there are no corrected audit differences.

A number of minor amendments focused on presentational improvements have been made to the draft financial statements of the Authority.

# Materiality and reporting of audit differences

For 2015/16 our materiality is £1.2 million for the Authority's accounts.  
We have reported all audit differences over £60,000 for the Authority's accounts.

Page 25

## Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in March 2015.

Materiality for the Authority's accounts was set at £0.5 million which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £25,000 for the Authority.

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

# Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

## Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

*"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

# Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Page 27

## General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

## Auditor declaration

In relation to the audit of the financial statements of West Devon Borough Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and West Devon Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

# Audit Independence

## Audit Fees

Our scale fee for the audit was £39,396 plus VAT (£52,528 charged in 2014/15 by Grant Thornton). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our planned scale fee for certification for the HBCOUNT is £5,630 plus VAT and will be confirmed in our *Grant Certification Report*.

## Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Page 28 Provision of Audit Committee training seminar in relating to budget monitoring and financial planning. (to be delivered in October 2016)	£1,500	<p><b>Self interest</b> – This engagement is separate from the audit through a separate contract. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that have been deployed to perform a robust and thorough audit.</p> <p><b>Self review</b> – The nature of this work is to provide training to Members in order to enable them to make decisions in a fully informed manner. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.</p> <p><b>Management threat</b> – This work will be training only, all decisions will continue to be made by the Authority.</p> <p><b>Familiarity</b> – This threat is limited given the scale, nature and timing of the work.</p> <p><b>Advocacy</b> – not applicable</p> <p><b>Intimidation</b> – not applicable</p>
<b>Total estimated fees</b>	<b>£1,500</b>	
<b>Total estimated fees as a percentage of the external audit fees</b>	<b>3%</b>	





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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# Agenda Item 6

Report to: **Audit Committee**  
Date: **27 September 2016**  
Title: **ANNUAL STATEMENT OF ACCOUNTS  
2015/2016**  
Portfolio Area: **Support Services**  
Wards Affected: **All**  
Relevant Scrutiny Committee: **Internal**

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

Author: **Alex Walker** Role: **Finance Business Partner**  
Contact: **Tel. 01803 861345**  
**Email: alexandra.walker@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 and Technical Appendix for the financial year ended 31 March 2016 (Appendix B); and**
- 3. The revised Annual Governance Statement.**

## **1. Executive summary**

- 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 2015/16. **Following approval of the accounts, the Chairman of the Audit 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 Committee and the Finance Community of Practice Lead (S151 Officer) are required to sign the Letter of Representation.**

## 2. Background

- 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 certification, approval and publication of accounting statements. In particular, the requirement for Councils to approve the SOA prior to external audit is removed. 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) 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.
- 3) The attached booklet (Appendix B) contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Account, Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow. In addition, the explanatory foreword to the booklet summarises the major variations in income and expenditure from the original budget.
- 4) The accounts have been prepared in accordance with all relevant and appropriate accounting standards including, International Accounting Standard (IAS) 19 which deals with pension costs. This standard ensures that the full cost of employing people is recognised systematically in the accounts and that creditors reflect the council's liability to pay money into the pension fund. A full explanation of the pension's liability is included in the Council's SOA. Members are advised that the accounting arrangements for IAS 19 are for reporting purposes only. Indeed the required entries are reversed out of the accounts and consequently, IAS 19 has no impact on the Council's surplus for the year.

## 3. Outcomes/outputs

### 1) Revenue Expenditure

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 under spend on the General Fund in 2015/2016 of £32,000 is essentially a break-even position. ***The 2015/16 budget was £7.26 million and therefore the saving of £32,000 means that the actual spend was 0.1% less than the budget.*** This saving will go into the Council's Unearmarked Reserves which now stand at £1.055 million. The main differences from budget are shown on Pages 6 and 7 of the Narrative Statement in the Statement of Accounts.

## 2) **Capital Expenditure**

Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £299,998 in 2015/16. The main areas of expenditure were as follows:

- Housing renovation grants and disabled facility grants
- Community projects, namely village hall and parish project grants

## 3) **Audit of Accounts**

The draft SOA was considered by the Audit Committee on 19 July 2016. These accounts are required to be audited by the Council's external auditors, who give their opinion on the draft accounts. The annual audit was undertaken during July and August 2016 by KPMG LLP. Post audit changes have been incorporated within the SOA in line with the recommendations contained within their 'Audit Findings Report'.

## 4. **Proposed Way Forward**

- 1) The Council Constitution delegates approval of the Accounts to the Audit 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 Committee and the Finance Community of Practice Lead (S151 Officer) 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. **Annual Governance Statement**

- 1) The Annual Governance Statement (AGS) was previously agreed at the Audit Committee meeting on 19th July 2016. Following review by KPMG LLP there have been minor amendments made and therefore the revised AGS is presented for approval.

## 6. **Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	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.
Financial	Y	The financial implications to this report are that an under spend of £32,000 was generated in 2015/2016.
Risk	Y	<p>1) <b>Public Accountability</b> – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is recognised by statute as representing proper accounting practice.</p> <p>2) <b>Resource Planning</b> – the Council takes into account any significant issues when developing the Council’s Medium Term Financial Strategy.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

**Supporting Information**

**Appendix A – Letter of Representation.**

**Appendix B – Statement of Accounts and Technical Appendix 2015/16.**

**Appendix C – Annual Governance Statement**

**Background Papers:**

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

**Audit Committee 19 July 2016 – Draft Statement of Accounts 2015/16.**

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**West Devon  
Borough  
Council**

Please reply to: Lisa Buckle, Finance Community of Practice Lead

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KPMG LLP  
3 Assembly Square  
Britannia Quay  
Cardiff  
CF10 4AX

Our ref: LSB  
19 September 2016

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of West Devon Borough Council ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

- ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.
4. In respect of the restatement made to correct material misstatements in the prior period financial statements relating to accounting for non-domestic rates appeals provisions, the Authority confirms that the restatement is appropriate.

Information provided

5. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
  - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
  - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.



In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures.
11. The Authority confirms that:
  - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
  - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
  - statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,have been identified and properly accounted for; and
- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

13. The Authority confirms that the allocation of shared costs has been undertaken on an appropriate basis.

This letter was tabled and agreed at the meeting of the Audit Committee on 27 September 2016.

Yours faithfully,

Councillor M Davies - Chair of the Audit Committee  
Mrs Lisa Buckle – Finance Community of Practice Lead (S151 Officer)  
cc: Members of the Audit Committee

(To be signed upon approval of the content of the letter of representation by the Audit Committee)



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**West Devon Borough Council**  
**Audited Statement of Accounts**  
**2015/2016**



**West Devon  
Borough  
Council**

# **STATEMENT OF ACCOUNTS 2015/2016**

## **CONTENTS**

	<b>PAGE</b>
<b>Section 1</b> Narrative Statement	1-20
<ul style="list-style-type: none"><li>• Introduction</li><li>• Review of the year – the Revenue Budget</li><li>• Key areas to note from the 2015/16 Statement of Accounts</li><li>• Financial needs and resources</li><li>• Looking forward to the future and next steps</li><li>• Performance Indicators for 2015/16 Corporate Balanced Scorecard</li><li>• Principal risks and uncertainties</li></ul>	
<b>Section 2</b> Core Financial Statements	
<ul style="list-style-type: none"><li>• A. Movement in Reserves Statement</li><li>• B. Comprehensive Income and Expenditure Statement</li><li>• C. Balance Sheet</li><li>• D. Cash Flow Statement</li></ul>	21-23 24 25 26
<b>Section 3</b> Notes to the Financial Statements	27-73
<b>Section 4</b> Notes to the Collection Fund	74-77
<b>Section 5</b> Statement of Responsibilities/Approval of the Accounts	78-79
<b>Section 6</b> Auditors' Report	80
<b>Section 7</b> Glossary of Terms	81-84

### **Contents for the Technical Appendix to the Financial Statements**

1. Financial Instruments and Capitalisation of Borrowing Costs	1-3
2. Defined Benefit Pension Schemes	4-10
3. Nature and Extent of Risks Arising from Financial Instruments	11-15

#### **Statement of Accounts 2015-16**

*The Statement of Accounts 2015-16 can be made available in large print, Braille, tape format or other languages upon request. West Devon Borough Council is committed to reflecting the full diversity of our community and to promoting equality of opportunity for everyone.*

# **Section 1**

## **Narrative Statement**

## **Introduction to the 2015/16 Statement of Accounts by Councillor P R Sanders, Leader of West Devon Borough Council**



I am very pleased to welcome you to West Devon Borough Council's Statement of Accounts for 2015/16. This has been a challenging year as the organisation has changed the way in which it works.

West Devon Borough Council and South Hams District Council have been shared service partners since 2007. Together the Authorities have challenged the traditional local government model and have been at the forefront of radical change and innovation.

In September 2014 the first phase of the Councils Transformation Programme (T18) went live. This was followed by the main phase in June 2015. The Councils' non-manual workforce is now 30% smaller, with all staff roles being more flexible and responsive to the needs of the customer.

The investment budget for T18 is £2.83 million (this is West Devon's share of the cost) which is delivering annual recurring savings for West Devon of £1.64 million with a payback period of 2.75 years. This investment has meant that the Council has been well placed to meet the continued financial challenges brought about by year on year reductions in Local Government funding. There is still more to be done but the Council is establishing a solid base from which to meet the forecast budget gap of £1.07 million by 2020/2021. The organisation has become more commercial in its approach whilst continuing to protect its much valued services.

The year has also seen the Council develop our strategic plan for our community. '*West Devon: Our Plan*' sets out eight key priorities and details the practical actions required to achieve the ambitions we have for our communities. Work has begun to develop a Joint Local Plan between Plymouth City, West Devon, South Hams and Dartmoor National Park. Work on this joint plan is due to be completed by early 2017.

I would like to take this opportunity to acknowledge the hard work that has gone into the monitoring and managing of the budget throughout the year by both staff and Members. This has resulted in essentially a break-even position of a £32,000 underspend for the year. This prudent management of our finances, alongside strategic financial planning, has enabled 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 financial standing of the Council, despite the challenges we face, remains sound and secure.

The Council continues to do everything it can to make sure that residents, businesses and front-line services come first.

**Councillor P R Sanders, Leader of the Council**



## Foreword by the Executive Director, Strategy and Commissioning, Head of Paid Service, Steve Jorden



In early 2015 a completely new leadership team was appointed by Members to lead the organisation through the Transformation Programme, become more customer-focused, save money, and explore ways of generating income for the Council.

I am proud to have been part of the new team appointed and I took up my role in February 2015. West Devon and South Hams Councils are led by a small leadership team consisting of two Executive Directors and three Group Managers. The role of the Senior Leadership Team (SLT) is to implement the plans and policies to support the strategic direction of the Council set by Members.

In recognition of the early successes of the Councils' innovative Transformation Programme, West Devon and South Hams achieved national recognition as Council of the Year for 2016 at the recent iESE (the Improvement & Efficiency Social Enterprise) Awards and a gold award in the category "Transforming Through People". In addition, the Councils are a finalist in the "Workforce Transformation" category in the up and coming Municipal Journal Awards.

These successes are a reflection of the significant changes and progress both Councils have made in designing services for the future; successes of which Members and staff should be rightly proud.

By 2018/19 the Council will receive no Government funding (Revenue Support Grant) and the Council will need to be self-sufficient.

The withdrawal of Government funding has happened two years earlier than expected. Since 2013, the Council has seen a 45% reduction in Government funding.



In this financial climate, income generation becomes a key priority area. The Council will continue to maximise its current sources of income through business development, ensuring the maximum utilisation of our assets, identifying new income streams and actively pursuing all opportunities to increase the resources available and further reduction in costs.

**Steve Jorden, Executive Director (Strategy and Commissioning)**

## **Message from the Finance Community of Practice Lead, Section 151 Officer 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 Accounts provide reassurance to residents and other stakeholders that the public money for which we are responsible is very important to us and has been accounted for properly.

The financial standing of the Council continues to be robust. We have embedded financial management disciplines, processes and procedures.

The aim of the Accounts is to enable members of the public, residents, Council Members, partners, stakeholders and other interested parties to:

- Understand the financial position of the Council as at 31 March 2016 and how the Council has performed against the budget set for 2015/16
- Be assured that the financial position of the Council is sound and secure and that the Council can demonstrate financial resilience moving forwards

This Narrative Report (previously the Explanatory Foreword) provides information about West Devon, including the key issues affecting the Council and its Accounts. This gives a general guide to the significant matters reported in the financial statements and provides a summary of the overall financial position at 31 March 2016.

The following pages explain the Council's financial position and include further details of the Authority's activities, cash flows and reserves.

Looking forward, 2016/17 will see the Finance Team progressing the Finance Self Service initiative. The team will adopt the Business Partnering approach, championed by the Transformation Programme, to enable budget holders to access and monitor their own financial data. This will further embed the principles of the T18 model and drive efficiencies.

In 2015/16 the Council has dealt with a significant amount of change with its Transformation Programme and is in a strong financial position. The Council has sufficient reserves and balances to provide financial resilience for 2016/17 and future years.

**Mrs Lisa Buckle BSc (Hons), ACA**

**Finance Community of Practice Lead (Section 151 Officer)**

## NARRATIVE REPORT – INTRODUCTION

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

### REVIEW OF THE YEAR – THE REVENUE BUDGET

- The 2015/16 budget for West Devon was £7.26 million. A saving of £32,000 means that the actual spend was 0.4% less than the budget. This saving will go into the Council's Unearmarked Reserves which now stand at £1.055 million. The main components of the General Fund budget for 2015/16 and how these compare with actual income and expenditure are set out below:

	Estimate £000	Actual £000	Difference Cost/(Saving) £000
Cost of services (after allowing for income and reserve contributions)	6,950	6,932	(18)
Parish precepts	1,182	1,182	-
Interest and Investment income	(40)	(54)	(14)
<b>Amount to be met from Government grants and taxation</b>	<b>8,092</b>	<b>8,060</b>	<b>(32)</b>
<i>Financed from:</i>			
Revenue Support Grant	(1,215)	(1,215)	-
Business Rates	(1,579)	(1,579)	-
Council tax	(5,237)	(5,237)	-
Surplus on collection fund	(61)	(61)	-
<b>UNDERSPEND FOR 2015/16</b>	<b>-</b>	<b>(32)</b>	<b>(32)</b>

- This underspend is shown in the Movement In Reserves Statement in Section 2A and can be summarised as follows:

	£000
General Fund Balance (un-earmarked revenue reserve) at 1 April 2015	(1,023)
Underspend for the 2015/16 financial year	(32)
General Fund Balance (un-earmarked revenue reserve) at 31 March 2016	(1,055)

4. The underspend on the General Fund of £32,000 is essentially a break-even position.
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 2015/16 financial year.

	<b>£000</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,305)</b>
Remeasurements of the net defined benefit pension liability	2,546
The detail of the items below are shown in Note 4 'Adjustments between Accounting Basis and Funding Basis under Regulations'	
Adjustments primarily involving the Capital Adjustment Account	(1,487)
Adjustments primarily involving the Capital Grants Unapplied Account	21
Adjustments primarily involving the Capital Receipts Reserve	-
Adjustments primarily involving the Pensions Reserve	(560)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	84
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account Capital Adjustment Account	(700)
Adjustments primarily involving the Accumulated Absences Account	(3)
Transfers to earmarked reserves	1,372
<b>Underspend for the 2015/16 financial year</b>	<b>(32)</b>

6. A summary of the main differences from budget in 2015/16 is provided below:

<b>ANALYSIS OF VARIATIONS</b>	<b>£000</b>
<b>Reductions in expenditure/additional income</b>	
<p>Waste - The Council's waste contract is reviewed annually and an inflationary increase is applied based on a formula which takes into account factors such as fuel prices and the average earnings index. This year the inflationary increase was -1.72% (this is calculated after the budget setting process).</p> <p>Therefore the inflationary cost pressure of £80,000 which was built into the 2015/16 base budget (as a provision) was not required in 2015/16. The Council is also no longer paying a green waste gate fee.</p>	(120)
Other staffing expenses – Savings on staff related expenditure such as travel, subscriptions and other associated costs. Following the Council's Transformation Programme, the staffing workforce is 30% smaller with all staff roles changing to be flexible and responsible to the needs of the customer.	(90)
Housing Benefit recoveries – Additional income from the recovery of overpayments.	(55)
Local Land Charges property search new burdens grant – A reimbursement from the Government for the costs of the national legal case regarding land charges.	(45)
Revenues and Benefits – Equipment maintenance was lower than expected.	(35)
Homelessness, Aid & Advice – The Council receives a Government grant towards the cost of homelessness prevention. The Council has predominantly funded homelessness costs through the Local Welfare Support Grant which has reduced the amount spent against the Government Grant.	(30)
<p>Elections – An estimate of £50,000 was built into the 2015/16 budget for the cost of Elections in 2015/16, in view of the complexity of the elections in May 2015, involving Parliamentary, Borough, and town/parish polls, in tandem with implementing changes to ward boundaries arising from the Boundary Committee's decisions.</p> <p>The Council's funding has been supported by a grant from government for the national elections resulting in only £20,000 of the £50,000 being required to meet the cost.</p>	(30)
Car parking – Additional income.	(30)

<b>ANALYSIS OF VARIATIONS</b>	<b>£000</b>
New Governance arrangements - A cost pressure of £28,000 was built into the 2015/16 budget to reflect the need for an extensive review to be carried out into the Scheme of Members Allowances. This was a precautionary estimate and has not been fully utilised, resulting in a saving of £20,000. There was a further £5,000 saving on Member travel.	(25)
Legal – Additional income	(15)
Investment Income - The Council has secured a better rate for Money Market Fund investments that are used to manage day to day cash flows, and improved use of fixed term deals with the banks currently on the Council's Counterparty list.	(14)
Small Underspends	(23)
<b>Increase in expenditure/reductions in income</b>	
Salaries and Agency costs – There have been additional staffing and agency costs where temporary resources were used to backfill positions across the Council. These were transition costs where temporary resources were used in services until the full functionality of the new workflow system (W2) could be utilised and the T18 Programme was fully embedded.	160
Recycling credits – Reduction in garden and leaf recycling credit income due to these waste streams being taken into the Waste Disposal Authority Contract negating the payment of recycling credits on these wastes. Reduction in other recycling streams due to various factors including the effect of switch from paper to digital media. The 2016/17 budget has been reduced by £90,000.	120
Kilworthy Park - The Kilworthy Park budget is £70,000 overspent due to two main factors. In the T18 Business Case it was anticipated that there would be reduced running costs due to agile working, smarter use of energy and utilities and the workforce occupying less space. These savings have not yet been realised to this extent, although work has been done on re-procuring some of the utilities costs. This has contributed £55,000 to the overspend. In addition, it was anticipated that the letting income for Kilworthy Park would increase by £15,000.	70
Planning income – Reduction in planning application fees and pre-application planning advice income.	55
<b>Funding transferred to Earmarked Reserves</b>	
Planning Enforcement and Homelessness – Funds have been set aside in an Earmarked Reserve for Homelessness (Minute HC39) and for Planning Enforcement (Minute HC56).	75
<b>TOTAL UNDERSPEND FOR 2015/16</b>	<b>(32)</b>

The 2015/16 budget for West Devon was £7.26 million but the actual spend was 0.4% lower, providing a saving of £32,000 as shown above.

## **KEY AREAS TO NOTE FROM THE 2015/16 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.
8. The pension fund liability at 31 March 2016 is estimated at £20.163 million which compares with £22 million at 31 March 2015. The deficit is derived by calculating the pension assets and liabilities at 31 March 2016. This has resulted in an overall actuarial gain for the year of £2.546m which has been charged to the Consolidated Income and Expenditure Account.

### **Business Rates**

9. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline or if a Council's income from business rates falls due to successful business rates appeals.
9. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value. The Council had some large appeals outstanding at the year end.
10. In 2015/16 there has been a £1.185 million increase in the provision for appeals within the Collection Fund. This has resulted in a deficit in the Business Rates Collection Fund of £1.5 million. West Devon Borough Council's share of the deficit is 40% (£607,000).
11. The Council will need to pay additional sums into the Collection Fund in future years to bring the Collection Fund back into balance. Monies have been set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of this in future years and to fund the volatility in Business Rates income. The balance on this reserve is £844,000 at 31 March 2016 (as per Note 6 to the Accounts).
12. The Council is part of the Devon Business Rates Pool and the pooling gain received was £38,094 for 2015/16.

## Trading Company

13. West Devon Borough Council and South Hams District Council set up a trading company, Servaco Limited, on 4th September 2014. This is a company limited by shares. The company has not traded in 2015/16 and a set of statutory Accounts will be filed with Companies House for the period 1st April 2015 to 31st March 2016. The future of Servaco Limited is likely to be reviewed during 2016/17 alongside the consideration of establishing a Local Authority Controlled Company.

## Borrowing

14. As at 31 March 2016 the Council had £2.1 million of external borrowing (see the Technical Appendix for more details).

## Capital spending

15. The Authority spent £299,998 on capital projects. The main areas of expenditure were as follows:
- Housing renovation grants and disabled facility grants
  - Community projects, namely village hall and parish project grants
16. The capital programme is funded from capital receipts, capital grants and external contributions and earmarked reserves. An analysis of the programme and how it is funded is shown below:

<b>Funding:</b>	<b>£000</b>	<b>Spent on:</b>	<b>£000</b>
Earmarked Reserves	24	Fixed Assets	-
Capital Grants	219	Intangible Assets	32
Capital Receipts and Funds Reserves	32	Revenue Expenditure Funded From Capital (REFCUS)	268
External Contributions	25		
	<u>300</u>		<u>300</u>

## FINANCIAL NEEDS AND RESOURCES

17. The Authority 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.
18. Revenue reserves (which include earmarked reserves) have increased by £1.4m from the preceding year and stand at £3.45m at 31 March 2016. This reflects the increase in the Earmarked Reserves as shown in Note 6 to the Accounts. There has been an increase in the Business Rates Retention Reserve of £0.5 million (see 11 above). In



addition, there has been just under £0.7 million increase in the funding held within the New Homes Bonus Earmarked Reserve.

19. The General Fund Balance (un-earmarked reserve) has increased by £32,000 in 2015/16 and totals £1.055m. Revenue reserves may be used to finance capital or revenue spending plans.
20. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2016 amounts to £473,000 compared to £484,000 at the end of the previous year.
21. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance capital or revenue expenditure.
22. When reviewing the amount of overall reserves held, consideration should be given to the possible implications of the Pension Fund deficiency disclosed within the notes to the balance sheet. The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £20.2 million at 31 March 2016. This disclosure follows the implementation of the International Reporting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.
23. It is important to gain an understanding of the accounts to appreciate the nature of this reported deficiency, which is based on a “snapshot” of pension assets and liabilities at the year end. This is quite different from the valuation basis used for the purposes of establishing the employer’s contribution rate and fund shortfall, which are calculated using actuarial assumptions spread over a number of years.

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

24. Overall, the Council’s finances remain strong. In order to maintain this position, the Council operates continuous monitoring of both income and expenditure. This ensures that services are delivered within approved budgets and that all three elements of value for money (being economy, efficiency and effectiveness) are achieved for our residents. In addition, a planning mechanism is in place, focusing not only on one year, but also on the longer term. The Council’s Medium Term Financial Strategy (covering a five year period) will be considered by the Hub Committee at its September 2016 meeting.

### **Local Authority Controlled Company**

25. The Council is considering the establishment of a company which would be wholly owned by West Devon and South Hams Councils, to deliver the full range of District Council services. In doing so, it is anticipated that this would create an opportunity to sell these services to other organisations to generate income. Council agreed that a detailed business case and implementation plan be produced to enable further consideration of the merits of establishing a Local Authority Controlled Company jointly with South Hams District Council.

### **Transformation Programme (T18)**

26. The Council will continue embedding the IMPACT behaviours and attitudes to ensure T18 continues to progress and a new and innovative way of working is created. This in and of itself will create revenue as the Council will be ideally placed to not only weather the increasing financial constraints placed upon it but will also be ideally suited to offer those services to other Councils who are not as ably prepared.

### **Developing our Assets**

27. West Devon currently runs its commercial property portfolio to generate a revenue stream for the Council. In accordance with its recently updated Asset Management Strategy, the Council has agreed to increase the portfolio size over time, by developing sites in the Council's ownership.
28. The Council is actively pursuing this strategy in order to increase its asset utilisation, seek efficiencies, and generate recurrent income streams. A number of projects across both West Devon and South Hams have been instigated and will begin to deliver significant benefits in the coming years.

### **Channel shift in 2016/17**

29. For the coming year, we will continue with a greater emphasis on 'digital by choice' with nearly all processes available to be completed online via any interface. A revamp of the Council's website will enable customers to find it easier to locate the information they require or to perform any task. Key high volume services (eg Council Tax account or Housing Benefit applications) will be available online, offering customers easy access to the information they need and therefore reducing the need to contact us over the phone. However, if they do wish to contact us by phone, a new contact centre phone system, which includes the ability to offer customers webchat, will be live later this year. The system will enable the Council to provide a more responsive and adaptable service to our customers.

**Devolution:**

30. The Council plays an active part in the Heart of the South West LEP's devolution project. In September 2015 the Heart of the South West (HotSW) submitted its devolution Statement of Intent to Government. The partners are 17 local authorities, two National Parks, the Local Enterprise Partnership and the three Clinical Commissioning Groups. A report will be presented to Members at the July 2016 Council meeting to recommend agreeing to sign up to the principle of creating a Combined Authority for the Heart of the South West, as set out in the Prospectus for Productivity, as the basis for negotiation with Government towards a Devolution Deal for the area.

**IN SUMMARY**

31. The financial year 2015/16 has seen significant change both in the way the Council is funded and the way in which its services are delivered but the significant Transformation Programme (T18) on which the Council has embarked will give the Council the best possible foundation from which to meet the future challenges facing Local Government and to maintain those services which are much needed and appreciated by our communities.

**Issue of the Accounts**

32. The Finance Community of Practice Lead (S151 Officer) authorised the Statement of Accounts 2015/16 for issue on 27<sup>th</sup> September 2016. Events taking place after this date are not reflected in the financial statements or notes.

## PERFORMANCE INDICATORS FOR 2015-16

### CORPORATE BALANCED SCORECARD

The Council's Transformation Programme (T18), combined with the introduction of a new IT system has meant that performance in some key areas has been below that which should be expected. With the implementation of improvement plans and a commitment to providing extra temporary resources, performance did start to recover in the last quarter (December 2015 to March 2016).

