

South Hams Audit Committee



Title:	Agenda
Date:	Thursday, 30th July, 2015
Time:	10.00 am
Venue:	Cary Room - Follaton House
Full Members:	<p style="text-align: center;">Chairman Cllr Pennington Vice Chairman Cllr Wingate</p> <p><i>Members:</i> Cllr Bramble Cllr Foss Cllr Brazil</p>
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Member.Services@swdevon.gov.uk

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|---|------------------|
| 1. Minutes | 1 - 4 |
| to approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 25 June 2015; | |
| 2. Urgent Business | |
| Brought forward at the discretion of the Chairman; | |
| 3. Division of Agenda | |
| To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information; | |
| 4. Declarations of Interest | |
| Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting; | |
| 5. Draft Statement of Accounts 2014/15 | 5 - 102 |
| to consider a report that presents a summary of net revenue and capital expenditure for consideration and provides an opportunity for Members to comment on the Draft Statement of Accounts for 2014/15 | |
| 6. Annual Governance Statement 2014/15 | 103 - 124 |
| to consider a report that seeks to note the process adopted for the production of the 2014/15 Annual Governance Statement | |
| 7. Contract Procedure Rules | 125 - 170 |
| to consider a report that allows the Committee to carry out an overview of the updated Contract Procedure Rules | |
| 8. Role of Internal Audit - Briefing Paper | 171 - 174 |

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 25 JUNE 2015**

Members in attendance * Denotes attendance ∅ Denotes apology for absence			
*	Cllr I Bramble	*	Cllr J T Pennington (Chairman)
*	Cllr J Brazil	*	Cllr K R H Wingate (Vice-Chairman)
*	Cllr R J Foss		

Members also in attendance:
Cllrs H D Bastone, P W Hitchins, T R Holway, J A Pearce and S A E Wright

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Group Manager – Support Services, S151 Officer, Head of Devon Audit Partnership, Senior Specialist – Democratic Services, Specialist Auditor, Grant Thornton Audit Manager and Grant Thornton Engagement Lead

A.1/15 MINUTES

The minutes of the meeting held on 12 March 2015 were confirmed as a correct record and signed by the Chairman.

A.2/15 DECLARATIONS OF INTEREST

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.3/15 ANNUAL AUDIT FEE LETTER 2015/16

The Committee was presented with the Planned Audit Fee letter for 2015/16 from KPMG.

In discussion, reference was made to KPMG being the Council's newly appointed External Auditor for 2015/16. As a consequence, KPMG representatives would be in attendance from the Committee meeting on 24 September 2015 and there would be handover arrangements put in place with Grant Thornton.

It was then:

RESOLVED

That the report be noted.

A.4/15

AUDIT COMMITTEE UPDATE FOR SOUTH HAMS DISTRICT COUNCIL

A paper was considered that presented the matters which had come to the attention of Grant Thornton, which they believed required reporting to the Council.

In discussion, the following points were raised:-

- (a) The Committee recognised the associated difficulties of the Council being required in the future to close the accounts earlier in the year. In particular, it was noted that the Council would be more reliant on the use of estimates and the likelihood that Members would see an increase in adjustments during the audit process. Whilst officers would attempt to mitigate the impact of this change as far as possible by amending their internal processes, Members still felt that there would be resource implications upon the Council. Grant Thornton representatives informed that they had produced a paper illustrating best practice methods of mitigating the impact and they were happy to circulate this document;
- (b) Members highlighted the comments of the Grant Thornton governance survey that suggested that there remained a nationwide general dissatisfaction with the scrutiny process. In so doing, the Committee reiterated the comments of the Overview and Scrutiny Panel whereby there was a need for the Council to adopt a structured approach towards dedicated scrutiny training in its Learning and Development Plan (Minute O&S.10/15 also refers);
- (c) The Committee supported the suggestion whereby Grant Thornton should be asked to facilitate some Member Training on auditing the final accounts. It was also agreed that this session should be convened before the Committee considered the Statement of Accounts at its next meeting on 30 July 2015.

It was then:

RESOLVED

1. That the report be noted; and
2. That Grant Thornton be asked to facilitate a Member Training event on auditing the Final Accounts before 30 July 2015.

A.5/15

INTERNAL AUDIT ANNUAL REPORT 2014/15

A report that summarised the work undertaken by the Council's Internal Audit Team during 2014/15, reviewed the performance of the Internal Audit service and provided an audit opinion on the adequacy of internal control was considered by the Committee.

In its conclusion, the report confirmed that Internal Audit was able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control framework.

In discussion, reference was made to:-

- (a) Dartmouth Lower Ferry. The Committee noted that a Task and Finish Group had been established by the Overview and Scrutiny Panel to undertake a review of the Lower Ferry. Furthermore, officers advised that the audit opinion of 'fair' was largely attributed to the previous ticketing system, which had since been superseded with the installation of a new electronic ticketing process;
- (b) the roles and responsibilities of the Internal Audit Service. For the benefit of new Committee Members, officers informed that the focus of an internal audit review was to focus on the risks as opposed to the outcomes. Following a debate, it was considered beneficial for future Internal Audit reports to include a brief summary statement of the objectives of each specific audit review. In addition, the Committee requested that it received a short report at its next meeting on 30 July, which summarised the roles, responsibilities and functions of the Council's Internal Audit Service;
- (c) the T18 Transformation Programme. In expanding upon the audit opinion of 'good', officers informed that this related to aspects including:
 - management being fully aware of the risks associated with the Programme;
 - project management plans being in place; and
 - appropriate means of problem-solving being in place.

Whilst accepting that there were individual issues with the Programme and some specific services, the Audit Opinion was based upon the overall project and the belief that adequate arrangements were in place to ensure the Programme journey continued. Finally, the lead Executive Member for Support Services confirmed that he was regularly meeting with the Group Manager – Support Services and he would provide the Committee with updates where appropriate.

It was then:

RESOLVED

1. That the internal audit opinion that the Council's systems contain a satisfactory level of internal control be noted;
2. That the satisfactory performance and achievements of the Internal Audit Team during 2014/15 also be noted;
3. That future Internal Audit reports include a brief summary statement of the objectives of each specific audit review; and
4. That a short report be presented to the next Committee meeting on 30 July 2015 which summarises the roles, responsibilities and functions of the Council's Internal Audit Service.

(Meeting commenced at 10.00 am and finished at 10.45 am)

Chairman

Agenda Item 5

Report to: **Audit Committee**
Date: **30 July 2015**
Title: **Draft Statement of Accounts 2014/2015**
Portfolio Area: **Support Services**
Wards Affected: **All**
Relevant Scrutiny Committee: **Internal**

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

Author: **Pauline Henstock** Role: **Finance Business Partner**
Contact: **Tel. 01803 861377**
E-mail: pauline.henstock@swdevon.gov.uk

Recommendations:

1. The Draft Statement of Accounts for the financial year ended 31 March 2015 are noted.

1. Executive summary

1) The report advises Members that a surplus of £34,000 was generated in 2014/2015 which was transferred to the General Fund Balance (un-earmarked revenue reserve). The level of this reserve stands at £1.7 million at 31 March 2015.

2) The Explanatory Foreword to the Accounts gives a summary of the main items in the Statement of Accounts for 2014/2015.

2. Background

1) The Accounts and Audit (England) Regulations 2011 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 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 surplus on the General Fund in 2014/2015 of £34,000 is essentially a break-even position and represents less than 0.1% of the Council's gross turnover of £71m. The main differences from budget are shown in paragraph 8 of the Explanatory Forward in the SOA.

2) Capital Expenditure

Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £3.5m in 2014/15, and is analysed in paragraph 24 of the Explanatory Foreword in the SOA.

4. Proposed Way Forward

1) Members are advised that the accounts will be audited by our External Auditors, Grant Thornton, during July and August .Following the Audit, the SOA will be brought back to the Audit Committee for approval in September.

5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 (SI 2011 No 817).
Financial		The financial implications to this report are that a surplus of £34,000 was generated in 2014/2015.
Risk		<p>1) Public Accountability – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is recognised by statute as representing proper accounting practice.</p> <p>2) Resource Planning – the Executive 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

Appendices: Appendix A – Draft Statement of Accounts 2014/15.

Background Papers: Finance Community of Practice final accounts working papers.

Approval and clearance of report

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

South Hams District Council

Draft Statement of Accounts *(Un-audited)*

2014/2015

This information can be made available in large print, Braille, tape format or other languages upon request. South Hams District Council is committed to reflecting the full diversity of our community and to promoting equality of opportunity for everyone.



**South Hams
District Council**

Appendix A

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Section 1

Explanatory Foreword

Appendix A

INTRODUCTION

1. Each year South Hams District Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute.
2. The Statement of Accounting Policies summarises the framework within which the Council's accounts are prepared and published. This foreword intends to give a general guide to the significant matters reported in the statements and provides a summary of the overall financial position.

REVIEW OF THE YEAR

The revenue budget

3. The main components of the General Fund budget for 2014/15 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)	9,138	9,137	(1)
Parish precepts	1,596	1,596	-
Interest and Investment income	(110)	(137)	(27)
Amount to be met from Government grants and taxation	10,624	10,596	(28)
<i>Financed from:</i>			
Revenue Support Grant	(1,979)	(1,985)	(6)
Business rates	(1,717)	(1,717)	-
Council tax	(6,868)	(6,868)	-
Surplus on collection fund	(60)	(60)	-
SURPLUS	-	(34)	(34)

4. This surplus 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 2014	(1,707)
Surplus for the 2014/15 financial year	(34)
General Fund Balance (un-earmarked revenue reserve) at 31 March 2015	(1,741)

Appendix A

5. The surplus on the General Fund of £34,000 is essentially a break-even position and represents less than 0.1% of the Council's gross turnover of £71 million.
6. 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 2014/15 financial year.

	£000
Total Comprehensive Income and Expenditure	14,611
Surplus on the revaluation of Property, Plant and Equipment	1,001
Remeasurements of the net defined benefit pension liability	(9,827)
Transfers from earmarked reserves	(2,496)
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	(888)
Adjustments primarily involving the Capital Grants Unapplied Account	230
Adjustments primarily involving the Capital Receipts Reserve	506
Adjustments primarily involving the Pensions Reserve	(4,140)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	35
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	916
Adjustments primarily involving the Accumulated Absences Account	18
Surplus for the 2014/15 financial year	(34)

7. 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 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 significant appeals outstanding at the year end.

Appendix A

8. A summary of the main differences from budget is provided below:

ANALYSIS OF VARIATIONS	£000
Increases in expenditure/reduction in income	
Dartmouth Ferry – the Ferry was out of action until 20 May 2013 for essential slipway maintenance and the shortfall in income indicates that not all of the business lost during this period has returned.	153
Salaries – target savings of £155,000 for vacancies and shared services has not been met in full in 2014/15. This target has been removed from the 2015/16 Budget as it has been superseded by the significant salary savings from the implementation of the Council's Transformation Programme. See paragraphs 9 to 17.	83
Trade Waste – increase in disposal costs and tipping charges, which occurred after the fees and charges for the service were set. There have also been legislative changes adversely affecting the service.	123
Land Charges – settlement of a national legal claim regarding personal searches which affected all Councils providing a Land Charges service.	114
Car Parks – staffing, Park and Ride contract and equipment hire.	52
Transport – ageing vehicle fleet (replaced in 2015/16) – overspends on repairs & maintenance and contract hire, net of savings on fuel.	52
Waste management – Household waste collection and recycling – reduction in recycling credits due to a reduction in the market prices for recycling material sold. There has also been a reduction in recycling tonnages collected due to changes in the waste classifications for leaves which are no longer eligible for recycling credit payments.	46
Housing – mainly reduction in Housing Benefit Subsidy.	12
Pannier Markets – income budget not achieved.	7
Public Conveniences – target savings not achieved in full.	5
Reductions in expenditure/additional income	
Planning Applications – net additional income, mainly due to a number of large applications for renewable energy in 2014/15.	(440)
Other income – VAT reimbursement for prior years.	(78)
Employment Estates – additional income due to high occupancy rates.	(60)
Council Tax Benefit – at 1 April 2013 the national Council Tax Benefit scheme ceased. Since that date there are claimants who have had their Council Tax Benefit reduced following reductions in the Council Tax banding of their house. Since the national scheme has ceased, this income is retained by Billing Authorities.	(50)
Investment interest – more favourable cashflow and return of 0.54% against budget of 0.50%.	(27)
Tourism – the Council no longer requires a seat on the Board of Visit South Devon and has therefore withdrawn financial support to them.	(15)
Council Tax & Business Rates – increased recovery of costs.	(11)
TOTAL SURPLUS	(34)

Transformation Programme (T18)

9. South Hams District Council and West Devon Borough Council have been shared service partners since 2007. As two of the very first Councils to share a Chief Executive, the Councils have been bold in challenging the traditional local government model and have always been at the forefront of radical change and innovation. Shared services (through sharing staff) has now yielded over £7.7 million in savings across the two Councils since 2007, with each Council generating ongoing savings of over £700,000 every year.
10. Having a successful track record of reducing costs through shared services whilst improving services, the two Councils embarked on a joint Transformation change programme in December 2013. The Councils continue to face significant reductions in Central Government funding and the Transformation Programme will develop the financial resilience of the Councils and reduce the reliance on making annual budget reductions that inevitably impact on front line services.
11. The Councils are pioneering a new model for local government which is transferrable to other local authorities irrespective of the scale, acting as a catalyst for extending shared services, without undermining each participating Councils' democratic sovereignty.
12. In December 2014, the Council agreed the updated business case for the Transformation Programme. An investment budget of £4.61 million has been approved, to deliver annual recurring revenue savings of £3.37 million. The payback period for the Programme is 2.5 years.
13. The Transformation Programme has received the backing of Central Government and the Council was awarded £434,000 of Government funding towards the upfront investment costs.
14. The Council will provide its services in an entirely new way by becoming more flexible and customer focused using the latest technology. Services will be redesigned around our customers and communities and as a consequence all departmental silos will be removed. This will involve re-engineering over 500 business processes and sharing all of our corporate services and information technology systems. The first phase of the programme (Support Services) went live in September 2014. The main phase of the programme went live in June 2015, with a smaller phase later on in 2015/16.
15. At its heart, the transformation programme is one of cultural change. People's lives are constantly changing and we must change with them. The radical transformation will be the most significant change in the way that the Councils work for more than 40 years. The Councils' non-manual workforce will be 30% smaller, with all staff roles changing to be flexible and responsive to the needs of the customer.

Appendix A

16. Officers from different areas of the Councils will work within communities to improve the service for the customer and reduce the need for office accommodation.
17. Residents and businesses will also be able to access the Councils' services online 24/7, with many of their transactions becoming fully automated, improving response times whilst reducing staff input. Those who prefer will still be able to contact the Councils in the traditional ways, such as by phone or visit.

The Councils strike Gold and Silver at National Awards

18. South Hams District Council and West Devon Borough Council were recognised on a national stage in March 2015, receiving the Gold Award for 'Delivering through Efficiency' and the Silver Award for 'Council of the Year' at the Improvement and Efficiency Social Enterprise Awards (iESE). The awards celebrate Councils who are developing new ways of working and transforming public service delivery to improve services and reduce costs.

Pension Liability

19. 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.
20. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2015 of £46.7million. This compares to £32.7million as at 31 March 2014. The deficit is derived by calculating the pension assets and liabilities at 31 March 2015. See Note 32 for further information.

Icelandic Banks

21. The Council placed a deposit of £1,250,000 on 25th September 2008 with the Heritable Bank which is a subsidiary of Landsbanki, one of the Icelandic Banks that was affected by the world economic crisis. Of this amount £1,177,632 (94%) has already been repaid to the Council by the Administrators. At the 31 March 2015, the Council had £72,368 frozen in the Heritable Bank.
22. At the time the deposit was placed, the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits). Both ratings indicated low risk and were within the deposit policy approved by the Council. Heritable Bank is registered in Scotland with an address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank, Landsbanki.

23. Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators have paid fourteen dividends amounting to 94% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

Capital spending

24. The Council spent £3.5m on capital projects. The main areas of expenditure were as follows:
- capital grants including coastal defence schemes and flood resilience grants (£0.9m)
 - house renovation grants including disabled facilities grants (£0.7m)
 - coastal defence scheme (£0.6m)
 - refurbishment of HQ Building (£0.5m) – £0.34m of this amount is funded by the Transformation Programme accommodation budget
 - employment unit refurbishments (£0.4m)
 - replacement ferry slipway (£0.2m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 29).

Issue of accounts

25. The Finance Community of Practice Lead (S151 Officer) authorised the unaudited Statement of Accounts 2014/15 for issue on the 30th June 2015.