#### Community/Customer

Q1	Q2	Q3	Q4	
				Overall waste recycling rate %
				Residual waste per household
				CST: Average Call Answer Time
				CST: % of enquiries resolved at first point of contact

#### Processes

Q1	Q2	Q3	Q4	% of planning applications determined within time frame
				Major(Statutory):
				Minor:
				Other

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

#### T18 Programme

Q1	Q2	Q3	Q4	
-				T18: Programme timescales on track
-				T18: Performance vs. Budget
-				T18: No. of Processes live
-				T18: Ratio call/web submissions



#### Performance

Q1	Q2	Q3	Q4	
	No data	No data		<i>EH: % of nuisance complaints resolved at informal stage Moved to W2 at end of Qtr 3. Data available from next Qtr.</i>
				Avg days short term sickness/FTE
				Complaint response speed

#### Key

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

**Performance Indicator Exception Report: This table gives a performance report on Indicators which are Red at Quarter 4 (where actual performance is below the Council’s target).**

Code and Name	Managed by	Status	Q4 2015/16		Action Response
			Value	Target	
<p>CS: Average Call Answer Time</p> <p>The average time in minutes for a call to be answered. This time shows as an average over each month.</p>	Anita Ley		2.12	1 min	Work started to simplify the call scripts in May and reduce both the time during a call and the wrap-up required afterwards on some of the higher volume processes to improve call answer time.
T18: Ratio call/web submissions	Jim Davis		<p>Calls: 5866</p> <p>Web: 1392</p> <p>14% online</p>	20%	<p>Further delays on Civica providing fixes continued into Quarter 4. Fixes for the existing problems were provided late into the quarter but the website suffered from a specific problem. The website was timing customers out and the issue worsened as the quarter went on, making it harder for customers to submit forms.</p> <p>This problem was difficult to identify as it appeared inconsistently but simple to solve. The issue turned significantly worse into April but this enabled better understanding of the problem and eventual fixing. This single cause was eventually fixed and the ratio of web submissions has started to normalise again back up to around 20%.</p> <p>New processes that offer better functionality for online submissions have gone live in May and should help to increase the ratio of web submissions.</p>

## Performance Indicator (PI) Information Report

Below are the Non-targeted (data-only) performance measures that are reported every quarter to provide context and background information. These are not suitable to be included within the Balanced Scorecard page as no targets are applicable or relevant.

PI Code & Short Name	Managed By	2014/15	2015/16	Comment (If Applicable)
		YTD or Total	YTD or total	
<b>Planning Enforcement</b> Change: Due to issues extracting the information, breaking down the action in each enforcement case isn't possible. Volume of work is being reported instead	Pat Whymer	151 (Quarter 4)	200 (Quarter 4)	The fix required from Civica was delayed due to testing failures and wasn't installed in Qtr 4. The process is now live in Workflow360 and partial data will be reported next Qtr to O&S. Live data will be made available in the dashboards later this month.
<b>All: Complaints received</b>  Complaints logged against each Service per quarter. Highlights changes over time and the effects of initiatives.	Assets	2	0	The existing complaints software still utilises the old service area distinctions. As we move onto the new system reporting will be simplified to enable easier grouping for better analysis, breaking down into Stage 1/2, and capturing our response time. Avg time to respond will be available when the complaints process moves into Workflow360 Complaint numbers remain broadly similar to previous years <i>Ombudsman Complaints</i> <i>Oct 2015 Planning Not investigated as Planning Inspectorate option available</i> <i>This is the only Ombudsman complaint received during the quarter and the Ombudsman refused to investigate as the complainer could go via the Planning Inspectorate</i>
	Corporate Services	0	1	
	Environ. Services	52	98	
	Env.Health	5	3	
	Finance	0	0	
	ICT & CS	35	28	
	Planning, Economy & Community	19	24	

PI Code & Short Name	Managed By	2014/15	2015/16	Comment (If Applicable)
		YTD or Total	YTD or total	
<b>Short term sickness (days)</b> Number of days lost due to short term sickness	Andy Wilson	268	133	Equivalent to 0.7 days/FTE for the quarter. This figure reflects the reduced number of employees on the Establishment following voluntary redundancies during 2015.
<b>CS: % of customer contact through online interaction</b> Demonstrating channel shift	Kate Hamp	-	13.98%	<p>The overall number of web submissions directly into W2 has been steadily increasing. The overall % of online customer contact took a hit this quarter from issues with the website making it harder for customers to submit forms. We saw a corresponding increase in customers choosing email submission of work to us instead, whilst not as efficient as web submitting this still reduces load on the call centre. Once fixed, the number web submissions started improving and we are back up to the 20% mark.</p> <p>An increasing number of W2 processes (fully integrated needing no additional admin) are now available online and the usage should start to increase as the service is advertised.</p>
<b>CS: Average call answer time</b> The average time in minutes for a call to be answered. This time shows as an average over each month	Anita Ley	1.7	2.44	<p>Historical average around 1.5-1.6 minutes. To give some context the call centre received 73,000 calls over the quarter 4, around 10% higher than the same period last year.</p> <p>Work started to simplify the call scripts in May and reduce both the time during a call and the wrap-up required afterwards on some of the higher volume processes to improve call answer time. This needs to be compared with the additional processes now dealt with by customer services that previously were passed immediately to the back office. Whilst better for the customer and case management, it does place additional strain on the Customer Services Team.</p>

PI Code & Short Name	Managed By	2014/15	2015/16	Comment (If Applicable)
		YTD or Total	YTD or total	
<p><b>CS: % of calls resolved at first point of contact</b></p> <p>Percentage of calls which are resolved at initial contact with CST</p>	Anita Ley	72.33%	62%	<p>This is an internal measure that we count quite strictly. Many other local authorities include additional processes which stretches the definition. This gives a truer impression of the number of cases being dealt with solely by the CST.</p> <p>As more W2 processes go live this should improve as they have been designed to enable first point of contact resolution but the simpler processes being available online means the more complex processes remain with the customer service team.</p>
<p><b>EH: Average time taken for Disabled Facilities Grants (Fast track) (work days)</b></p> <p>The total time, from when the application was received until the works are completed. Only a small portion of this is under direct control of the Council.</p>	Ian Luscombe	-	3 days (20 cases)	<p>This is the portion of the process completely under the Council's control (from application to approval). Our target is completion within 5 days. The average number of days is 3. Total of 20 approvals for WD.</p>



## PRINCIPAL RISKS AND UNCERTAINTIES

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

A risk report is presented to the Council's Audit Committee every six months. Below is an extract mainly from the Risk report to the Audit Committee on 15 March 2016 and from the Council's risk register.

<b>Risk</b>	<b>Impact</b>	<b>Mitigation</b>
Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government policy and/or income streams	Reduction in Government Grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support.	Senior Leadership Team to keep watching brief over Government changes in policy and proposals to alter funding – strategically amending the MTFS and local plans to adapt to changes.  Officers to develop income generation response as part of MTFS; 'Invest to Earn' budgets allocated to seed fund income initiatives. Report to Hub Committee on 27 <sup>th</sup> October 2015 covering asset strategy. Housing options and income generation principles.
Strategic Leisure Review	Risk that the Councils may not end up receiving a bid that meets its requirements	Detailed joint procurement process (with South Hams) and constant monitoring; wide review team of officers; affordability criteria highlighted as part of tender process.
Local Authority Controlled Company (LACC)	Capacity impact on staff and business as usual delivery. Business case to assess the market for the LACC.	The Councils have engaged external consultants to prepare a business case and implementation plan. This will help to determine the validity of the business proposition and help the Senior Leadership Team (SLT) and Members assess timescales and impact on capacity.

<b>Risk</b>	<b>Impact</b>	<b>Mitigation</b>
Business Continuity	Processes need to be robust to ensure business continuity in the event of a significant event occurring e.g. failure to ensure the continuous availability of critical IT systems.	Agile working reduces the reliance on two main 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.
Transformation Programme (T18) benefits not all delivered	Risk that sustained benefits from the T18 Programme are not fully embedded. Capacity risk post March 2016 when funding for some temporary staff ceases. Risk of new IT systems not being sufficiently fit for purpose on schedule.	Regular SLT and Member scrutiny with quarterly monitoring reports to Members. T18 programme is within budget.  On 7th June 2016 the Hub Committee considered a report on Transitional Resources. The Hub Committee recommended to Council to approve the use of £215,000 of unused New Homes Bonus funding, to fund the temporary transitional staffing resources set out in the report.  The Council's Head of Paid Service and Group Manager have regular weekly meetings with the IT software supplier.
Provision for Business Rates appeals	There is uncertainty and risk surrounding the calculation of the provision for business rates appeals as future events may affect the amount required to settle an obligation.	In 2015/16 there has been a £1.185 million increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £474,000).  The Council maintains a Business Rates Retention Earmarked Reserve to fund the volatility in Business Rates and funding issues from the new accounting arrangements.
Emergency response, e.g. storm damage/flooding	Support is needed to communities during storm damage/flooding events as well as engagement in longer term recovery	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each other's responsibilities and capacity.

<b>Risk</b>	<b>Impact</b>	<b>Mitigation</b>
Safeguarding	Risk that the Council and/or contractors fail to adhere to meet safeguarding obligations as set out in legislation such as the Children's Act 2004, section 11.	Policies in place and key staff and management have received appropriate training and contact details to be able to spot and report safeguarding issues.
Data Protection	To manage the risk of non-compliance with Cabinet Office PSN CoCo, PCI DSS, Data Protection Act, RIPA and Human Rights Act.	Information Security Policy; All employees responsible for adequacy of data security arrangements within their control. Access to electronic data is only available via council managed devices.  Take into account advice from the Information Commissioners office. Compliance with relevant PSN CoCo through implementation of security changes required. Staff will be completing a data protection awareness course in the near future via the Council's new eLearning tool.
Asset Management	To manage the health and safety risks of customers and staff and to ensure budgets are managed effectively to maintain assets to a satisfactory standard. To consider and manage the risk of redundant properties.	Effective budget monitoring, sound management of assets/ buildings including a planned maintenance approach along with planned capital expenditure programme.  Risk assessments and regular health and safety inspections.

## **Section 2**

# **Core Financial Statements**

## SECTION 2A. MOVEMENT IN RESERVES STATEMENT

### Movement in Reserves Statement for 2015/2016

This statement shows the movement in the year 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 reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decreases before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Authority.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2015 carried forward</b>	1,023	1,023	484	-	2,530	(2,396)	134
<u>Movement in Reserves during 2015/16</u>							
Surplus or (deficit) on provision of services	(1,241)	-	-	-	(1,241)	-	(1,241)
Other Comprehensive Income and Expenditure	-	-	-	-	-	2,546	2,546
<b>Total Comprehensive Income and Expenditure</b>	(1,241)	-	-	-	(1,241)	2,546	1,305
Adjustments between accounting basis & funding basis under regulations (Note 5)	2,645	-	(32)	21	2,634	(2,634)	-
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	1,404	-	(32)	21	1,393	(88)	1,305
Transfers (to) / from Earmarked Reserves (Note 6)	(1,372)	1,372	-	-	-	-	-
<b>Increase/(Decrease) in Year</b>	32	1,372	(32)	21	1,393	(88)	1,305
<b>Balance at 31 March 2016</b>	<b>1,055</b>	<b>2,395</b>	<b>452</b>	<b>21</b>	<b>3,923</b>	<b>(2,484)</b>	<b>1,439</b>

## SECTION 2A. MOVEMENT IN RESERVES STATEMENT

### Movement in Reserves Statement for 2014/2015 (Comparative for 14/15)

This statement shows the movement in the year 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 reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decreases before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2014 carried forward</b>	953	1,930	743	3,626	2,175	5,801
<b>Movement in Reserves during 2014/15</b>						
Surplus or (deficit) on provision of services	(1,729)	-	-	(1,729)	-	(1,729)
Other Comprehensive Income and Expenditure	-	-	-	-	(3,938)	(3,938)
<b>Total Comprehensive Income and Expenditure</b>	(1,729)	-	-	(1,729)	(3,938)	(5,667)
Adjustments between accounting basis & funding basis under regulations (Note 5)	892	-	(259)	633	(633)	-
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	(837)	-	(259)	(1,096)	(4,571)	(5,667)
Transfers (to) / from Earmarked Reserves (See Note 6 – 2014/15 comparative)	907	(907)	-	-	-	-
<b>Increase/(Decrease) in Year</b>	70	(907)	(259)	(1,096)	(4,571)	(5,667)
<b>Balance at 31 March 2015</b>	<b>1,023</b>	<b>1,023</b>	<b>484</b>	<b>2,530</b>	<b>(2,396)</b>	<b>134</b>

## SECTION 2B. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2014/15				2015/16		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
	(20)	(20)	Public Health	15		15
1,249	(461)	788	Central services to the public	1,318	(580)	738
7,085	(2,007)	5,078	Cultural, environmental, regulatory and planning services	6,895	(1,528)	5,367
737	(1,050)	(313)	Highways and transport services	768	(1,063)	(295)
15,554	(14,631)	923	Housing services	15,425	(14,454)	971
4,043	(3,301)	742	Corporate & Democratic Core	2,372	(1,435)	937
534		534	Non Distributed Costs	528		528
2,083	(447)	1,636	Material Item (Note 3)	517	(18)	499
<b>31,285</b>	<b>(21,917)</b>	<b>9,368</b>	<b>Cost Of Services</b>	<b>27,840</b>	<b>(19,080)</b>	<b>8,760</b>
1,198		1,198	Other Operating Expenditure (Note 7)	1,192		1,192
847	(41)	806	Financing & Investment Income (Note 8)	812	(54)	758
3,522	(13,165)	(9,643)	Taxation & Non specific Grant Income (Note 9)	3,081	(12,550)	(9,469)
<b>36,852</b>	<b>(35,123)</b>	<b>1,729</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>32,925</b>	<b>(31,684)</b>	<b>1,241</b>
		17	(Surplus) or deficit on revaluation of non current assets			-
		3,921	Re-measurements of the Net Defined Benefit Liability			(2,546)
		<b>3,938</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(2,546)</b>
		<b>5,667</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(1,305)</b>

**SECTION 2C. BALANCE SHEET**

<b>31 March 2015 (restated)</b>		<b>Notes</b>		<b>31 March 2016</b>
<b>£000</b>				<b>£000</b>
21,126	Property, Plant & Equipment	10		19,660
126	Intangible Assets	11		95
2	Long Term Investments	T.A**		-
139	Long Term Debtors	12		139
<b>21,393</b>	<b>Long Term Assets</b>			<b>19,894</b>
-	Inventory			-
2,817	Short Term Debtors*	12		2,353
7,245	Cash and Cash Equivalents	13		8,196
<b>10,062</b>	<b>Current Assets</b>			<b>10,549</b>
(6,073)	Short Term Creditors*	14		(5,327)
(170)	Provisions*	15		(650)
(16)	Short Term Borrowing	T.A**		-
<b>(6,259)</b>	<b>Current Liabilities</b>			<b>(5,977)</b>
(315)	Other Long Term Creditors	14		(221)
(2,100)	Long Term Borrowing	T.A**		(2,100)
(22,149)	Pension Fund Liabilities	T.A**		(20,163)
(498)	Capital Grants Receipts in Advance	28		(543)
<b>(25,062)</b>	<b>Long Term Liabilities</b>			<b>(23,027)</b>
<b>134</b>	<b>Total Net Assets</b>			<b>1,439</b>
2,530	Usable Reserves	16		3,923
(2,396)	Unusable Reserves	17		(2,484)
<b>134</b>	<b>Total Reserves</b>			<b>1,439</b>

\*Short term Debtors – original balance £2,634, Creditors – original balance £6,042 and Provisions – original balance £18 have been restated to separately identify the balances in respect of Business Rates as at 31 March 2015. Previously the position at year end (including the Appeals Provision) had been netted off and shown in the Balance Sheet as a net Creditor.  
\*\*T.A – See details in the Technical Appendix to the financial statements

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

The unaudited accounts were issued on 30<sup>th</sup> June 2016. The audited accounts were issued on 27<sup>th</sup> September 2016.



## SECTION 2D. CASH FLOW STATEMENT

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

<b>2014/15 £000</b>		<b>2015/16 £000</b>
<b>(1,729)</b>	<b>Net (surplus) or deficit on the provision of services</b>	<b>(1,241)</b>
2,984	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 18a)	2,309
4,636	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(239)
<b>5,891</b>	<b>Net cash flows from Operating Activities</b>	<b>829</b>
(3,527)	Investing Activities (Note 19)	0
1,607	Financing Activities (Note 20)	122
<b>3,971</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>951</b>
3,274	Cash and cash equivalents at the beginning of the reporting period	7,245
<b>7,245</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 13)</b>	<b>8,196</b>

## **Section 3**

# **Notes to the Financial Statements**

<b>Notes to the Financial Statements</b>	
1	Accounting Standards That Have Been Issued But Have Not Yet Been Adopted
2	Critical Judgements in Applying Accounting Policies
3	Material Items of Income and Expenditure
4	Events After the Reporting Period
5	Adjustments between Accounting Basis and Funding Basis under Regulations
6	Transfers to/from Earmarked Reserves
7	Other Operating Expenditure
8	Financing and Investment Income and Expenditure
9	Taxation and Non-Specific Grant Income
10	Property, Plant and Equipment
11	Intangible Assets
12	Debtors
13	Cash and Cash Equivalents
14	Creditors
15	Provisions
16	Usable Reserves
17	Unusable Reserves <ul style="list-style-type: none"> <li>• Revaluation Reserve</li> <li>• Capital Adjustment Account</li> <li>• Pensions Reserve</li> <li>• Collection Fund Adjustment Account</li> <li>• Accumulated Absences Account</li> </ul>
18	Cash Flow Statement – Operating Activities
19	Cash Flow Statement – Investing Activities
20	Cash Flow Statement – Financing Activities
21	Amounts Reported for Resource Allocation Decisions
22	Trading Operations
23	Business Improvement Districts
24	Agency Services

<b>Notes to the Financial Statements - continued</b>	
25	Members' Allowances
26	Officers' Remuneration
27	External Audit Costs
28	Grant Income
29	Related Parties
30	Capital Expenditure and Capital Financing
31	Leases
32	Termination Benefits
33	Contingent Liabilities
34	Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
35	Accounting Policies

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

### **NOTES TO THE ACCOUNTS**

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) introduces changes in accounting policies that will have to be adopted fully by the authority in the 2016/17 financial statements i.e. from 1 April 2016.

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

The following new standards have been adopted into CIPFA's Code of Practice for 2016/17;

- IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17.
- The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.

Other minor changes due to Annual Improvement to IFRSs cycles, IFRS11 Joint arrangements, IAS 16 Property Plant, Equipment and IAS 38 Intangible Assets and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council's Statement of Accounts.

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

In applying the accounting policies set out in Note 35, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

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

## SECTION 3 NOTES TO THE ACCOUNTS

### 3. MATERIAL ITEMS OF INCOME AND EXPENDITURE

The following material item was included on the face of the Comprehensive Income and Expenditure Statement (CIES) in 2015/16 and 2014/15. This expenditure relates to the upfront investment costs for the Council's Transformation Programme (T18). This is explained in detail in the Narrative Statement to the Accounts.

Transformation Programme (T18) Investment Costs	2014/15			2015/16		
	Direct £000	Recharges £000	Total £000	Direct £000	Recharges £000	Total £000
<b>GROSS REVENUE EXPENDITURE</b>						
ICT technology, implementation and workstream development	12	293	305	20	358	378
ICT workstation costs and infrastructure	24	98	122	1	25	26
Training	-	33	33	3	31	34
Accommodation	15	-	15	-	-	-
Implementation and design of the future operating model	-	144	144	-	1	1
Redundancy payments	582	733	1,315	44	83	127
Pension Strain (capitalised cost)	149	-	149	85	-	85
See Note a below						
Pension Strain(capitalised cost reversal from 2014/15)	-	-	-	(149)	-	(149)
<b>Sub Total</b>	<b>782</b>	<b>1,301</b>	<b>2,083</b>	<b>5</b>	<b>512</b>	<b>517</b>
<b>GROSS REVENUE INCOME</b>						
Shared Service Recharge to South Hams DC	-	(181)	(181)	-	(18)	(18)
Transformation Challenge Award (Government grant)	(266)	-	(266)	-	-	-
<b>Sub Total</b>	<b>(266)</b>	<b>(181)</b>	<b>(447)</b>	<b>0</b>	<b>(18)</b>	<b>(18)</b>
<b>NET REVENUE EXPENDITURE/(INCOME)</b> (as shown in the CIES)	<b>516</b>	<b>1,120</b>	<b>1,636</b>	<b>5</b>	<b>494</b>	<b>499</b>

**Note a** : This is to recognise the long term pension liability arising from the Transformation Programme, which is due to timing differences where these figures have not yet been recognised in the Actuaries Pension Statement. Further information is provided in Note 34 'Assumptions made about the future and other major sources of estimation uncertainty'.

### 4. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts for 2015/2016 was approved for issue by the Finance Community of Practice Lead (S151 Officer) on 30<sup>th</sup> June 2016. The Statement of Accounts were then reviewed by the Audit Committee on 19<sup>th</sup> July 2016 and the audited accounts were authorised for issue on 27<sup>th</sup> September 2016. This is also the date up to which events after the reporting date have been considered. There are no events which took place after 31 March 2016 which require disclosure.

## SECTION 3 NOTES TO THE ACCOUNTS

### 5A. 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.

<b>2015/16</b>				
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Usable Reserves
	£000	£000	£000	£000
<u>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure (I&amp;E) Statement:</u>				
Charges for depreciation and impairment of non current assets	509			509
Revaluation losses on Property Plant and Equipment	957			957
Amortisation of intangible assets	63			63
Revenue expenditure funded from capital under statute	268			268
<u>Insertion of items not debited or credited to the Comprehensive I&amp;E Statement:</u>				
Statutory provision for the financing of capital investment	(42)			(42)
Capital grants and contributions applied	(219)			(219)
Capital expenditure charged against the General Fund balance (financing from reserves)	(49)			(49)
Capital grants and contributions unapplied credited to the Comprehensive I&E Statement	(21)		21	-
Use of the Capital Receipts Reserve to finance new capital expenditure		(32)		(32)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive I & E Statement	1,391			1,391
Employer's pensions contributions and direct payments to pensioners payable in the year	(831)			(831)
Amount by which council tax income credited to the Comprehensive I & E Statement is different from council tax income calculated for the year in accordance with statutory requirements	(84)			(85)
Amount by which business rates income credited to the Comprehensive I & E Statement is different from council tax income calculated for the year in accordance with statutory requirements	700			700
Amount by which officer remuneration charged to the Comprehensive I & E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3			3
<b>Total Adjustments</b>	<b>2,645</b>	<b>(32)</b>	<b>21</b>	<b>2,634</b>

**SECTION 3 NOTES TO THE ACCOUNTS**

**5B. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS  
(COMPARATIVE FOR 2014/2015)**

<b>2014/15</b>	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Usable Reserves
	£000	£000	£000	£000
<u>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure (I&amp;E) Statement:</u>				
Charges for depreciation and impairment of non current assets	539			539
Revaluation losses on Property Plant and Equipment				
Amortisation of intangible assets	31			31
Revenue expenditure funded from capital under statute	154			154
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive I&E Statement	86			86
<u>Insertion of items not debited or credited to the Comprehensive I&amp;E Statement:</u>				
Statutory provision for the financing of capital investment	(42)			(42)
Capital grants and contributions applied				
Adjusting amounts written out of the revaluation reserve	(17)			(17)
Capital grants and contributions unapplied credited to the Comprehensive I&E Statement				
Use of the Capital Receipts Reserve to finance new capital expenditure		(259)		(259)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive I & E Statement	1,568			1,568
Employer's pensions contributions and direct payments to pensioners payable in the year	(838)			(838)
Amount by which council tax income credited to the Comprehensive I & E Statement is different from council tax income calculated for the year in accordance with statutory requirements	(143)			(143)
Amount by which business rates income credited to the Comprehensive I & E Statement is different from council tax income calculated for the year in accordance with statutory requirements	(439)			(439)
Amount by which officer remuneration charged to the Comprehensive I & E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(7)			(7)
<b>Total Adjustments</b>	<b>892</b>	<b>(259)</b>		<b>633</b>



## SECTION 3 NOTES TO THE ACCOUNTS

### 6. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16

2015/2016 EARMARKED RESERVES	Balance at 31 March 2015	Transfers Out 2015/16	Transfers In 2015/16	Balance at 31 March 2016
	£000	£000	£000	£000
Business Rates Retention Scheme	(321)	-	(523)	(844)
Car Parking Maintenance	(318)	-	(90)	(408)
Local Authority Business Growth Incentive (LABGI)	(21)	-	(4)	(25)
Habitats Earmarked Reserve	(24)	9	-	(15)
Cannons Meadow	(21)	2	-	(19)
County Election	(24)	-	-	(24)
Landscape Maintenance	(20)	15	-	(5)
Fifth Wave Neighbourhood	(50)	-	(15)	(65)
DCLG Business Support Scheme	(13)	-	-	(13)
DCC Public Health	(40)	15	-	(25)
Devon County Council – TAP Funds	(49)	2	(17)	(64)
Economic Grant Initiatives	(16)	-	-	(16)
Flood Works	(20)	-	-	(20)
New Homes Bonus 2014-15	-	-	(446)	(446)
New Homes Bonus 2015-16	-	1,252	(1,503)	(251)
Homelessness	-	-	(30)	(30)
Strategic Change Reserve (T18)	-	872	(872)	-
Planning Enforcement Reserve	-	-	(45)	(45)
Other Reserves below £15,000	(86)	6	-	(80)
<b>TOTAL</b>	<b>(1,023)</b>	<b>2,173</b>	<b>(3,545)</b>	<b>(2,395)</b>

The purpose of the largest earmarked reserves is set out below:

**Strategic Change (T18)** – This reserve was set up to finance one off investments under the Council's T18 programme that are required for development or the release of ongoing efficiencies. The Transformation Programme is described in the Narrative Statement.