FINANCIAL NEEDS AND RESOURCES

26. 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.
27. Revenue reserves (which include earmarked reserves) have reduced by £2.5m from the preceding year and stand at £7.9m at 31 March 2015. This is due to the Council financing the investment costs for the Transformation Programme in 2014/15, where funding was set aside in previous years for this purpose.

Appendix A

28. The General Fund Balance (un-earmarked reserve) has increased by £34,000 in 2014/15 and totals £1.7m. Revenue reserves may be used to finance capital or revenue spending plans.
29. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2015 amounts to £4.8m compared to £4.6m at the end of the previous year.

LOOKING FORWARD TO THE FUTURE

30. 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 value for money is 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 will be considered by the Executive at its September 2015 meeting.

Localisation of Business Rates

31. 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.
32. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline. However, the BRRS allows Authorities to voluntarily form a 'pool'. Pooling mitigates each Authority's exposure to business rate income volatility as the risks are spread over a larger pool. In 2014/2015, South Hams District Council continued to be part of a Devonwide pooling arrangement and the pooling gain achieved equated to £99,000.
33. The Council has taken a decision to withdraw from the Devonwide Business Rates Pool for 2015/16, due to the risk of some large Business Rates appeals. If the Council had remained in the Pool, the Council would not receive a safety net payment from the Government if its Business Rate income fell by more than 7.5%. This financial burden would have fallen on all of the Devon Councils if South Hams had remained in the Pool and this financial risk was deemed too high.

Trading Company

34. South Hams District Council and West Devon Borough Council have set up a trading company, Servaco Limited, on 4th September 2014. This is a company limited by shares. The company has not traded in 2014/15 and a set of statutory Accounts will be filed with Companies House for the period 4th September 2014 to 31st March 2015.

FURTHER INFORMATION

35. The following pages explain the Council's financial position in detail including further details of the Authority's activities, cash flows and reserves. Further information on the Council's service priorities and issues can be found on the Council's website under "Your Council".

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

Section 2

Core Financial Statements

SECTION 2A MOVEMENT IN RESERVES STATEMENT

Movement in Reserves Statement

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. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2014/15	General Fund Balance £000	Ear-marked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2014/15 £000
Balance at 31 March 2014 carried forward	1,707	8,662	4,497	118	14,984	39,450	54,434
Movement in Reserves during Year							
Surplus or (deficit) on provision of Services	(5,785)	-	-	-	(5,785)	-	(5,785)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(8,826)	(8,826)
Total Comprehensive Income and Expenditure	(5,785)	-	-	-	(5,785)	(8,826)	(14,611)
Adjustments between accounting basis & funding basis under regulations (Note 4)	3,323	-	(34)	230	3,519	(3,519)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	(2,462)	-	(34)	230	(2,266)	(12,345)	(14,611)
Transfers to/from Earmarked Reserves (Note 5)	2,496	(2,496)	-	-	-	-	-
Increase/ (Decrease) in Year	34	(2,496)	(34)	230	(2,266)	(12,345)	(14,611)
Balance at 31 March 2015 carried forward	1,741	6,166	4,463	348	12,718	27,105	39,823

SECTION 2A MOVEMENT IN RESERVES STATEMENT

2013/14 Comparatives	General Fund Balance £000	Ear-marked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2013/14 £000
Balance at 31 March 2013 carried forward	2,534	6,655	5,302	207	14,698	39,430	54,128
Movement in Reserves during Year							
Surplus or (deficit) on provision of Services	(1,799)	-	-	-	(1,799)	-	(1,799)
Other Comprehensive Income and Expenditure	-	-	-	-	-	2,105	2,105
Total Comprehensive Income and Expenditure	(1,799)	-	-	-	(1,799)	2,105	306
Adjustments between accounting basis & funding basis under regulations (Note 4)	2,979	-	(805)	(89)	2,085	(2,085)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	1,180	-	(805)	(89)	286	20	306
Transfers to/from Earmarked Reserves (Note 5)	(2,007)	2,007	-	-	-	-	-
Increase/ (Decrease) in Year	(827)	2,007	(805)	(89)	286	20	306
Balance at 31 March 2014 carried forward	1,707	8,662	4,497	118	14,984	39,450	54,434

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.

2013/14				2014/15		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Service Division	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
2,128	(1,354)	774	Central services to the public	2,306	(1,176)	1,130
2,701	(736)	1,965	Cultural and Related	3,588	(750)	2,838
8,419	(2,264)	6,155	Environmental and Regulatory	8,900	(2,710)	6,190
3,435	(4,839)	(1,404)	Highways and Transport	3,371	(4,865)	(1,494)
25,100	(23,592)	1,508	Other Housing	25,745	(24,388)	1,357
4,085	(2,897)	1,188	Planning	4,359	(3,524)	835
1,799	(163)	1,636	Corporate and Democratic Core	1,637	(162)	1,475
436	(6)	430	Non Distributed Costs	554	(26)	528
			Material items (Note 2)	5,258	(1,819)	3,439
48,103	(35,851)	12,252	Cost of Services	55,718	(39,420)	16,298
1,585	(78)	1,507	Other operating expenditure (Note 6)	1,639	(4)	1,635
1,346	(646)	700	Financing and investment income and expenditure (Note 7)	1,439	(703)	736
12,069	(24,729)	(12,660)	Taxation and non-specific grant income (Note 8)	12,275	(25,159)	(12,884)
63,103	(61,304)	1,799	(Surplus) or Deficit on Provision of Services	71,071	(65,286)	5,785
		(632)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(1,001)
		(1,473)	Remeasurements of the net defined benefit liability			9,827
		(2,105)	Other Comprehensive Income and Expenditure			8,826
		(306)	Total Comprehensive Income and Expenditure			14,611

SECTION 2C. BALANCE SHEET

31 March 2014 £000		Notes	31 March 2015 £000
72,645	Property, Plant & Equipment	9	73,178
337	Investment Property		392
93	Intangible Assets	10	160
9	Long Term Debtors	13	282
73,084	Long Term Assets		74,012
15,000	Short Term Investments	11	15,000
36	- accrued interest	11	32
93	Inventories	12	120
5,606	Short Term Debtors	13	6,158
2,665	Cash and Cash Equivalents	14	5,037
3	- accrued interest		3
23,403	Current Assets		26,350
(5,547)	Short Term Creditors	15	(10,126)
(211)	Short Term Revenue Grants in Advance	27	(174)
(50)	Provisions		(41)
(5,808)	Current Liabilities		(10,341)
-	Long Term Creditors	15	(16)
(3,405)	Long Term Revenue Grants in Advance - Section 106 Deposits	27	(3,379)
(32,704)	Pensions Liability	32	(46,671)
(136)	Capital Grants - Receipts in Advance	27	(132)
(36,245)	Long Term Liabilities		(50,198)
54,434	Net Assets		39,823
14,984	Usable Reserves	16	12,718
39,450	Unusable Reserves	17	27,105
54,434	Total Reserves		39,823

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

The unaudited accounts were issued on 30 June 2015.

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.

2013/14 £000		2014/15 £000
1,799	Net (surplus) or deficit on the provision of services	5,785
(2,044)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 18)	(8,551)
335	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 19)	774
(237)	Interest received	(141)
(147)	Net cash outflows/ (inflow) from Operating Activities	(2,133)
3,302	Net increase / (decrease) in Investing Activities (Note 20)	1,691
228	Net cash outflow / (inflow) from Financing Activities (Note 21)	(1,930)
3,383	Net (increase) or decrease in cash and cash equivalents	(2,372)
6,048	Cash and cash equivalents at the beginning of the reporting period	2,665
2,665	Cash and cash equivalents at the end of the reporting period (Note 14)	5,037

Section 3

Notes to the

Financial Statements

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SECTION 3. NOTES TO THE ACCOUNTS

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

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

The items in the Authority's Balance Sheet at 31 March 2015 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 reduce by 1 year across all assets, this would have an impact of approximately £190,000 on the Council's finances.
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>The value of pension assets is estimated based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets, but this difference is not considered to be material.</p> <p>For 2014/15, the Actuary has calculated the capitalised cost of the strain liability for 10 former employees who had left the Council's employment at £607,000. However, to this figure, the Council has added a further cost of £1,625,000 to increase the provision for those employees who were over 55 and left the Council's employment under either voluntary or compulsory redundancy as part of the Transformation Programme. The capitalised cost which is based on actual assumptions differs from the cash cost payable to the Pension Fund by the Council. The figure of £1,625,000 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 £2.3 million.</p> <p>The assumptions interact in complex ways. For example, in 2014/15, the Authority's actuaries advised that the pension liability had increased by £14.5million as a result of a change in "financial assumptions".</p> <p>Please refer to Note 32 for further information about the assumptions used by the actuaries.</p>

SECTION 3. NOTES TO THE ACCOUNTS

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 2015, the Authority had a balance of Sundry Debtors of £1.14 million. A review of significant balances suggested that an impairment for doubtful debts of 6.7% (£76,000) 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 £4,000 on the Council's finances.
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2. MATERIAL ITEMS OF INCOME AND EXPENSE

The following material item was included on the face of the Comprehensive Income and Expenditure Statement in 2014/15. This expenditure relates to the upfront investment costs for the Council's Transformation Programme (T18). This is explained in detail in the Explanatory Foreword to the Accounts. There were no such items in 2013/14.

Transformation Programme (T18) Investment Costs	Direct £000	Recharges £000	Total £000
GROSS REVENUE EXPENDITURE			
ICT technology, implementation and workstream development	680	6	686
ICT workstation costs and infrastructure	274	11	285
Training	90	-	90
Accommodation	58	11	69
Implementation and design of the future operating model	288	-	288
Redundancy payments	2,062	153	2,215
Pension Stain cost (capitalised cost)	1,625	-	1,625
See Note a below			
Sub Total	5,077	181	5,258
GROSS REVENUE INCOME			
Shared Service Recharge to West Devon Borough Council	-	(1,385)	(1,385)
Transformation Challenge Award (Government grant funding)	(434)	-	(434)
Sub Total	(434)	(1,385)	(1,819)
NET REVENUE EXPENDITURE (as shown in the Comprehensive Income and Expenditure Statement)	4,643	(1,204)	3,439

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

SECTION 3. NOTES TO THE ACCOUNTS

3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2014/15 was approved for issue by the Finance Community of Practice Lead (S151 Officer) on 30 June 2015. This is also the date up to which events after the Balance Sheet date have been considered. There are no events which took place after 31 March 2015 which require disclosure.

4. 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.

2014/15	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	2,121			(2,121)
Revaluation losses/(gains) on Property Plant and Equipment	286			(286)
Movements in the market value of Investment Properties	(55)			55
Amortisation of intangible assets	46			(46)
Capital grants and contributions applied	(552)			552
Revenue expenditure funded from capital under statute	108			(108)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	2			(2)
Insertion of items not debited or credited to the CIES:				
Capital expenditure charged against the General Fund	(1,068)			1,068
Adjustments primarily involving the Capital Grants Unapplied Account:				
Application of grants to capital financing transferred to the CAA	(230)		230	-
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	(506)	506		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(542)		542
Repayment of mortgage and parish loans		2		(2)

SECTION 3. NOTES TO THE ACCOUNTS

2014/15	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 32)	5,807			(5,807)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,667)			1,667
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	(35)			35
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	(916)			916
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(18)			18
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2014/15	3,323	(34)	230	(3,519)

SECTION 3. NOTES TO THE ACCOUNTS

2013/14 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account (CAA):				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i>				
Charges for depreciation and impairment of non-current assets	2,017			(2,017)
Revaluation losses/(gains) on Property Plant and Equipment	(462)			462
Movements in the market value of Investment Properties	(31)			31
Amortisation of intangible assets	58			(58)
Capital grants and contributions applied	(1,460)			1,460
Revenue expenditure funded from capital under statute	1,205			(1,205)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	190			(190)
<i>Insertion of items not debited or credited to the CIES:</i>				
Capital expenditure charged against the General Fund	(1,036)			1,036
Adjustments primarily involving the Capital Grants Unapplied Account:				
Application of grants to capital financing transferred to the CAA			(89)	89
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES.	(260)	260		-
Transfer of unattached capital receipts	(386)	386		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,455)		1,455
Repayment of mortgage and parish loans		4		(4)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 32)	3,751			(3,751)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,647)			1,647
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	(62)			62

SECTION 3. NOTES TO THE ACCOUNTS

2013/14 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	1,090			(1,090)
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	12			(12)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2013/14	2,979	(805)	(89)	(2,085)

SECTION 3. NOTES TO THE ACCOUNTS

5. TRANSFERS TO/ FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

2014/15	Balance at 31 March 2014 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2015 £000
EARMARKED RESERVES				
General Fund				
Affordable Housing	102	(76)	427	453
Strategic Issues	379	(246)	-	133
Community Parks and Open Spaces	105	(14)	17	108
Community Wellbeing	44	(44)	-	-
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	343	(29)	55	369
Members Sustainable Community	48	(41)	-	7
Marine Infrastructure Reserve	-	-	19	19
Land and Development	196	(42)	30	184
Ferry Repairs and Renewals	176	-	87	263
Economic Initiatives	112	(36)	44	120
Vehicles and Plant Renewals	1,236	(42)	541	1,735
Pay and Display Equipment	19	-	21	40
On-Street Parking	44	-	-	44
Print Equipment	76	-	-	76
ICT Development	350	(147)	-	203
Sustainable Waste Management	72	-	-	72
District Elections	58	-	10	68
Beach Safety	17	(3)	-	14
Planning Policy & Major Developments	671	(75)	-	596
Building Control	187	(6)	90	271
Section 106 agreements	37	(19)	23	41
Revenue Grants	356	(17)	54	393
Capital Programme	977	(1,537)	689	129
New Homes Bonus	698	(1,879)	1,365	184
Rural Services Support Funding	37	(37)	-	-
Renovation Grant Reserve	37	(50)	14	1
Business Rates Retention	1,023	(719)	-	304
T18 Investment Reserve	935	(1,199)	264	-
Sub Total	8,335	(6,357)	3,849	5,827
Specific Reserves – Salcombe Harbour				
Pontoons	33	(77)	50	6
Harbour Renewals	152	(49)	27	130
General Reserve	137	(10)	76	203
Sub Total	322	(136)	153	339
Trust & Bequest	5	(5)	-	-
TOTAL EARMARKED REVENUE RESERVES	8,662	(6,498)	4,002	6,166

SECTION 3. NOTES TO THE ACCOUNTS

2013/14 Comparatives	Balance at 31 March 2013 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2014 £000
EARMARKED RESERVES				
General Fund				
Affordable Housing	413	(323)	12	102
Strategic Issues	849	(470)	-	379
Community Parks and Open Spaces	93	(5)	17	105
Community Wellbeing	32	-	12	44
Pension Fund Strain	-	(122)	122	-
Repairs and Maintenance	428	(141)	56	343
Members Sustainable Community	34	-	14	48
Land and Development	213	(33)	16	196
Ferry Repairs and Renewals	114	(25)	87	176
Economic Initiatives	164	(52)	-	112
Vehicles and Plant Renewals	694	-	542	1,236
Pay and Display Equipment	17	(19)	21	19
On-Street Parking	44	-	-	44
Print Equipment	73	-	3	76
ICT Development	449	(99)	-	350
Sustainable Waste Management	100	(28)	-	72
District Elections	40	-	18	58
Beach Safety	17	-	-	17
Planning Policy & Major Developments	932	(261)	-	671
Building Control	138	(16)	65	187
Section 106 agreements	58	(21)	-	37
Revenue Grants	320	(47)	83	356
Capital Programme	924	(129)	182	977
New Homes Bonus	-	(328)	1,026	698
Rural Services Support Funding	-	-	37	37
Renovation Grant Reserve	-	-	37	37
Business Rates Retention	-	-	1,023	1,023
T18 Investment Reserve	-	(75)	1,010	935
Sub Total	6,146	(2,194)	4,383	8,335
Specific Reserves – Salcombe Harbour				
Pontoons	132	(150)	51	33
Harbour Renewals	134	(9)	27	152
General Reserve	238	(195)	94	137
Sub Total	504	(354)	172	322
Trust & Bequest	5	-	-	5
TOTAL EARMARKED REVENUE RESERVES	6,655	(2,548)	4,555	8,662

SECTION 3. NOTES TO THE ACCOUNTS

6. OTHER OPERATING EXPENDITURE

2013/14 £000		2014/15 £000
1,544	Parish council precepts	1,596
(78)	(Gains)/losses on the disposal of non-current assets	(4)
41	Pension administration expenses	43
1,507	Total	1,635

7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2013/14 £000		2014/15 £000
2	Interest payable and similar charges	1
(169)	Interest receivable and similar income	(137)
(386)	Other investment income	(506)
(91)	Investment (gains)/ losses	-
1,344	Net interest on the net defined benefit liability	1,415
-	Investment properties	(37)
700	Total	736

8. TAXATION AND NON SPECIFIC GRANT INCOME

2013/14 £000		2014/15 £000
	Council Tax	
(6,601)	• Income	(6,868)
(62)	• Collection Fund adjustment	(35)
(30)	• Collection Fund - distribution of surplus	(60)
145	• Support grant to parishes	125
	Business Rates	
(12,628)	• Income	(11,948)
10,834	• Tariff	11,045
1	• Pooling administration costs	1
(61)	• Pooling gain	(87)
(142)	• Safety net payment	-
-	• NNDR levy payment	49
1,090	• Transfer of Collection Fund deficit	139
	Non ring - fenced Government grants :	
(713)	• Small Business Rate Relief Grant	(1,113)
(2,560)	• Revenue Support Grant	(1,985)
(1,026)	• New Homes Bonus Grant	(1,365)
(17)	• Council Tax Support Transition Grant	-
(37)	• Rural Services Support Grant	-
(853)	Capital grants and contributions	(782)
(12,660)	Total	(12,884)

SECTION 3. NOTES TO THE ACCOUNTS

9. PROPERTY, PLANT AND EQUIPMENT

Movements in 2014/15:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2014	64,116	8,730	4,956	737	3,383	81,922
Additions	1,079	74	788	-	-	1,941
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	91	-	-	-	-	91
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(457)	-	-	-	-	(457)
Derecognition – disposals	-	(82)	(14)	-	-	(96)
Other movements in a cost or valuation (reclassification)	-	-	3,383	-	(3,383)	-
At 31 March 2015	64,829	8,722	9,113	737	-	83,401
Accumulated Depreciation and Impairment at 1 April 2014	2,242	5,218	1,814	-	3	9,277
Charge for 2014/15	1,043	768	309	-	-	2,120
Depreciation written out to the Revaluation Reserve	(881)	-	-	-	-	(881)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(170)	-	-	-	-	(170)
Impairment losses/(reversals) recognised in the Revaluation Reserve	(30)	-	-	-	-	(30)
Derecognition - disposals	-	(82)	(11)	-	-	(93)
Other movements in depreciation (reclassifications)	-	-	3	-	(3)	-
At 31 March 2015	2,204	5,904	2,115	-	-	10,223
Balance Sheet amount at 31 March 2015	62,625	2,818	6,998	737	-	73,178
Balance Sheet amount at 31 March 2014	61,874	3,512	3,142	737	3,380	72,645

SECTION 3. NOTES TO THE ACCOUNTS

Comparative Movements in 2013/14:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2013	63,534	8,885	4,677	759	1,483	79,338
Additions	564	70	295	-	1,900	2,829
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(71)	-	-	(22)	-	(93)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	316	-	-	-	-	316
Derecognition – disposals	(227)	(225)	(16)	-	-	(468)
At 31 March 2014	64,116	8,730	4,956	737	3,383	81,922
Accumulated Depreciation and Impairment at 1 April 2013	2,208	4,571	1,628	-	3	8,410
Charge for 2013/14	949	869	199	-	-	2,017
Depreciation written out to the Revaluation Reserve	(703)	-	-	(22)	-	(725)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(169)	-	(20)	-	-	(189)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	20	22	-	42
Derecognition - disposals	(43)	(222)	(13)	-	-	(278)
At 31 March 2014	2,242	5,218	1,814	-	3	9,277
Balance Sheet amount at 31 March 2014	61,874	3,512	3,142	737	3,380	72,645
Balance Sheet amount at 31 March 2013	61,326	4,314	3,049	759	1,480	70,928

SECTION 3. NOTES TO THE ACCOUNTS

Depreciation

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

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

Capital Commitments

There were no significant contracts for future capital expenditure at 31 March 2015.

Revaluations

All material freehold land and buildings which comprise the Authority's property portfolio are revalued by the Council's Valuer on a rolling basis. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The valuations of real estate were carried out by an external contractor under the supervision of Stephen Forsey FRICS, the Council's Development Surveyor. Assets are valued in accordance with a five year rolling programme (with ad hoc valuations taking place, for example where assets have been enhanced). In addition, a formal impairment review of the entire holding of land and buildings is undertaken at the end of each financial year. The basis of valuation is set out in the Statement of Accounting policies in Note 35.

	Land and buildings £000	Vehicles, plant furniture & equipment £000	Total £000
Valued at historical cost	-	2,818	2,818
Valued at current value in:			
2014/2015	16,416	-	16,416
2013/2014	19,193	-	19,193
2012/2013	22,789	-	22,789
2011/2012	3,680	-	3,680
2010/2011	547	-	547
Total	62,625	2,818	65,443

SECTION 3. NOTES TO THE ACCOUNTS

Impairment Losses

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

10. 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 comprise purchased licenses only (the Council does not currently have any internally generated software on its Balance Sheet).

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 life assigned to the major software suites used by the Authority is 3 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £46,000 charged to revenue in 2014/15 was charged to the cost centres holding the assets.

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

	2013/14 £000	2014/15 £000
Gross carrying amount	432	438
Accumulated amortisation	(287)	(345)
Net carrying amount at start of year	145	93
Purchases	6	113
Amortisation for the period	(58)	(46)
Net carrying amount at end of year	93	160

Comprising:

Gross carrying amount	438	551
Accumulated amortisation	(345)	(391)
Net carrying amount at end of year	93	160

SECTION 3. NOTES TO THE ACCOUNTS

11. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments are:

Liabilities

- trade payables and other payables
- borrowings
- financial guarantees

Assets

- bank deposits
- trade receivables
- loans receivables
- investments

Derivatives

- swaps
- forwards
- options

The carrying amount and fair values for investments at 31 March 2015 are shown in the following table:

Investment Type	Carrying Amount (net of interest)	Interest due at year end	Gross carrying Amount	Fair Value
	£000	£000	£000	£000
Short term	15,000	32	15,032	15,043

Heritable Bank

At the 31 March 2015 the Council had £72,368 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank, Landsbanki.

The Council placed a deposit of £1,250,000 on 25th September 2008 with the Heritable Bank which is a subsidiary of Landsbanki, one of the Icelandic Banks that were affected by the world economic crisis. Of this amount £1,177,632 (94%) has already been repaid to the Council by the Administrators. At the 31 March 2015, the Council had £72,368 frozen in the Heritable Bank.

SECTION 3. NOTES TO THE ACCOUNTS

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

Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators have paid fourteen dividends amounting to 94% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

Summary of Financial Instruments

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

	Long-term		Current	
	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000
Investments				
Loans and receivables (principal)	-	-	15,000	15,000
Loans and receivables (accrued interest)	-	-	36	32
Total Investments	-	-	15,036	15,032
Debtors				
Loans and receivables	9	282	-	-
Financial assets carried at contract amount	-	-	2,535	4,021
Total Debtors	9	282	2,535	4,021
Creditors				
Financial liabilities at amortised cost	-	(16)	-	-
Financial liabilities carried at contract amount			(2,795)	(4,609)
Total Creditors	-	(16)	(2,795)	(4,609)

SECTION 3. NOTES TO THE ACCOUNTS

12. INVENTORIES

TOTAL 2013/14 £000		Depot 2014/15 £000	Printing Materials 2014/15 £000	TOTAL 2014/15 £000
88	Balance at 1 April	82	11	93
665	Purchases	660	17	677
(660)	Recognised as an expense in the year	(634)	(16)	(650)
93	Balance at 31 March	108	12	120

13. DEBTORS

31.3.2014 £000		31.3.2015 £000
	Short Term	
328	Central Government bodies	705
865	Other Local authorities	1,913
	Other debtors	
161	Council Tax	333
531	Business Rates	-
3,721	Other entities & individuals	3,207
5,606	Total	6,158
	Long Term	
-	Local Authorities	275
9	Other entities & individuals	7
9	Total	282

14. CASH AND CASH EQUIVALENTS

31.3.2014 £000		31.3.2015 £000
(285)	Cash held by the Authority	(1,113)
-	Bank current accounts	400
2,950	Money Market Funds	5,750
2,665	Total Cash and Cash Equivalents	5,037

SECTION 3. NOTES TO THE ACCOUNTS

15. CREDITORS

31.3.2014 £000		31.3.2015 £000
	Short Term	
(972)	Central Government bodies	(1,553)
(535)	Other local authorities	(1,165)
	Other Creditors	
(843)	Council Tax	(1,089)
-	Business Rates	(1,383)
(3,197)	Other entities & individuals	(4,936)
(5,547)	Total	(10,126)
	Long Term	
-	Local Authorities	(16)
-	Total	(16)

16. USABLE RESERVES

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

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

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

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

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

17. UNUSABLE RESERVES

31.3.2014 £000		31.3.2015 £000
23,526	Revaluation Reserve	24,307
49,656	Capital Adjustment Account	49,528
(32,704)	Pensions Reserve	(46,671)
213	Council Tax Collection Fund Adjustment Account	248
(1,090)	Business Rates Collection Fund Adjustment Account	(174)
(151)	Accumulated Absences Account	(133)
39,450	Total Unusable Reserves	27,105

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:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation or
- disposed of and the gains are realised

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

31.3.2014		31.3.2015	31.3.2015
£000		£000	£000
23,099	Balance at 1 April		23,526
1,460	Upward revaluation of assets	1,273	
(828)	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(272)	
632	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		1,001
(205)	Difference between fair value depreciation and historical cost depreciation	(220)	
(205)	Amount written off to the Capital Adjustment Account		(220)
23,526	Balance at 31 March		24,307

SECTION 3. NOTES TO THE ACCOUNTS

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to 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.

2013/14 £000		2014/15 £000	2014/15 £000
48,392	Balance at 1 April		49,656
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(2,017)	▪ Charges for depreciation of non-current assets	(2,121)	
462	▪ Revaluation losses on Property, Plant and Equipment	(286)	
31	▪ Revaluation gains/(losses) on Investment Properties	55	
(58)	▪ Amortisation of intangible assets	(46)	
(1,205)	▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,500)	
(190)	▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(2)	
(2,977)	Total		(3,900)
205	Adjusting amounts written out of the Revaluation Reserve	220	
205	Net written out amount of the cost of non-current assets consumed in the year		220
	Capital financing applied in the year:		
1,455	Use of the Capital Receipts Reserve to finance new capital expenditure	542	
1,460	Capital grants and contributions credited to the CIES that have been applied to capital financing	1,604	
89	Application of grants to capital financing from the Capital Grants Unapplied Account	-	
1,036	Capital expenditure charged against the General Fund	1,408	
(4)	Repayment of parish loans	(2)	
4,036	Total		3,552
49,656	Balance at 31 March		49,528

SECTION 3. NOTES TO THE ACCOUNTS

Pensions Reserve

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

31.3.2014		31.3.2015
£000		£000
(32,073)	Balance at 1 April	(32,704)
1,473	Actuarial (gains) or losses on pension assets and liabilities	(9,827)
(3,751)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(4,182)
1,647	Employer's pensions contributions and direct payments to pensioners payable in the year	1,667
-	Accrued strain payments (see Note 2 'Material Items')	(1,625)
(32,704)	Balance at 31 March	(46,671)

Council Tax Collection Fund Adjustment Account

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

31.3.2014		31.3.2015
£000		£000
151	Balance at 1 April	213
62	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	35
213	Balance at 31 March	248

SECTION 3. NOTES TO THE ACCOUNTS

Business Rates Collection Fund Adjustment Account

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

31.3.2014 £000		31.3.2015 £000
-	Balance at 1 April	(1,090)
	Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	
(1,090)		916
(1,090)	Balance at 31 March	(174)

Accumulated Absences Account

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

31.3.2014 £000		31.3.2015 £000	31.3.2015 £000
(139)	Balance at 1 April		(151)
	Settlement or cancellation of accrual made at the end of the preceding year	151	
	Amounts accrued at the end of the current year		
(151)		(133)	
	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		
(12)			18
(151)	Balance at 31 March		(133)

SECTION 3. NOTES TO THE ACCOUNTS

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

2013/14 £000		2014/15 £000
(2,017)	Depreciation	(2,121)
493	Impairment & downward valuations	(286)
	Movement in market value of investment properties	55
(58)	Amortisation	(46)
2,182	Increase/(decrease) in Debtors	1,137
	Increase/(decrease) in accrued interest on	
(68)	Investments	(4)
(444)	Increase/(decrease) in Creditors	(3,774)
5	Increase/(decrease) in Inventories	27
(2,104)	Movement in pension liability	(4,140)
(190)	Carrying amount of non-current assets held for sale, sold or derecognised	(2)
157	Other non-cash items charged to the net surplus or deficit on the provision of services	603
(2,044)	Total	(8,551)

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

2013/14 £000		2014/15 £000
646	Proceeds from the sale of Property, Plant & Equipment & Investment Properties	506
(311)	Other non-cash items charged to the net surplus or deficit on the provision of services	268
335	Total	774

20. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2013/14 £000		2014/15 £000
2,867	Purchase of property, plant and equipment, investment property and intangible assets	2,562
1,791	(Increase)/decrease in investments	-
(268)	Proceeds from the sale of property, plant and equipment, investment property & intangible assets	(6)
(1,088)	Other receipts from investing activities (capital grants & contributions)	(865)
3,302	Net cash flows from investing activities	1,691

SECTION 3. NOTES TO THE ACCOUNTS

21. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2013/14 £000		2014/15 £000
262	Net Business Rates receipts paid to/ (received) from Central Government	(1,751)
(34)	Net Council Tax receipts paid to / (received) from major preceptors	(179)
228	Total	(1,930)

22. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement (CIES) is that specified by the *Service Reporting Code of Practice for Local Authorities (SeRCOP)*. The Council budgets and prepares reports to Management on this basis. The following table depicts the cost of services within the CIES on a subjective basis.

Service Income & Expenditure

	Central Services	Cultural and Related	Environmental and Regulatory	Highways and Transport	Other Housing	Planning	CDC & NDC	Material Items	TOTAL 2014/15	TOTAL 2013/14
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(649)	(222)	(1,322)	(4,828)	(767)	(3,193)	(155)	(1,385)	(12,521)	(10,890)
Government grants & contributions	(527)	(528)	(1,388)	(37)	(23,621)	(331)	(33)	(434)	(26,899)	(24,961)
Total Income	(1,176)	(750)	(2,710)	(4,865)	(24,388)	(3,524)	(188)	(1,819)	(39,420)	(35,851)
Employee expenses	837	195	3,883	1,263	1,029	2,182	799	3,841	14,029	9,959
Other service expenses	487	1,645	3,584	1,722	23,590	1,254	559	1,417	34,258	32,065
Depreciation/ amortisation	9	1,590	750	130	684	240	10	-	3,413	2,182
Support service recharges	973	158	683	256	442	683	823	-	4,018	3,897
Total Expenditure	2,306	3,588	8,900	3,371	25,745	4,359	2,191	5,258	55,718	48,103
Net Expenditure	1,130	2,838	6,190	(1,494)	1,357	835	2,003	3,439	16,298	12,252

SECTION 3. NOTES TO THE ACCOUNTS

23. TRADING OPERATIONS – BUILDING CONTROL

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

24. MEMBERS' ALLOWANCES

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

<http://www.southhams.gov.uk/CHttpHandler.ashx?id=6218&p=0>

2013/14		2014/15
£000		£000
251	Allowances	247
22	Expenses	23
273	Total	270

25. 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 and senior police officers.

A senior employee (England & Wales) is defined as an employee whose salary is more than £150,000 per year, or alternatively 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.

SECTION 3. NOTES TO THE ACCOUNTS

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

Post	Year	Salary, Fees and Allowances £	Expenses £	Pension Contribution £	Total £
Executive Director Service Delivery & Commercial Development—started 1.1.15	2014/15	23,300	2,300	4,300	29,900
	2013/14	-	-	-	-
Support Services Group Manager – started 1.3.15	2014/15	5,300	3,200	1,000	9,500
	2013/14	-	-	-	-
Customer First Group Manager – started 1.3.15	2014/15	5,200	-	900	6,100
	2013/14	-	-	-	-
Executive Director for Communities and Delivery – left 6.2.15	2014/15	75,900	2,300	13,900	92,100
	2013/14	76,200	2,800	13,900	92,900
Executive Director Strategic Lead for Transformation	2014/15	79,100	1,400	14,500	95,000
	2013/14	75,200	2,500	13,800	91,500
Head of Corporate Services – left 23.1.15	2014/15	51,200	2,500	9,400	63,100
	2013/14	62,600	2,900	11,500	77,000
Head of Environmental Health & Housing—left 6.2.15	2014/15	58,600	3,400	10,700	72,700
	2013/14	62,600	2,900	11,500	77,000
Head of Assets – left 6.3.15	2014/15	59,000	1,700	10,800	71,500
	2013/14	62,600	1,900	11,500	76,000
Acting Head of Finance & Audit - 1.1.13 to 30.9.13 (maternity leave)	2014/15	-	-	-	-
	2013/14	27,700	1,000	5,100	33,800

Note 1: Senior Management Team Restructure

In June 2014 South Hams District Council (SHDC) and West Devon Borough Council (WDBC) 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. The annual savings from the restructure of the Senior Management Team are £280,000 shared between the two Councils.