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

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

**SECTION 3 NOTES TO THE ACCOUNTS**

<b>2014/2015 EARMARKED RESERVES</b>	<b>Balance at 31 March 2014</b>	<b>Transfers Out 2014/15</b>	<b>Transfers In 2014/15</b>	<b>Balance at 31 March 2015</b>
	£000	£000	£000	£000
Transformation Programme (T18)	(800)	800	-	-
Business Rates Retention Scheme	(321)	-	-	(321)
Car Parking Maintenance	(252)	-	(66)	(318)
Sparsity Grant and additional Revenue Support Grant	(57)	57	-	-
Local Authority Business Growth Incentive (LABGI)	(43)	22	-	(21)
Habitats Earmarked Reserve	(42)	18	-	(24)
Waste Management	(40)	40	-	-
Revenue Grant	(34)	34	-	-
New Homes Bonus 12/13	(27)	27	-	-
New Homes Bonus 13/14	(85)	85	-	-
New Homes Bonus 14/15	-	1,254	(1,254)	-
Cannons Meadow	(24)	3	-	(21)
County Election	(24)	-	-	(24)
Landscape Maintenance	(20)	-	-	(20)
Fifth Wave Neighbourhood	(20)	-	(30)	(50)
DCLG Business Support Scheme	(20)	7	-	(13)
DCC Public Health	(20)	-	(20)	(40)
Devon County Council – TAP Funds	(10)	4	(43)	(49)
Economic Grant Initiatives	-	-	(16)	(16)
Flood Works	-	-	(20)	(20)
Other Reserves below £15,000	(91)	22	(17)	(86)
<b>TOTAL</b>	<b>(1,930)</b>	<b>2,373</b>	<b>(1,466)</b>	<b>(1,023)</b>

**SECTION 3 NOTES TO THE ACCOUNTS**

**7. OTHER OPERATING EXPENDITURE**

<b>2014/15</b>		<b>2015/16</b>
<b>£000</b>		<b>£000</b>
1,100	Parish council precepts	1,182
86	Loss on disposal of non-current asset	-
12	Pension Administration costs	10
<b>1,198</b>	<b>Total</b>	<b>1,192</b>

**8. FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

<b>2014/15</b>		<b>2015/16</b>
<b>£000</b>		<b>£000</b>
96	Interest payable and similar charges	96
752	Pensions interest cost and expected return on pension assets	716
(42)	Interest receivable and similar income	(54)
<b>806</b>	<b>Total</b>	<b>758</b>

**9. TAXATION AND NON SPECIFIC GRANT INCOME**

<b>2014/15</b>		<b>2015/16</b>
<b>£000</b>		<b>£000</b>
	Council Tax	
(5,023)	Income (inc Parish Precepts)	(5,237)
(142)	Collection Fund Adjustment	(84)
-	Collection Fund – Distribution of Surplus	(61)
103	Support Grant to Parishes	87
	Business Rates	
(4,083)	Income	(4,139)
2,938	Tariff	2,994
(28)	Pooling Gain	(34)
18	Levy	-
-	Safety Net	(140)
24	Transfer of Collection Fund Deficit	417
	Non-ringfenced government grants	
(448)	Small Business Rate Relief Grant	(533)
(1,700)	Revenue Support Grant	(1,215)
-	Rural Services Support Grant	-
(1,254)	New Homes Bonus	(1,503)
(48)	Capital grants and contributions	(21)
<b>(9,643)</b>	<b>Total</b>	<b>(9,469)</b>

SECTION 3 NOTES TO THE ACCOUNTS

10. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>					
At 1 April 2015	20,653	1,493	1,074	83	23,303
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,070)	-	-	-	(1,070)
<b>As at 31 March 2016</b>	<b>19,583</b>	<b>1,493</b>	<b>1,074</b>	<b>83</b>	<b>22,233</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2015	(464)	(1,452)	(261)	-	(2,177)
Depreciation charge	(449)	(41)	(35)	-	(525)
Depreciation written out to the Surplus/Deficit on the Provision of Services	129	-	-	-	129
<b>As at 31 March 2016</b>	<b>(784)</b>	<b>(1,493)</b>	<b>(296)</b>	<b>-</b>	<b>(2,573)</b>
<b>Net Book Value</b>					
<b>At 31 March 2016</b>	<b>18,799</b>	<b>0</b>	<b>778</b>	<b>83</b>	<b>19,660</b>
<b>At 31 March 2015</b>	<b>20,189</b>	<b>41</b>	<b>813</b>	<b>83</b>	<b>21,126</b>

**SECTION 3 NOTES TO THE ACCOUNTS**

<b>2014/2015 Comparatives Property, Plant and Equipment</b>	<b>Land and Buildings</b>	<b>Vehicles, Plant &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Total Property, Plant and Equipment</b>
<b>Restated</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>					
At 1 April 2014	20,731	2,349	1,074	83	24,237
Additions	10	-	-	-	10
Derecognition - Disposals	(88)	(856)	-	-	(944)
<b>As at 31 March 2015</b>	<b>20,653</b>	<b>1,493</b>	<b>1,074</b>	<b>83</b>	<b>23,303</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2014	(36)	(2,219)	(240)	-	(2,495)
Depreciation charge	(429)	(89)	(21)	-	(539)
Derecognition – disposals	1	856	-	-	857
<b>As at 31 March 2015</b>	<b>(464)</b>	<b>(1,452)</b>	<b>(261)</b>	<b>-</b>	<b>(2,177)</b>
<b>Net Book Value</b>					
<b>At 31 March 2015</b>	<b>20,189</b>	<b>41</b>	<b>813</b>	<b>83</b>	<b>21,126</b>
<b>At 31 March 2014</b>	<b>20,695</b>	<b>130</b>	<b>834</b>	<b>83</b>	<b>21,742</b>

The Council values its whole asset portfolio once every five years. The last valuation was carried out in 2014. An external independent valuer, Jones LangLasalle, revalued the Authority's asset portfolio as at 31 March 2014.

**Fair Value Review at 31 March 2016**

In addition, a formal impairment review of the entire holding of assets is undertaken at the end of each financial year, to ensure the carrying value reflects the fair value at the Balance Sheet date. This was undertaken by Guy Pedrick MRICS, Senior Specialist (Estates).

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

### SECTION 3 NOTES TO THE ACCOUNTS

	<b>Land and Buildings</b>	<b>Vehicles, plant furniture &amp; equipment</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Valued at historical cost</b>	-	-	-
<b>Valued at current value in:</b>			
2015/2016	-	-	-
2014/2015	-	-	-
2013/2014	12,644	-	12,644
2012/2013	6,153	-	6,153
2011/2012	-	-	-
<b>Total Cost or Valuation</b>	<b>18,799</b>	<b>-</b>	<b>18,799</b>

### Depreciation

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

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

### Capital Commitments

As at 31 March 2016 the Authority had not entered into any contracts for the construction or enhancement of Property, Plant and Equipment with a value in excess of £200,000. There were no similar commitments in excess of £200,000 as at 31 March 2015

### 11. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets would include both purchased licenses and internally generated software. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful lives assigned to the major software suites used by the Authority is 3 years.

### SECTION 3 NOTES TO THE ACCOUNTS

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £62,522 charged to revenue in 2015/16 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2014/15	2015/16
	£000	£000
Balance at start of year:		
• Gross carrying amounts	973	237
• Accumulated amortisation	(911)	(111)
<b>Net carrying amount at start of year</b>	<b>62</b>	<b>126</b>
Assets reclassified	-	-
Disposals – write out gross value	(831)	-
Disposals – write out accumulated amortisation	831	-
Additions	95	32
Impairment losses recognised or reversed directly in the Revaluation Reserve	-	-
Amortisation for the period	(31)	(63)
<b>Net carrying amount at end of year</b>	<b>126</b>	<b>95</b>
<b>Comprising:</b>		
• Gross Carrying amounts	237	269
• Accumulated amortisation	(111)	(174)
	<b>126</b>	<b>95</b>

### 12. Debtors

Restated	Short Term	
31 March 2015		31 March 2016
£000		£000
629	Central government bodies	249
963	Other local authorities	411
9	NHS bodies	9
759	Other entities and individuals	847
183	Business Rates Debtor*	504
274	Council tax payers	333
<b>2,817</b>	<b>Total</b>	<b>2,353</b>
	<b>Long Term</b>	
-	Other entities and individuals	-
139	Other local authorities	139
<b>139</b>	<b>Total</b>	<b>139</b>

\*Short Term Debtors have been restated to show the gross Business Rates position as at 31 March 2015. Previously the balances have been netted off and shown as a net Business Rates Creditor.

**SECTION 3 NOTES TO THE ACCOUNTS**

**13. CASH AND CASH EQUIVALENTS**

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

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
1,245	Bank current accounts	321
-	Current account overdraft	-
4,000	Money Market Funds	3,875
2,000	Short Term Deposits	4,000
<b>7,245</b>	<b>Total Cash &amp; Cash Equivalents</b>	<b>8,196</b>

**14. CREDITORS**

<b>31 March 2015 Restated</b>	<b>Short Term</b>	<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
448	Central Government bodies	58
1,559	Other local authorities	1,709
2	NHS bodies	2
2,757	Other entities and individuals	2,268
29	Council taxpayers	31
780	Council taxpayers – Preceptors a/c	1,066
498	Business Rates Creditor*	193
<b>6,073</b>	<b>Total</b>	<b>5,327</b>
	<b>Long Term</b>	
<b>315</b>	Other entities and individuals	<b>221</b>

*\*Short Term Creditors have been restated to show the gross Business Rates position as at 31 March 2015. Previously the balances have been netted off and shown as a net Business Rates Creditor.*



## SECTION 3 NOTES TO THE ACCOUNTS

### 15. 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 identified in 2015/16 or 2014/15. A breakdown of the provision is shown in the following table:

	<b>Land Charges £000</b>	<b>Business Rates Appeals* £000</b>	<b>Total £000</b>
<b>Balance at 1 April 2015</b>	<b>(18)</b>	<b>(152)</b>	<b>(170)</b>
Provisions made in year	(6)	(474)	<b>(480)</b>
Amounts used in year	-	-	-
<b>Balance at 31 March 2016</b>	<b>(24)</b>	<b>(626)</b>	<b>(650)</b>

\*Short Term Provisions have been restated to show the gross Business Rates position as at 31 March 2015. Previously the balances have been netted off and shown as a net Business Rates Creditor.

#### Short term – Land charges:

The land charges case has now been resolved but the associated costs are still outstanding, therefore the provision is still required.

#### Short term – Non domestic rates appeals:

Following Business Rates localisation, introduced in 2013, the Council has had the ability to set aside a provision for any successful ratepayer appeals against rateable valuations. Following review and external advice, an increase has been made to this provision in 2015/16. The Council's share of the £1.185 million increase in the provision for business rates appeals is 40% (£474,000). This is further explained in the Narrative Statement.

### 16. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement in Section 2a.

### 17. UNUSABLE RESERVES

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
5,684	Revaluation Reserve	5,578
13,769	Capital Adjustment Account	12,419
(22,149)	Pensions Reserve	(20,163)
277	Collection Fund Adjustment Account Council Tax	361
92	Collection Fund Adjustment Account NNDR	(607)
(69)	Accumulated Absences Account	(72)
<b>(2,396)</b>	<b>Total Unusable Reserves</b>	<b>(2,484)</b>

### SECTION 3 NOTES TO THE ACCOUNTS

#### 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:

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

The Reserve contains 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.

2014/15 £000		2015/16 £000
5,701	<b>Balance at 1 April</b>	5,684
-	Upwards/(Downward) revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-
-	Difference between fair value depreciation and historical cost depreciation	(106)*
(17)	Accumulated gains on assets sold or scrapped	-
5,684	<b>Balance at 31 March</b>	5,578

\*Includes two years write down of revaluation reserve balances.  
2014/15 – (£42,741), 2015/16 – (£63,052).

#### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing difference 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 a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2014/15 £000		2015/16 £000
14,261	<b>Balance at 1 April</b>	13,769
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	

### SECTION 3 NOTES TO THE ACCOUNTS

(539)	• Charges for depreciation and impairment of non current assets	(510)
0	• Revaluation losses on Property, Plant and Equipment	(957)
(31)	• Amortisation of intangible assets	(63)
(154)	• Revenue expended from capital under statute (REFCUS)	(268)
(86)	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
17	Adjusting amounts written out of the Revaluation Reserve	106*
-	Net written out amount of the cost of non current assets consumed in the year	-
	Capital financing applied in the year:	
259	• Use of the Capital Receipts Reserve to finance new capital expenditure	32
-	• Capital grants, credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	219
-	• Application of grants to capital financing from the Capital Grants Unapplied Account	-
-	• Revenue contribution to finance capital	49
42	• Statutory provision for the financing of capital investment charged against the General Fund (Minimum revenue provision)	42
<b>13,769</b>	<b>Balance at 31 March</b>	<b>12,419</b>

\*Includes two years write down of revaluation reserve balances. 2014/15 – £42,741, 2015/16 – £63,052.

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

2014/15		2015/16
£000		£000
<b>(17,498)</b>	<b>Balance at 1 April</b>	<b>(22,149)</b>
(3,921)	Actuarial gains or (losses) on pensions assets and liabilities	2,546

### SECTION 3 NOTES TO THE ACCOUNTS

(1,419)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(1,540)
838	Employer's pensions contributions and direct payments to pensioners payable in the year	831
(149)	Provision for strain payments	149
<b>(22,149)</b>	<b>Balance at 31 March</b>	<b>(20,163)</b>

#### Collection Fund Adjustment Account Council Tax

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

2014/15		2015/16
£000		£000
134	<b>Balance at 1 April</b>	277
143	Amount by which Council Tax income credited to the Comprehensive income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	84
<b>277</b>	<b>Balance at 31 March</b>	<b>361</b>

#### Collection Fund Adjustment Account Business Rates

The Business Rates (NNDR) Collection Fund Adjustment Account manages the differences arising from the recognition of Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from ratepayers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31 March 2015		31 March 2016
£000		£000
(346)	<b>Balance at 1 April</b>	93
439	Amount by which non domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from non domestic rates income calculated for the year in accordance with statutory requirements	(700)
<b>93</b>	<b>Balance at 31 March</b>	<b>(607)</b>

**SECTION 3 NOTES TO THE ACCOUNTS**

**18. CASH FLOW STATEMENT – OPERATING ACTIVITIES**

**a) ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON CASH MOVEMENTS.**

<b>2014/15 £000</b>		<b>2015/16 £000</b>
539	Depreciation	510
-	Impairment, downward valuations & revaluation reversals	956
-	Amortisation	63
(2,708)	(Increase)/decrease in creditors	(818)
443	Increase/(decrease) in debtors	304
-	Increase/(decrease) in inventories	-
1,419	Movement in pension liability	(1,986)
3,292	Other non-cash items charged to the net surplus or deficit on the provision of services	3,280
<b>2,984</b>		<b>2,309</b>

**b) THE CASH FLOWS FOR OPERATING ACTIVITIES INCLUDE THE FOLLOWING ITEMS:**

<b>2014/15 £000</b>		<b>2015/16 £000</b>
41	Interest received	56
(96)	Interest paid	(96)
<b>(55)</b>	<b>Total</b>	<b>(40)</b>

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

<b>2014/15 £000</b>		<b>2015/16 £000</b>
-	Other non-cash items charged to the net surplus or deficit on the provision of services	(239)
-	<b>Total</b>	<b>(239)</b>

**19. CASH FLOW STATEMENT – INVESTING ACTIVITIES**

<b>2014/15 £000</b>		<b>2015/16 £000</b>
(4,000)	Net (increase)/decrease in investments	-
473	Other receipts from investing activities	-
<b>(3,527)</b>	<b>Net cash flows from investing activities</b>	<b>-</b>

## SECTION 3 NOTES TO THE ACCOUNTS

### 20. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2014/15 £000		2015/16 £000
-	Other payments for financing activities	122
-	<b>Net cash flows from financing activities</b>	<b>122</b>

### 21. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Hub Committee on the basis of budget reports analysed across committees. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

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

	Central Services £000	Environmenta l & Planning £000	Cultural, Roads & Transport £000	Housing £000	Corporate & Democratic Core £000	Public Health £000	Non Distributed Costs £000	Material Items £000	Total 2015/16 £000	Total 2014/15 Restated £000
Fees, Charges & Other Service income*	(231)	(1,488)	(1,063)	(132)	(1,427)	0	0	(20)	(4,361)	(5,830)
Government grants and contributions	(349)	(40)	0	(14,322)	(8)	0	0	0	(14,719)	(15,015)
<b>Total Income</b>	<b>(580)</b>	<b>(1,528)</b>	<b>(1,063)</b>	<b>(14,454)</b>	<b>(1,435)</b>	<b>0</b>	<b>0</b>	<b>(20)</b>	<b>(19,080)</b>	<b>(20,845)</b>
Employee expenses (inc FRS 17)*	658	2,003	148	649	793	0	528	99	4,878	6,465
Other service expenses	314	4,057	539	14,653	1,399	15	0	420	21,397	21,189
Support Service recharges	346	835	81	123	180	0	0	0	1,565	2,559
<b>Total Expenditure</b>	<b>1,318</b>	<b>6,895</b>	<b>768</b>	<b>15,425</b>	<b>2,372</b>	<b>15</b>	<b>528</b>	<b>519</b>	<b>27,840</b>	<b>30,213</b>
<b>Net Expenditure</b>	<b>738</b>	<b>5,367</b>	<b>(295)</b>	<b>971</b>	<b>937</b>	<b>15</b>	<b>528</b>	<b>499</b>	<b>8,760</b>	<b>9,368</b>

\* The 2014/15 comparative for Employee Expenses – original balance £7,537, Fees, Charges and Other Income – original balance £6,902 have been restated to include shared service income within Employee Expenses. Previously this was shown in Fees, Charges and Other Income.

Note – The 2014/15 comparative for Employee Expenses includes one-off investment costs relating the Council's Transformation Programme. This is shown in further detail in Note 2 to the Accounts, Material Items of Income and Expense.

## SECTION 3 NOTES TO THE ACCOUNTS

### 22. TRADING OPERATIONS

The Building (Local Authority Charges) Regulations 1998 requires 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 and the Summary Accounts for the year will be detailed in the Devon Building Control Partnership Accounts, which can be found at the following website:

<http://www.teignbridge.gov.uk/index.aspx?articleid=16096>

### 23. BUSINESS IMPROVEMENT DISTRICTS

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

### 24. AGENCY SERVICES

(a) The Authority collects land charge search fees on behalf of Devon County Council. These fees are reimbursed to the County Council on a periodic basis. The amount collected was £17,451 in 2015/16 (£16,537 in 2014/15).

(b) The Authority Acts as an agent for Devon County Council, Devon and Cornwall Police Authority and Devon & Somerset Fire & Rescue Authority in the collection of council tax and for Central Government for the collection of Non Domestic Business Rates. Details can be found in the Collection Fund on pages 56 to 59.

(c) Under the provisions of The Business Improvements Districts (England) Regulations 2004, the Authority provides agency services for the Tavistock BID.

### 25. MEMBERS' ALLOWANCES

The Authority has paid the following amounts relating to Members' Allowances:

	2014/15 £'000	2015/16 £'000
Members' Allowances	167	177
Travelling & Subsistence	15	14

The current allowance scheme can be found on the Authority's website at:

<http://wdbcweb.swdevon.lan/article/3695/Councillor-Allowances>

## SECTION 3 NOTES TO THE ACCOUNTS

### 26. OFFICERS' REMUNERATION

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

A senior employee (England & Wales) is defined as an employee whose salary is more than £150,000 per year, or one whose salary is at least £50,000 (England) 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 salary costs of the Senior Leadership Team members and Statutory Officers (Section 151 Officer & Monitoring Officer) employed by West Devon Borough Council are shared with South Hams District Council.

#### **The remuneration paid to the Authority's senior employees for the year 2015/16:** (All Shared Roles with South Hams District Council)

	<b>Salary</b>	<b>Benefits</b>	<b>Total</b>	<b>Employers Pension Contribution (common rate 18.8%)</b>	<b>Total Remuneration Inc Employers Pension Contribution</b>
Executive Director Strategy & Commissioning, Head of Paid Service	96,900	3,140	100,040	11,822	111,862
S151 Officer / Finance CoP Lead (The Officer in post is currently on a protected salary until 30 September 2016)	62,620	180	62,800	7,640	70,440
Commercial Services Group Manager	63,998	2,813	66,811	7,808	74,619
Business Development Group Manager (started 11 May 2015)	54,277	1,531	55,808	6,622	62,430
Monitoring Officer (Legal CoP Lead)	48,770	528	49,298	5,950	55,248

West Devon Borough Council has no other officers earning over £50,000.



## SECTION 3 NOTES TO THE ACCOUNTS

### Note 1: Senior Management Team Restructure

In June 2014, West Devon Borough Council and South Hams District Council (SHDC) agreed to move forward with a radical Senior Management Team Restructure and to operate without a Chief Executive. An Executive Director Model has been adopted by both Councils and Senior Leadership Team responsibilities will be shared between two Executive Directors, supported by four Group Managers to reflect the requirements of the new operating model for the Transformation Programme. All six posts within the Senior Leadership Team were appointed to through an external recruitment exercise with open competition. One Group Manager post is currently vacant. The annual savings from the restructure of the Senior Management Team are £280,000 shared between the two Councils.

### Note 2: Shared Services with South Hams District Council

In 2015/16, West Devon Borough Council received a reimbursement of salary costs amounting to £214,000 (2014/15 £180,000) from South Hams District Council, in respect of shared members of the Senior Leadership Team employed by West Devon Borough Council. Similarly, West Devon Borough Council contributed £134,000 (2014/15 £209,000) to South Hams District Council for salary costs in respect of shared members of the Senior Leadership Team who are employed by South Hams District Council.

### Senior Officer Remuneration for the year 2014/15:

	Salary	Benefits	Total	Employers Pension Contribution (common rate 18.8%)	Total Remuneration Inc Employers Pension Contribution
Executive Director Strategy & Commissioning, Head of Paid Service (started 1 February 2015)	15,862	68	15,930	2,903	18,833
Head of Service (Finance & Audit) S151 Officer / Finance CoP Lead	62,620	124	62,744	11,459	74,203
Head of Service (Environment Services) / Commercial Services Group Manager	63,252	3,659	66,911	11,575	78,486
Head of Service (ICT & Customer Services) Left 7 <sup>th</sup> September 2014	26,828	2,164	28,992	4,909	33,901
Head of Service (Planning, Economy & Community) Left 21 <sup>st</sup> January 2015	50,578	2,085	52,663	9,256	61,919
Monitoring Officer Legal CoP Lead	45,030	647	45,677	8,241	53,918

### SECTION 3 NOTES TO THE ACCOUNTS

West Devon Borough Council has no other officers earning over £50,000.

### EXIT PACKAGES

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

Exit Package Cost Band (incl special payments)	No of Voluntary Redundancies		No of Compulsory Redundancies		No of other departures agreed		Total No of exit packages by cost band		Total cost of exit packages in each band	
	2014/15*	2015/16	2014/15*	2015/16	2014/15*	2015/16	2014/15*	2015/16	2014/15*	2015/16
£0 - £20,000	13	0	2	0	3	2	18	2	£158,500	£30,700
£20,001 - £40,000	10	1	1	0	-	0	11	1	£311,400	£24,800
£40,001 - £60,000	1	0	-	0	-	0	1	0	£43,300	£0
£60,001 - £80,000	2	0	1	0	-	0	3	0	£203,800	£0
<b>Total</b>	<b>26</b>	<b>1</b>	<b>4</b>	<b>0</b>	<b>3</b>	<b>2</b>	<b>33</b>	<b>3</b>	<b>£717,000</b>	<b>£55,500</b>

\*The comparative has been restated to include future pension strain liability costs.

#### Note 1: Transformation Programme (T18) and Senior Management Restructure

Of the £55,500 cost of exit packages in 2015/16 (£717,000 in 2014/15), Nil amount of this cost (£160,000 in 2014/15) will be paid for by South Hams District Council at the point at which the redundancy liability or pension strain liability arises. In addition, West Devon Borough Council will contribute £139,000 towards South Hams District's Council's cost of exit packages for 2015/16 (£785,000 in 2014/15).

The main phase of the Council's Transformation Programme (T18) occurred during 2014/15. Across both Councils there has been a 30% reduction in staffing numbers for the non manual workforce. West Devon Borough Council will annually save £1.4 million from the staff salary savings realised by the T18 Transformation Programme.

Also in 2014/15 a Senior Management Team restructure was undertaken and both Councils decided to operate without a Chief Executive and instead adopt an Executive Director model. All six posts within the new Senior Leadership Team were appointed to through an external recruitment exercise with open competition. Five of the six posts were external appointments. One Group Manager post has since become vacant. The annual savings from the restructure of the Senior Management Team are £280,000 shared between the two Councils.

## SECTION 3 NOTES TO THE ACCOUNTS

### 27. EXTERNAL AUDIT COSTS

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:

	2014/15 £000	2015/16 £000
Core Audit Fees	39	39
Audit of Grants and Returns	7	6
<b>Fees payable with regard to external audit services</b>	<b>46</b>	<b>45</b>
<b>Fees payable in respect of other services</b>	<b>1</b>	<b>-</b>
<b>TOTAL</b>	<b>47</b>	<b>45</b>

### 28. GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

	2014/15	2015/16
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Capital Grants &amp; Contributions</b>	<b>£000</b>	<b>£000</b>
Disabled Facility Grants	(186)	(239)
Section 106s	(68)	(108)
<b>Non ring-fenced Government grants &amp; contributions:</b>		
Revenue Support Grant	(1,700)	(1,215)
New Homes Bonus Grant	(1,254)	(1,503)
Small Business Rates Relief	(448)	(533)
Rural Services Support Grant	0	0
<b>Total</b>	<b>(3,656)</b>	<b>(3,598)</b>
<b>Credited to Services</b>		
Rent Allowance Subsidy	(14,162)	(13,665)
Housing Benefit and Council Tax benefit administration subsidy	(280)	(246)
Business Rates cost of collection allowance	(85)	(84)
Transformation Challenge Award funding from DCLG	(266)	0
Cabinet Office IER Funding - General Elections	0	(117)
Other Grants	(222)	(607)
<b>Total</b>	<b>(15,015)</b>	<b>(14,719)</b>

### SECTION 3 NOTES TO THE ACCOUNTS

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year end are as follows:

	<b>31 March 2015</b>	<b>31 March 2016</b>
<b>Capital Grants Receipts in Advance</b>	<b>£000</b>	<b>£000</b>
Land Stabilisation	(10)	(10)
Hayedown	(20)	(20)
Section 106s	(468)	(513)
<b>Total</b>	<b>(498)</b>	<b>(543)</b>

### 29. 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 Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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, provides the majority of its funding in the form of grants, 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 9 and 28.

#### MEMBERS

Members of the Council have direct control over the Authority's financial and operating policies. The Borough Solicitor acts as Monitoring Officer and keeps a register of Members' interests, which is available for public inspection. A questionnaire in respect of related party transactions was issued to all Members and Senior Officers. No material transactions with related parties during the year have been identified, other than those disclosed above or elsewhere, i.e. government grants, etc.

#### iESE

West Devon Borough Council and South Hams District Council have a relationship with iESE Transformation Ltd. (iESE) which sees the latter providing consultancy support services to the Councils as part of their T18 Transformation programme. The nature of this relationship is similar to an in-house arrangement on the basis that the Councils have become Public Body Members of the Company meaning that the arrangements are not subject to the EU Directives concerning procurement (the Teckal Exemption). There is no requirement for Public Body Members to provide any funding or support for the Company other than as set in contracts for services entered into with the Company.