Note 2: Shared Services with West Devon Borough Council

The total cost of senior employees employed by WDBC has been included in the equivalent note of WDBC's Accounts in accordance with the accounting requirements and is therefore excluded from the table above. In 2014/15 SHDC reimbursed costs amounting to £180,000 (2013/14 £262,700) in respect of the Senior Leadership Team, S151 Officer and Monitoring Officer employed by WDBC. SHDC received a reimbursement in 2014/15 from WDBC of £209,000 (2013/14 £203,300) in respect of the above shared senior employees.

SECTION 3. NOTES TO THE ACCOUNTS

Other officers earning over £50,000

Remuneration band	2013/2014 Number of employees		2014/2015 Number of employees	
	Total	Left during year	Total	Left during year
£50,000 - £54,999	1	0	0	0

Note 1: The table above shows no officers fell in to this category in 2014/15. The entry in 2013/14 relates to an employee who left on 9 May 2014.

26. PAYMENTS TO EXTERNAL AUDITORS

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

	2013/14 £000	2014/15 £000
External audit services	57	57
Rebate on Audit Fee	(8)	(6)
Certification of grant claims and returns	24	10
Other services	8	1
TOTAL	81	62

SECTION 3. NOTES TO THE ACCOUNTS

27. GRANT INCOME

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

	2013/14 £000	2014/15 £000
Credited to Taxation and Non Specific Grant Income		
Capital grants & contributions:		
Environment Agency - Coastal Recovery Grant	-	(693)
European Fisheries Fund – Salcombe Fish Quay	(772)	(27)
South West Water – Ford Leat, Dartmouth	-	(56)
Devon County Council – North Sands	(50)	-
Other capital grants & contributions	(31)	(6)
Non ring - fenced Government grants & contributions:		
Revenue Support Grant	(2,560)	(1,985)
New Homes Bonus Grant	(1,026)	(1,365)
Council Tax Transition Grant	(17)	-
Small Business Rate Relief	(713)	(1,113)
Rural Services Support Grant	(37)	-
Total	(5,206)	(5,245)
Credited to Services		
Rent Allowance subsidy	(21,688)	(22,037)
Rent Allowance subsidy re previous years	-	(707)
Housing Benefit administration subsidy	(202)	(338)
Rent rebate subsidy	(96)	(59)
Discretionary housing payments	(149)	(137)
Council Tax benefit administration subsidy	(279)	(89)
Business Rates cost of collection allowance	(206)	(206)
Transformation Challenge Award grant	-	(434)
REFCUS grants applied		
Disabled facilities grant	(271)	(285)
Section 106 deposits	(222)	(376)
Second homes funding	(99)	-
Repair & Renew grant	-	(121)
Coastal Recovery grant	-	(261)
Other grants	(15)	(10)
Recycling credits	(468)	(487)
Devon County Council – Torr Quarry Transfer Station	(263)	(280)
Section 106 deposits	(167)	(99)
Electoral Commission – European Elections	-	(92)
Home Office–Police & Crime Commissioners Elections 2012	(9)	-
Devon County Council – County Council Elections	(124)	(15)
Dept. for Comm.& Local Govt. – Bellwin Scheme	(101)	-
Dept. for Comm.& Local Govt. – Sherford Resource Funding	(66)	(218)
Other grants	(536)	(648)
Total	(24,961)	(26,899)

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 will require the monies or property to be returned to the provider. The balances at the year-end are as follows:

Capital Grants Receipts in Advance	31 March 2014 £000	31 March 2015 £000
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(52)	(48)
Total	(136)	(132)

Short Term Revenue Grants Receipts in Advance	31 March 2014 £000	31 March 2015 £000
Devon County Council – Cycling & Walking Works	(13)	(6)
Devon Local Authorities – Member Development Role	(14)	-
Devon County Council – Public Health Grant	(20)	(38)
DCLG – Sherford Resource Funding	(117)	(123)
Other grants	(47)	(7)
Total	(211)	(174)

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	31 March 2014 £000	31 March 2015 £000
Langage Energy Centre	(2,469)	(2,238)
Dartmouth Supermarkets	(249)	(225)
Various other sites	(687)	(916)
Total	(3,405)	(3,379)

28. RELATED PARTIES

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

SECTION 3. NOTES TO THE ACCOUNTS

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 27.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2014/15 is shown in Note 24.

iESE Transformation Ltd

South Hams District and West Devon Borough Councils 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.

29. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below with the resources that have been used to finance it.

	2013/14 £000	2014/15 £000
Capital Investment		
Property, plant & equipment	2,829	1,941
Intangible assets	6	113
Revenue expenditure funded from capital under statute (REFCUS)	1,205	1,500
Total expenditure	4,040	3,554
Sources of Finance		
Capital receipts	1,455	542
Government grants and other contributions	1,549	1,604
Direct revenue contributions (earmarked reserves)	1,036	1,408
Total funding	4,040	3,554

N.B. The Council did not finance any of its capital expenditure by borrowing and as such its capital financing requirement was unchanged at (£98,000).

SECTION 3. NOTES TO THE ACCOUNTS

30. LEASES

Operating Leases

Authority as Lessee

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

Detail of lease	Term	Expiry date	Service group
A parcel of land for car parking	10 years	31.03.2017	Highways, Roads & Transport
The fundus of the Salcombe & Kingsbridge Estuary for the provision of harbour activities	21 years	24.03.2028	Highways, Roads & Transport

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

	31 March 2014 £000	31 March 2015 £000
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	185	191
Later than one year & not later than five years	589	529
Later than five years	1,020	947
	1,794	1,667
The expenditure charged to the Highways, Roads and Transport Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:		
	2013/14 £000	2014/15 £000
Minimum lease payments	184	190
	184	190

SECTION 3. NOTES TO THE ACCOUNTS

Authority as Lessor

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

Detail of lease	Term	Expiry date	Service group
The operation of a supermarket	99 years	20.12.2077	Planning
The rental of an industrial unit	25 years	31.05.2029	Planning
The provision of temporary accommodation	10 years	30.03.2021	Other Housing
The rental of office accommodation	20 years	24.07.2032	Corporate

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

	31 March 2014 £000	31 March 2015 £000
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	746	746
Later than one year & not later than five years	2,984	2,984
Later than five years	35,863	35,118
	39,593	38,848

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

SECTION 3. NOTES TO THE ACCOUNTS

31. EXIT PACKAGES

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

Exit package cost band (incl. special payments)	Number of voluntary redundancies		Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
£0 - £20,000	-	44	1	5	-	-	1	49	7,500	507,600
£20,001 - £40,000	-	32	-	1	-	1	-	34	-	970,100
£40,001 - £60,000	-	7	-	-	-	1	-	8	-	365,500
£60,001 - £80,000	-	1	-	1	-	-	-	2	-	134,800
£80,000-£100,000	-	1	-	-	-	-	-	1	-	82,400
£100,001 - £150,000	-	1	-	-	-	-	-	1	-	100,300
TOTAL	0	86	1	7	0	2	1	95	7,500	2,160,700

Note 1: Transformation Programme (T18)

South Hams District Council and West Devon Borough Council are pioneering an innovative new working model to protect local services. Costs are being reduced by redesigning services around customers using new technology, while a smaller agile workforce reduces the amount of office space required. The Councils will operate in the future with a 30% reduction in staffing numbers for its non manual workforce. As part of T18, expressions of interest for voluntary redundancy were invited. Staff were recruited in to the new model following a behavioural framework assessment. See paragraphs 9 to 17 of the Explanatory Foreword for further information.

Note 2: Senior Management Team Restructure

In June 2014 South Hams District Council (SHDC) and West Devon Borough Council (WDBC) 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. 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

Note 3: Shared Services with West Devon Borough Council

West Devon Borough Council (WDBC) made a cash contribution of £466,000 towards the above exit packages in 2014/15, no contribution was made toward packages in 2013/14. South Hams District Council made a cash contribution of £138,000 to WDBC's exit package costs in 2014/15 but paid nothing in 2013/14.

32. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Authority participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 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. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2016 is £1.1m. The Actuary has estimated the duration of the Employer's liabilities to be 18 years

In addition, there are arrangements for the award of discretionary post retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2016 are £207,000.

SECTION 3. NOTES TO THE ACCOUNTS

At South Hams District Council, unfunded benefits take the form of pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions. Such benefits are charged to the Council as they are paid. For new retirees CAY pensions are no longer payable. The liabilities that the Council continues to face relate to the impact of previous early retirement decisions.

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

Transactions Relating to Post-employment Benefits

We recognise 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 we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

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

SECTION 3. NOTES TO THE ACCOUNTS

2014/15	Scheme Assets £000s	Pension Obligations £000s	Net Pension Liability £000s	Notes on Accounting Treatment
Opening balance at 1 April 2014	75,990	(108,694)	(32,704)	
Current service cost		(2,724)	(2,724)	CIES – absorbed into the total cost of services
Provision for strain liability arising from early retirements		(1,625)	(1,625)	Please refer to Note 2 'Material Items of Income and Expense'.
Interest income and expenses	3,304	(4,719)	(1,415)	CIES - charged to Financing and Investment Income and Expenditure
Administration expenses	(43)		(43)	Charged to Other Operating Expenditure
Re-measurements:	4,715		4,715	
• Return on plan assets				CIES – Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Actuarial gains and losses arising from changes in financial assumptions		(14,503)	(14,503)	CIES Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Other actuarial gains and losses		(39)	(39)	CIES - Re-measurements of the Net Defined Liability in Other Comprehensive Income and Expenditure
Contributions:	1,667		1,667	
• Council employer's contributions				Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the adjustments between Accounting and Funding basis.
• Employee contributions	537	(537)	-	Total cost of services in the CIES – netted off Current Service Cost
Retirement grants and pensions	(4,010)	4,010	-	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the Adjustments between Accounting and Funding basis
Closing balance at 31 March 2015	82,160	(128,831)	(46,671)	

SECTION 3. NOTES TO THE ACCOUNTS

2013/14 Comparatives	Scheme Assets £000s	Pension Obligations £000s	Net Pension Liability £000s	Notes on Accounting Treatment
Opening balance at 1 April 2013	73,775	(105,848)	(32,073)	
Current service cost		(2,366)	(2,366)	CIES – absorbed into the total cost of services
Interest income and expenses	3,152	(4,496)	(1,344)	CIES - charged to Financing and Investment Income and Expenditure
Administration expenses	(41)		(41)	Charged to Other Operating Expenditure
Re-measurements:				
• Return on plan assets	265		265	CIES – Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Actuarial gains and losses arising from changes in demographic assumptions		(923)	(923)	CIES – Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Actuarial gains and losses arising from changes in financial assumptions		(2,063)	(2,063)	CIES Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Other actuarial gains and losses	(195)	4,389	4,194	CIES - Re-measurements of the Net Defined Liability in Other Comprehensive Income and Expenditure
Contributions:				
• Council employer's contributions	1,647		1,647	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the adjustments between Accounting and Funding basis.
• Employee contributions	529	(529)	-	Total cost of services in the CIES – netted off Current Service Cost
Retirement grants and pensions	(3,142)	3,142	-	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the Adjustments between Accounting and Funding basis
Closing balance at 31 March 2014	75,990	(108,694)	(32,704)	

SECTION 3. NOTES TO THE ACCOUNTS

Balance Sheet Disclosure – an analysis of the defined benefit obligation into amounts arising from plans that are (a) funded and (b) unfunded.

Net pension assets as at:	31/03/15 £000	31/03/14 £000	31/03/13 £000
Present value of funded obligation as per report of Actuary	(123,966)	(105,644)	(102,921)
Provision for strain liability arising from future early retirements	(1,625)	-	-
Less fair value of scheme assets (bid value)	82,160	75,990	73,775
Net liability	(43,431)	(29,654)	(29,146)
Present value of unfunded obligation	(3,240)	(3,050)	(2,927)
Net liability in Balance Sheet	(46,671)	(32,704)	(32,073)

The net liability has increased mainly as a result of the fall in the discount rate assumption. This has been offset slightly by the strong asset performance by the Fund but overall there has been an increase in the reported deficit.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £46.7m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the Local Government Scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

Basis for estimating assets and liabilities

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

To assess the value of the Employer's liabilities at 31 March 2015, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

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

SECTION 3. NOTES TO THE ACCOUNTS

The major assumptions are summarised in the following table:

	31/03/15	31/03/14
Life expectancy from age 65:		
Retiring today		
➤ Men	22.8	22.7
➤ Women	26.1	26.0
Retiring in 20 years		
➤ Men	25.1	24.9
➤ Women	28.4	28.3
Financial Assumptions		
RPI increases	3.2%	3.6%
CPI increases	2.4%	2.8%
Rate of increase in salaries	4.2%	4.6%
Rate of increase in pensions	2.4%	2.8%
Rate for discounting scheme liabilities	3.3%	4.4%

The financial assumptions summarised in the table above are set with reference to market conditions at 31 March 2015.

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

Sensitivity analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	124,978	127,206	129,477
Projected service cost	1,908	1,952	1,997
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	127,498	127,206	126,916
Projected service cost	1,953	1,952	1,951
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	129,203	127,206	125,246
Projected service cost	1,996	1,952	1,909
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	122,757	127,206	131,696
Projected service cost	1,886	1,952	2,019

SECTION 3. NOTES TO THE ACCOUNTS

The estimated asset allocation for South Hams District Council as at 31 March 2015 is as follows:

Employer Asset Share – Bid Value	31/03/15 £000	31/03/15 %	31/03/14 £000	31/03/14 %
Gilts (Government bonds)	5,227	6%	5,319	7%
UK Equities	20,253	25%	19,757	26%
Overseas equities	28,341	34%	25,837	34%
Property	8,213	10%	6,838	9%
Infrastructure	2,277	3%	1,520	2%
Target Return Portfolio	12,115	15%	11,399	15%
Cash	1,416	2%	1,520	2%
Other bonds	2,857	3%	3,800	5%
Alternative assets	1,461	2%	-	0%
Total	82,160	100%	75,990	100%

Based on the above, the Employer's share of the assets of the Fund is approximately 2%. The return on the Fund (on a bid value basis) for the year ended 31 March 2015 is estimated to be 11%.

Of the total fund asset at 31 March 2015, the following table identifies the split of those assets with a quoted market price and those that do not:

		31 March 2015	
		% Quoted	% Unquoted
Fixed interest government securities	UK	0.5%	-
	Overseas	5.9%	-
Corporate bonds	UK	0.5%	
	Overseas	3.0%	
Equities	UK	23.4%	1.3%
	Overseas	29.4%	5.1%
Property	All	-	9.9%
Others	Absolute return portfolio	14.7%	-
	Infrastructure	-	2.8%
	Multi sector credit fund	1.8%	-
	Cash/Temporary investments	-	1.8%
Net current assets	Debtors	-	1.3%
	Creditors	-	(1.4%)
Total		79.2%	20.8%

SECTION 3. NOTES TO THE ACCOUNTS

33. CONTINGENT LIABILITIES

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

34. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the Code of Practice;

SECTION 3. NOTES TO THE ACCOUNTS

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

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

The annual treasury management strategy which incorporates the prudential indicators was approved by the Executive on 5 March 2015 and is available on the Council's website.

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures from the Council's customers. An analysis of the Council's investments is provided in Note 11 to the accounts.

SECTION 3. NOTES TO THE ACCOUNTS

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

The full Investment Strategy for 2014/15 was approved by the Executive on 5 March 2015 and is available on the Council's website. The Council's investment priorities are: -

- the security of capital and
- the liquidity of its investments

Since October 2008 we have used an ultra cautious investment strategy to avoid the possibility of potential losses. However, this has come at a cost; investing in virtually risk free institutions, namely the UK Government and Local Authorities, means that we must accept a much lower interest rate on our investments.

No breaches of the Council's counterparty criteria occurred during the reporting period. With the exception of the investment with the Heritable Bank the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2015 and is reflected in the current figure of £627,000. This compares to £494,000 in 2013/14. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 13 to the accounts.