## SECTION 3 NOTES TO THE ACCOUNTS

### 30. CAPITAL EXPENDITURE AND CAPITAL FINANCING

Total capital expenditure in 2015/16 amounted to £299,998. How this is financed is shown below:-

2014/15 £000		2015/16 £000
-	Earmarked Reserves	24
186	Capital Grants	219
28	External Contributions	25
259	Capital Receipts and Funds Reserves	32
<b>473</b>		<b>300</b>

The Authority's Capital Financing Requirement (CFR) for the year is shown below.

Capital Financing Requirement (£m)	31 March 2015 Actual	31 March 2016 Actual
Actual	£1,799,000	£1,757,000

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. The Minimum Revenue Provision was applied in 2015/16 and was calculated at £42,000 per year. This is the borrowing of £2.1 million, divided by the life of the asset of 50 years, which equates to £42,000 per annum.

### 31. LEASES

#### Authority as Lessee

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

#### Authority as Lessor

The Authority leases various industrial units and commercial properties to external organisations. The gross value of assets held for use in operating leases was £3m as at 31 March 2016.

The authority has also granted a lease to the Wharf Building. The lease is for 35 years from December 1994 and was originally granted to The Wharf Community Arts Centre Limited but has now been transferred to CAM (The Wharf) Limited. The arrangement is accounted for as an operating lease and a peppercorn rent is charged.

### 32. TERMINATION BENEFITS

The details of the Shared Service arrangements are explained in the Narrative Statement to the Accounts. Please also see note 26 on exit packages.

### SECTION 3 NOTES TO THE ACCOUNTS

#### 33. CONTINGENT LIABILITIES

The Council had no contingent liabilities at 31 March 2016.

#### 34. 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 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 2016 for which there are significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives which are estimated annually.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to change by 1 year across all assets, this would have a £22,502 impact on the Council's finances.
Arrears	The Authority makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. For example at 31 March 2016, the Authority had a balance of Sundry Debtors of £264,000. A review of significant balances suggested that an impairment for doubtful debts of 60% (£159,000) was appropriate.	The impairment for doubtful debts is reviewed annually in order to respond to changes in collection rates. If Council Tax arrears were to change by 1%, this would have an impact of £5,000 on the Council's finances.

**SECTION 3 NOTES TO THE ACCOUNTS**

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
<p>Business Rates Appeals Provision</p>	<p>Estimates have been made for the provision for refunding ratepayers who may successfully appeal against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed.</p>	<p>There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation.</p>
<p>Pensions Liability</p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>The value of pension assets is estimated based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets, but this difference is not considered to be material.</p> <p>For 2015/16, the Actuary has calculated the capitalised cost of the strain liability for 8 former employees who had left the Council's employment at £156,000.</p> <p>The capitalized cost which is based on actual assumptions differs from the cash cost payable to the Pension Fund by the Council. The figure of £149,000 was estimated from the cash costs that had previously been calculated for each employee in question.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £726,000.</p> <p>The assumptions interact in complex ways. For example, in 2015/16, the Authority's actuaries advised that the pension liability had decreased by £3.1 million as a result of a change in "financial assumptions".</p> <p>Please refer to the Technical Appendix for further information about the assumptions used by the actuaries.</p>

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

### **35. ACCOUNTING POLICIES**

#### **A. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. 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 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

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

#### **B. Accruals of Income and Expenditure**

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on 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 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 which is currently £2,500 for revenue expenditure and £5,000 for capital expenditure. Accruals are not made for transactions below these limits.



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

#### **C. Cash and Cash Equivalents**

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management. Our policy is shown in the following table:

<b>Type of Investment</b>	<b>Settlement Terms</b>	<b>Gain/Loss on Sale</b>	<b>Cash Equivalent</b>
Money Market Fund	T + 0	x	✓
Call Account	T + 0	x	✓
Notice Deposit	Maturity	x	x
Term Deposit	T + 7 days	x	✓
Other Term Deposits	Maturity up to 3 months	x	✓

**Key: T = trade date**

#### **D. Material Items**

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

#### **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.

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

### **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 fixed assets during the year:

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

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

### **G. Employee Benefits**

#### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

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

### **Post Employment Benefits**

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

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

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

### **The Local Government Scheme**

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

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

For further information please refer to the Technical Appendix.

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

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 Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
  
- **Re-measurements comprising:**
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - contributions paid to the Devon County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

### **Discretionary Benefits**

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

### **H. Events After the Reporting Date**

Events after the Reporting date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – 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 are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue (29<sup>th</sup> September 2015) are not reflected in the Statement of Accounts.

### **I. Financial Instruments**

#### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

#### **Financial Assets**

Financial assets are classified into two types:

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

The Authority does not hold any available-for-sale assets.

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

### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **J. Government Grants and Contributions**

#### **General**

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

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

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

## SECTION 3 NOTES TO THE ACCOUNTS

### K. Assets

**Fixed Assets** owned by the Authority includes:

Assets	31 March 2016 Numbers	Basis of Valuation	Estimated Useful Economic Lives
Council Offices – Kilworthy Park	1	EUV & DRC *	50 years
Council Offices –Okehampton Customer Services	1	EUV	50 years
Swimming Pools	2	DRC	Range of 10 - 30 years
Car Parks	13	EUV	Range of 30 - 50 years
Public Conveniences	7	DRC	Range of 50 - 100 years
Industrial Units	45	EUV & MV	Range of 15 – 30 years
Other Commercial Properties	17	EUV & DRC	Range of 50 – 100 years
Vehicle, Plant and Equipment	N/A	HC	Range of 5 years
Infrastructure	N/A	HC	50 years

*\*The Kilworthy Park property has been valued to EUV (Existing Use Value) except for the more recently constructed Council chamber “pod” which was specifically designed to meet the Council’s requirements for public enquiry space on the ground floor and a council chamber on the first floor. The accommodation is effectively a self-contained unit and due to the specialist nature, this part of the property has been valued to DRC.*

### **Intangible Assets**

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over 3 years to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

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

### **L. Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

### **M. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets (i.e. embedded leases).

### **The Authority as Lessee**

#### **Finance Leases**

The Authority 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 benefiting from use of the leased property, plant or equipment. 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 Authority does not hold any finance leases as a lessee.

#### **Operating Leases**

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits 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 premium paid at the commencement of the lease).

Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.



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

### **N. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Accounting Practice 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### **O. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### **Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

Where 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.

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the 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.

#### **Component Accounting**

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

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

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

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

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

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

1. Operational Buildings
2. Assets Held for Sale

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

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 & Equipment
6. Community Assets
7. Intangible Assets

The criteria for components to be separately valued are that:

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

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

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

**All three rules above must be met to consider componentisation.**

**These rules will apply to revaluations and when replacing components within an asset.**

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

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

- Plant and equipment and engineering services
- Structure

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

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

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

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

### **Impairment**

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

Where impairment losses are identified, they are accounted for as follows:

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

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

Where an item of Property, Plant and Equipment asset 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 previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised

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

had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also, as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

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

#### **Heritage Assets**

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council, which was adopted fully by the Authority in the 2012/13 financial statements. The Authority is required to make disclosure of the estimated effect of the standard in the financial statements. The standard requires that a new class of asset, heritage assets, is disclosed separately on the face of the Authority's Balance Sheet.

#### **P. Provisions, Contingent Liabilities and Contingent Assets**

##### **Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Authority.

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

### **Contingent Liabilities**

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **Q. Reserves**

The Authority sets aside specific amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

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

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

### **S. Section 106 deposits**

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

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

### **T. Recharging the salaries of shared services officers**

Since 1 October 2011, all services operated by West Devon Borough Council and South Hams District Council have been shared at senior management level and middle management level.

Officers have produced a methodology for recharging the salary costs of shared officers based on the most appropriate cost driver and ratio to best reflect the officer's split of workload between the two Councils. Examples of the cost drivers used are caseloads, call volumes, property numbers, number of claims or cases processed etc and other methods such as time recording. The work carried out includes establishing from the Head of Service/Group Manager the relevant recharge requirements for every member of staff who is deemed to have duties that are shared between the two Authorities.

### **U. VAT**

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

### **V. Accounting for Local Taxes**

#### **Business Rates**

Retained business rate income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income.

Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this list an assessment is made about the likely success rate of appeals and their value.

#### **Council Tax**

Council tax income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income.

Both business rates income and council tax will be recognised in the Comprehensive Income & Expenditure Statement (CIES) in the line 'taxation & non-specific grant income'. As a billing authority the difference between the business rates and council tax included in the CIES and the amount required by regulation to be credited to the General Fund, shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. Each major preceptor's share of the accrued business rates and council tax income will be available from the information that is required to be produced in order to prepare the Collection Fund Statement. The income for council tax and business rates is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.

Revenue relating to local taxes shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

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

### **W. Minimum Revenue Provision**

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



## SECTION 4 COLLECTION FUND

### COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2016

This account reflects the statutory requirements for the Council as a billing authority to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

2014/15 £'000	2014/15 £'000	INCOME	2015/16 £'000	2015/16 £'000
Business Rates	Council Tax		Business Rates	Council Tax
	32,642	Council Tax		33,850
10,417		Business Rates	10,545	
(41)		Transitional Relief	98	
<b>10,376</b>	<b>32,642</b>		<b>10,643</b>	<b>33,850</b>
		<b>EXPENDITURE</b>		
		<i>Precepts &amp; Demands</i>		
907	21,844	- Devon County Council	931	22,595
101	1,475	- Devon & Somerset Fire & Rescue Authority	103	1,526
	3,188	- Devon & Cornwall Police Authority		3,297
4,032	5,023	- West Devon Borough Council (Inc Parishes)	4,139	5,237
5,040		- Central Government	5,174	
		<i>Business Rates</i>		
85		- Costs of Collection	85	
11		Rates increase in provision for appeals	1,185	
120	55	Write-offs	49	60
140		Movement in Provision for Uncollectable Rates	19	
	151	Movement in Provision for Uncollectable Council Tax		222
		Contribution towards previous year's Collection Fund surplus transferred to		
(104)		- Devon County Council	64	282
(12)		- Devon & Somerset Fire & Rescue Authority	7	18
		- Devon & Cornwall Police Authority		40
(463)		- West Devon Borough Council	283	60
(579)		- Central Government	354	
<b>9,278</b>	<b>31,736</b>		<b>12,393</b>	<b>33,337</b>
(1,098)	(907)	<i>Movement on Fund Balance</i>	1,750	(512)
866	(837)	Balance brought forward at 1 April	(232)	(1,744)
<b>(232)</b>	<b>(1,744)</b>	Balance carried forward at 31 March	<b>1,518</b>	<b>(2,256)</b>
(139)	(1,468)	Balance attributable to major precepting bodies	911	(1,895)
(93)	(276)	Balance attributable to WDBC	607	(361)
<b>(232)</b>	<b>(1,744)</b>	<b>Fund Balance as at 31 March 2016 – Deficit/(Surplus)</b>	<b>1,518</b>	<b>(2,256)</b>

The Collection Fund is consolidated with the other accounts of the Authority. The sources of income to the Collection Fund are Council Tax, which amounted to £33.8m (£32.6m in 2014/15) and the National Non Domestic Rates (Business Rates), which amounted to £10.6m (£10.4m in 2014/15).

## SECTION 4 COLLECTION FUND

### 1. INCOME FROM COUNCIL TAX

Council Tax income comes from charges raised according to the value of residential properties, which have been classified into eight valuation bands (A to H) estimating April 1991 values for this specific purpose.

For Council Tax purposes the number of domestic properties in each valuation band converted to a Band D equivalent was as follows:-

Band	Council Tax	No. of Dwellings after Discounts and Exemptions	Multiplier	Band D Equivalent Number
A-	898.64	12.50	5/9	6.94
A	1,078.37	2,802.75	6/9	1,868.50
B	1,258.09	5,633.00	7/9	4,381.22
C	1,437.82	4,712.75	8/9	4,189.11
D	1,617.55	1,759.06	1	1,759.06
E	1,977.01	3,064.75	11/9	3,745.81
F	2,336.46	1,648.25	13/9	2,380.81
G	2,695.92	935.25	15/9	1,558.75
H	3,235.10	73.25	18/9	146.50
				<b>20,036.70</b>
Less allowance for non-collection				(601.10)
Plus adjustment for armed forces dwellings				21.40
<b>Tax base</b>				<b>19,457.00</b>

Individual Council Tax charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the precepting authorities for the forthcoming year (See Note 3) and dividing this by the Council Tax Base. The Tax Base is the number of properties in each band adjusted to Band D equivalents.

The basic amount of Council Tax for a Band D property was £1,678.32 for 2015/16 (£1,643.45 for 2014/15). The income credited to the Collection Fund can be analysed as follows:-

	2014/15 £'000	2015/16 £'000
Actual Income from Council Tax	32,642	33,850

The tax base multiplied by the Band D Council Tax for the year of £1,678.32, including parishes, would have produced income amounting to £32,654,981 (See Note 3). The actual income of £33,849,514 differed from this figure due to changes in the Council Tax Base and the tax collection rate during the year and equates to approximately 4% of total income.

## SECTION 4 COLLECTION FUND

### 2. INCOME FROM BUSINESS RATES

The total non-domestic rateable value at 31 March 2016 was £28,756,001. This compares to £28,811,376 at 31 March 2015. The standard non-domestic rate multiplier was 49.3p in 2015/16 (2014/2015 48.2p). Without reliefs this would generate a total income of £14,176,708.49 (2014/2015 £13,887,083.23). These figures are a snapshot only and differ from the value of NNDR bills issued mainly due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

### 3. PRECEPTS AND DEMANDS

The following authorities made a demand upon the Collection Fund:

	2014/15	2015/16
	£	£
Devon County Council	21,844,418	22,594,830
Devon & Somerset Fire & Rescue Authority	1,475,173	1,525,818
Devon & Cornwall Police Authority	3,187,863	3,297,378
West Devon Borough Council	5,023,027	5,236,955
<b>TOTAL</b>	<b>31,530,481</b>	<b>32,654,981</b>

### 4. CONTRIBUTION TOWARDS/FROM PREVIOUS YEAR'S COLLECTION FUND DEFICIT/SURPLUS

This item represents the transfer of the surplus on the Collection Fund, estimated for the previous year on 15 January of that year.

The amounts transferred were as follows:

	2014/15	2015/16
	£	£
Devon County Council	-	281,734
Devon & Somerset Fire & Rescue Authority	-	18,119
Devon & Cornwall Police Authority	-	39,558
West Devon Borough Council	-	60,589
<b>Total</b>	<b>Nil</b>	<b>400,000</b>

## SECTION 4 COLLECTION FUND

### 5. ACCOUNTING FOR THE COLLECTION FUND BALANCE

The opening balance on the Collection Fund for Council Tax 2015/16 was a surplus of £1,744,338. The balance as at 31 March 2016 was a surplus of £2,256,590. Surpluses and deficits are shared with the other major precepting bodies that make a demand of the Fund. The Council accounted for the Collection Fund in its 2015/16 Statement of Accounts as follows:

<b>2014/15 £'000</b>	<b>Major Precepting Bodies:</b>	<b>2015/16 £'000</b>
1,212	Devon County Council	1,563
81	Devon & Somerset Fire & Rescue Authority	105
175	Devon & Cornwall Police Authority	227
1,468	Balance attributable to major precepting bodies	1,895
276	Balance attributable to WDBC	361
<b>1,744</b>	<b>Total Collection Fund Surplus – Council Tax</b>	<b>2,256</b>

The opening balance on the Collection Fund for Business Rates 2015/16 was a surplus of £231,591. The balance as at 31 March 2016 was a deficit of £1,518,559. The increase in the provision for Business Rates appeals and the subsequent impact on the Business Rates Collection Fund is explained in the Narrative Statement.

Surpluses and deficits are shared with the other major precepting bodies that make a demand of the Fund. The Council accounted for the Collection Fund in its 2015/16 Statement of Accounts as follows:

<b>2014/15 £'000</b>	<b>Major Precepting Bodies:</b>	<b>2015/16 £'000</b>
21	Devon County Council	(137)
2	Devon & Somerset Fire & Rescue Authority	(15)
116	Central Government	(759)
139	Balance attributable to major precepting bodies	(911)
93	Balance attributable to WDBC	(607)
<b>232</b>	<b>Total Collection Fund Deficit – Business Rates</b>	<b>(1,518)</b>

**SECTION 5 STATEMENT OF RESPONSIBILITIES**

**Section 5 Statement of Responsibilities**

**The Council’s Responsibilities**

The Council is required to:-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. In this Council, that officer is the Finance Community of Practice Lead as the Council’s Chief Finance Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

**The Responsibilities of the Finance Community of Practice Lead (S151 Officer)**

The Finance Community of Practice Lead (S151 Officer) is responsible for the preparation of the Council’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (‘the Code of Practice’).

In preparing the Statement of Accounts, the S151 Officer has:-

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

The S151 Officer has also:

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

I confirm that the Audited Statement of Accounts present a true and fair view of the financial position of the authority at the accounting date (31 March 2016) and its income and expenditure for the year ended 31 March 2016.

.....  
**Lisa Buckle BSc(Hons), ACA**  
**Finance Community of Practice Lead (S151 Officer)**

**27 September 2016**

**SECTION 5 STATEMENT OF RESPONSIBILITIES**

**Section 5 Statement of Responsibilities**

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

I confirm that these Accounts were approved by the Audit Committee as its meeting held on 27 September 2016.

Signed on behalf of West Devon Borough Council

.....

**Councillor M Davies**

Chairman of the Audit Committee

27 September 2016

*SECTION 6 AUDITORS' REPORT*

**Section 6 Auditors' Report**

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

**SECTION 7 GLOSSARY OF TERMS**

**GLOSSARY OF TERMS**

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



## SECTION 7 GLOSSARY OF TERMS

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

## **SECTION 7 GLOSSARY OF TERMS**

Committee, except where these are inconsistent with specific statutory requirements.

### **LIBID**

Acronym for the London Inter-bank Bid Rate, being the interest rate at which a market maker or underwriter will offer to buy bonds and securities.

### **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. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases,
- b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

**SECTION 7 GLOSSARY OF TERMS**

<b>RATEABLE VALUE</b>	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
<b>REVENUE EXPENDITURE</b>	Recurring items of day to day expenditure consisting principally of Salaries and Wages, Debt Charges and general running expenses etc.
<b>SETTLEMENTS</b>	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability
<b>STRAIN ON FUND CONTRIBUTIONS</b>	Additional employers pension contributions as a result of an employee's early retirement
<b>SUNDRY CREDITORS</b>	Amounts owed by the Authority at 31 March.
<b>SUNDRY DEBTORS</b>	Amounts owed to the Authority at 31 March.

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## WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16

<b>1</b>	Financial Instruments and Capitalisation of Borrowing Costs
<b>2</b>	Defined Benefit Pension Schemes
<b>3</b>	Nature and Extent of Risks Arising from Financial Instruments

## FINANCIAL INSTRUMENTS CAPITALISATION OF BORROWING COSTS

Due to the costs of the Authority's Capital Programme, the Authority borrowed £2.1 million from the Public Works Loan Board (PWLB) on 2<sup>nd</sup> August 2007 at a fixed rate of 4.55% for 45 years and 6 months. This external borrowing was undertaken during 2007/2008 under the Prudential Code.

Any costs of borrowing are borne in the Comprehensive Income & Expenditure statement by interest charges and the Minimum Revenue Provision for the repayment of debt. The Minimum Revenue Provision (MRP) is charged on the Asset Life Method and provisions are made over the estimated life of the asset for which the borrowing is undertaken. MRP is applied in the financial year following the one in which the asset became operational.

For West Devon Borough Council the asset, Kilworthy Park offices, became operational in 2009/10 which means 2010/11 was the first year when MRP of £42,000 was applied (£2.1 million over 50 years).

## FINANCIAL INSTRUMENTS BALANCES

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

	Long-term		Current	
	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000
<b>Cash and cash equivalents</b>	-	-	1,245	321
<b>Investments</b>				
Loans and receivables (principal)	2	0	6,000	7,875
Loans and receivables (accrued interest)			3	7
<b>Total Investments</b>	<b>2</b>	<b>0</b>	<b>6,003</b>	<b>7,882</b>
<b>Debtors</b>				
Loans and receivables	139	139		
Financial assets carried at contract amount			1,425	806
<b>Total Debtors</b>	<b>139</b>	<b>139</b>	<b>1,425</b>	<b>806</b>

## WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16

	Long-term		Current	
	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000
<b>Creditors</b>				
Financial liabilities at amortised cost (principle)	(2,100)	(2,100)		
Financial liabilities (accrued interest)			(16)	0
Financial liabilities at amortised cost	(315)	(221)		
Financial liabilities carried at contract amount			(3,020)	(2,605)
<b>Total Creditors</b>	<b>(2,415)</b>	<b>(2,321)</b>	<b>(3,036)</b>	<b>(2,605)</b>

Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

## FAIR VALUE OF ASSETS AND LIABILITIES

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the Public Works Loan Board (PWLB), borrowing rates have been applied to provide the fair value under PWLB debt redemption procedures;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

In addition for financial assets or liabilities not being carried at fair value (e.g. amortised cost) the Code of Practice requires disclosure of these fair values by each class of assets and liabilities.

## WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16

The fair values are as follows:

£000s	31 March 2015		31 March 2016	
	Carrying amount	Fair Value	Carrying amount	Fair Value
PWLB debt	2,100	3,394	2,100	3,453
Long Term Debtors	139	139	139	139
Long Term Creditors	315	315	221	221

The Authority has used a transfer value for the fair value of financial liabilities. We have also calculated an exit price fair value of £2,838,398 with regards to the PWLB loan, which is calculated using early repayment discount rates. The Authority has no contractual obligation to pay these penalty costs and would not incur any additional cost if the loan runs to its planned maturity date.

## RECOGNITION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

The main measurement bases used by the Authority in preparing the treatment of Financial Instruments within its financial statements are as follows:

Financial Instrument	Basis of measurement	Note
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates.
Investments – Other	Held at carrying value on basis of materiality.	Money Market Funds.
PWLB Debt	Carrying value and interest due at year end shown as a current liability.	Borrowing is both fixed term and fixed interest rate.
Operational Debtors	Held at invoiced amount less a provision for uncollectable debts.	Carrying amount is reasonable approximation of fair value for these short term receivables with no stated interest rate.
Operational Creditors	Held at invoiced amount	Carrying amount is reasonable approximation of fair value for these short term liabilities

## 1. DEFINED BENEFIT PENSION SCHEMES

### A. GENERAL

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 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement.

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 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. 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.

**Further information can be found in Devon County Council Pension Fund's Annual Report, which is available upon request from the Devon Pension Services, Estuary House, Peninsula Park, Rydon Lane, Exeter EX2 7XB.**

The figures have been prepared in accordance with International Accounting Standard 19 (IAS 19). The advice complies with all Generic Technical Actuarial Standards (TASs) and the Pension TAS. The report also complies with Financial Reporting Standard 17. The information supplied is from a report by Barnett Waddingham Public Sector Consulting.

The figures quoted form the basis of the balance sheet and funding status disclosures to be made by the Authority as at 31 March 2015 in respect of its pension obligations under the LGPS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014/15; it is contracted out of the State Second Pension and benefits accrued up to 31 March 2015 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1<sup>st</sup> April 2014 and any benefits accrued from this date will be based on a career average re-valued salary, with various protections in place for those members in the scheme before the changes take effect.



**WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16**

West Devon Borough Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. This includes disclosure of any other employer provided benefits which are not paid from the Fund (Devon County Council Pension Fund) itself; examples include additional pensions paid on retirement under the Discretionary Payment Regulations.

The Actuaries are not aware of any material changes or events since the data used was received.

**B. DATA SOURCE**

In completing their calculations the Actuaries have used the following items of data, as received from Devon County Council:

- The results of the funding valuation as at 31 March 2015 which was carried out for funding purposes
- Estimated whole fund income and expenditure items for the period to 31 March 2015
- Estimated fund returns based on assets used for the purpose of the funding valuation as at 31 March 2015, a Fund asset statement as at 31 March 2015, and market returns (estimated where necessary) thereafter for the period to 31 March 2015
- Estimated Fund income and expenditure in respect of the Employer for the period to 31 March 2015
- Details of any new early retirements for the period to 31 March 2015 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

**EMPLOYER MEMBERSHIP STATISTICS**

The table below summarises the membership data, as at 31 March 2013 for members receiving funded benefits, and as at 31 March 2016 for any members receiving unfunded benefits.

Member data summary	Number	Salaries/Pensions £000's	Average Age
Active	117	2,944	45
Deferred Pensioners	85	206	46
Pensioners	155	1,241	71
Unfunded Pensioners	37	84	78

**UNFUNDED BENEFITS**

In the year to 31 March 2015, £86,000 of unfunded benefits was paid.

## C. ACTUARIAL METHODS AND ASSUMPTIONS

### Valuation Approach

To assess the value of the Employer's liabilities as at 31 March 2015, the actuaries have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2014, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the fund and placing value on them. These cashflows include pensions currently being paid to members of the scheme as well as pensions (and lump sums) that may be payable in the future to members of the fund and their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2015 without completing a full valuation. However the actuaries are satisfied that the approach of rolling forward the previous valuation data to 31 March 2015 should not introduce any material distortions in the results provided that the actual experience of the Authority and the Fund is broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. There appears to be no evidence to suggest that this approach is inappropriate.

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

### Valuation Method

As required under IAS19, the projected unit method of valuation has been used to calculate the service cost. The basis for estimating includes both mortality and financial assumptions.

<b>Basis for estimating assets and liabilities</b>	<b>31st March 2016</b>	<b>31st March 2015</b>
<b>Mortality assumptions:</b>	<b>Years</b>	<b>Years</b>
<i><u>Longevity at 65 for current pensioners</u></i>		
- Men	22.9	22.8
- Women	26.2	26.1
<i><u>Longevity at 65 for future pensioners (in 20 years)</u></i>		
- Men	25.2	25.1
- Women	28.6	28.4

WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16

<b>Basis for estimating assets and liabilities</b>	<b>31st March 2016</b>	<b>31st March 2015</b>
<b>Financial assumptions:</b>	<b>%</b>	<b>%</b>
- RPI increases	3.2%	3.2%
- CPI increases	2.3%	2.4%
- Salary increases	4.1%	4.2%
- Pension increases	2.3%	2.4%
- Discount rate	3.6%	3.3%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analysis below is based on possible changes to the assumptions occurring at the end of the reporting period and assumes for each assumption change all other assumptions remain constant.