Liquidity risk

The Council is debt free, but has ready access to borrowings from the Money Markets to cover any day to day cash flow need. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure.

Therefore there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 14 to the accounts.

All trade and other payables are due to be paid in less than one year.

SECTION 3. NOTES TO THE ACCOUNTS

Market Risk

Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. A rise in interest rates would have the following effects:

- Investments at variable rates – the interest income credited to the I & E account will rise
- Investments at fixed rates – the fair value of the assets will fall

Changes in interest receivable on variable rate investments are posted to the I & E account and affect the General Fund Balance £ for £.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Finance team will monitor markets and forecast interest rates within the year to adjust exposures appropriately.

If all interest rates had been 1% higher, with all other variables held constant, the financial effect would be that an additional £250,000 in interest would have been generated.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price risk

The Council, excluding the pension fund, does not invest in instruments with this type of risk (e.g. equity shares or marketable bonds).

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Refinancing and Maturity Risk

The Council maintains a significant investment portfolio. Whilst the cash flow procedures are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature.

SECTION 3. NOTES TO THE ACCOUNTS

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

This includes monitoring the maturity profile of investments to ensure that sufficient liquidity is available for the Council's day to day cash flow needs. The spread of longer term investments provides stability of maturities and returns in relation to the longer term cash flow needs.

35. ACCOUNTING POLICIES

a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2014/15 financial year and its position at the year end of 31 March 2015. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 (SI 2011 No. 817). 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 2014/15 and the *Service Reporting Code of Practice for Local Authorities (SeRCOP)*, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

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

b) Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

SECTION 3. NOTES TO THE ACCOUNTS

- 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 £1,000 for revenue expenditure and £5,000 for capital expenditure. Accruals are not made for transactions below these limits.

c) Cash and Cash Equivalents

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

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

Key: T = trade date

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

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

SECTION 3. NOTES TO THE ACCOUNTS

d) Material items of Income and Expense

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

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

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

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

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

f) Charges to Revenue for Non-Current Assets

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

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

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These changes 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.

SECTION 3. NOTES TO THE ACCOUNTS

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 in exchange for those benefits. These benefits are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement, to terminate at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

Post Employment Benefits

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

SECTION 3. NOTES TO THE ACCOUNTS

The Local Government Scheme

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

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

For further information please refer to Note 32.

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.

SECTION 3. NOTES TO THE ACCOUNTS

- **Re-measurements comprising:**

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

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

Discretionary Benefits

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

h) Events after the Reporting Period

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

Two types of events can be identified:

- 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

SECTION 3. NOTES TO THE ACCOUNTS

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

i) Financial Instruments

Financial Liabilities

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

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 Council does not currently hold any available-for-sale assets).

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.

SECTION 3. NOTES TO THE ACCOUNTS

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 derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair Values of Assets and Liabilities

Financial liabilities should be measured initially at fair value. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms length transaction.

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instruments by using the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; and
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Any difference between the carrying amount (Balance Sheet value) and fair value (arm's length price) should be disclosed in the notes to the accounts.

SECTION 3. NOTES TO THE ACCOUNTS

Recognition and measurement of financial instruments

The main measurement bases used by the Council 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.	See also accounting policy on cash equivalents.
Operational debtors	Held at invoiced or billed amount less an estimate for non-collection of debts.	Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate. The carrying amount has been adjusted for an assessment of bad debts. See Note 34 within 'credit risk' for further information.
Operational creditors	Held at invoiced or billed amount.	Carrying amount is a reasonable approximation of fair value for these short term liabilities.

j) Government Grants and Contributions

General

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific

SECTION 3. NOTES TO THE ACCOUNTS

Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

k) Heritage Assets

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

l) Intangible Assets

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

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

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

m) Inventories

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

SECTION 3. NOTES TO THE ACCOUNTS

n) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length.

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

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

o) Jointly Controlled Operations

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

p) 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).

SECTION 3. NOTES TO THE ACCOUNTS

The Authority as Lessee

Finance Leases

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made in accordance with the lease terms.

The Authority as Lessor

Finance Leases

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement and is credited in accordance with the lease terms.

q) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the *CIPFA Service Reporting Code of Practice 2014/15 (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.

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.

SECTION 3. NOTES TO THE ACCOUNTS

The costs of the Council's support services and related overheads are allocated to the services based on the budgeted time allocations for the year, updated for known demands on officer time, in accordance with the requirements of SERCOP. The bases of allocation used for the main costs are outlined below:

Cost	Basis of allocation
Staffing and related overheads	Cost of time spent by staff based on time allocations or the most appropriate cost driver e.g. head count, case load etc.
Administrative buildings	Area occupied.
IT costs	Usage of major systems plus a standard charge per PC/printer.

r) Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the 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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

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

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

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

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

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

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

De minimis policy for capital controls and accounting purposes

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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.*

SECTION 3. NOTES TO THE ACCOUNTS

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.

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.

SECTION 3. NOTES TO THE ACCOUNTS

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

Depreciation

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

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

Asset	Useful life
Buildings	Sixty years
Infrastructure	Twenty years
Refuse vehicles	Seven years
Light vans	Five years
Marine vessels	Fifteen years
IT equipment	Four years

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost, being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

SECTION 3. NOTES TO THE ACCOUNTS

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

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

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

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

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

s) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

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

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.

SECTION 3. NOTES TO THE ACCOUNTS

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

Contingent Liabilities

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

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

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.

t) Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

v) Section 106 deposits

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

w) Shared Services

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

x) VAT

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

SECTION 3. NOTES TO THE ACCOUNTS

y) Business Rates Retention

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.

General Fund – the Comprehensive Income and Expenditure statement accrues the Authority's share of the current year's rates bills. The Movement in Reserves Statement features an adjustment reconciling accrued rates income for the year to the entitlement to transfer from the Collection Fund (with a balancing entry in the Collection Fund Adjustment Account).

Appeals – 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 was made about the likely success rate of appeals and their value.

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) introduces changes in accounting policies that will have to be adopted fully by the authority in the 2015/16 financial statements i.e. from 1 April 2015.

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. For 2015/16 there are no standards issued not adopted that are expected to have a material impact on the 2015/16 statement of accounts.

SECTION 3. NOTES TO THE ACCOUNTS

37. 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 4. COLLECTION FUND

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2013/14 Business Rates £000	2013/14 Council Tax £000		2014/15 Business Rates £000	2014/15 Council Tax £000
		INCOME		
-	(55,556)	Income from Council Tax	-	(58,038)
(28,698)	-	Business Rates Receivable	(28,857)	-
(2,432)	-	Less: Transitional Relief	(1,624)	-
(31,130)	(55,556)		(30,481)	(58,038)
		EXPENDITURE		
		Precepts, Demands & Shares:		
15,785	-	Central Government	14,934	-
2,841	39,557	Devon County Council	2,688	41,274
-	5,773	Devon & Cornwall Police Authority	-	6,023
316	2,671	Devon & Somerset Fire Authority	299	2,787
12,628	6,601	South Hams District Council (net including Towns/Parishes)	11,948	6,868
123	-	Business Rates – write off of uncollectible debt	175	-
99	-	Change in allowance for non collection of doubtful debts	106	-
-	141	Council Tax written off and change in impairment allowance	-	102
-	41	Council Tax increase/(decrease) in provision for appeals	-	193
1,856	-	Business Rates increase/(decrease) in provision for appeals	473	-
206	-	Business Rates – Costs of collection	206	-
		Distribution of previous year's estimated surplus:		
-	-	Central Government	(1,319)	-
-	190	Devon County Council	(237)	363
-	27	Devon and Cornwall Police	-	53
-	13	Devon and Somerset Fire Authority	(26)	24
-	30	South Hams District Council	(1,055)	60
33,854	55,044		28,192	57,747
2,724	(512)	MOVEMENT ON BALANCE	(2,289)	(291)

SECTION 4. COLLECTION FUND

1. Council tax and council tax base

In 2014/15, the Council's average Band D Council Tax was £1,571.09 (£1,540.97 in 2013/14). The charge for each band is a ratio of band D. The 2014/15 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	872.83
A	6/9	1,047.39
B	7/9	1,221.96
C	8/9	1,396.52
D	1	1,571.09
E	11/9	1,920.22
F	13/9	2,269.35
G	15/9	2,618.48
H	18/9	3,142.18

These charges are before any appropriate discounts. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2014/15 was **£36,250.26** as calculated below (£35,434.09 in 2013/14).

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A		7.50	7.50	5/9	4.17
A	4,873.00	(809.25)	4,063.75	6/9	2,709.17
B	8,549.00	(934.25)	7,614.75	7/9	5,922.58
C	8,375.00	(751.25)	7,623.75	8/9	6,776.67
D	7,879.00	(3,767.67)	4,111.33	1	4,111.33
E	6,447.00	(425.75)	6,021.25	11/9	7,359.31
F	3,536.00	(174.50)	3,361.50	13/9	4,855.50
G	2,939.00	(165.75)	2,773.25	15/9	4,622.08
H	300.00	(21.75)	278.25	18/9	556.50
Total	42,898.00	(7,042.67)	35,855.33		36,917.31
Less allowance for non collection					(738.35)
Plus adjustment for armed forces dwellings					71.30
Tax base					36,250.26

SECTION 4. COLLECTION FUND

2. Rateable value

The total business rates rateable value at 31 March 2015 was £82,739,172. This compares to £82,168,779 at 31 March 2014. The standard business rates multiplier was 48.2p in 2014/15 (2013/14: 47.1p). Without reliefs this would generate a total income of £39,880,280.90 (2013/14 £38,701,494.91). These figures are a snapshot only and differ from the value of business rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

3. Collection fund balance

2013/14 Business Rates £000	2013/14 Council Tax £000		2014/15 Business Rates £000	2014/15 Council Tax £000
-	(1,259)	Fund balance at 1 April	2,724	(1,771)
2,724	(512)	(Surplus) / Deficit for year	(2,289)	(291)
2,724	(1,771)	Fund balance as at 31 March - (surplus)/deficit	435	(2,062)

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

2013/14 Business Rates £000	2013/14 Council Tax £000		2014/15 Business Rates £000	2014/15 Council Tax £000
1,362	-	Central Government	218	-
245	(1,284)	Devon County Council	39	(1,495)
-	(188)	Devon and Cornwall Police	-	(218)
27	(86)	Devon and Somerset Fire Authority	4	(101)
1,634	(1,558)	Total (surplus)/deficit due to Preceptors	261	(1,814)
1,090	(213)	South Hams District Council	174	(248)
2,724	(1,771)	Fund balance as at 31 March - (surplus)/deficit	435	(2,062)

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

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Finance Community of Practice Lead (S151 Officer).
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts

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 Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Finance Community of Practice Lead (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 Finance Community of Practice Lead (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.

The Statement of Accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2015.

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

30 June 2015

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

Approval of the Statement of Accounts

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

Signed on behalf of South Hams District Council

TBA

.....

Councillor JT Pennington

Chairman of the Audit Committee

SECTION 6. AUDITORS' REPORT

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

SECTION 7. GLOSSARY OF TERMS

ACCRUALS	A sum included in the accounts to cover income or expenditure attributable to an accounting period for goods received or works done, but for which payment has not been received/made by the end date of the period for which the accounts have been prepared.
ACTUARIAL GAINS & LOSSES	These are changes in actuarial deficits or surpluses that arise because either actual experience or events have not been exactly the same as the assumptions adopted at the previous valuation (experience gains and losses) or the actuarial assumptions have changed.
BALANCES	The surplus or deficit on any account at the end of the year. Amounts in excess of that required for day to day working may be used to reduce the demand on the Collection Fund.
CAPITAL EXPENDITURE	Expenditure on the acquisition of an asset or expenditure which adds to and not merely maintains the value of an existing asset.
CAPITAL RECEIPTS	Income received from sale of assets which is available to finance other capital expenditure or to repay debt on assets financed from loan.
CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)	The governing body responsible for issuing the statement of recommended practice to prepare the accounts.
COLLECTION FUND	A separate fund which must be maintained by a district for the proper administration of council tax and business rates.
CURRENT SERVICE COST	Amount chargeable to Services based on the Actuary's assessment of pension liabilities arising and chargeable to the financial year.
CURTAILMENTS	This is the amount the Actuary estimates as the cost to the Authority of events that reduce future contributions to the scheme, such as granting early retirement.
DEFINED BENEFIT SCHEME	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and

SECTION 7. GLOSSARY OF TERMS

the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEMAND

The charging authorities own Demand is, in effect, its precept on the fund.

FEES & CHARGES

In addition to the income from charge payers and the Government, Local Authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

GOVERNMENT GRANTS

Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.

IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)

Provisions against income to prudently allow for non collectible amounts.

INTEREST COST

For the pension fund this represents the discount rate at the start of the accounting period applied to the liabilities during the year based on the assumptions at the start of the accounting period.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) & THE CODE OF PRACTICE (CODE)

Formal financial reporting standards adopted by the accounting profession and to be applied when dealing with specific topics within its accounting Code. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

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

SECTION 7. GLOSSARY OF TERMS

	income from council taxpayers on their behalf.
PROJECTED UNIT METHOD	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.
RATEABLE VALUE	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
REVENUE EXPENDITURE	Recurring items of day to day expenditure consisting principally of Salaries and Wages, Debt Charges and general running expenses etc.
SETTLEMENTS	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability.
STRAIN ON FUND CONTRIBUTIONS	Additional employers pension contributions as a result of an employee's early retirement.
SUNDRY CREDITORS	Amounts owed by the Council at 31 March.
SUNDRY DEBTORS	Amounts owed to the Council at 31 March.

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Agenda Item 6

Report to: **Audit Committee**
Date: **30 July 2015**
Title: **Annual Governance Statement 2014-15**
Portfolio Area: **Support Services**
Wards Affected: **All**
Relevant Scrutiny Committee: **Internal**
Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Lisa Buckle** Role: **Finance Community of Practice Lead (S151 Officer)**

Contact: lisa.buckle@swdevon.gov.uk, **(01803) 861413**

Recommendations:

It is recommended that:

1. The processes adopted for the production of the 2014/15 Annual Governance Statement are noted
2. The adequacy and effectiveness of the system of internal audit is endorsed
3. Members consider the draft Annual Governance Statement (AGS) for 2014/15 and the supporting evidence provided by this report and that the AGS is approved prior to the signature by the Leader and Executive Director (Strategy & Commissioning).

1. Executive summary

- 1.1 Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires all relevant bodies to prepare an Annual Governance Statement (AGS).
- 1.2 The purpose of the AGS is to provide evidence of a continuous review of the Council's internal control and risk management processes, to provide assurance as to their effectiveness and to identify actions being taken or planned to address any key weaknesses identified.
- 1.3 This report outlines the process followed in order to produce the AGS for 2014/15 and recommends approval of the Statement prior to signature by the Leader and the Executive Director (Strategy & Commissioning).
- 1.4 The report also provides an opinion on the effectiveness of the internal audit system for the same period.
- 1.5 The proposed Annual Governance Statement for 2014/15 is attached to the report.

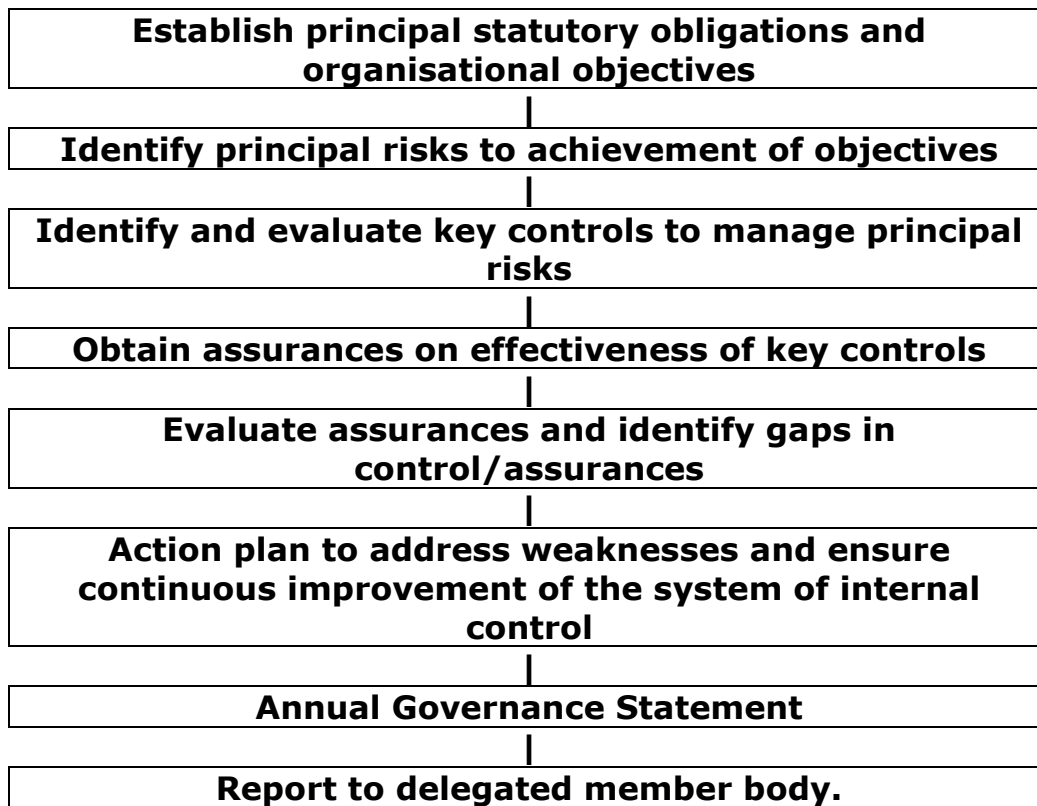
2. Background

- 2.1 The Accounts and Audit (Amendment) (England) Regulations 2006 also introduced a requirement to include an annual review of the effectiveness of the internal audit system.
- 2.2 The Code of Practice on Local Authority Accounting also requires that, within the AGS, there should be a statement on whether the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- 2.3 Maintaining sound systems of internal control and risk management enables the council to monitor and review the key risks that may prevent it from achieving its corporate and service objectives.

3. Outcomes/outputs

- 3.1 The purpose of the AGS process is to provide a continuous review of the effectiveness of an organisation's internal control and risk management, in order to give assurance as to their effectiveness and/or to produce a management action plan to address identified weaknesses in either process.

3.2 The diagram sets out the key stages for the review of governance internal control and the AGS assurance gathering process as follows:



4. Options available and consideration of risk

4.1 The purpose of the AGS is to provide evidence of a continuous review of the Council's internal control and risk management processes, to provide assurance as to their effectiveness and to identify actions being taken or planned to address any key weaknesses identified.

4.2 Continuous review of the effectiveness of the Council's internal audit system is conducted by the Audit Committee whose terms of reference include, specifically, inter alia:

- To agree the annual Internal Audit Plan
- To monitor the progress and performance of Internal Audit
- To consider the Head of the Devon Audit Partnership's annual report, and comment annually on the adequacy and effectiveness of internal control systems within the Council

5. Proposed Way Forward

- 5.1 The Annual Governance Statement (AGS) sets out any significant governance issues identified and progress made against these.
- 5.2 Whilst there is no absolute definition of the term, the following indicators (provided by the Chartered Institute of Public Finance - CIPFA) have been used to help in considering whether or not an issue is significant enough to be reported on in the AGS:
- It seriously prejudices or prevents achievement of the principal objective of the authority;
 - It has resulted in the need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
 - It has led to a material impact on the accounts
 - The Audit Committee advises it should be considered significant for this purpose;
 - The Head of the Devon Audit Partnership reports on it as significant, for this purpose, in the annual opinion on the internal control environment;
 - The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
 - The issue has resulted in formal action being undertaken by the Chief Financial Officer and/or the Monitoring Officer

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires all relevant bodies to prepare an Annual Governance Statement. There is also a requirement under the Accounts and Audit (Amendment) (England) Regulations 2006 for the AGS to include a review of the effectiveness of the internal audit system.
Financial		There are no direct financial implications arising directly from this report.

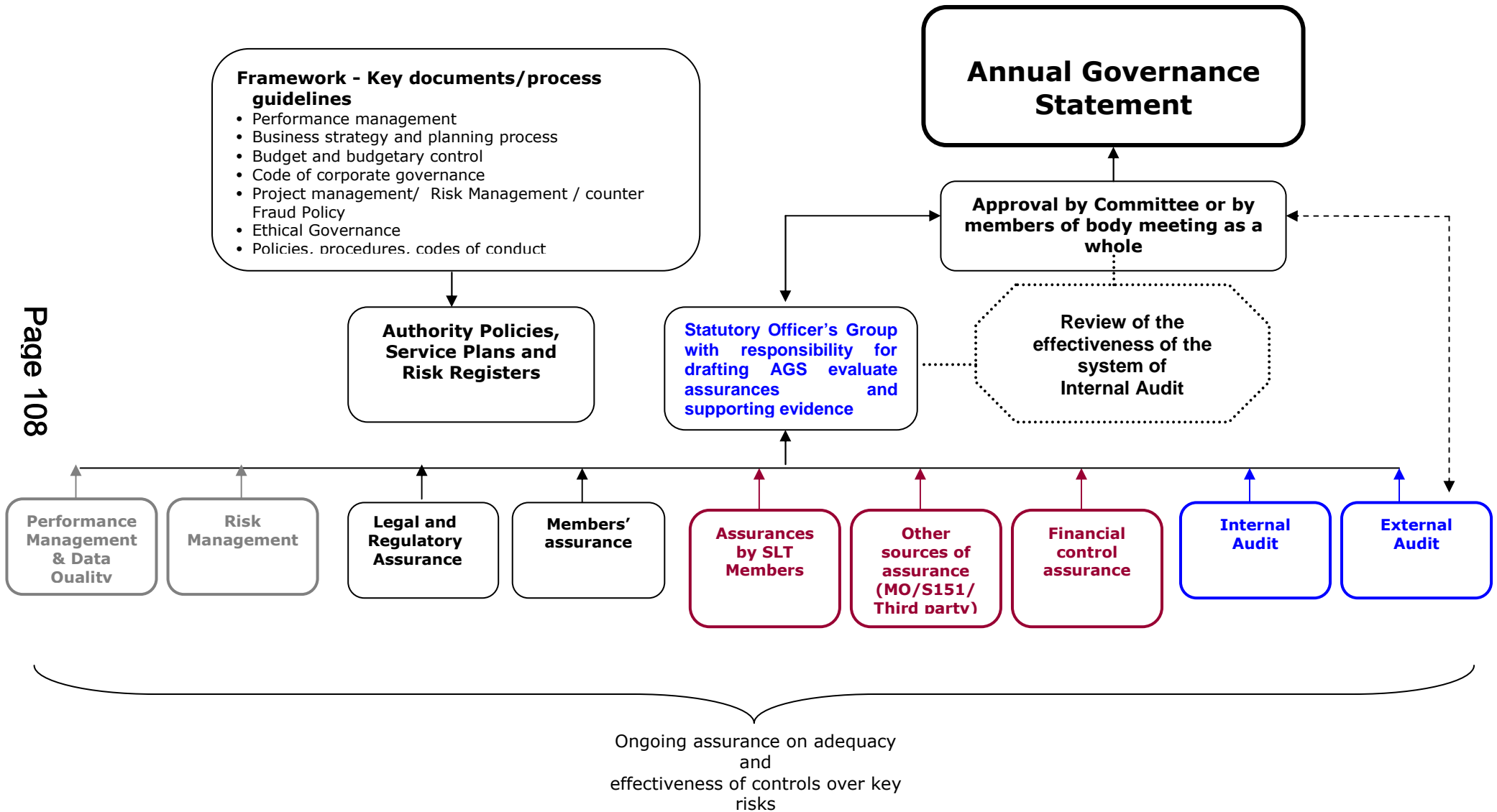
Risk		<p>The statutory responsibility to publish an Annual Governance Statement requires the Council to review its key risks, and to identify and publish the actions that it intends taking to improve or resolve those risks.</p> <p>These risks primarily relate to the achievement of the Council's core objectives and strategies and, therefore, the AGS provides an opportunity to formally review governance structures and processes that underpin their delivery.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity		There are no specific issues arising from this report.
Safeguarding		There are no specific issues arising from the report.
Community Safety, Crime and Disorder		There are no specific issues arising from the report.
Health, Safety and Wellbeing		There are no specific issues arising from the report.
Other implications		None identified.

Supporting Information

Background Papers:

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

ANNUAL GOVERNANCE STATEMENT FRAMEWORK



(Agreed by the Senior Leadership Team July 2015)

**South Hams District Council
Annual Governance Statement
2014 – 2015**

1. Scope of Responsibility

South Hams District Council is responsible for ensuring that:

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

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

In discharging this overall responsibility, South Hams District Council is also responsible for ensuring that there is a sound system of governance (incorporating the system of internal control) and maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, including arrangements for the management of risk.

South Hams District Council and West Devon Borough 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 June 2014 Council, Members agreed a Senior Leadership Team Structure across both South Hams and West Devon. This included adopting an Executive Director model to take both Councils forward into the future. The abolition of the traditional Chief Executive role is saving the equivalent of 1% per annum in Council Tax.

The Councils' joint Senior Leadership Team has reduced from 10 down to 6 posts, 2 Executive Directors and 4 Group Managers. Five of these posts were filled by external applicants. Recruitment to the new structure took place between September 2014 and January 2015 and the new Executive Directors and Group Managers took up their posts between January and May 2015. This has been a significant change for the Council.

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.

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 South Hams District Council for the year ended 31 March 2015 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. South Hams District 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
- The Strategic direction is communicated to the citizens and service users through the Council's web-site; a magazine 'South Hams Living' which also contains contributions from Devon County Council and the National Health Service and is available via Twitter and Facebook;
- On 11 December 2014 the Executive considered the 'Our Plan' strategic plan, setting out a vision, long term priorities and planning policies that are in line with the National Planning Policy Framework. The link is below:

<http://www.southhams.gov.uk/article/8300/Thursday-11-December-2014>

Through 'Our Plan' we are striving to achieve communities that have access to housing, employment, services and facilities that meet their needs, communities that are resilient, safe and able to make choices about their future. Our communities are places where businesses can develop and grow. We want to ensure the plan makes a positive contribution to the equality, fairness and spiritual wellbeing of our communities.

The Our Plan Objectives are:-

Our Wellbeing
Our Communities
Our Homes
Our Economy
Our Infrastructure
Our Environment
Our Heritage
Our Resources

- The Councils 'Purpose', priorities and objectives appear on the front page of the intranet for all staff and as the main screen;
- All staff briefings undertaken by SLT to articulate the vision and new ways of working;
- The Council's corporate strategy (T18) is being implemented supported by a detailed project plan that has been made widely available;
- Regular consultation is undertaken on a range of issues;

- The Council's budget book shows financial plans at a detailed level for the financial year;
- Effective budgetary monitoring takes place regularly by SLT;
- Cashable and non-cashable savings identified in the T18 programme are on target;
- Performance management and reporting is embedded including quarterly reporting to the Corporate Performance and Resources Scrutiny Panel;
- 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

- 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 Regulations 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

- 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 2014/15.

- 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 (Corporate Performance and Resources Scrutiny Panel) is in place.
- The Council publishes a **Medium Term Financial Strategy (MTFS)** each year, which covers a four year period. That for the period 2014/15–2017/18 was approved by the Executive in July 2013 and has regard to the Priorities, business planning – pressures and savings
- Staff assessed against a set of key behaviours 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, which is planned to be reviewed in 2015/2016. 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
- The Corporate Performance and Resources Scrutiny Panel 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 2014/15, the Council had three Overview and Scrutiny Panels:

Community Life and Housing; Corporate Performance and Resources; and Economy and Environment.

- Members on the Panels 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. The risk management process includes an approved Policy (April 2012), a Risk Management Group, risk registers, systems for identifying emerging risks, consideration of risk and opportunities in reports to Members and project management. A review of this approach by Internal Audit has identified areas for continuous improvement as a result of the changes under the T18 programme. This has been addressed by the SLT through the Statutory Officers Group in the next financial year.
- 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. A Joint Health and Safety Group is in the process of being set up.
- 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. Elements include:
 - monthly review of budgetary control information by budget officers and SLT, to compare expected and actual performance
 - quarterly budget monitoring reports to the Executive
- formal quarterly budgetary monitoring reports reviewed as part of the T18 programme by the Corporate Performance and Resources Scrutiny Panel
- 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 Personal Development Review

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

- The Community Strategy Our Plan was considered by Members in December 2014.
- 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)

1. 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 Executive of any significant matters warranting their attention.

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

In 2014/15, the Council had three Overview and Scrutiny Panels:

- Community Life and Housing;
- Corporate Performance and Resources; and
- Economy and Environment

Overview and Scrutiny is responsible for performing a review function which in 2014/15 included specific work on;

- The Code of Conduct and General Dispensations;
- Gypsies and Travellers Site Provision;
- Affordable Housing Delivery Models;
- Empty Homes Strategy;
- Disabled Facilities Grants;
- Waste Policy;
- Managing Coastal Assets;
- Rural Broadband;
- Fees and Charges;

The Overview and Scrutiny Panels continued to review and scrutinise the Council's performance monitoring reports via T18 programme against the Council's corporate strategy and quarterly performance indicator reports.

In addition, the Panels also considered agenda items related to the attendance of representatives from the following external agencies/partners:

- South West Water;
- The Community Safety Partnership;
- The Citizens' Advice Bureau;
- Tone Leisure;
- Devon Carers;
- Devon and Cornwall Housing; and
Devon Clinical Commissioning Group.

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

South Ham'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 2014/15 was considered by the Audit Committee on 25 June 2015 and Members endorsed the adequacy and effectiveness of the system of internal audit for the year end 31 March 2015. That endorsement forms part of the Annual Governance Statement for 2014/15 along with the Chief Auditors assurance opinion that "overall and based on work performed during 2014/15, and that of our experience from previous years audit, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control framework".

Senior Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a

number of significant internal control areas which are subject to review by internal audit. 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 have not identified any significant weaknesses in our internal control arrangements when working with us throughout the year and in their annual audit letter.

The annual audit letter contained one medium priority recommendation around segregation of duties within payroll. This has been addressed by the new structure adopted by the Transformation Programme and this service is now performed within Service Processing.

Significant Governance Issues

However, 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:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>T18 Transformation Programme</p> <p>South Hams District Council and West Devon Borough Council have undertaken innovative plans to transform the way the Councils carry out their work.</p> <p>The new operating model ensures the way the Councils deliver their services to residents and communities remains at the very heart of everything the Councils do.</p> <p>Internally this is known as the T18 Transformation Programme.</p> <p>The changes have cast aside the traditional ways of local government, and long-established Council departments will be replaced by customer-focussed teams of officers who will work out of the office and more within the community.</p> <p>The Councils have invested in the latest technology to enable residents and businesses to conduct their business online 24 hours a day, seven days a week. Those who prefer will still be able to contact the councils in the conventional way, such as by phone or through visiting the council's offices.</p> <p>The Councils' workforce will be smaller, reducing the need for office accommodation, and all staff roles will change.</p> <p>Grant Thornton assessed the outline business plan for the T18 Transformation Programme to determine its fitness for purpose. Their report dated October 2013 provided conclusions for 'meeting the financial challenges', use of reserves, staff costs including ratios, and governance.</p>	<p>The Head of Paid Service, S.151 Officer, Monitoring Officer and Internal Audit Manager will monitor the governance of the T18 Transformation Programme and its impact on the Constitution including the related Procedure Rules.</p> <p>South Hams District Council and West Devon Borough Council were recognised on a national stage in March 2015, receiving the Gold Award for 'Delivering through Efficiency' and the Silver Award for 'Council of the Year' at the Improvement and Efficiency Social Enterprise Awards (iESE). The awards celebrate Councils who are developing new ways of working and transforming public service delivery to improve services and reduce costs.</p>	<p>Head of Paid Service S.151 Officer Monitoring Officer Internal Audit Manager Timescale in line with the Programme.</p>

<p>In addition, two senior officers of independent Councils, with Grant Thornton, were asked to provide an objective opinion to Members on whether or not T18 should deliver the estimated savings and to comment on the risk management aspects of the project risk.</p> <p>The above reports were formally presented to the Audit Committee in December 2013, after having been circulated to all Members. An action plan for the relevant findings from the assurance reports and how the Council will address them was also included.</p> <p>A separate T18 Risk Register is maintained by the S151 Officer and describes the risks, their impact and likelihood, and the mitigating actions being taken.</p>	<p>Quarterly monitoring reports on the Transformation Programme are presented to the Council's Corporate Performance and Resources Scrutiny Panel.</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>Senior Leadership Team Programme Board Audit Committee Duration of the programme.</p>
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Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Collaboration Agreement</p> <p>Last year it was reported that the Monitoring Officer was in the process of reviewing an Overarching Agreement between the two Councils, which will also include responsibilities relating to contract liabilities e.g. costs incurred in relation to disputes by one of the two Councils only under a shared contract. A 'Collaboration Agreement' was approved by both South Hams District Council and West Devon Borough Council and was formally signed on 11th March 2015.</p>	<p>The Collaboration Agreement between both South Hams District Council and West Devon Borough Council was formally signed on 11th March 2015.</p>	<p>Monitoring Officer - Already implemented</p>
<p>Onward Delegation</p> <p>The Monitoring Officer was putting in place Onward Delegation documents, setting out those areas delegated by the Heads of Service/Group Managers to the relevant Community of Practice Leads.</p>	<p>The Monitoring Officer has put in place a revised Scheme of Delegation in early 2015 which has addressed this issue and reflects the new staffing structure under T18.</p>	<p>Monitoring Officer - Already implemented</p>