<b>Basis for estimating assets and liabilities</b>	<b>Decrease in assumption</b>	<b>No Change</b>	<b>Increase in assumption</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Rate of change in RPI inflation (increase or decrease by 1%)	19,518	20,163	20,808
Rate of change in CPI inflation (increase or decrease by 1%)	19,699	20,163	20,627
Rate of increase in salaries (increase or decrease by 1%)	19,336	20,163	20,990
Rate of increase in pensions (increase or decrease by 1%)	19,699	20,163	20,627
Rate of discounting scheme liabilities (increase or decrease by 1%)	19,437	20,163	20,889

**D. RESULTS AND DISCLOSURES****Transactions Relating to Post-Employment Benefits**

The cost of retirement benefits 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 made 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 [and Housing Revenue Account] via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

<b>Comprehensive Income &amp; Expenditure Statement</b>	<b>2015/16</b>	<b>2014/15</b>
	<b>£000's</b>	<b>£000's</b>
<b>Cost of Services</b>		
<i>Service cost compromising</i>		
- Current Service Cost	509	757
- Past Service Cost	156	47
<i>Financing and Investment Income and Expenditure</i>		
- Net Interest Expense	716	752
- Administration Expenses	10	12
<b>Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>1,391</b>	<b>1,568</b>
<b>Other post-employment benefits charged to the comprehensive income and expenditure statement</b>		
<i>Re-measurement of the net defined benefit liability compromising:</i>		
- Change in demographic assumptions		
- Change in financial assumptions	3,088	(5,244)
- Experience loss/(gain)	37	(26)
- Return on fund assets in excess of interest	(579)	1,349
<i>Total re-measurement recognised</i>	2,546	(3,921)
<b>Total post-employment benefits charged to the Comprehensive income and expenditure statement</b>	<b>3,937</b>	<b>(2,353)</b>
<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	(2,404)	3,943
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
- Employers contributions payable to scheme	742	627

## WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16

**Pensions Assets and Liabilities Recognised in the Balance Sheet**

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

<b>Net Pension Liability</b>	<b>31st March 2016</b>	<b>31st March 2015</b>
	<b>£000's</b>	<b>£000's</b>
Present value of the defined benefit obligation	42,012	44,426
Provision for Strain liability arising from future early retirements	0	149
Fair value of Fund assets	(22,827)	(23,526)
<b>Deficit / (Surplus)</b>	<b>19,185</b>	<b>21,049</b>
Present value of unfunded obligation	978	1,100
<b>Net Liability Arising from Defined Benefit Scheme</b>	<b>20,163</b>	<b>22,149</b>

<b>Reconciliation of opening and closing balances of the fair value of Fund assets</b>	<b>31st March 2016</b>	<b>31st March 2015</b>
	<b>£000's</b>	<b>£000's</b>
<b>Opening fair value of Fund assets</b>	<b>23,526</b>	<b>21,741</b>
Interest on assets	762	946
Return on assets less interest	(579)	1,349
Administration expenses	(10)	(12)
Contributions by employer including unfunded	831	838
Contributions by Scheme participants	160	183
Estimated benefits paid plus unfunded net of transfers in	(1,863)	(1,519)
<b>Closing Fair value of Fund Assets</b>	<b>22,827</b>	<b>23,526</b>

<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>	<b>31st March 2016</b>	<b>31st March 2015</b>
	<b>£000's</b>	<b>£000's</b>
<b>Opening defined benefit obligation</b>	<b>45,675</b>	<b>39,239</b>
Current service cost	658	608
Provision for Strain liability	(149)	149
Interest cost	1,478	1,698
Change in financial assumptions	(3,088)	5,244
Experience loss / (gain) on defined benefit obligation	(37)	26
Estimated benefits paid net of transfers in	(1,777)	(1,430)
Past service costs, including curtailments	156	47
Contributions by Scheme participants	160	183
Unfunded pension payments	(86)	(89)
<b>Closing defined benefit obligation</b>	<b>42,990</b>	<b>45,675</b>

## WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16

## Pension Scheme Assets

Employer asset share	31st March 2016		31st March 2015	
	£000's	%	£000's	%
Gilts	750	3%	1,497	6%
UK equities	5,489	24%	5,799	25%
Overseas equities	7,412	32%	8,115	34%
Property	2,524	11%	2,352	10%
Infrastructure	951	4%	652	3%
Target return portfolio	3,307	15%	3,469	15%
Cash	423	2%	406	2%
Other bonds	656	3%	818	3%
Alternative assets	1,315	6%	418	2%
<b>Total</b>	<b>22,827</b>	<b>100%</b>	<b>23,526</b>	<b>100%</b>

Of the total fund asset at 31 March 2016, 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 2016	
		% Quoted	% Unquoted
<b>Fixed interest government securities</b>	UK	0.1%	-
	Overseas	3.2%	-
<b>Corporate bonds</b>	UK	0.2%	
	Overseas	2.7%	
<b>Equities</b>	UK	22.5%	1.6%
	Overseas	28.3%	4.0%
<b>Property</b>	All	-	11.1%
<b>Others</b>	Absolute return portfolio	14.5%	-
	Infrastructure	-	4.2%
	Multi sector credit fund	5.8%	-
	Cash/Temporary investments	-	1.7%
<b>Net current assets</b>	Debtors	-	0.1%
	Creditors	-	(0.0%)
<b>Total</b>		<b>77.3%</b>	<b>22.7%</b>

## WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16

**2. Nature and Extent of Risks Arising from Financial Instruments**

## Key risks

The Authority's activities expose it to a variety of financial risks. The key risks are:

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

**Overall procedures for managing risk**

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

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and Treasury Management clauses within its constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Authority's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to 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 Government guidance.

These are required to be reported and approved at or before the Authority sets the annual council tax budget or before the start of the year to which they relate. These items are reported within either the annual treasury management strategy or the Capital Programme and Prudential Indicators report which outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

**WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16**

The annual treasury management strategy and annual investment strategy and the Capital Programme which incorporates the prudential indicators was approved by Council in 2015. All of these documents are available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2015/16 was set at £6m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £3m. This is the expected level of debt and other long term liabilities during the year.

These policies are implemented by the finance team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

**Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority'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. The Council applies the creditworthiness service provided by Capita Asset Services. The creditworthiness methodology used to create the counterparty list fully accounts for ratings and watches published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capita Asset ratings service, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically. 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. Details of the Investment Strategy can be found on the Authority's website:

[www.westdevon.gov.uk](http://www.westdevon.gov.uk)

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Authority.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £3 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2015 that this was likely to crystallise.

No breaches of the Authority's counterparty criteria occurred during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.



WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16

The Authority does not generally allow credit for its customers, the past due amount can be analysed by age as follows:

	31 March 2015 £000's	31 March 2016 £000's
Less than three months	288	44
Three to six months	19	23
Six months to one year	29	33
More than one year	130	164
<b>Total</b>	<b>466</b>	<b>264</b>

**Collateral**

During the reporting period the Authority held no collateral as security.

**Liquidity risk**

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

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

The maturity analysis of financial assets, excluding sums due from customers, is as follows:

	31 March 2015 £million	31 March 2016 £million
Less than one year	6	8
Between one and two years	0	0
Between two and three years	0	0
More than three years	0	0
<b>Total</b>	<b>6</b>	<b>8</b>

## WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2015/16

**Refinancing and Maturity risk**

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

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

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

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

	Approved minimum limits	Approved maximum limits	Actual 31 March 2015 £million	Actual 31 March 2016 £million
Less than 1 year	0%	10%	0	0
Between 1 and 2 years	0%	10%	0	0
Between 2 and 5 years	0%	30%	0	0
Between 5 and 10 years	0%	50%	0	0
More than 10 years	0%	100%	2.1	2.1
<b>Total</b>			<b>2.1</b>	<b>2.1</b>

**Market risk**

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

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

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

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy and the Capital Programme and Prudential Indicator report draws together the Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The finance team will monitor market 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 Authority, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

**Foreign exchange risk** - The Authority has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

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# West Devon Borough Council Annual Governance Statement 2015 – 2016

## 1. Scope of Responsibility

West Devon Borough Council is responsible for ensuring that:

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

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, West Devon Borough Council is also responsible for ensuring that there is a sound system of governance (incorporating the system of internal control) and maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, including arrangements for the management of risk. A Statutory Officers' Panel was set up in 2015-16 and a key role of this Panel is strategic risk management.

West Devon Borough Council and South Hams District Council have been shared services partners since 2007. As two of the very first Councils to share a Chief Executive in 2007, the Councils have been bold in challenging the traditional local government model and have always been at the forefront of radical change and innovation.

In early 2015 a completely new leadership team were appointed to lead the organisation through the transformation programme, become more customer-focused, save money, and explore ways of generating income for the Council. The Councils are now led by a small leadership team consisting of two Executive Directors and three Group Managers.

The role of the Senior Leadership Team (SLT) is to implement the plans and policies to support the strategic direction of the Council set by Members. The SLT are supported by an Extended Leadership Team (ELT). The ELT includes the principal people managers and professional lead officers in areas such as Housing, Planning, Environmental Health, Asset Management, and Support Services such as Finance, Legal, and Human Resources.

The Council's Community of Practice Lead for Finance is the officer with statutory responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.

The S.151 Officer, who acts as the Chief Financial Officer (CFO), will have responsibility for the administration of the financial affairs of the Council; will contribute to the corporate management of the Council, in particular through the provision of professional financial advice; will provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity, and budget and policy framework issues to all Members and will support and advise Members and officers in their respective roles; and, will provide financial information to the media, Members of the public and the community. (Constitution Article 10)

The CFO leads the promotion of good financial management including through the provision and publication of Financial and Contract Procedure Rules. The Council's S.151 Officer is a qualified accountant.

A review of the Council's arrangements against the CIPFA guidance on the Role of the Chief Finance Officer in Local Government concluded that the recommended criteria have been met in most areas. There is one exception to the standard in that the Chief Finance Officer is not a member of the Council's Senior Leadership Team (SLT). However, she has full access to the SLT agenda, reports and actions arising from the meetings and is able to attend SLT on any item. In addition, the S151 Officer attends SLT on a monthly basis to give a financial review and update. Direct access to the Head of Paid Service is also available on a regular basis. Her influence and impact on financial management is not deemed to be compromised by this local arrangement.

West Devon Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code can be obtained from the Finance Community of Practice Lead. This statement explains how West Devon Borough Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

## **2. The Purpose of the Governance Framework**

The governance framework comprises the cultural values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community. The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate, cost-effective services have been delivered.

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

The governance framework was in place at West Devon Borough Council for the year ended 31 March 2016 and is expected to continue up to the date of approval of the Accounts by the Audit Committee.

The Chartered Institute of Public Finance and Accountancy (CIPFA) have identified six principles (key elements) of corporate governance that underpin the effective governance of all local authorities. West Devon Borough Council has used these principles when assessing the adequacy of its governance arrangements. The main items that contribute to these key elements are listed below:

**Core principle/key element 1: focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area**

- 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
- The Council's adopted Priorities are confirmed in Article 6 of the Constitution and are published on the Council's website
- In March 2016 the Overview and Scrutiny (External) Committee considered *West Devon Our Plan*. The Council has made clear its vision to enhance the quality of life for West Devon individuals and communities and *West Devon Our Plan* is the comprehensive, overarching plan that delivers this vision.

*West Devon Our Plan* sets out the themes and objectives that underpin this vision and draws together the mechanisms at the Councils disposal to ensure delivery. This includes use of the Councils finances, staff, Members, assets, partnerships and development & legislative powers.

The Executive Summary of the March 2016 report stated:-  
Members have previously agreed that *West Devon Our Plan* should take stock of the work to date and focus afresh on restating the vision and objectives alongside a prioritised delivery plan. Publication of a refreshed version of Our Plan builds on work undertaken previously. The proposed republication of *West Devon Our Plan* should also

provide a context for the Local Plan and allow the statutory Local Plan element to be incorporated once its formal legal process is completed. The Council's work on the Joint Local Plan between Plymouth City, West Devon, South Hams and Dartmoor National Park is described further below.

The link to the full report on Our Plan is set out below:

<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=223&MId=240&Ver=4>

The Our Plan Themes and Objectives are:-

- Economy – Creating places for enterprise to thrive and business to grow
- Homes – Enabling homes that meet the needs of all
- Infrastructure – Securing the services and facilities that meet the needs of our communities
- Communities – Empowering residents to create strong communities
- Wellbeing – Supporting positive safe and healthy lifestyles
- Environment – Protecting, conserving and enhancing our built and natural environment
- Heritage – Celebrating our past and protecting our heritage for the future
- Resources – Promoting energy efficiency and more effective use of our natural resources

In tandem, work has begun to develop a Joint Local Plan between Plymouth City, West Devon, South Hams and Dartmoor National Park. Work on this joint plan is due to be completed by early 2017; a key milestone for those wishing to progress their Neighbourhood Plans.

- All staff briefings undertaken by SLT articulate the vision and new ways of working;
- The Council's corporate strategy (T18) has been implemented supported by
- a detailed project plan that has been made widely available;
- Regular consultation is undertaken on a range of issues;
- Effective budgetary monitoring takes place regularly and is reported quarterly to Members
- Cashable savings identified in the T18 programme are on target;
- Performance management and reporting is embedded including quarterly reporting to the Overview and Scrutiny Committee (Internal).
- Scrutiny teams have delivered tangible outcomes.

**Core principle/key element 2: members and officers working together to achieve a common purpose with clearly defined functions and roles**



- The Council's T18 programme clearly identifies its priorities, goals and promises statement which exemplifies its vision and values
- Performance measures are linked to drivers, goals and the service/Council priorities and these have continued through 2015/16.
- The Council uses a suite of performance indicators that includes measurement of the quality of service. A 'Balanced Scorecard' system of regular reporting of the key indicators to the Senior Leadership Team (SLT) and Members (Overview and Scrutiny Committee - Internal) is in place.
- The Council is also instigating a new suite of performance management dashboards, which will give Members and management access to near real-time information on demand and service levels.
- The Council publishes a Medium Term Financial Strategy (MTFS) each year, which covers a five year period. That for the period 2016/17–2020/21 was approved by the Hub Committee in October 2015 and has regard to the Priorities, business planning – pressures and savings
- There is a single organisation approach between Members and Officers
- The Council's Constitution clearly states the roles and responsibilities of Members and Senior Officers
- Terms of reference for Committees and Member responsibilities are clearly defined
- Clear delegations and accountabilities are laid down in the Constitution
- Officers are appointed with clear job descriptions
- Adoption of statutory and professional standards
- Compliance with Financial Procedure Rules and Contract Procedure Rules that are reviewed and approved by the Council
- Appropriate segregation of duties and management supervision
- The role of the Chief Finance Officer (s151 Officer), as documented in the Constitution, has responsibility for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and maintaining an effective system of internal financial control.
- The role of the Monitoring Officer (MO), as documented in the Constitution, has responsibility for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with.
- There is an annual process to review and agree the Pay Policy Statement in accordance with the Localism Act Section 38.

**Core principle/key element 3: promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

- Staff assessed against a set of key behaviours (known as 'IMPACT') to establish the right values and culture
- The Council's whistle-blowing policy, known as the Confidential Reporting Policy, is available to all staff on the Council's Intranet (including Frequently

Asked Questions) and is also publicised internally on an occasional basis to maintain its profile.

- The Council's Constitution also defines the roles of Members and officers. Part 5 of the Constitution includes a Protocol on Councillor / Officer Relations. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted Members of Council bodies in their dealings with officers where appropriate.
- There are codes of conduct in place for Members and Officers which include arrangements for registering of interests and managing conflicts of interest.
  - The Overview and Scrutiny Committee (Internal) is responsible for overseeing the Members' Code of Conduct and good governance by Members, and its terms of reference are set out in the Constitution
  - There is an effective Audit Committee in place with clear terms of reference.

**Core principle/key element 4: taking informed and transparent decisions which are subject to effective scrutiny and management of risk**

In May 2015, the Borough Council elections were held and new Councillors elected for a four year term.

A new governance structure was piloted in 2015/16 whereby a single decision-making Committee (known as the 'Hub Committee') replaced the previous two Committee structure. In addition, the number of Overview and Scrutiny Committees was increased from one to two. The functions of these two Committees were based around one having an external focus and the other an internal focus. The new structure also made it a requirement for every Member of Council to serve on either the Hub Committee, or on one of the two Overview and Scrutiny Committees.

With the establishment of the Hub Committee, Members were allocated portfolio areas of responsibility for the first time and were expected to present reports from their respective areas to Committee meetings.

As a part of the pilot, its effectiveness was reviewed in early 2016 and, whilst there were some minor improvements agreed, the underlying principles of the new structure were felt to have been a great improvement and the Council therefore agreed that they should be retained.

- Members on the Overview and Scrutiny Committee (Internal and External) receive training on effective scrutiny practices
- Decisions taken are formally minuted
- Committee Members are aligned to service areas and regularly communicate with and provide strategic direction to the relevant SLT lead
- The formal management of risk is in place and subject to monitoring by the Senior Leadership Team and reporting to the Audit Committee.

- A Statutory Officers' Panel which meets quarterly has been set up comprising of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer with other key officers invited as appropriate. This Panel amalgamates the former Probity Group, Risk Management Group and Governance Group, and its key roles are to ensure that the Councils comply with, and manage:
  - Governance frameworks
  - Strategic risk management, and
  - Regulatory framework

The Statutory Officers' Panel has important links with the Audit Committee and the Overview & Scrutiny Committee.

- A separate risk register is maintained for the T18 Transformation Programme.
- Active health and safety arrangements, including a robust policy, reviewed and approved by members, regular consideration of issues at SLT.
- Continuous managerial review of services to ensure continuous improvement and the economic, effective and efficient use of resources
- Financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Quarterly budget monitoring reports are presented to the Hub Committee.
- Formal quarterly budgetary monitoring reports on T18 are reviewed as part of the T18 programme and are reported quarterly to the Hub Committee
- Active performance management arrangements
- A robust complaints/ compliments procedure is in place and is widely publicised
- Freedom of Information requests are dealt with in accordance with established protocols
- All committee reports include reference where relevant to the potential impact on the Council's priorities and community plan themes, and address as appropriate any financial, staffing, risk, legal and property implications.

### **Core principle/key element 5: developing the capacity and capability of members and officers to be effective**

- An induction programme is in place for Officers and Members
- A Member training and development programme is in operation
- Deputy s151 and Monitoring Officer in place
- Officer training programmes are considered at each Staff Appraisal
- Focused training is delivered on specific issues (e.g. complaints, data protection)
- A staff survey was carried out to gauge employee satisfaction and assist in improving the organisation for employees as a place to work and consequently improve how the organisation performs.

### **Core principle/key element 6: engaging with local people and other stakeholders to ensure robust public accountability**

- *West Devon Our Plan* was considered by the Overview and Scrutiny (External) Committee in March 2016
- There is regular community engagement and participation both in general and for specific community groups and services provided, for example, Parish Councils
- Committee and Council meetings are open to the public, with papers available in advance on the internet (save where 'exempt' under the Local Government Act 1972 following formal evaluation of the public interest)

## **3. 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 Executive Director informing the Hub Committee of any significant matters warranting their attention.

The Council ensures the delivery of services in accordance with Council policies and budgets, which includes long term financial planning, good financial management and ensuring up to date risk management across the Council.

The Overview and Scrutiny Committees (Internal) and (External) are responsible for performing a review function.

#### Internal Committee

The Overview and Scrutiny Committee (Internal) continues to review and scrutinise the Council's performance monitoring reports via the T18

programme against the Council's corporate strategy and quarterly performance indicator reports. The items considered within 2015/16 are below:-

- Budget Proposals 2016/17
- Medium Term Financial Strategy 2016/17 to 2020/21
- T18 Programme Monitoring/Update on Transformation Programme
- Performance Updates – e.g. Contact Centre, Development Management Service and Customer Services statistics
- Performance Measures Review
- Performance Management – Task and Finish Group Updates
- Performance Indicators
- Member Development Steering Group: Progress Update
- Ombudsman Update and Annual Review letter

### External Committee

The Overview and Scrutiny Committee (External) considers and focuses on the impact the Council and its partners are making on our customers and communities. Specific duties include scrutiny of external organisations, Crime and Disorder Overview & Scrutiny functions, monitoring of service contracts and Health & Wellbeing. The items considered in 2015/16 were:-

- Budget Proposals 2016/17
- Rural Broadband Project Update
- Our Plan Review
- Leisure Member Working Group Update
- DCH Review Proposal – Task and Finish Group Update
- Partnership Review – Task and Finish Group Update
- Community Safety Partnership – Partnership Review
- Job Centre Plus

The Audit Committee has a specific role in relation to the Council's financial affairs including the internal and external audit functions and monitors the internal workings of the Council (broadly defined as 'governance'). It is responsible for making sure that the Council operates in accordance with the law and laid down procedures and is accountable to the community for the spending of public money. The Audit Committee reviewed all aspects of the Council's strategic performance and resource management arrangements, including budgeting, accounting and treasury management.

The review of effectiveness of the system of internal control is informed by three main sources: the work of Internal Audit; by managers who have responsibility for the development and maintenance of the internal control environment; and also by comments made by external auditors and other review agencies/inspectorates.

## Internal Audit

West Devon'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 Community of Practice Finance lead and S151 Officer.

The Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources.

All audit reports go to the Senior Leadership Team who agree any recommendations. Members receive an annual report of internal audit activity and approve the annual audit plan for the forthcoming year.

The Internal Audit annual report for 2015/16 is also due to be considered by the Audit Committee on 30 June 2016. The report contains the Head of Internal Audit's Opinion which is that "Based on the work performed during 2015/16 and that of their experience from the previous year's audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework. This view forms part of the Annual Governance Statement for 2015/16.

## Senior Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a number of significant internal control areas which are subject to review by internal audit. All managers acknowledge their responsibilities and confirm annually that they have implemented and continuously monitored various significant controls. This is done on a checklist covering the following areas: Council objectives and service plans, staffing issues, corporate procedure documents, service specific procedures, risk management, performance management and data quality, and action on independent recommendations. This checklist is reviewed by the Executive Directors.

## External auditors and other review agencies/inspectorates

Our external auditors (Grant Thornton) have not identified any significant weaknesses in our internal control arrangements when working with us throughout the year and in their 'Audit Findings' report.

For the 2015-16 year our external auditors have changed to KPMG. They have issued their 'Interim Audit Report 2015/16' which has the following headline messages:-

The Council's organisational control environment is effective overall.

- The Council has appropriate procedures for monitoring budgets, strategic plans and risks, and compliance with its constitution. Sufficient procedures are also in place for identifying related parties and responding to fraud. The IT team and structure in place at the Council has been reduced in size, but provides the key functions that we would expect of such an authority. Our review of Internal Audit's work, however, did suggest that annual disaster recovery exercises have not been performed, combined with issues identified in relation to the communication and updating of documents in the area of emergency planning.
- Key financial systems are generally sound. However KPMG did identify some potential improvements including the timely review of benefit payments and reconciliations and retaining evidence of manual checking.
- KPMG also make reference to the lack of formal evidence of review of financial control account reconciliations, since the Council has become paperless. The Council will explore the possibility of implementing digital signatures.
- The Interim Audit report by KPMG for 2015-16 also states that reports and working papers produced by Internal Audit appeared to be of an appropriate standard and that the Authority's overall process for the preparation of the financial statements is strong.

The Grant Thornton 'Audit Findings' report for 2014-15 was presented to the Audit Committee in September 2015. Grant Thornton gave an unqualified opinion on the Council's financial statements and stated:

- The accounts were free of significant errors; and
- Grant Thornton have not identified any adjustments that would affect the Council's reported financial position.

Value for Money audit conclusion – Also contained within the 'Audit Findings' report, Grant Thornton stated that they were satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency, and effectiveness in its use of resources for the year ending 31 March 2015. The report gave the Council a 'Green' rating (the highest rating possible, which indicated adequate arrangements are in place) in all the areas assessed of strategic financial planning, financial control, financial governance, prioritising resources and improving efficiency and productivity.

The 'Audit Findings' report identified one area of Internal Control which was given an 'Amber' rating which signified Adequate arrangements were in place, but with areas for development. These were:-

- Journals – All journals should have a narrative description to explain the nature and purpose of the transaction. (A reminder was sent to all staff who processed journals to emphasize the importance of adequate narrative on all journals).

- Recommendations were also made over the inputting of journals and segregation of duties. The compensating control is that all journals over £25,000 are separately reviewed by the Finance Business Partner and/or the Deputy S151 Officer.

I/we have been advised on the implications of the result of the review of the effectiveness of the governance framework by the audit committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

#### 4. Significant Governance Issues

The following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

#### ***Issues and action plan from the Compliance Review of the Code of Corporate Governance***

Principle 1: Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area:

<b>Issue Identified</b>	<b>Action to be Taken</b>	<b>Responsible Officer</b>
<p><b>T18 Transformation Programme</b></p> <p>West Devon Borough Council and South Hams District Council have undertaken innovative plans to transform the way the Councils carry out their work, casting aside the traditional ways of local government. Long-established Council departments have been replaced by customer-focussed teams of officers who work out of the office and more within the community. The Councils have invested in the latest technology and the Councils' workforce is smaller, reducing the need for office accommodation, and all staff roles have changed. The introduction of a new IT system whilst at the same time the Council's workforce having been reduced by 30%,</p>	<p>Quarterly monitoring reports on the Transformation Programme are presented to the Council's Overview and Scrutiny Committee (Internal) and Hub Committee.</p> <p>The T18 risk register is reviewed quarterly as a minimum by the Senior Leadership Team (SLT) and Programme Board, and is presented to the Audit Committee every six months. This will continue for the duration of the programme.</p> <p>In recognition of the early successes of this innovative transformation programme the Council</p>	<p>Senior Leadership Team S.151 Officer Monitoring Officer Internal Audit Manager Timescale in line with the Programme.</p> <p>Programme Board for T18</p> <p>Audit Committee</p>



<p>has meant that performance in some key areas has been below that which should be expected.</p> <p>On 7th June 2016 the Hub Committee considered a report on Transitional Resources. The Hub Committee recommended to Council to approve the use of £215,000 of unused New Homes Bonus funding, to fund the temporary transitional staffing resources set out in the report.</p>	<p>achieved national recognition as Council of the Year for 2016 at the recent iESE (the Improvement &amp; Efficiency Social Enterprise) Awards.</p> <p>The Council's Head of Paid Service and Group Manager have regular weekly meetings with the IT software supplier.</p> <p>Transitional Resources Report to Hub Committee (7<sup>th</sup> June 2016).</p>	
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*Issues and action plan from the System of Internal Control:*

The system of internal control is described in section 2 above.