Issues and action plan from the System of Internal Control:

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Financial Uncertainty</p> <p>As Local Authorities experience reductions in funding, although South Hams District 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 and Council Tax freeze initiatives that are expected.</p> <p>A Medium Term Financial Strategy (MTFS) was presented to the Executive in September 2014 setting out the current position and was regularly updated throughout the 2015-16 Budget Setting process.</p> <p>The next MTFS is due to be presented to Members in September 2015.</p>	<p>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.</p> <p>These include:</p> <ul style="list-style-type: none"> • T18 Transformation Programme. The programme will deliver new and very different ways of working (see above); • Strategic Asset Review; and • Income generation initiatives including setting up a trading company (the company was incorporated on 4th September 2014) 	<p>Senior Management Team/Senior Leadership Team from 2015</p> <p>On-Going</p>
<p>Business Rate Retention</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.</p> <p>The business rate retention scheme allows authorities to voluntarily form a business rates retention pool. The membership of the Devon pool consists of the eight District Councils in Devon and Devon County Council, Torbay Unitary and Plymouth Unitary, with Plymouth acting as the Lead Authority for the pool.</p> <p>There is no entitlement to safety net funding should a high degree of negative growth be experienced by the pool.</p> <p>As a result there are risks to the Business Rates Pool membership if there is a significant valuation change to a large liability business property in the District.</p>	<ul style="list-style-type: none"> • For 2015-16 the Devon Business Rates Pool has been re-constituted with all of the current pooling partners (all Devon Councils) excluding South Hams. • South Hams District Council has withdrawn from the Pool due to the risk of business rates appeals. 	<p>Already actioned.</p>

<p>The Valuation Office has provided a list of outstanding appeals for the Council, and these have been taken account of when completing the government return NDR1 for 2015/16 (section relating to back dated appeals).</p> <p>The Governance arrangements within the Pooling agreement state that the Governing Board will meet by no later than 30 September to consider the continuation or dissolution of the pool.</p> <p>The meeting of the Board is undertaken as part of the agenda of the Devon Local Government Steering Group meeting, with two of the meetings each year including pool business.</p> <p>Pool members should give notice no later than 30 September to pooling partners of their intention to leave the pool.</p>		
Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Land Charges</p> <p>In common with 370 other English district and unitary councils, SHDC are subject of a claim by a group of companies whose business is the making of personal searches of our local land charges records. Multiple Claims have been submitted.</p> <p>The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those Regulations were unlawfully made, the Government should compensate.</p> <p>The costs were estimated to be £87,400 (plus interest of £39,900 and costs) which is substantially lower than the original estimates.</p>	<p>The Local Government Association has instructed external solicitors to deal with the matter on behalf of the member Local Authorities.</p> <p>The Council has agreed a framework for settlement and legal advice received to conclude the claim. The matter was considered at a Full Council meeting on 21 May 2015 and a basis for settlement has been approved.</p> <p>Actual costs were £108,650 in total.</p> <p>The Government are considering further compensating Councils in 2015/16 for costs incurred.</p>	<p>Monitoring Officer S151 Officer</p> <p>Report to Members approved on 21 May 2015.</p>
<p>Internal and External Audit Reports</p> <p>Some issues have been identified in audit reports by the Council's external auditor, Grant Thornton, and the shared in-house internal audit team. 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>Group Managers S.151 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 R Tucker
Leading Member,
on behalf of South Hams District Council**

Signed:

**Steve Jordan
Executive Director (Strategy and Commissioning) and
Head of Paid Service, on behalf of South Hams District
Council**

xxx September 2015

Agenda Item 7

Report to: **Audit Committee**
Date: **30 July 2015**
Title: **Contract Procedure Rules**
Portfolio Area: **Support Services**
Wards Affected: **All/Corporate**

Relevant Scrutiny Committee: Internal Overview & Scrutiny WD /
Overview & Scrutiny Committee SH

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

Date next steps can be taken:
(e.g. referral on of recommendation or
implementation of substantive decision)

**Recommendations
to be considered
by Council on 6
October 2015**

Author: **Carly Wedderburn** Role: **Corporate Procurement
Officer**

Contact: **01626 215120 | carly.wedderburn@teignbridge.gov.uk**

Recommendations:

1. To review the updated version of the Council's Contract Procedure Rules (Appendix A)
2. To recommend to Council approval of the reviewed Contract Procedural Rules and their inclusion in the Council's Constitution.

1. Executive summary

The Council's Contract Procedure Rules (the "Rules"), which were adopted in October 2014, were based on the principles, rules and regulations of the previous Public Contracts Regulations 2006, 2009 and 2011. As a result of the fact that these Regulations have been replaced, the Rules must be amended.

The purpose of this report is to allow the Audit Committee to carry out an overview of the updated Contract Procedure Rules to enable them to recommend adoption to the Council of the document.

This covering report carries a summary of the main changes proposed, and

the draft updated Contract Procedure Rules appear at Appendix A.

2. Background

On 26 February 2014 the European Parliament introduced Directive 2014/24/EU on public procurement, which repealed Directive 2004/18/EC. The Directive was transposed in to the Public Contracts Regulations 2015 and was laid in to Parliament and came in to force on 26 February 2015.

The Regulations, which replaces the previous Public Contracts Regulations 2006, 2009 and 2011, seek to clarify and simplify the previous Regulations as well as introduce some reforms, recommended by Lord Young of Graffham. They aim to make public procurement more accessible to small businesses.

The Regulations place a requirement on all public bodies to comply when conducting their procurement activities and it is incumbent upon the Council to ensure that its internal policies, procedures and processes meet the requirements. The Regulations are already in force and as such a decision is required immediately so as to ensure that the Rules are compliant with the legislation.

All Council Officers are expected to comply with the Rules and they affect the way in which the Council conducts its procurement activities with external service providers.

3. Outcomes/outputs

A summary of the key changes to the Rules is given below:

Section Reference (the Rules)	Detail of Change	In accordance with (the Regulations)
3.6	Removal of the need for consultation with Members over the approval of exemptions to help speed up the process	N/A
3.12 – 3.17	The treatment of contracts between public bodies or quasi-public bodies and the extent to which they are subject to the relevant procurement rules is clarified	Reg. 12
6.5	Additional reporting requirements for contracts with a total value in excess of the EU threshold have been added to the Rules	Reg. 84
7.1.2	Clarification is provided on the Council's legal obligation to provide transparent access to its procurement procedures through electronic means, both in publishing opportunities on the Council's own electronic tendering system and via the Cabinet Office's Contracts Finder	Reg. 22
7.1.7 and 12.1	Advice is given to Officers not to include a pre-qualification stage in procurement	Reg. 111(1)

	opportunities for contracts with a total value under the EU threshold in accordance with Lord Young's recommendations	
8.1.1 – 8.1.2	Clarification is provided around assessing the total value of a contract prior to deciding on the appropriate procurement route	Reg. 6
9.2 – 9.5	Advice is given to Officers as to how to treat suppliers prior to the commencement of a procurement procedure, particularly where their assistance is needed to shape the specification and resultant contract in accordance with Regulation	Reg. 40 and 41
10	Revisions have been made to the selection and award criteria that can be used for the purpose of evaluating suppliers	Reg. 57, 58 and 67
12.4 – 12.5	Advice is provided concerning the division of contracts in to lots	Reg. 46
13.6	Removal of different systems for tender opening between South Hams and West Devon given that the Authorities are shared. Removal of the need for a Member to be present at the opening of tenders under the EU threshold to help speed up the process	N/A
16.1.4	Details of contractual clauses that must be included within relevant contracts covering prompt payment, changes to suppliers during the contract term and termination clauses have been added	Reg. 113(2), 72 and 73
20.3 and 21	Greater clarity is given as to the extent to which contracts can be amended during their term without triggering a re-procurement and advice is given as to how change can be provided for at the procurement stage	Reg. 72

Note: The *Corporate Procurement Officer* has taken this opportunity to consider some minor revisions to include formatting and grammatical errors, definitions and less significant amendments from the Regulations. Details of these revisions are not given.

4. Options available and consideration of risk

The Corporate Procurement Officer has undertaken to consult with other local authorities through the Devon and Cornwall Procurement Partnership (DCPP) group concerning the work that they have completed to ensure that their rules surrounding the award of contracts are compliant with the revised legislation and all of the regional procurement colleagues confirmed that work is either underway or complete in respect of this issue.

The Corporate Procurement Officer is also currently working to implement the proposed changes to Teignbridge District Council’s Rules in the interest of maintaining a single set of Rules across the procurement shared service of the three Councils (South Hams District Council, Teignbridge District Council and West Devon Borough Council).

5. Proposed Way Forward

This report gives details of the changes made to the Rules, the reasons for those changes and the reference to the Regulations upon which the changes are made. The report seeks approval for those changes.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<ul style="list-style-type: none"> The legal background is set out at paragraph 2. The current Rules do not meet the legislative requirements set out in the regulations and must be updated to remain compliant. It is important that the Contract Procedure Rules are reviewed regularly to make sure that they are up to date, as the procurement environment is lively. As the Councils of South Hams and West Devon share services, and the Corporate Procurement Officer is shared with Teignbridge, it has become critical that there are no differences between the Rules operating in each Council. With Officers often under pressure it would be too easy to make a mistake and use the wrong Rules, with potentially serious consequences in terms of procurement impropriety, liability to disappointed or successful bidders, and consequent loss of reputation and confidence. Updating the Rules and then training relevant officers about the changes is a sensible precaution.
Financial	N	<ul style="list-style-type: none"> None, within existing budgets.
Risk	Y	<p>1. Need to update Contract Procedure Rules</p> <p>Risk to the business environment and potential cost to the Council if officers break procurement law.</p> <p>Mitigations</p> <p>a) Updated Rules provide Officers with a set of comprehensive regulations that have been drafted</p>

		<p>to remain within current procurement law and policy.</p> <p>b) The Rules contribute to the control environment and are regularly monitored with breaches reported to the Audit Committee.</p> <p>c) Use of the Rules will protect Officers and the Council from accusations of impropriety from unsuccessful suppliers or others.</p> <p>2. Benefits of Shared Procurement</p> <p>The Corporate Procurement Officer may be restricted in the benefits that they can bring through shared procurement arrangements where the Rules are not aligned across the three partner organisations.</p> <p>Mitigation</p> <p>All key procurement arrangements have been brought up to date and aligned for the future benefit of any shared service agenda.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity	Y	The Regulations are based on the principles of equality of opportunity and non-discrimination of service providers and the updated Rules reflect both of these.
Safeguarding	N	No specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	No specific community safety or crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	No specific health, safety and wellbeing issues arising from this report.
Other implications	N	

Supporting Information

Appendices:

Appendix A revised Contract Procedure Rules.

Background Papers:

None

Approval and clearance of report

All reports must have Finance Service clearance and Legal Service clearance. Your report will only receive clearance if the implications in Section 6 are considered by the Finance and Legal Services to be complete and accurate. Make sure you contact the Finance Service and the Legal Service early on for advice where there are potentially financial or legal implications. If there are other resource implications you must forward your report to the appropriate officer for clearance. If those clearing the report make amendments they will advise you of that fact and refer you to the relevant changes. As report author you are responsible for finalising the report and its content but you are required to have regard to the comments of the Finance and Legal Services and clear reasons for not following their advice.



**South Hams
District Council**



**West Devon
Borough
Council**

**CONSTITUTION PART 4
CONTRACT PROCEDURE RULES (JOINT)**

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A BRIEF GUIDE TO CONTRACT PROCEDURE RULES

These Contract Procedure Rules (issued in accordance with section 135 of the 1972 Local Government Act) are intended to promote good procurement practice and public accountability and deter corruption.

Adherence to consistent and comprehensive Rules helps protect the Council against challenges that it has acted unlawfully or fraudulently.

Officers responsible for purchasing must comply with these Contract Procedure Rules. They lay down minimum requirements and a more thorough procedure may be appropriate for a particular Contract.

For the purposes of these rules, where there is a requirement for communication to be in writing, this shall be deemed to include e-mail (or other e-communication systems e.g. e-Tendering) fax transmissions as well as hard copy.

- Follow the rules whenever you purchase goods or services or order building work.
- Take all necessary procurement, legal, financial and professional advice.
- Declare any personal financial interest in a Contract. Corruption is a criminal offence.
- Conduct any Value for Money review and appraise the purchasing need.
- Check whether there is an existing Contract or Framework Agreement in place open to the Council that you can make use of before undergoing a competitive process
- Normally allow at least four weeks for submission of bids (not to be submitted by hard copy, fax or e-mail).
- Keep bids confidential.
- Complete a written Contract or Council order before the supply or works begin.
- Identify a Contract manager with responsibility for ensuring the Contract delivers as intended.
- Keep records of dealings with Suppliers.
- Assess each Contract afterwards to see how well it met the quality of delivery and Value for Money requirements.

In accordance with the Constitution, the S. 151 Officer shall have the power to make amendments from time to time to these Contract Procedure Rules after consultation with the Monitoring Officer, Internal Audit and the Corporate Procurement Officer. Proposed amendments must be submitted to the Audit Committee for recommendation to the Council of approval, where appropriate.

Terms in italics are defined in the Definitions Appendix.

Acknowledgements: CIPFA

Contributors:

Corporate Procurement Officer (Shared)

Internal Audit: South Hams and West Devon Councils (Shared)

Internal Audit: Teignbridge District Council

Legal team: South Hams and West Devon Councils (Shared)

S. 151 Officer and Monitoring Officer

DEFINITIONS

Term	Definition
Agent	A person or organisation acting on behalf of the <i>Council</i> or on behalf of another organisation.
Award Criteria	The criteria by which the <i>Contract</i> is to be awarded to the successful <i>Tenderer</i> (see further Rules 10 and 11.3).
Award Procedure	The procedure for awarding a <i>Contract</i> as specified in Rules 8, 10 and 15.
Bid	A <i>Supplier's</i> proposal submitted in response to the <i>Procurement Documentation</i>
Bond	An insurance policy: if the <i>Contractor</i> does not do what it has promised under a <i>Contract</i> with the <i>Council</i> , the <i>Council</i> can claim from the insurer the sum of money specified in the <i>Bond</i> (often 10% of the <i>Contract</i> value). A <i>Bond</i> is intended to protect the <i>Council</i> against a level of cost arising from the <i>Contractor's</i> failure.
Code of Conduct (Officers)	The code regulating conduct of <i>Officers</i> , available on the <i>Council's</i> Intranet.
Code of Conduct (Members)	As set out in the <i>Constitution</i> – Part 5.
Concession Contracts	Shall mean a public <i>Contract</i> under which <i>Supplier/s</i> are given the (exclusive) right to exploit the works or services provided for their own gain and where the <i>Supplier's</i> income is generated solely from third parties or as a combination of revenue streams from both third parties and the <i>Council</i>
Constitution	The constitutional document approved by the <i>Council</i> which: <ul style="list-style-type: none"> • Allocates powers and responsibility within the <i>Council</i> and between it and others • Delegates authority to act to the Executive/Committees, Other Member Bodies and <i>Officers</i>; regulates the behaviour of individuals and groups through rules of procedure, codes and protocols. • Available on the Internet
Consultant/ Consultancy	Someone employed for a specific length of time to work to a defined project brief with clear outcomes to be delivered, who brings specialist skills or knowledge to the role, and where the <i>Council</i> has no ready access to employees with the skills, experience or capacity to undertake the work.
Contract	Is a legally binding agreement concluded in writing for consideration (whatever the nature of the consideration, whether by payment or some other form of reward) under which a contracting authority engages a person or organisation to provide goods, works or services.
Contracting Decision	Any of the following decisions: <ul style="list-style-type: none"> • Withdrawal of <i>Invitation to Tender</i> • Whom to invite to submit a <i>Quotation</i> or <i>Tender</i> • <i>Shortlisting</i> • Award of <i>Contract</i> • Any decision to terminate a <i>Contract</i> • Any decision to extend or vary a <i>Contract</i>.
Term	Definition
Contracts Finder	A web-based portal provided for the purpose of under- <i>EU Threshold Contracts</i> on behalf of the Cabinet Office
Contracts Notice	An advertisement placed in the Official Journal of the European Union, which is a legal requirement for all procurements that exceed the <i>EU Threshold</i> .