<b>Issue Identified</b>	<b>Action to be Taken</b>	<b>Responsible Officer &amp; Target Date</b>
<p><b><i>Financial Uncertainty</i></b></p> <p>As Local Authorities experience reductions in funding, although West Devon Borough Council currently has a balanced budget, we must continue to review spending and monitor financial plans in order to balance future budgets in the face of the further government funding reductions.</p> <p>A Medium Term Financial Strategy (MTFS) was presented to the Hub Committee in October 2015 setting out the current position and was regularly updated throughout the 2016-17 Budget Setting process.</p> <p>There is still more to be done but the Council is establishing a solid base from which to become more commercial in its approach to meeting the forecast budget gap of £1,068,674 by 2020/2021,</p>	<p>Other initiatives in progress include:</p> <ul style="list-style-type: none"> <li>• Strategic Asset Review; and</li> <li>• Income generation initiatives</li> <li>• Local Authority Controlled Company (LACC) - On 16/2/16 (Council Minute 53) Council agreed that a detailed business case and implementation plan be produced to enable further consideration of the merits of establishing a Local Authority Controlled Company jointly with South Hams District Council to deliver services for</li> </ul>	<p>Senior Leadership Team S151 Officer On-Going</p> <p>Report to Council at the end of July 2016 for a decision on the LACC</p>

<p>whilst protecting its much valued services.</p> <p>The next MTFS is due to be presented to Members in September 2016. The Council has commenced several initiatives that aim to help us to reduce our costs and meet the enormous challenge of a significant funding gap. These include the T18 Transformation Programme. The programme has delivered new and very different ways of working (see above);</p>	<p>both Councils, and to other organisations as contracts are won.</p>	
<p><b>Issue Identified</b></p>	<p><b>Action to be Taken</b></p>	<p><b>Responsible Officer and Target Date</b></p>
<p><b>Business Rates Appeals Provision</b></p> <p>The way that Councils receive income from Business Rates changed from 1 April 2013. Business Rates retention was introduced to enable authorities to be able to retain a share of any growth that is generated in Business Rates revenue in their areas. The business rate retention scheme allows authorities to voluntarily form a business rates retention pool.</p> <p>The membership of the Devon Pool consisted of all Devon District Councils, Devon County Council, Torbay Unitary and Plymouth Unitary.</p> <p>In 2015-16 the Pool was reconstituted without South Hams District Council, due to the risk of business rates appeals in South Hams.</p> <p>The Valuation Office provided a list of outstanding appeals for West Devon and these have been taken account of when completing the government</p>	<p>The Council has submitted its NNDR3 return for 2015/16 and this includes an increase in the appeals provision of £1.185 million. The Council's share of this is 40% (£474,000).</p> <p>This has meant that the Council is in a safety net position by £139,980 in 15/16.</p> <p>The Council will further liaise with KPMG during the audit of the Accounts in July 2016</p>	<p>Already actioned.</p> <p>The NNDR3 return for 2015/16 was submitted at the end of May 2016.</p> <p>S151 Officer Already actioned May 2016</p> <p>S151 Officer July 2016</p>

<p>return NNDR3 for 2015/16 (section relating to business rates appeals provision).</p> <p>There is uncertainty and risk surrounding the calculation of the business rates appeals provision as future events may affect the amount required to settle an obligation.</p>	<p>on its Business Rates Appeals provision.</p>	
Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Heart of the South West Devolution Bid</b></p> <p>On 16/2/2016 (Council Minute CM 54) Members considered a report on the Devolution Bid that sought to endorse the current approach to devolution and the drafting of proposals, their submission and negotiation of a deal for the Heart of the South West.</p> <p>Devolution for the Heart of the South West (HotSW) is being led by the Leaders of Somerset and Devon County Councils, all Somerset and Devon Districts, Torbay Council, Plymouth City Council, Dartmoor and Exmoor National Parks, three Clinical Commissioning Groups and the Local Enterprise Partnership. The partnership submitted their Prospectus for Productivity to Government in February 2016. The three goals are around:</p> <p><b>People:</b> who are healthy, with the skills they need to access higher value jobs and grow their careers.</p>	<p>The Partnership is undertaking a full governance review which will report back in July 2016.</p> <p>A report will be presented to Members at the July 2016 Council meeting to recommend agreeing to sign up to the principle of creating a Combined Authority for the Heart of the South West, as set out in the Prospectus for Productivity, as the basis for negotiation with Government towards a Devolution Deal for the area.</p>	<p>Executive Director (Strategy &amp; Commissioning)</p> <p>July 2016</p>

<p><b>Business:</b> more businesses creating new jobs and increasing productivity.</p> <p><b>Place:</b> sustainable growth across the geography, supported by modern infrastructure and accelerated housing delivery.</p>		
<b>Issue Identified</b>	<b>Action to be Taken</b>	<b>Responsible Officer and Target Date</b>
<p><b>Internal and External Audit Reports</b></p> <p>Some issues have been identified in audit reports by the Council's external auditor, (Grant Thornton for 2014-15 and KPMG for 2015-16), and the shared in-house internal audit team.</p> <p>Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed.</p>	<p>All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors' 'follow up' procedures.</p>	<p>Extended Leadership Team (ELT) S151 Officer Internal Audit Manager In line with agreed timescales</p>

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

**Signed:**

**Cllr P R Sanders**  
**Leader of West Devon Borough Council**

**Signed:**

**Steve Jordan  
Executive Director (Strategy and Commissioning)  
and Head of Paid Service, on behalf of West Devon  
Borough Council**

**Date: 27<sup>th</sup> September 2016**

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# Agenda Item 7

Report to: **Audit Committee**

Date: **27th September 2016**

Title: **ANNUAL TREASURY MANAGEMENT REPORT  
2015/16**

Portfolio Area: **Support Services – Councillor C Edmonds**

Wards Affected: **ALL**

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

Author: Lisa Buckle                      Role: **Finance Community of  
Practice Lead**  
David Bennett                              **Specialist Accountant**

Contact: **Email [Lisa.buckle@swdevon.gov.uk](mailto:Lisa.buckle@swdevon.gov.uk) 01803 861413**

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**Recommendations:**

**That the Audit Committee:**

1. Approves the actual 2015/16 prudential and treasury indicators in this report
2. Notes the Annual Treasury Management Report for 2015/16

## **1. Executive summary**

Income from investments this year was £54,268 which is £13,947 higher than the budget of £40,321 at an average return of 0.59%. The comparable performance indicator (Benchmark) is the average 7-day LIBID rate which was 0.36%. Therefore the Council achieved 0.23% return on investments over the benchmark for 15/16.

## **2. Background**

### **Introduction**

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Treasury management is defined as:

“The management of the local authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks ”

During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports

- An annual treasury strategy in advance of the year (Audit Committee 24/02/2015 – AC 39)
- A mid-year (minimum) treasury update report (Audit Committee 19/01/16 AC27 approved at Council 16/02/16 CM51)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.



## **The Economy and Interest Rates**

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year for the seventh successive year for the period up to 31<sup>st</sup> March 2016. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

## **UK vote to leave the European Union**

The full implications of the decision on 23 June 2016 by the UK to negotiate an exit from the European Union (EU) will become apparent over time. There may be changes in Government policy and any significant changes in the economy may have an impact on local government financing. The Medium Term Financial Strategy will contain the latest high level forecasts in the public domain for budgeting purposes (those announced in the Local Government Finance Settlement in February 2016) and the Council will continue to monitor any impact on public sector funding and the Council's treasury management activity closely.

## Overall Treasury Position as at 31 March 2016

At the beginning and the end of 2015/16 the Council's treasury position was as follows:

Investment Type	As at 31/03/2015		As at 31/03/2016	
	Principal	Interest	Principal	Interest
	£	%	£	%
Call Account	1,456,341	0.30	-	
Short Fixed	2,000,000	0.46	4,000,000	0.69
Money Market Funds	4,000,000	0.40	3,875,000	0.48
<b>Total</b>	<b>7,456,341</b>	<b>0.40</b>	<b>7,875,000</b>	<b>0.59</b>

The Following is a list of our fixed investments at 31 March 2016

	Fixed to	£	Interest Rate
Barclays Bank	06/07/2016	2,000,000	0.71%
Nationwide BS	11/08/2016	2,000,000	0.68%

## The Strategy for 2015/16

The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit ratings are required together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which we can invest (see Appendix B).

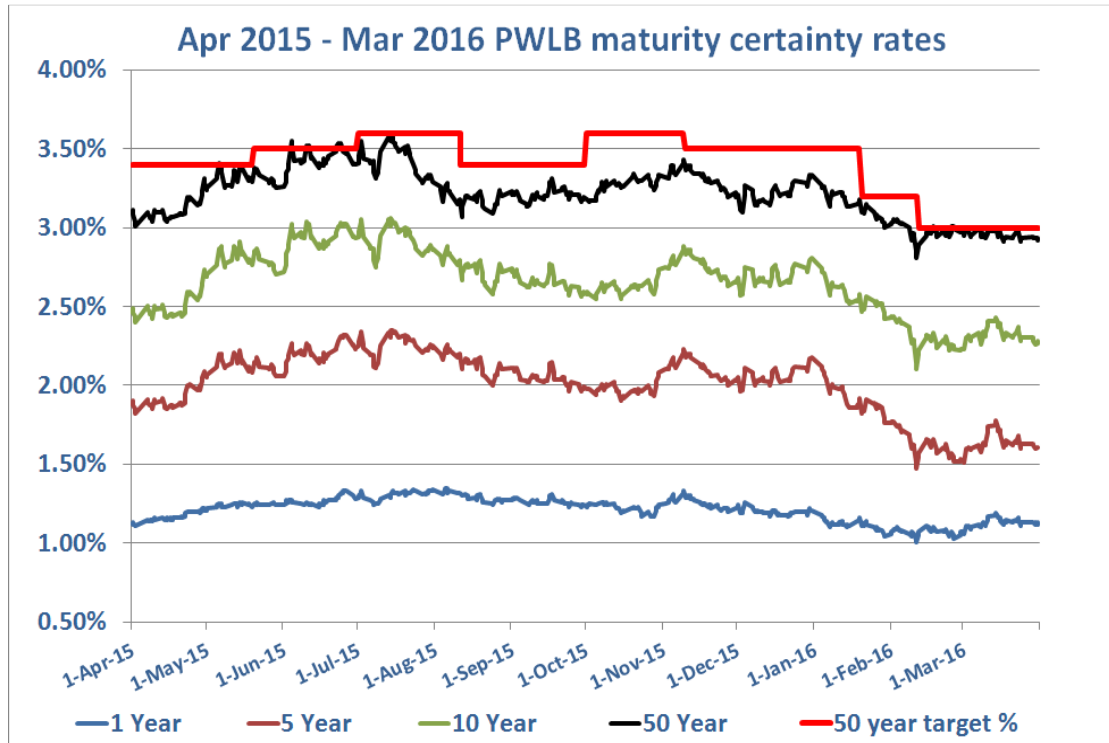
## The Borrowing Requirement and Debt

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31-Mar-15 Actual	31-Mar-16 Budget	31-Mar-16 Actual
CFR General Fund (£m)	1,799	1,757	1,757

## Borrowing Rates in 2015/16

PWLB borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



## Borrowing Outturn for 2015/16

### Repayments

On 28/07/2015 & 28/01/2016 the Council repaid £47,775 at an average rate of 4.55%

## Investment Rates in 2015/16

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. On 4<sup>th</sup> August the bank rate was cut from 0.5% to 0.25%. This occurred after 31<sup>st</sup> March 2016 that this report covers.

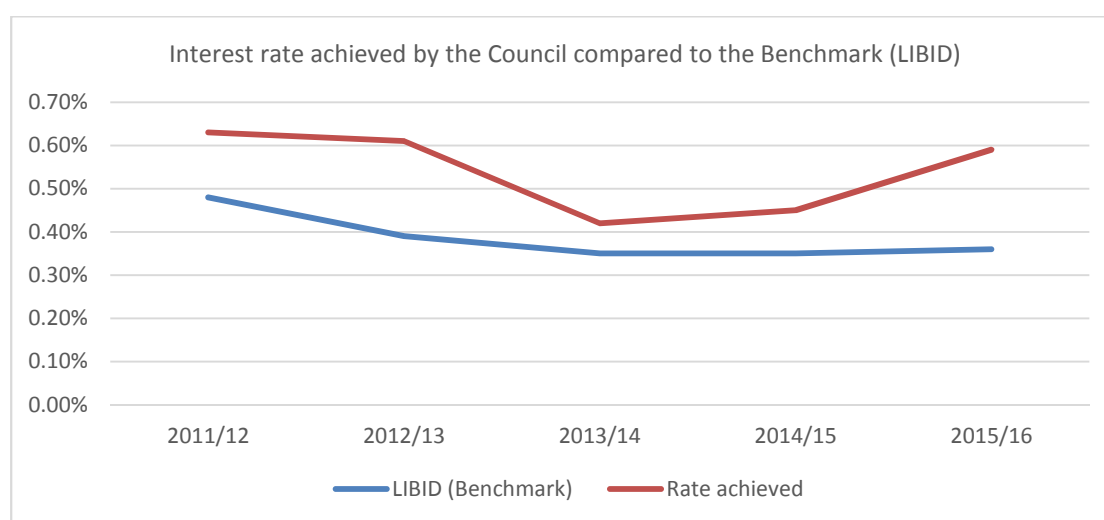
## Investment Outturn for 2015/16

Investment Policy – the Council’s investment policy is governed by the Department for Communities and Local Government (DCLG) guidance, which has been implemented in the annual investment strategy approved by the Audit Committee on 24/02/2015 (AC39). This policy sets out the

approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.)

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Income from investments this year was £54,268 which is £13,947 higher than the budget of £40,321 at an average return of 0.59%. The comparable performance indicator (Benchmark) is the average 7-day LIBID rate which was 0.36%. Therefore the Council achieved 0.23% return on investments over the benchmark for 15/16.



	2011/12	2012/13	2013/14	2014/15	2015/16
LIBID (Benchmark)	0.48%	0.39%	0.35%	0.35%	0.36%
Rate achieved	0.63%	0.61%	0.42%	0.45%	0.59%

### 3. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003
Financial	Y	Income from Treasury Management activities amounted to £54,268 in 2015/16.

		Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.
Risk	Y	<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/a
Safeguarding	N	N/a
Community Safety, Crime and Disorder	N	N/a
Health, Safety and Wellbeing	N	N/a
Other implications	N	none

### **Supporting Information**

#### **Appendices:**

Appendix A – Lending list as at 31 March 2016  
Appendix B - Prudential and Treasury Indicators 2015/16

#### **Background Papers:**

Annual treasury strategy in advance of the year (Audit Committee 24/02/2015 – AC 39)  
A mid-year treasury update report (Audit Committee 19/01/16 AC27 approved at Council 16/02/16 CM51)

### **Approval and clearance of report**

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

## APPENDIX A

West Devon Borough Council lending list as at 31 March 2016.

<b>Barclays Bank Plc</b>
<b>HSBC Bank plc</b>
<b>Lloyds Banking Group Plc:</b> <ul style="list-style-type: none"><li>• Bank of Scotland plc</li><li>• Lloyds Bank plc</li></ul>
<b>Nationwide Building Society</b>
<b>Royal Bank of Scotland Group Plc:</b> <ul style="list-style-type: none"><li>• The Royal Bank of Scotland plc</li><li>• National Westminster Bank plc</li></ul>
<b>Government UK Debt Management Facility</b>
<b>Local Authorities (as defined under Section 23 of the Local Government Act 2003)</b>
<b>AAA rated Money Market Funds</b>

## APPENDIX B

### PRUDENTIAL AND TREASURY INDICATORS 2015/16

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

#### **Capital Expenditure.**

This prudential Indicator is a summary of the Council's capital expenditure.

<b>Capital Expenditure</b>	<b>2014/15 Actual £000</b>	<b>2015/16 Estimate £000</b>	<b>2015/16 Actual £000</b>
<b>Total spend</b>	<b>473</b>	<b>451</b>	<b>300</b>

The table below summarises the financing of the Council's capital programme. Any shortfall of resources would result in a funding need (borrowing).

<b>Capital Expenditure</b>	<b>2014/15 Actual £000</b>	<b>2015/16 Estimate £000</b>	<b>2015/16 Actual £000</b>
<b>Total spend</b>			
<b>Financed by:</b>			
Capital receipts	259	0	32
Capital grants	186	239	244
Revenue reserves	28	0	24
New Homes Bonus	0	212	0
<b>Total funding</b>	<b>473</b>	<b>451</b>	<b>300</b>

*Nb. Please note that the estimate for 2015-16 represents the approved capital programme for that year. However, actual capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.*



### The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). It is essentially a measure of the Council's underlying need to borrow if the figure is greater than zero.

	2014/15 Actual £000	2015/16 Estimate £000	2015/16 Actual £000
<b>Total CFR</b>	<b>1,799</b>	<b>1,757</b>	<b>1,757</b>
<b>Movement in CFR</b>	<b>42</b>	<b>42</b>	<b>42</b>

### AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

#### Ratio of financing costs to net revenue stream

This indicator identifies the trend in the receipt of net investment income against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget.

	2014/15 Actual	2015/16 Estimate	2015/16 Actual
Ratio of net investment income to net revenue stream (surplus).	1.24%	1.20%	1.15%

#### Estimates of the incremental impact of capital investment decisions on council tax

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources.

#### Incremental impact of capital investment decisions on the band D council tax (notional cost as explained above)

	2014/15 Actual £	2015/16 Estimate £	2015/16 Actual £
<b>Future incremental impact of capital investment decisions on the Band D council tax (Notional cost)</b>	<b>0.03</b>	<b>0.03</b>	<b>0.01</b>

## TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

**The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

<b>Operational Boundary</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>£</b>	<b>£</b>
Borrowing	3,000,000	3,000,000
Other long term liabilities	-	-
<b>Total</b>	<b>3,000,000</b>	<b>3,000,000</b>

**The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

<b>Authorised limit</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>£</b>	<b>£</b>
Borrowing	6,000,000	6,000,000
Other long term liabilities	-	-
<b>Total</b>	<b>6,000,000</b>	<b>6,000,000</b>

Report to: **Audit Committee**

Date: **27<sup>th</sup> September 2016**

Title: **STRATEGIC RISK ASSESSMENT - REGULAR UPDATE**

Portfolio Area: **Strategy & Commissioning**  
**Cllr Philip Sanders, Leader of the Council**

Wards Affected: **All**

Relevant Scrutiny Committee: **N/A**

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

Date next steps can be taken: **n/a**

Author: **Darren Arulvasagam** Role: **Business Development Group Manager**

Contact: [Darren.Arulvasagam@swdevon.gov.uk](mailto:Darren.Arulvasagam@swdevon.gov.uk)  
**01803 861222**

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## **RECOMMENDATION**

**That the Committee review the strategic risks and make recommendations to Council on any further action the Committee concludes should be considered.**

### **1. Executive summary**

- 1.1. In accordance with the Joint Risk Management Policy adopted by West Devon Borough Council on 17<sup>th</sup> May 2012, this report forms the required 6 monthly update to Members.
- 1.2. The report includes the current corporate strategic risk assessment and a summary of the management and mitigating actions to address the identified risks.
- 1.3. Zurich Municipal's Strategic Risk Practice was commissioned by South Hams District and West Devon Borough Council to complete a Risk Identification Exercise to check and challenge the key risks associated with the Council's proposed Local Authority Controlled Company (LACC). Risks were profiled and owners assigned and the result of this work is shown in Appendix 3 and Appendix 4 shows a profile summary of the risks identified by Zurich Municipal.

## **2. Background**

- 2.1. The Council at its meeting on 17 May 2012 resolved to adopt the Joint Risk Management Policy.
- 2.2. The Joint Risk Management Policy requires the Senior Leadership Team (SLT) to undertake reviews of the Corporate Risk Tables on a monthly 'light touch' basis and more comprehensively on a quarterly basis.
- 2.3. It also stipulates that a member of the Senior Leadership Team will provide update reports to the Audit Committee on a six monthly basis. This is now the responsibility of the Business Development Group Manager.

## **3. Outcomes / Outputs**

- 3.1. The risks currently monitored by SLT are set out in Appendix 1.
- 3.2. The tables include a summary of mitigating and management actions undertaken or proposed, to manage the identified risks. Monitoring requires both a proactive approach to assessing potential risk, as well as carrying out retrospective reviews to improve learning from risk and embedding it across the two Councils.
- 3.3. Appended to the risk tables as Appendix 2 is the Risk Scoring Matrix which has been used to identify risk status. A risk rating is developed by assessing risk impact/severity and multiplying it by the likelihood / probability of the risk occurring. The risk score identified is the assessment based on the mitigation being successful.
- 3.4. Also appended to this report is the result of Zurich Municipal's Risk Identification Exercise, which set out to check and challenge the key risks associated with the Council's proposed Local Authority Controlled Company (LACC). The Zurich exercise comprised a documentation review of the business case, consideration of the Council's risk register information and interviews with key officers. The risks were logged and risk owners assigned and the result of this work is shown in Appendix 3. Appendix 4 shows a profile summary of the risks identified.

## **4. Options available and consideration of risk**

- 4.1. The tables are living documents and will regularly change in response to issues arising.
- 4.2. Members should note that while risk is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.

## **5. Proposed Way Forward**

- 5.1. It is suggested that the Committee's attention is focussed on those risks with the highest score i.e. the risks with a score above 12.

While members are invited to focus on the key risks, members are welcome to review any of the risks identified, including questioning whether the risk is appropriately scored, or whether further detail around the risk or the proposed mitigating actions is required.

## 6. Implications

<b>Implications</b>	<b>Relevant to proposals</b>	<b>Details and proposed measures to address</b>
Legal / Governance	Y	The Audit Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management.  There are no direct legal implications arising from the report although a strategic focus on risk management is good practice. Any specific legal implications are considered in individual risk assessments.
Financial	Y	There are no direct financial implications arising from the report, although effective corporate risk management may help protect the Council from budget variances.
Risk	Y	Members should note that while risk is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.
<b>Comprehensive Impact Assessment Implications</b>		
Equality and Diversity	N	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.
Safeguarding	N	Factored into individual risk assessments where appropriate.
Community Safety, Crime and Disorder	N	Factored into individual risk assessments where appropriate.
Health, Safety and Wellbeing	N	Factored into individual risk assessments where appropriate.
Other implications	N	N/A

### **Supporting Information**

#### **Appendices:**

Appendix 1: Corporate Risk Report

Appendix 2: Risk Scoring Matrix

Appendix 3: LACC Risk Register (*as identified by Zurich Municipal & subsequently updated by the LACC Joint Steering Group and the SHWD Senior Leadership Team*)

Appendix 4: LACC Risk Profile (*as originally identified by Zurich Municipal*)

**Background Papers:**

- Joint Risk Management Policy
- Covalent risk register
- South Hams District and West Devon Borough Council Local Authority Controlled Company Risk Diagnostic Report, July 2016

#	Owner	Strategic Priority	Title	Risk Description							After Treatment			Action / Update
				Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25 (multiply L vs I)	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1-25 (multiply L vs I)	
1	SH	Provision of quality services	Service Performance	Any service failure or degradation of service impacts on the customer, which then impacts on all areas of the council and members	Lack of appropriate resources due to current interim vacancies; ongoing transformation programme specifically IT and process implementation is not yet complete. These two combined have affected our ability to deliver appropriately on occasion.	5	5	25	Mitigate	Getting it right the first time, getting back to people appropriately and more timely. Better channel recognition to clear responses. Keep better records. Appropriate resources in the right places.	3	5	15	Mobile solution is in test, whitespace (in cab) technology will shortly be integrated into W2 workflow processes, but is already bringing benefits. Concerto software for assets is underway.
2	Page 179	Encouraging communities to thrive	Delivery of local plan (inc. 5 Year Land Supply in South Hams)	Risk of speculative development without a 5 year land supply in South Hams, following Riverside ruling. Risk of designation in relation to Development Management & local plan across both councils.	Lack of detail / contingency around 5 year land supply until the joint local plan is completed.	5	4	20	Mitigate	Work underway to agree joint strategic working plan between Plymouth, South Hams and West Devon to ensure land supply across the three areas is sufficient. Collaboration agreement signed.	2	2	4	Consultation process ended Aug 2016. Analysis underway. In WDBC, Butcher Park planning decision highlights risk.
3		SH	Provision of quality services	Business Continuity	Officers fail to develop 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	Following the event, how quickly will certain systems and processes be able to be back on-line	4	4	16	Mitigate	Having two HQ locations is main mitigating factor. 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	2	2	4
4	SH	Provision of quality services	SH Waste Round Review	Risk of reputational issue to the Council if the project fails to run to project timeframe and deliverables. Risk to identified efficiency savings if project not run on time. Failure to manage customer enquiry and feedback in a timely manner could also affect reputation.	Amount of customer contact. External factors.	4	4	16	Mitigate	Project group are meeting weekly and the operational plan is supported by a communications plan. Additional staff are included in the customer contact/case management plan.	2	2	4	Part one of round review completed and no adverse issues.
5	SH	Financial Sustainability	T18 Benefits Not Delivered	Failure to deliver sustained benefits from the T18 Programme; Risk of new systems not being fit for purpose during transfer and then for BAU; Capacity risk once additional resources exhausted?	Poorly executed delivery could affect quality of customer service; timescales to complete routine tasks and an increase in complaints. Staff moral and reputation can be affected.	4	4	16	Mitigate	Regular SLT and member scrutiny over T18 roll-out; T18 programme being managed closely; currently within budget. Quarterly monitoring reports to Members.	2	3	6	Continued management focus on programme delivery. Considerable engagement with Civica, some compensatory payments for back filing and resourcing from Civica. SLT looking at alternatives, should they be required. Budget has been monitored very closely. Transition resources being recruited to ease pressure, staff re-allocated to look at
6	SH	Provision of quality services	WD Waste Procurement	Managed service solution agreement may not be in place in time.	Future cost of service may increase in both capital and revenue terms in view of aging assets during extension period. Service received during transition / notice period may deteriorate.	4	4	16	Mitigate	Detailed procurement process including specification writing which is well advanced. Wide review team of officers/members in place. Budget will be set and highlighted as part of the service review process	2	3	6	Discussions concerning relevant service requirement & implementation underway in consultation with legal team.
7	SJ	Provision of quality services	Data Protection	Failure to control the appropriate use of data and unauthorised Access.	To manage the risk of non compliance with Cabinet Office PSN CoCo, PCI DSS, Data Protection Act, RIPA, Human Rights Act.	3	5	15	Mitigate	Information Security Policy; All employees responsible for adequacy of data security arrangements within their control. Access to electronic data is only available via council managed devices. Look out for advice from the	2	3	6	eLearning tool being rolled out as part of new performance management system during 16/17. Virtual COP being instigated to ensure adherence to regulations

#	Owner	Risk Description										After Treatment			Action / Update
		Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25 (multiply L vs I)	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1-25 (multiply L vs I)		
8	SH	Provision of quality services	Emergency Response, e.g. Coastal Erosion / Storm Damage / Flooding	There is high public expectation in relation to supporting communities during coastal erosion/storm damage/flooding events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on-site, given limited	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	5	3	15	Mitigate	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity	3	3	9	Processes have stood up to recent storm damage; communication continues with relevant parties	
9	SJ	Provision of quality services	Contractor Failure	Failure to manage a major failure of a significant council contractor including, any significant related industrial relations issues.	Contingency plans if contractor were to fail; affect on service delivery	3	4	12	Tolerate	Good contract and people management, effective Contract Team, use of shared procurement expertise, more frequent credit checks (including parent companies), requirement for bonds where appropriate.	2	2	4	Unproven contractor won leisure procurement - this is to be mitigated via contract process & PQQ process. Contract monitoring is acknowledged as an area which needs strengthening across the Council.	
10	SJ	Financial Sustainability	External Fraud	Fraud, financial impropriety or improper business practises anywhere against the organisation	Fraud could occur anywhere against the organisation; but the likely impact is limited due to existing management controls	4	3	12	Mitigate	Audit has highlighted generally ok. Management to remain vigilant; random spot checks where appropriate (e.g. expense claim forms)	3	2	6		
11	SH	Financial Sustainability	Implementation of LACC	Capacity impact on staff and BAU delivery; timescale of delivery may slip; Due diligence before LACC set-up may not be complete; Business case may not evidence a discernible market for the proposed company	See separate LACC Risk Register	3	4	12	Mitigate	See separate LACC Risk Register	2	3	6	Joint Steering Group set up to resolve issues & concerns raised by Members and outstanding points from business case work produced by PwC.	
12	Page 180	Financial Sustainability	Internal Fraud	Fraud, financial impropriety or improper business practises anywhere in organisation	Fraud could occur anywhere throughout the organisation; but the likely impact is limited due to existing management controls	4	3	12	Mitigate	Audit has highlighted generally ok. Management to remain vigilant; random spot checks where appropriate (e.g. expense claim forms)	3	2	6		
13	SJ	Provision of quality services	Adherence to Council policies & processes and Government guidelines	Failure to manage/enforce s106 conditions. Ombudsman complaints could lead to finding of maladministration due to management of issues, e.g. poor record keeping; time to resolve issues or meet imposed timelines; reputational damage. Failure to meet current and changing needs	T18 programme rollout has seen service levels reduce and customer perception affected for certain services	3	4	12	Mitigate	Plan to commence measuring customer satisfaction during 16/17. Increased customer engagement; new complaints policy in place.	2	3	6	Embed new process within organisation; additional resources approved to ensure less impact on front line services. Internal audit programme for next year will help provide assurance.	
14	SH	Financial Sustainability	Inadequate asset maintenance	Failure to maintain all Council owned assets and buildings (including fleet).	To manage the health and safety risks of customers and staff and to ensure budgets are managed effectively to maintain assets to a satisfactory standard, To consider and manage the risk of redundant properties / assets.	2	5	10	Mitigate	Effective budget monitoring, sound management of assets/ buildings including a planned maintenance approach along with planned capital expenditure programme. Risk assessments and regular health and safety inspections.	1	5	5	Work underway (as part of governance) to review and write a long-term maintenance plan. This will assist with the risk in respect of the maintenance of all Council assets.	
15	SH	Provision of quality services	Potential for late filing of accounts	There is a requirement that closedown or 16/17 accounts be brought forward 4 weeks to end of May 2017. The risk is that resourcing within the finance COP and delayed process improvement prevents closedown by the government deadline. Impact would be that the council's accounts would be "qualified"	Whether the new timetable is achievable for the existing team.	3	3	9	Mitigate	Additional resourcing will be made available when required, structure changes already implemented. 2015/16 year end worked to restricted timetable as a trial run.	2	3	6	Team worked to reduced timetable for 2015/16 closure and additional resource (deputy s151 officer recruited)	

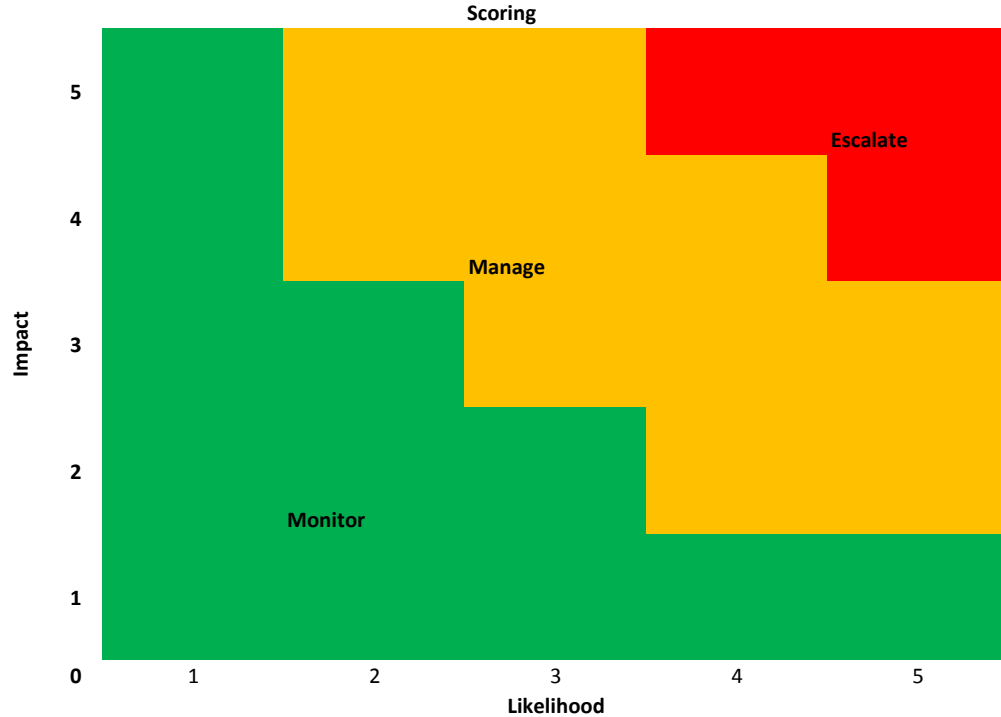


#	Owner	Risk Description										After Treatment			Action / Update
		Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25 (multiply L vs I)	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1-25 (multiply L vs I)		
16	SJ	Provision of quality services	Corporate Governance	Failure to maintain effective Corporate Governance arrangements.	To maintain effective Member standards and develop new Council Constitution. To continue to raise awareness of the risk of fraud and the implications of the Bribery Act	2	4	8	Mitigate	Promotion of necessary policies via staff intranet. Reviewed and implemented new Council constitution. To provide necessary Annual governance self assessment review by both FLT and SLT. Audit	1	3	3	n/a	
17	SJ	Provision of quality services	Health & Safety	Failure to manage the health, safety and welfare of the public, visitors and staff. Key consideration in relation to number of external frontline staff, including lone workers.	High impact on service delivery resulting in resources / services being unavailable for long periods	2	4	8	Mitigate	Safe working environment, policies and procedures, e.g. fire safety policy, travel at work policy. IIP, PDRs. Revised sickness absence policy, health and other wellbeing initiatives. Awareness of appropriate legislation e.g. Corporate Manslaughter Act, Equalities Act. Up-to-date corporate Health & Safety Policy/procedures	1	3	3	Virtual COP being set up to ensure visibility and focus on this topic; regular reporting to SLT and proposed changes to member performance data to include H&S measures. Work underway to consider ISO accreditation & impact on services	

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**Appendix 2 - Risk Scoring Matrix**

Likelihood	Impact
1- Unlikely to occur under normal circumstances	1 - Very low impact to delivery
2- Potential to occur however likelihood remain low	2 - Minor impact to service delivery with potential for some financial / reputational implications
3- Likely to occur	3 - Impact on service delivery and financial / or reputational implications
4- Most likely to occur	4 - High impact on service delivery resulting in services / resources being unavailable for a long period
5 - Almost certainly will occur	5 - Severe impact on service delivery resulting in closure of some services / ceasing of project and / or significant financial and/or reputational implications



**Green** - These risks have low impact and/or low likelihood of occurring. Have a plan to prevent them escalating but only light touch monitoring required

**Red** - These risks can have a significant impact on the business or project and must be managed by the project board or service management team. Mitigations must be in place and managed to ensure that the risk is not realised or can be controlled

**Amber** - These risks need to be managed to prevent them causing an impact on the business or project. Clear plans with owners need to be in place and they should be managed by the project team or service leads on a regular basis

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### Appendix 3: LACC Risk Register

#	ID	Risk Description	Triggers	Consequences	Risk Owner	Rating at point logged			Treatment	Mitigations	Update
						Likelihood	Impact	Risk Rating			
1	12	The risk is that Pension Liabilities are not handled correctly leading to financial pressures on the LACC or the Councils	<ul style="list-style-type: none"> <li>- Unfavourable accounting regulations requiring bond of guarantee</li> <li>- pension liabilities to be met by Councils</li> </ul>	<ul style="list-style-type: none"> <li>- LACC project becomes unviable due to not achieving admitted body status</li> <li>- Other delivery models will need to be considered</li> <li>- LACC accounts would record a significant loss each year (insolvent / not a going concern)</li> </ul>	Sophie Hosking	3	5	15	Mitigate	<ul style="list-style-type: none"> <li>- To be established during implementation and be set out as a clear gateway in the project plan. Other LA's set up LACC's and Admitted Body Status typically achieved but will be assessed by JSG</li> </ul>	Work is happening on this at the moment - with s151 officer meeting Peninsular Pensions. Also Bevan Brittan LLP instructed to provide legal advice
2	1	The risk is that there is Ineffective and/or inefficient set up of the LACC	<ul style="list-style-type: none"> <li>- Lack of expertise in technical areas such as VAT and Corporation Tax</li> <li>- Insufficient management capacity to complete project tasks and actions</li> <li>- Conflicting priorities for SLT e.g. Service performance v LACC implementation</li> <li>- Awareness of regulation and legislative requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Financial Model becomes unviable</li> <li>- Benefits are not maximised</li> <li>- LACC Cessation</li> <li>- Cash Flow issues</li> <li>- Lack of control of the LACC / ineffective governance</li> <li>- Monitoring and internal controls become complicated</li> <li>- Increased and unexpected set up costs</li> </ul>	Sophie Hosking	3	4	12	Mitigate	<ul style="list-style-type: none"> <li>- Arrange specific advice for areas where further input required (Corporation Tax / Pensions / Financial modelling) as part of implementation project team</li> <li>- Advice already sought from PWC on some issues as part of detailed business case development</li> <li>- Active management of risk register for LACC throughout the project and into the operate phase</li> <li>- Clear gateways for the Joint Steering Group to make decisions on proceeding or not – part of project planning</li> <li>- Develop Business Plan</li> </ul>	Mitigation down - JSG programme team. BB instructed
3	7	There is a risk to service resilience when services are delivered by the LACC	<ul style="list-style-type: none"> <li>- Impact on service delivery for the Council and 3rd parties</li> <li>- Unable to fulfil contract requirements</li> <li>- Financial liabilities</li> <li>- Reputation damage</li> <li>- Community needs not met</li> </ul>	<ul style="list-style-type: none"> <li>External factors beyond Council and company control</li> <li>- Effective management of company</li> <li>- Effective contract specification, management and monitoring through out supply chain</li> <li>- Excessive pressure on service demands</li> <li>- Unexpected demand on finances e.g. unpaid debt, cash flow, disputes and claims</li> </ul>	Sophie Hosking	3	4	12	Mitigate	<ul style="list-style-type: none"> <li>- Emergency change process to be developed and captured in Contract</li> <li>- Client side contract manager to be empowered to make speedy decisions (within councils delegated authority levels)</li> <li>- Building of company reserves</li> <li>- Performance Management framework for LACC to be developed to identify any downward trends in service delivery at an early stage</li> </ul>	Likelihood & Impact score amended from original work as no longer aiming for April implementation
4	9	There is a risk that the LACC fails to achieve desired rates of growth and be competitive in the market place	<ul style="list-style-type: none"> <li>- Lack of expertise and acumen</li> <li>- Failure to recruit the right executive team</li> <li>- New entrants to the market offer more competitive rates (i.e. other LACCs)</li> <li>- Uncompetitive due to cost of its workforce in comparison to competitor</li> <li>- Market does not materialise or mature</li> </ul>	<ul style="list-style-type: none"> <li>- Loss of market share / customers</li> <li>- Unable to attract future partners / private customers</li> <li>- LACC model may become unsustainable in the longer term</li> <li>- Reputation for being expensive, if so, must maintain high standards</li> <li>- Alternate service delivery model required</li> </ul>	Sophie Hosking	4	3	12	Mitigate	<ul style="list-style-type: none"> <li>- Strong project management and governance throughout implementation phase (with assistance of JSG)</li> <li>- Ensure management team reflect LACC's behaviour &amp; skill requirements to effectively deliver contract</li> <li>Continuous market research &amp; analysis – map competitor wins / actions.</li> <li>- Use customer and market segmentation to understand where LACC fits in.</li> <li>- Account manage customers to ensure service delivered exceeds expectations</li> <li>- Early establishment of marketing strategy and focus on quality, effective &amp; efficient public sector service</li> <li>- Continuously seek efficiency improvements and income generation activities</li> </ul>	Likelihood & Impact score amended from original work as no longer aiming for April implementation

Page 185

#	ID	Risk Description	Triggers	Consequences	Risk Owner	Rating at point logged			Treatment	Mitigations	Update
						Likelihood	Impact	Risk Rating			
5	10	The risk is that the LACC fails to retain and recruit competent and capable people to deliver the LACC vision	<ul style="list-style-type: none"> <li>- Disillusioned workforce / lack of engagement</li> <li>- Ability to recruit the right executive team / board members</li> <li>- Inequalities across the workforce through inconsistent Terms and Conditions</li> <li>- Difficulties / times delay with recruitment</li> </ul>	<ul style="list-style-type: none"> <li>- Management team and workforce that lack a commercial outlook / acumen</li> <li>- Increased workloads</li> <li>- Reduction in staff morale</li> <li>- Failure to achieve commercial goals</li> <li>- Negative impact on service quality</li> </ul>	Sophie Hosking	3	4	12	Mitigate	<ul style="list-style-type: none"> <li>- Develop LACC recruitment strategy including profiles of roles that may require ongoing access of LGPS to attract staff</li> <li>- Clear communication with staff</li> </ul>	n/a
6	2	The risk is that the LACC does not maximise its financial viability	<ul style="list-style-type: none"> <li>- Initial assumptions and predictions are inaccurate including those of set up and running costs</li> <li>- Market place not fully understood</li> <li>- Competitors not identified</li> <li>- Waste Management Contract not brought into LACC</li> <li>- Service offering is not competitive</li> <li>- Unsuccessful in winning council contracts</li> <li>- Growth / savings are not achieved</li> <li>- Modelling of profit margins is over estimated</li> <li>- Irrecoverable VAT</li> <li>- Continued Local Authority cuts</li> </ul>	<ul style="list-style-type: none"> <li>- Costs of company set up not recovered</li> <li>- LACC dissolved and services taken back into the Local Authorities with associated costs</li> <li>- Ability to deliver council services for other Local Authorities reduced</li> <li>- Savings and profit not achieved</li> <li>- Economies of scale impacted if service reduction required</li> <li>- reputational damage stakeholder dissatisfaction</li> </ul>	Lisa Buckle	3	3	9	Mitigate	<ul style="list-style-type: none"> <li>- Officer group to develop further market analysis work – ongoing</li> <li>- Mapping of market competitors and ongoing monitoring of potential trading pipeline from early stage – early engagement with soft market assessment activities which can commence 12 /18 months prior to a tendering opportunity becoming available</li> <li>- Continue discussions with FCC over current waste arrangements to ensure smooth transition</li> <li>- Ongoing modelling of irrecoverable VAT – to be built into project plan as key gateway for Joint Steering Group to agree</li> <li>- Commence discussion with HMRC once approval to proceed is granted re Corporation Tax exemption</li> <li>- Base budget review and full financial profiling of roles.</li> </ul>	n/a
7	5	Ability to maximise the benefits of the LACC	<ul style="list-style-type: none"> <li>- Lack of flexibility to deliver potential future savings required due to further</li> <li>- Start up costs become unaffordable in the uncertain local authority financial climate</li> <li>- Potential lack of commercial skill set</li> <li>- Strategic business case is not effectively communicated to or understood by members including acceptance and awareness of ownership and profit share allocation</li> <li>- Market fails to materialise and mature</li> </ul>	<ul style="list-style-type: none"> <li>- Council stays as is and T18 programme is refined to deliver further savings</li> <li>- Income cannot be generated to offset future government grant cuts</li> <li>- Reputational damage</li> <li>- Further cuts to services, required to meet budget reductions</li> <li>- Alternate service delivery models required</li> <li>- LACCs / other delivery models are established prior to set up</li> </ul>	Steve Jorden	3	3	9	Mitigate	<ul style="list-style-type: none"> <li>- Contract will require a change process for change requests from LACC to the Councils and vice versa - managed by client contract management</li> <li>- Start up budget to be defined and agreed with Joint Steering Group within parameters set out to Members for far</li> <li>- Commercial skills pre-requisite for board members</li> <li>- Business and marketing plan to be developed</li> </ul>	JSG work ongoing which will investigate commercial viability
8	3	The risk is that the Councils are not able to meet LACC project implementation timescales	<ul style="list-style-type: none"> <li>- Availability of staff to participate and support the delivery of the project work streams</li> <li>- Management Capacity</li> <li>- Availability of project management skills</li> <li>- Deadline for project not realistic</li> <li>- Delay in decision by members</li> </ul>	<ul style="list-style-type: none"> <li>- Increased costs</li> <li>- Reputational damage</li> <li>- Failure to meet stakeholder expectations</li> <li>- Delays in realising benefits of becoming an LACC (savings / payback period)</li> <li>- Continued staff uncertainty</li> <li>- Loss of member confidence</li> </ul>	Neil Hawke	2	4	8	Mitigate	<ul style="list-style-type: none"> <li>- Clearly defined project work streams and project governance</li> <li>- Consider phased approach for the implementation / transition to live</li> <li>- Sufficiently resourced project team</li> <li>- Formal risk management and project change process</li> </ul>	Implementation timescales are to be confirmed as a result of joint steering group (JSG) ongoing work

Page 186

#	ID	Risk Description	Triggers	Consequences	Risk Owner	Rating at point logged			Treatment	Mitigations	Update
						Likelihood	Impact	Risk Rating			
9	11	The risk is that there is no defined and clear exit strategy for the Councils	<ul style="list-style-type: none"> <li>- Contractual disputes</li> <li>- Failure to include appropriate break clauses in contracts and Service Level Agreements</li> <li>- LACC model becomes financially unviable due to changes in demand and complexity of user needs</li> <li>- Change of political will and direction</li> </ul>	<ul style="list-style-type: none"> <li>- Service disruption / instability</li> <li>- workforce unrest</li> <li>- impact upon service quality / performance e.g. delays</li> <li>- potential for LACC restructure</li> <li>- Perception by stakeholders of LACC failure and therefore SHDC &amp; WDBC failure</li> </ul>	Steve Jorden	2	3	6	Mitigate	<ul style="list-style-type: none"> <li>- Exit strategy to be drafted as part of initial contract drafting, updated (where changes) and submitted on annual basis to councils</li> <li>- Break clauses to be agreed by JSG – recommend first break in 5 years to ensure LACC has suitable opportunity to gain trading history</li> <li>- Contract change procedure to be developed during implementation</li> <li>- Active risk management by Councils and LACC</li> </ul>	Will be considered by the JSG
10	8	There is a risk that the LACC may breach statutory rules and obligations / regulations	<ul style="list-style-type: none"> <li>- Lack of understanding around what the LACC can and can't do and how it should do it</li> <li>- Employment disputes / TUPE challenges due to incorrect procedures being followed</li> <li>- Failure to conform with TUPE and other proposal consultation requirements</li> <li>- Inequalities within workforce (e.g. Equal Pay Claims)</li> <li>- Failure to adhere to EU procurements rules</li> </ul>	<ul style="list-style-type: none"> <li>- Possibility of trading ultra vires</li> <li>- Reduction in quality of services</li> <li>- Delay in implementation / cessation of LACC</li> <li>- Financial costs</li> <li>- Legal action</li> <li>- Reputational damage</li> </ul>	Steve Jorden	1	5	5	Mitigate	<ul style="list-style-type: none"> <li>- Director responsibilities clear with in depth knowledge of contract</li> <li>- Specialist advice bought in as part of implementation with clearly mapped procedures for the LACC</li> </ul>	Bevan Brittan LLP instructed to provide specialist legal advice
11	4	There is a risk of negative or incorrect stakeholder perception of LACC	<ul style="list-style-type: none"> <li>- Lack of understanding of LACC objectives and purpose i.e. protecting public services</li> <li>- Councils' rationale is not understood or appreciated by the community</li> <li>- Inability to articulate the LACC's unique selling point</li> <li>- Lack of buy in by staff, unions and other stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>- Loss of identity of the Council by the public</li> <li>- Reputation adversely affected</li> <li>- Loss of community engagement</li> <li>- Loss of attractiveness as an employer</li> <li>- Increase number of change initiatives, impacting upon service delivery</li> <li>- Impacted staff morale</li> </ul>	Steve Jorden	2	2	4	Mitigate	<ul style="list-style-type: none"> <li>- Development of communications plan for project and LACC (staff briefings, internet page, newsletters and union engagement)</li> <li>- Joint Steering Group to become "champions" for the LACC ensuring key messages understood</li> <li>- Early discussions with other leaders of and Senior Management Teams of other councils as part of business planning process</li> </ul>	JSG work ongoing
12	6	There is a risk that the LACC does not effectively utilise the Teckal Exemption	<ul style="list-style-type: none"> <li>- Ineffective and incorrect set up of company structure and governance - ability to demonstrate control over the LACC equal to that over the Councils departments</li> <li>- Exceeding 20% of services delivered to other parties through trading and therefore failing to meet the requirement for the majority of work of a TECKAL company being delivered to its controlling contracting authorities</li> </ul>	<ul style="list-style-type: none"> <li>- Financial penalties resulting from challenge from other businesses in the market</li> <li>- Lack of control over company functions</li> </ul>	Sophie Hosking	1	3	3	Mitigate	<ul style="list-style-type: none"> <li>- Strong project management and governance throughout implementation phase (with assistance of the JSG)</li> <li>- Careful contract construct and reserved matter decision points to enable flexibility</li> <li>- Mapping of market competitors</li> <li>- Active management of sales funnel / pipeline for LACC throughout the project and into the operate phase – CRM tools to be employed</li> <li>- Monitoring of contract values against third party business won</li> <li>- Consider utilisation of a s95 company or Servaco if thresholds likely to be breached</li> <li>- Invite potential customers to become shareholders as opposed to customers to increase threshold limits</li> <li>- Early establishment of marketing strategy and focus on quality, effective &amp; efficient public sector service</li> </ul>	Bevan Brittan LLP instructed to provide specialist legal advice, which will continue to see this risk rated as low

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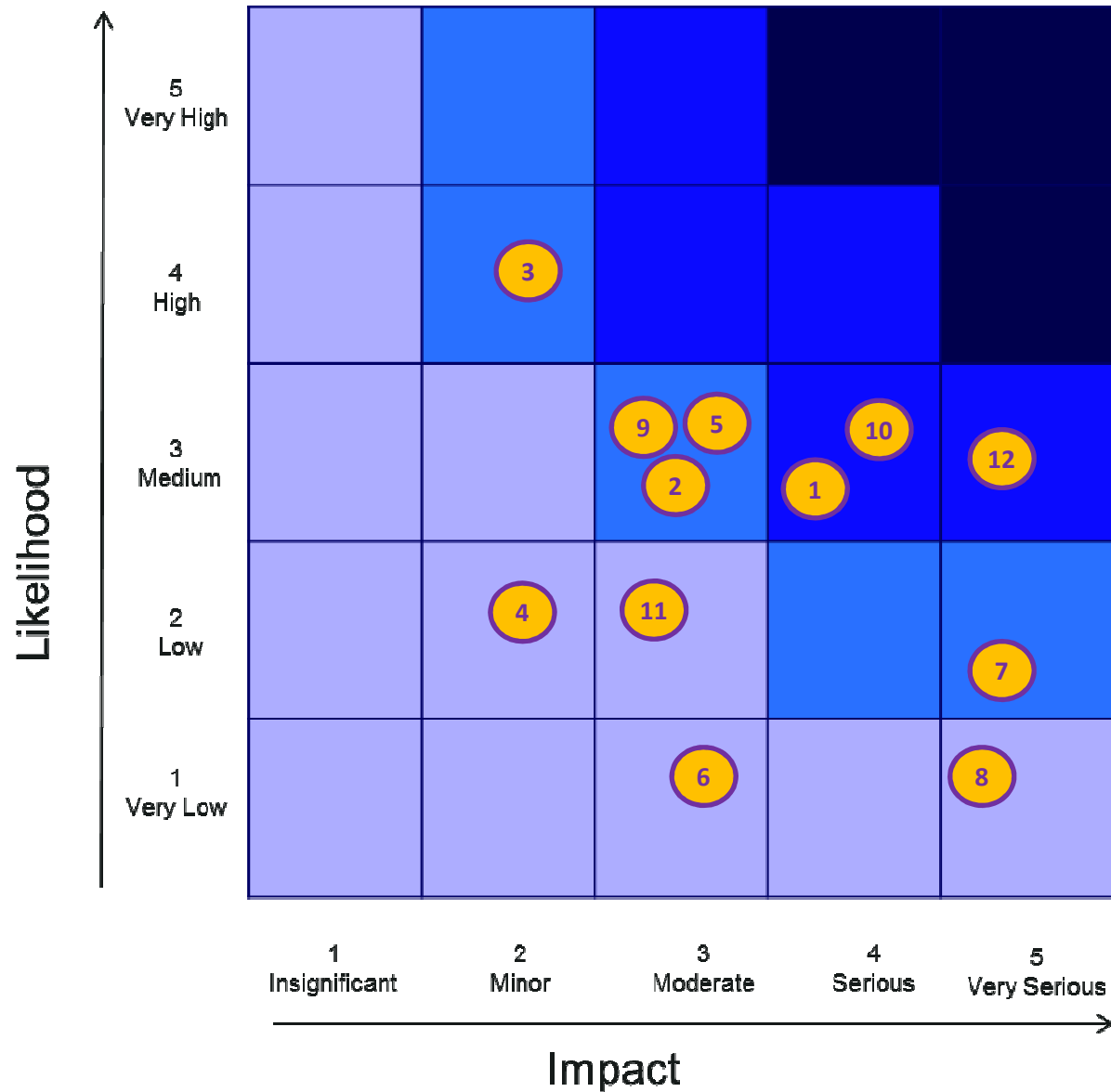


# Appendix 4: LACC Risk Profile



Page 189

1. Effective and efficient set up of the LACC
2. LACC financial viability (Proof of concept)
3. Ability to meet LACC project implementation timescales
4. Stakeholder perception of LACC
5. Ability to maximise the benefits of the LACC
6. Effective utilisation of the Teckal exemption
7. Service Resilience
8. Breach of statutory rules and obligations / regulations
9. Ability to achieve desired rates of growth and be competitive in the market place
10. Retain and recruit competent and capable people to deliver the LACC vision
11. Defined and Clear Exit Strategy
12. Pension Liability



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# Agenda Item 9

Report to: **Audit Committee**  
Date: **27 September 2016**  
Title: **INTERNAL AUDIT CHARTER & STRATEGY  
2016/17**  
Portfolio Area: **Support Services – Cllr C Edmonds**  
Wards Affected: **All**  
Relevant Scrutiny Committee: Overview and Scrutiny

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

Author: **Brenda Davis** Role: **Audit Manager**  
**Robert Hutchins** **Head of Partnership**  
Contact: [Brenda.davis@swdevon.gov.uk](mailto:Brenda.davis@swdevon.gov.uk) **01803 861375**  
[Robert.hutchins@swdevon.gov.uk](mailto:Robert.hutchins@swdevon.gov.uk) **01392 383000**

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## Recommendations:

**It is RECOMMENDED that the Audit Committee review and approve the Internal Audit Charter and Strategy 2016/17.**

### 1. Executive summary

The purpose of this report is to allow the Audit Committee to review and comment upon the Internal Audit Charter and Strategy for 2016/17.

Internal audit management is provided by Devon Audit Partnership (DAP) via a contracted arrangement; the DAP Audit Manager liaises with senior management and the audit committee on all internal audit matters.

The standards for proper practice for internal audit are contained in the Public Sector Internal Audit Standards (PSIAS) (Institute of Internal Auditors and CIPFA).

The PSIAS require that the Charter and Audit Strategy are presented to the Audit Committee for review and approval. These documents are discussed in this report, with the Charter attached at Appendix A and Audit Strategy at Appendix B

### 2. Background

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state that:

“5.—(1) 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”

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Council, the Finance Community of Practice Lead is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

Proper practice is that contained in the Public Sector Internal Audit Standards (PSIAS) and guidance as issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) in their Local government Application Note (LGAN).

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

One of the requirements of the Public Sector Internal Audit Standards (PSIAS) is that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter and strategy, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

The PSIAS sets additional Public Sector requirements where the Audit Charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

The Audit Strategy is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities. It will communicate the contribution that Internal Audit makes to the organisation and should include:

- internal audit objectives and outcomes;
- how the DAP Audit Manager will form and evidence their opinion on the governance, risk and control framework to support the Annual Governance Statement;
- how Internal Audit's work will identify and address significant local and national issues and risks;
- how the service will be provided, and
- the resources and skills required to deliver the Strategy.

The Charter says that the Strategy should be approved, but not directed, by the Audit Committee.

Both the Charter and Strategy comply with the mandatory requirements of the Public Sector Internal Audit Standards.

The internal audit charter and strategy for the financial year 2016/17 are set out at **Appendix A** and **Appendix B** respectively.

#### 4. Options available and consideration of risk

No alternative option has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015 and the Public Sector Internal Audit Standards.

#### 5. Proposed Way Forward

The Head of Paid Service, in conjunction with the Finance Community of Practice Lead (S.151) to the Council are responsible for ensuring the provision of an effective and appropriate internal audit service. The internal audit function is delivered by way of Devon Audit Partnership, via the DAP Audit Manager and the Council's in-house audit team.

#### 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Accounts and Audit Regulations 1996 issued by the Secretary of State for the Environment require every local authority to maintain an adequate and effective internal audit.  The Public Sector Internal Audit Standards (PSIAS) apply the Institute of Internal Audit (IIA) International Standards to the UK Public Sector and promote professionalism, quality, consistency and effectiveness of internal audit.
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		
Equality and	N	There are no specific equality and diversity

Diversity		issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

There are no separate appendices to this report.

#### **Background Papers:**

Public Sector Internal Audit Standards  
2016/17 Service Level Agreement

## WEST DEVON BOROUGH COUNCIL INTERNAL AUDIT CHARTER

### **Terms of Reference**

This Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service and the scope of Internal Audit work. This Charter complies with the mandatory requirements of the Public Sector Internal Audit Standards.

### **Definitions**

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

The PSIAS 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 Committee and senior management is the Council's Senior Leadership Team.

The PSIAS make reference to the role of "Chief Internal Auditor"; this role is fulfilled by the Devon Audit Partnership (DAP) Audit Manager.

### **Statutory Requirements**

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

*5.—(1) 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.*

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Council, the Finance Community of Practice Lead is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

### **The Purpose and Aim of Internal Audit**

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

To meet this definition internal audit work will normally include, but is not restricted to:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- Appraising the effectiveness and reliability of the risk management framework and recommend improvements where necessary;
- Supporting the Section 151 Officer to discharge their statutory duties;
- Reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether West Devon Borough Council is in compliance;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed;
- Reviewing operations or programmes to ascertain whether they are being carried out as planned and objectives and goals are being met.
- Reviewing the operations of the council in support of the Council's anti-fraud and corruption policy.

## **Right of Access**

Internal Audit will be given right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. This right will be established in the Council's Delegation to Specific Officers and Financial Procedure Rules within the Constitution.

## **Professionalism, Ethics and Independence**

### **Being Professional**

The Internal Audit Service will adhere to the relevant codes and guidance. In particular, we adhere to the Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to The Council's relevant policies and procedures and the internal audit manual.

Internal Auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not, however, imply infallibility.



## **Our Ethics**

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by The Institute of Internal Auditor's. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

## **Being Independent**

Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management.

The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

Internal Audit should operate within a framework that allows unrestricted access to Members and senior management, particularly the Head of Paid Service, the S.151 Officer and the Chair of the Audit Committee. Additionally, the Audit Manager has freedom to report in their own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit Committee).

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence.

The Audit Manager should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

Auditors should be mindful of being independent. They;

- Must have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- Notwithstanding employment, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;

- Must be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- Must not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.

## **Authority**

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, will be given right of access to all records, assets, personnel and premises, including those of partner organisations and authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. This right will be established in the Council's Delegation to Specific Officers and Financial Procedure Rules within the Constitution.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2015 section 5(2-3) that state that:

Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

- (2) (a) make available such documents and records; and
- (b) supply such information and explanations;

as are considered necessary by those conducting the internal audit.

- (3) In this regulation "documents and records" includes information recorded in an electronic form.

In addition, Internal Audit, through the Audit Manager, where deemed necessary, will have unrestricted access to:

- Head of Paid Service and the Senior Leadership Team;
- Members;
- Section 151 Officer;
- Monitoring Officer;
- Individual Members of the Extended Leadership Team;
- All authority employees;
- All authority premises.

## **Accountability**

The DAP Audit Manager fulfils the role of Chief Auditor at the Authority and will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

The Finance Community of Practice Lead 'Section 151 Officer' will liaise with the Audit Manager and is therefore responsible for monitoring performance and ensuring independence.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant

circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Audit Manager reports functionally to the Audit Committee who:

- Approve the internal audit charter;
- Approve the risk based internal audit plan;
- Receive reports from the Audit Manager on the section's performance against the plan and other matters;
- Approve the Audit Manager's annual report.
- Approve the review of the effectiveness of the system of internal audit.

The Audit Manager has direct access to the Chair of Audit Committee and has the opportunity to meet with the Audit Committee in private.

## **Responsibilities**

The Head of Paid Service, Senior Leadership Team and other senior officers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The Audit Manager will provide assurance to the Finance Community of Practice Lead 'Section 151 Officer' regarding the adequacy and effectiveness of the Council's financial framework, helping meet obligations under the LGA 1972 Section 151.

The Audit Manager will provide assurance to the Monitoring Officer in relation to the adequacy and effectiveness of the systems of governance within the Council helping her meet obligations under the Local Government and Housing Act 1989 and the Council's Constitution. She will also work with the Monitoring Officer to ensure the effective implementation of the Council's Whistleblowing Policy.

Internal Audit responsibilities include but are not limited to:

- Examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management;
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money Studies;
- Working in partnership with other bodies to secure robust internal controls that protect the Council's interests;
- Advising on internal control implications of new systems;
- Providing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;

- Being responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues.

## **Internal Audit Management**

The PSIAS describe the requirement for the management of the internal audit function. They set out various criteria that the Audit Manager (as Chief Internal Auditor) must meet, and includes:-:

- Being appropriately qualified;
- Determining the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;
- Produce a Strategy to explain how the service will be delivered and reflect the Resources and skills required;
- Regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- Include in the plan the approach to using other sources of assurance if appropriate;
- Be accountable, report and build a relationship with the Council's Audit Committee and S.151 Officer; and
- Monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

The Audit Manager is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The Audit Manager should also have the opportunity for free and unfettered access to the Head of Paid Service and meet periodically with the S.151 Officer and the Monitoring Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

## **Internal Audit Plan and Resources**

At least annually, the Audit Manager will submit to the Audit Committee a risk-based internal audit plan for review and approval. The Audit Manager will:

- Develop, in consultation with the Executive Directors and Group Managers an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- Submit the plan to the Audit Committee for review and agreement;
- Implement the agreed audit plan;
- Maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan and carry out continuous review of the development and training needs;
- Maintain a programme of quality assurance and a culture of continuous improvement.

The internal audit plan will include budget and resource requirements for the next fiscal year. The Audit Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

Internal Audit resources must be appropriately targeted by assessing the risk, materiality and dependency of the Council's systems and processes. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

In accordance with the requirements of the Council's Anti Fraud, Corruption and Bribery Policy and Strategy it is management's responsibility to maintain the internal control system and to ensure that the organisation's resources are properly applied in the manner and on the activities intended. This includes responsibility for managing the risk of fraud and other illegal acts and informing the Audit Manager when fraud is suspected or identified. Depending on the nature and anticipated extent of the allegations, Internal Audit will normally work closely with management and other agencies such as the Police to ensure that all allegations and evidence are properly investigated and reported upon.

Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures.

Monitoring of Internal Audit's processes is carried out on a continuous basis by Internal Audit management, and the Council's members and management may rely on the professional expertise of the Audit Manager to provide assurance. From time to time, independent review is carried out: for example, through peer reviews; ensuring compliance with the PSIAS is an essential approach to such a review.

## **Reporting**

The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on governance, the control environment and risk exposure and to prompt management to implement agreed actions.

Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit Committee).

A written report will be prepared for each internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the overall control environment.

The aim of every Internal Audit report should be:

- To give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment; and
- To recommend and agree actions for change leading to improvement in governance, risk management, the control environment and performance.

The Manager will be asked to respond to the report in writing. The written response must show what actions have been taken or are planned in relation to each risk or control weakness identified. If action is not to be taken this must also be stated. The Audit Manager is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The Audit Manager will:

- Submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken;
- Submit an Annual Internal Audit Report to the Audit Committee, incorporating an opinion on the Council's control environment, which will also inform the Annual Governance Statement.

## **Relationship with the Audit Committee**

The Council's Audit Committee will act as the Board as defined in the Public Sector Internal Audit Standards (PSIAS),

The Specific Functions of the Audit Committee are set out in the Council's Constitution (Part 3 Delegation Scheme).

The Audit Manager will assist the Committee in being effective and in meeting its obligations. To facilitate this, the Audit Manager will:

- Attend meetings, and contribute to the agenda;
- Ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);
- Report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- Establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;
- Present an annual report on the effectiveness of the system of internal audit; and
- Present an annual internal audit report including an overall opinion on the governance, risk and control framework.

## **Quality Assurance and Improvement Programme**

The PSIAS states that a quality assurance and improvement programme must be developed; the programme should be informed by both internal and external assessments.

An external assessment must be conducted at least once in five years by a suitably qualified, independent assessor. The previous external assessment of Devon Audit Partnership (who under a contractual arrangement manages the internal audit service), was completed in October 2012 and a further assessment is planned for November 2016.

## **Charter – Non Conformance and Review**

Any instances of non conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Audit Manager will advise the Audit Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit Committee.

## **West Devon Borough Council Internal Audit Strategy**

### **Introduction**

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

5.—(1) 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

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In The Council, Finance Community of Practice Lead is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

The PSIAS refers to the role of Chief Internal Auditor, and requires this officer to ensure and deliver a number of key elements to support the internal audit arrangements. For West Devon Borough Council, the role of Chief Internal Auditor is provided by the Devon Audit Partnership (DAP) Audit Manager via a contractual arrangement.

The PSIAS require the Audit Manager to produce an Audit Strategy, which:

- Is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities, and
- Will communicate the contribution that Internal Audit makes to the organisation and should include:
  - Internal Audit objectives and outcomes;
  - How the Audit Manager will form and evidence their opinion on the governance, risk and control framework to support the Annual Governance Statement;
  - How Internal Audit's work will identify and address significant local and national issues and risks;
  - How the service will be provided, i.e. internally, externally, or a mix of the two; and
  - The resources and skills required to deliver the Strategy.
- Should be approved, but not directed, by the Audit Committee.

The Strategy should be kept up to date with the organisation and its changing priorities.



## **Internal Audit Objectives and Outcomes**

The primary objective of the Internal Audit team is to provide an independent and objective opinion to the Council on the governance, risk and control framework by evaluating its effectiveness in achieving the organisation's objectives through examining, evaluating and reporting on their adequacy as a contribution to the proper, economic, efficient use of resources.

To achieve this primary objective, the Council's Audit Manager aims to fulfil the statutory responsibilities for Internal Audit by:

- Identifying all of the systems, both financial and non-financial, that form the Council's control environment and governance framework, and contribute to it meeting its obligations and objectives – the 'Audit Universe';
- Creating an audit plan providing audit coverage on the higher risk areas in the Audit Universe;
- Undertaking individual audit reviews, to the standards set by the PSIAS, to independently evaluate the effectiveness of internal control;
- Providing managers with an opinion on and recommendations to improve the effectiveness of risk management, control and governance processes as to:
- Providing managers with advice and consultancy on risk management, control and governance processes;
- Liaising with the Council's external auditors to ensure efficient use of scarce audit resources through the avoidance of duplication wherever possible; and
- Providing the Council, through the Audit Committee, with an opinion on governance, risk and control framework as a contribution to the System of Internal Control and Annual Governance Statement.

## **Opinion on the Governance, Risk and Control Framework**

As stated above one of the key objectives of Internal Audit is to communicate to management an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Should any critical issues be identified during the course of the audit work, the Audit Manager will report matters to the Finance Community of Practice Lead (S.151) and Senior Leadership Team for consideration and to enable any necessary action to be taken. Regular formal meetings should also be held to discuss issues arising and other matters.

The Audit Manager will report progress against the annual audit plan and any emerging issues and risks to the Audit Committee.

The Audit Manager will also provide a written annual report to the Audit Committee timed to support their recommendation to approve the Annual Governance Statement to the Council.

The Audit Manager's annual report to the Audit Committee will:

- (a) Include an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
- (b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- (c) Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
- (d) Draw attention to any issues the Audit Manager judges particularly relevant to the preparation of the Annual Governance Statement;

And for the system of internal audit:

- (e) Compare the audit work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- (f) Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

## **Planning including Local and National Issues and Risks**

The audit planning process includes the creation of and ongoing revision of an "audit universe". This seeks to identify all risks, systems and processes that may be subject to an internal audit review.

The audit universe will include a risk assessment scoring methodology that takes account of a number of factors including: the Council's own risk score; value of financial transactions; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. This will inform the basis of the resources allocated to each planned audit area.

The results from the audit universe will be used in creating an annual audit plan; such a plan will take account of emerging risks at both local and national level.

### ***Assignment planning***

Further planning and risk assessment is required at the commencement of each individual audit assignment to establish the scope of the audit and the level of testing required.

## **Provision of Internal Audit**

The Internal audit for West Devon Borough Council is provided by way of a shared service arrangement with South Hams District Council.

The Internal Audit service is managed through a contractual arrangement with the Devon Audit Partnership. Audit delivery is predominantly delivered by a small team of in-house auditors. Past benchmarking of the cost of Internal Audit when compared with other Councils has shown that it is a cost effective service that continues to meet the requirements of its stakeholders.

The Audit Manager has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidance. The manual is regularly reviewed and updated to reflect changes in working practices and standards.

### ***Internal Audit Performance Management and Quality Assurance***

External performance assessment is discussed in the Charter at Appendix A.

The PSIAS and the Council's Audit Manual state that internal performance, quality and effectiveness should be assessed at two levels:

- For each individual audit; and
- For the internal audit service as a whole.

The documents also state that the Audit Manager should have in place an internal performance management and quality assurance framework to demonstrate that the internal audit service is:

- (a) Meeting its aims and objectives;
- (b) Compliant with the PSIAS;
- (c) Meeting internal quality standards;
- (d) Effective, efficient, continuously improving; and
- (e) Adding value and assisting the organisation in achieving its objectives.

This internal performance management and quality assurance framework must include, but not be limited to:

- A comprehensive set of targets to measure performance. These should be regularly monitored and the progress against these targets reported appropriately;
- Seeking user feedback for each individual audit and periodically for the whole service;
- Periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit Committee;
- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS; and
- An action plan to implement improvements.

The following table shows the key performance indicators used by the service.

Table 1: Internal Audit Key Performance Indicators

Performance Indicator	Current Target, and, Frequency of Measure
➤ Achievement of the annual audit plan.	95% Quarterly
➤ Percentage of draft audit reports issued within 10 working days of the completion of the audit.	95% Annually
➤ Percentage of final audit reports issued within 10 working days of the discussion and agreement of the draft audit report.	95% Annually
➤ Customer Survey: Responses Received;	90% Annually
➤ Audit Planning - Consultation; Objectives	90% Annually
➤ Quality of Audit Report - Clarity; Accuracy;	
➤ Value; Presentation	
➤ Communication - Feedback; Helpfulness; Professionalism; Timeliness.	90% Annually
➤ Overall cost, with/without oncosts/recharges	£ Annually
➤ Average cost per audit day: direct costs, and	£ Annually
➤ With/without oncosts/recharges.	£ Annually
➤ The percentage of audit reports where the agreed recommendations were satisfactorily actioned, or follow up indicator to align with other audit teams to be agreed later with the Chairman and reported to the Committee.	90% Annually

Once collated the indicators must be reported to the S.151 Officer on either a quarterly or annual basis in line with collection and to the Audit Committee quarterly and/or annually. Performance indicators should be presented with prior year's equivalent to aid comparison.

Performance indicators or targets may be amended from time to time with the prior agreement of the Audit Committee. The Audit Manager needs to ensure that the performance and the effectiveness of the service improve over time, in terms of both the achievement of targets and the quality of the service provided to the user.

## **Resources and Skills**

### **Resources**

The PSIAS and the Council's Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources;
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management; and
- The Audit Manager should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

The Internal Audit team, shared with South Hams District Council consists of 2 whole time posts; the team is managed through a contractual arrangement with the Devon Audit Partnership.

### **Specialist Areas**

From time to time, additional resources will be brought in to provide assurance on certain specialist areas such as Value Added Tax (VAT) and Income Tax (PAYE) at the discretion of the S.151 Officer in consultation with the Audit Manager.

### **Dealing with resource issues (such as instances of Alleged Fraud & Corruption)**

The main threat to completing the targeted % of the annual audit plan is the requirement for Internal Audit to investigate fraud. A contingency budget is built into the audit plan to provide cover for such eventualities, as well as other unexpected tasks such as advice to managers on control or internal financial regulations, contributions to the setting up of new systems or unexpected additional work on planned audits.

In extreme cases the contingency budget may prove insufficient for large scale investigations. In the circumstances where this occurs and where there is likely to be an impact on the remainder of the annual audit, the Audit Manager must discuss the situation with the S.151 Officer to enable a decision to be made. Such a decision may be to seek additional temporary resources, to defer audits to a future year or other solutions. The same comment applies to other staffing shortages brought about by long term sickness absence, vacant posts etc.

### **Skills**

The Audit Managers duty is to recruit staff with the appropriate professional background, personal qualities and potential. He or she is responsible for ensuring that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.

Internal Audit staff must also be properly trained to fulfil all their responsibilities. The Audit Manager will periodically assess individual auditors against these predetermined skills and competencies using the Council's formal appraisal system.

Any training or development needs identified will be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored both within and outside of the appraisal process. Time will be allowed within the annual audit plan to allow internal audit staff to receive the relevant training.

In addition, the Audit Manager will allocate work to reflect the skills and experience required for the specific task, although it is essential that a balance is struck between knowledge and client relationships built through continuity and the need for audit staff to develop by auditing areas that they have not previously covered.

In some circumstances, there may be a skill shortage within the Internal Audit team as a whole e.g. specialist audit areas such as technical computer audit. Where this applies the advice of specialists should be sought from within the Council, from colleagues at Devon Audit Partnership or other neighbouring Councils or the external auditor.

Report to: **Audit Committee**

Date: **27 September 2016**

Title: **UPDATE ON PROGRESS ON THE 2016/17  
INTERNAL AUDIT PLAN**

Portfolio Area: **Support Services – Cllr C Edmonds**

Wards Affected: **All**

Relevant Scrutiny Committee: Overview and Scrutiny

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

Author: **Brenda Davis** Role: **Audit Manager**  
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## **RECOMMENDATIONS**

**It is RECOMMENDED that the progress made against the 2016/17 internal audit plan, and any key issues arising are noted.**

### **1. Executive summary**

- 1) The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2016/17 to the 25 August 2016, by:
  - Showing the progress made by Internal Audit against the 2016/17 annual internal audit plan, as approved by this Committee in March 2016; and
  - Highlighting revisions to the 2016/17 internal audit plan.

### **2. Background**

The Audit Committee, under its Terms of Reference contained in West Devon Borough Council's Constitution, is required to consider the Chief Internal Auditor's audit reports, to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2016/17 was presented to and approved by the Audit Committee in March 2016. Progress in the period up to 25 August 2016 has included completion of work carried forward from 2015/16 but progress against the 2016/17 has plan has been limited due to sickness absence totalling 28 days (apportioned WDBC 6 days, SHDC 22 days) in the year to date.

In response to the reduction in available days the audit plan has been reviewed and adjusted in consultation with the Finance Community of Practice Lead (S151 Officer) and agreed by the Senior Leadership Team. The proposed changes are detailed in the table below.

<b>Audit</b>	<b>Plan Days 2016/17</b>	<b>Plan Days Update</b>	<b>Comment</b>
VAT	4	0	VAT specialist to be engaged to look at VAT treatment for capital / grant programmes.
Member Allowances	2	0	Defer to 2017/18
<b>Total</b>	<b>6</b>	<b>0</b>	<b>Net Reduction of 6 days</b>

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

In carrying out systems and other reviews, Internal Audit assess whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates to any address control issues or recommendations for efficiencies identified during each review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

Overall, and based on work performed to date during 2016/17, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The 2016/17 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.

**Appendix B** provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on



control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

**Non Compliance with Contract or Financial Procedure Rules** - there are no significant issues to bring to the attention of the Committee so far this year. One application for Contract / Financial Procedure Rules has been received and accepted in the year to date.

### **Fraud Prevention and Detection and the National Fraud Initiative**

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (The National Fraud Initiative - NFI) every two years. For the 2016/17 exercise data has to be submitted from a range of Council systems including Creditors, Payroll, Housing Benefits and Insurance week commencing 3 October. The datasets are required to be uploaded to the NFI secure website from 10 October with subsequent matching reports expected back from the NFI Team at the end of January 2017.

The NFI requires Council Tax and Electoral Register data to be submitted annually for the council tax single person discount matching. The deadline for submission of these data sets is not until 28 February 2017 as the next electoral registers for England are not due to be published until 1 December 2016.

### **Irregularities**

There are no irregularities to report.

### **4. Options available and consideration of risk**

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

### **5. Proposed Way Forward**

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

### **6. Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
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Legal/Governance	Y	<p>The Accounts and Audit Regulations 1996 issued by the Secretary of State for the Environment require every local authority to maintain an adequate and effective internal audit.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

There are no separate appendices to this report.

**Background Papers:**

Annual Internal Audit Plan 2016/17 as approved by the Audit Committee on 15 March 2016.

## Appendix A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
MAS & Budgetary Control	4									
Creditor Payments	2	■								
Payroll	4									
Council Tax	4									
Business Rates (NNDR)	4									
Benefits Payments	5									
Treasury Management	4									
<b>Main Financial Systems</b>	<b>27</b>									
VAT	0									<i>Removed from plan, previously 4 days external VAT Specialist to be engaged.</i>
Shared Services - recharging	2									
<b>Member Allowances</b>	<b>0</b>									<i>Deferred to 2017/18, previously 2 days</i>
ICT Audit	6									
Performance Management - PIs & Data Quality	5									
Annual Governance Statement	2	■	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2016 Audit Committee under separate cover
Risk Management	5									

**Appendix A**

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
T18 Project	4									
Partnerships & Partnership Management	3									
Culture & Ethics	2	■								
Counter Fraud Work	4	■								
Leisure Centre Client	2									
Health & Safety	8	■								
Street Cleaning	4	■								
Public Conveniences	3									
Development Control – enforcement	5									
Development Controls – planning applications										
Follow Up of Previous Year's Audits	4	■	-	-	-	-	-	-	-	
Contingency (Unplanned), Advice & Exemption from Financial Regulations	6	■	-	-	-	-	-	-	-	
Audit Management, including • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit	10	■	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 5 July 2016.
<b>Other Systems &amp; Audit Work)</b>	<b>67</b>									
<b>Total Revised Days</b>	<b>94</b>									<b>Previously 100 days</b>

**Appendix A**

There are more days in the SHDC Audit Plan than in the WDBC Audit Plan. Where work is undertaken solely in response to the SHDC Audit Plan but there is corresponding service provision at WDBC testing will focus on SHDC transactions but as processes and procedures are now aligned across both authorities and managed by the same officers, the West Devon Audit Committee can also gain assurance from this work.

Detailed below is work undertaken in the year to date where this will apply.

Projects		Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
Pollution Control		■	■				■			
Housing Standards – disabled facilities grants & loans		■	■					■		

## **Planned Audit 2016/17 – Final Reports**

As at the 25 August 2016, no final reports have been issued in respect of 2016/17. Reports finalised in the current year in respect of the 2015/16 audit plan were reported to the Audit Committee at the end of June.

### **Definitions of Audit Assurance Opinion Levels**

#### **High Standard**

The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.

#### **Good Standard**

The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

#### **Improvements Required**

In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.

#### **Fundamental Weaknesses Identified**

The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

## Planned Audit 2016/17 – Work Complete (No Audit Report)

Subject	Comments
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2015/16 financial year. The S151 Officer presented the 2015/16 AGS to the Audit Committee on 5 July 2016.</p>
<b>Exemptions to Financial Procedure Rules</b>	<p>One application for Contract / Financial Procedure Rules has been received and accepted in the year to date.</p>