DEFINITIONS

Corporate Contract	A <i>Contract</i> let by the <i>Corporate Procurement Officer</i> to support the <i>Council's</i> aim of achieving <i>Value for Money</i> to include <i>Contracts</i> let by the <i>Council</i> and/or <i>Contracts</i> or <i>Framework Agreements</i> let by other organisations to which the <i>Council</i> has access.
Corporate Procurement Officer	The <i>Council's</i> procurement <i>Officer</i> charged with providing strategic direction and advice to secure <i>Value for Money</i> in the <i>Council's</i> procurement activities.
Dynamic Purchasing System	A completely electronic system of limited duration which is— (a) established by a contracting authority to purchase commonly used goods, work, works or services; and (b) open throughout its duration for the admission of economic operators which satisfy the <i>Selection Criteria</i> specified by the contracting authority; and (c) submit an indicative <i>Tender</i> to the contracting authority or person operating the system on its behalf which complies with the specification required by that contracting authority or person.
Electronic Auction	Is a means of seeking the <i>Supplier's</i> pricing in an electronic format in a live competitive environment, the aim of which is to achieve greater <i>Value for Money</i> than traditional tendering
Executive/ Hub Committee	The <i>Council's</i> Executive / Hub Committee as defined in the <i>Constitution</i> .
EU Procedure	The procedure required by the EU where the <i>Total Value</i> exceeds the <i>EU Threshold</i> .
EU Threshold	The value at which the EU public procurement directives and UK procurement regulations apply.
European Economic Area	The members of the European Union, and Norway, Iceland and Liechtenstein.
Financial Procedure Rules	The <i>Financial Procedure Rules</i> outlining <i>Officer</i> responsibilities for financial matters issued by the <i>S. 151 Officer</i> in accordance with the <i>Constitution (Financial Procedure Rules)</i> .
Framework Agreement	An agreement between one or more authorities and one or more economic operators, the purpose of which is to establish the terms governing <i>Contracts</i> to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity envisaged.
Government Procurement Agreement	The successor agreement to the General Agreement on Trade and Tariffs. The main signatories other than those in the <i>European Economic Area</i> are the USA, Canada, Japan, Israel, South Korea, Switzerland, Norway, Aruba, Hong Kong, China, Liechtenstein and Singapore.
Group Manager, Lead Specialists. Level 3 Managers and Executive Director	The <i>Officers</i> defined as such in the <i>Constitution</i> .
High Profile	A high-profile purchase is one that could have an impact on functions integral to <i>Council</i> service delivery should it fail or go wrong.
High Risk	A high-risk purchase is one which presents the potential for substantial exposure on the <i>Council's</i> part should it fail or go wrong.
High Value	A high-value purchase is where the value exceeds the <i>EU Threshold</i> values.
Interests	Is a connection to another person or organisation that meets any of the following criteria: (a) Ownership of shares in a <i>Supplier</i> or any other financial <i>Interest</i> in a <i>Supplier</i> whether held by the relevant individual or by a close

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	<p>relative of the Individual or by any corporate entity in which the individual has an <i>Interest</i>; and/or</p> <p>(b) Employment by a <i>Supplier</i> of the individual or a close relative of the Individual; and/or</p> <p>(c) Provision of services to a <i>Supplier</i> by the Individual or by the firm the individual is associated with, and/or</p> <p>(d) Connection with, whether prejudicial or otherwise, any person/s said to be affected by the outcome of a procurement process.</p>
Invitation to Tender (ITT)	<i>Invitation to Tender</i> documents in the form required by these Contract Procedure Rules.
Key Decision	Decisions that are defined as <i>Key Decisions</i> in the <i>Constitution</i> .
Lots	One of a number of categories of goods, works or services which a single procurement process has been divided into with a view to awarding to multiple <i>Suppliers</i>
Monitoring Officer	As identified in the <i>Constitution</i> . The <i>Monitoring Officer</i> or the <i>Monitoring Officer's</i> formally nominated deputy
Nominated Suppliers	Those persons specified in a main <i>Contract</i> for the discharge of any part of that <i>Contract</i> .
Non-Commercial Considerations	<p>(a) The terms and conditions of employment by <i>Contractors</i> of their workers or the composition of, the arrangements for the promotion, transfer or training of or the other opportunities afforded to, their workforces ('workforce matters').</p> <p>(b) Whether the terms on which <i>Contractors Contract</i> with their <i>Sub-Contractors</i> constitute, in the case of <i>Contracts</i> with individuals, <i>Contracts</i> for the provision by them as self-employed persons of their services only.</p> <p>(c) Any involvement of the business activities or interests of <i>Contractors</i> with irrelevant fields of government policy.</p> <p>(d) The conduct of <i>Contractors</i> or workers in industrial disputes between them or any involvement of the business activities of <i>Contractors</i> in industrial disputes between other persons ('industrial disputes').</p> <p>(e) The country or territory of origin of supplies to, or the location in any country or territory of the business activities or interests of, <i>Contractors</i>.</p> <p>(f) Any political, industrial or sectarian affiliations or interests of</p>
Term	Definition
Non-Commercial Considerations (Continued)	<p><i>Contractors</i> or their directors, partners or employees.</p> <p>(g) Financial support or lack of financial support by <i>Contractors</i> for any institution to or from which the authority gives or withholds support. <i>Continued overleaf</i>. (h) Use or non-use by <i>Contractors</i> of technical or professional services provided by the authority under the Building Act 1984 or the Building (Scotland) Act 1959. Workforce matters and industrial disputes, as defined in paragraphs (a) and (d), cease to be <i>Non-Commercial Considerations</i> to the extent necessary or expedient to comply with Best <i>Value</i>; or where there is a transfer of staff to which the Transfer of undertakings (Protection of Employment) Regulations 1981 (<i>TUPE</i>) may apply</p>
Officer	The <i>Officer</i> designated by the Executive Director, Group Manager or Lead Specialist to deal with the <i>Contract</i> in question.
Parent Company Guarantee	A <i>Contract</i> which binds the parent of a subsidiary company as follows: if the subsidiary company fails to do what it has promised under a <i>Contract</i> with the <i>Council</i> , the <i>Council</i> can require the parent company to do so instead.

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Portfolio Holder	A member of the <i>Executive/Committees</i> to whom political responsibility is allocated in respect of specified functions.
Pre-Qualification Questionnaire (PQQ)	The <i>PQQ</i> is a questionnaire issued to ascertain the suitability of potential <i>Suppliers</i> to provide goods, services or works as identified in the <i>Tender</i> advertisement / <i>Contracts Notice</i> .
Prior Information Notice (PIN)	An advertisement placed in the Official Journal of the European Union, which indicates to the open market the Authority's intentions in advance of a formal procurement or number of procurements taking place
Priority Services	Those services required to be <i>Tendered</i> as defined in the EU public procurement directives.
Procurement Documentation	Shall mean the documents dispatched to <i>Suppliers</i> as part of procurement process; comprised of the instructions and information to applicants, <i>Contract</i> information, specification, pricing schedule and certificates for signature.
Procurement Strategy	The document setting out the <i>Council's</i> approach to procurement and key priorities for-a specified period of time.
Purchasing Guidance	The suite of guidance documents, together with a number of standard documents and forms, which supports the implementation of these Contract Procedure Rules. The guidance is available on the <i>Council's</i> intranet and Procurement Tool.
Quotation	A <i>Quotation</i> of price and any other relevant matter (without the formal issue of an <i>Invitation to Tender</i>). Definition - A formal statement of promise (submitted usually in response to a request for <i>Quotation</i>) by a potential <i>Supplier</i> to supply the goods or services required by a buyer (the <i>Council</i>), at specified prices, and within a specified period. A <i>Quotation</i> may also contain terms of sale and payment, and warranties. Acceptance of <i>Quotation</i> by the buyer constitutes an agreement binding on both parties
Relevant Contract	<i>Contracts</i> to which these Contract Procedure Rules apply (see Rule 4).
S. 151 Officer	The <i>Officer</i> as may be designated <i>S. 151 Officer</i> by the <i>Council</i> in line with the <i>Constitution</i> , including the appointed Deputy <i>S. 151 Officer</i> .
Selection Criteria	The Authority's minimum requirements by which the <i>Tenderer</i> is to be assessed as being suitable to proceed with the <i>Tender</i> process
Service Manager	The <i>Officer's</i> immediate superior or the <i>Officer</i> designated to exercise the role reserved to the <i>Service Manager</i> by these Contract Procedure Rules.
Shortlisting	The process of selecting <i>Suppliers</i> who are to be invited to quote or <i>Bid</i> or to proceed to final evaluation.
Standstill	Shall mean the period between notification of the intention to award a <i>Contract</i> in accordance with the <i>EU Procedure</i> and the formal award of said <i>Contract</i>
Sub-Contractors	Those persons specified in a main <i>Contract</i> for the discharge of any part of that <i>Contract</i> .
Supplier	Any person who asks or is invited to submit a <i>Quotation</i> or <i>Tender</i> .
Tender	A <i>Supplier's</i> proposal submitted in response to the <i>Invitation to Tender</i>
Tender Register Pro Forma	The log kept by the <i>Monitoring Officer</i> to record details of <i>Tenders</i> (see Rule 13.4).
Total Value	The whole of the value or estimated value (in money or equivalent value) for a single purchase, <i>Contract</i> calculated as follows: (a) Where the <i>Contract</i> is for a fixed period, by taking the total price to be paid or which might be paid during the whole of the period, including any permitted extensions

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	<p>(b) Where the purchase involves recurrent transactions for the same type of item, by aggregating the value of those transactions in the coming 12 months.</p> <p>(c) Where the <i>Contract</i> is for an uncertain duration, by multiplying the monthly payment by 48</p> <p>(d) Where a single requirement for goods or services or for the carrying out of a work or works and a number of <i>Contracts</i> have been entered into or are to be entered into to fulfill that requirement</p> <p>(e) Where the <i>Contract</i> is to be executed over a period for goods or services and</p> <ul style="list-style-type: none"> • a series of <i>Contracts</i>; or • a <i>Contract</i> which under its terms is renewable <p>is entered into</p> <p>(f) Where there are a number of requirements over a given period for <i>Contracts</i> that have similar requirements or are for the</p>
	<p>same type of goods and service</p> <p>(g) For feasibility studies, the value of the scheme or <i>Contracts</i> which may be awarded as a result</p> <p>(h) For <i>Nominated Suppliers and Sub-Contractors</i>, the <i>Total Value</i> shall be the value of that part of the main <i>Contract</i> to be fulfilled by the <i>Nominated Supplier or Sub-Contractor</i></p> <p>(i) The <i>Total Value</i> of all <i>Contracts</i> expected to be placed under a <i>Framework Agreement</i></p> <p>(j) The <i>Total Value</i> of all <i>Contracts</i> expected to be placed under a <i>Dynamic Purchasing System</i></p> <p>(k) The <i>Total Value</i> of the requirement where more than one (1) organisation will purchase under the same <i>Contract</i></p>
<p>Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006 No.246)</p>	<p>Subject to certain conditions, these regulations apply where responsibility for the delivery of works or services for the authority is transferred from one organisation (e.g. private <i>Contractor</i>, local authority in-house team) to another (e.g. following a <i>Contracting out</i> or competitive tendering process) and where the individuals involved in carrying out the work are transferred to the new employer. These regulations seek to protect the rights of employees in such transfers, enabling them to enjoy the same terms and conditions, with continuity of employment, as existed with their former employer. Broadly, TUPE regulations ensure that the rights of employees are transferred along with the business</p>
<p>Value for Money</p>	<p><i>Value for Money</i> is not the lowest possible price; it combines goods or services that fully meet your needs, with the level of quality required, delivery at the time you need it, and at an appropriate price.</p>

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1. BASIC PRINCIPLES

All purchasing procedures and the letting of *Concession Contracts* must:

- Comply with these Contract Procedure Rules and *Financial Procedure Rules* (both at Part 4 of the *Constitution*)
- Achieve *Value for Money* for public money spent
- Be consistent with the highest standards of integrity, having regard to the *Council's* Anti Fraud, Corruption and Bribery Policy and Strategy, and the Office of Fair Trading guidance on Anti Competitive Behaviour.
- Ensure fairness in allocating public *Contracts*
- Comply with all legal and financial requirements
- Ensure that *Non-Commercial Considerations* do not influence any *Contracting Decision*
- Support the *Council's* corporate and departmental aims and policies
- Comply with the *Council's* Procurement Strategies
- Be followed by *Officers* of the *Council* in all procurement activities including circumstances where there has been any challenge by the community.

2. OFFICER RESPONSIBILITIES

2.1 Officers

2.1.1 *Officers* responsible for purchasing must comply with these Contract Procedure Rules, *Financial Procedure Rules*, the Code of Conduct and with all UK and European Union binding legal requirements. *Officers* must ensure that any *Agents*, *Consultants* and *Contractual* partners acting on their behalf also comply.

2.1.2 *Officers* must:

- Comply with the Basic Principles as above
- Have regard to the *Council's* Purchasing and *Contract* Guidance
- Ensure that the appropriate approved budgetary provision is in place
- Check whether a suitable *Corporate Contract* exists before seeking to let another *Contract*; where a suitable *Corporate Contract* exists, this must be used unless there is an auditable reason not to
- **For *Contracts* with a *Total Value* above £50,000, take a report to the Executive / Hub Committee at least 6 months before the *Contract* is due to end to consider whether it is appropriate to *Tender* on the same basis as the existing arrangement**
- Keep the records required by Rule 6

2.1.3 When any employee either of the authority or of a service provider may be affected by any transfer arrangement, *Officers* must ensure that the *Transfer of Undertaking (Protection of Employment) (TUPE)* issues are considered and obtain legal advice before proceeding with inviting *Tenders* or *Quotations*.

2.2 Group Managers, Lead Specialists and Level 3 Managers

2.2.1 Group Managers, Lead Specialists and Level 3 Managers must:

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- Comply with the Basic Principles as above
- Ensure that their staff comply with Rule 2.1
- Ensure that Exemptions are recorded under Rule 3.2 detailing the nature and value of the *Contract*, parties to the *Contract*, and the circumstances justifying the Exemption and send original exemption to *Monitoring Officer*
- Ensure that the originals of all *Contracts* are given to the *Monitoring Officer* for secure storage (see Rule 16.2.6).

3. EXEMPTIONS TO THESE RULES

Principles

- 3.1 The *Council* and its *Executive / Hub Committee* have power to authorise exemptions from the requirement to seek *Quotations* or invite *Tenders* for specific projects, and for South Hams any such decision may be a *Key Decision*.
- 3.2 Where necessary because of exceptional circumstances the *Officer (Group Manager, Lead Specialist or Level 3 Manager)* may seek an exemption with the approval of the *Officers* and members set out in the table below. **The exemption process must not be used as a method of avoiding the use of these Contract Procedure Rules.**
- 3.3 The circumstances where an exemption may be sought are:
- **Life or Death** – Is there a significant chance that the life or health of *Officers*, members or the public will be put at real risk?
 - **Increased Costs/Loss of Income** – Will the *Council* incur significant avoidable costs or lose significant income (significant shall be taken to mean material in the sense that it is either material to the project, the service or the *Council*)?
 - **Limited Markets** – Would the *Council* be wasting its time obtaining *Quotations* as supply of the product or service is demonstrably restricted to one or a few businesses? (Evidence that the market has been tested must be available)
 - **Risk to Reputation** – Would the *Council* be criticised for failing to act promptly?
- 3.4 **No exemption** can be used if the **EU Procurement Rules** apply. The latest EU procurement limits are available from either the *Corporate Procurement Officer* or *Internal Audit*.

Process

- 3.5 Pro-formas must be used and are available on the *Council's* Intranet or from the *Monitoring Officer* or *Internal Audit*.

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- 3.6 Exemptions from compliance with the Contract Procedure Rules may be granted with the original signatures of:

Total Value (excl. VAT)	Exemption Authorised By
£7,500–£50,000	<i>Internal Audit Monitoring Officer S. 151 Officer</i>
£50,001–EU Threshold	<i>Corporate Procurement Officer (Internal Audit in his/her absence) Monitoring Officer S. 151 Officer</i>
Above EU Threshold	No exemption permitted

- 3.7 **Total Value** is discussed at Paragraph 8 and the **Definitions Prefix**, which says that to obtain the estimated value of the *Contract*, the *Officer* must calculate the *Total Value* (excluding VAT) for the period of the *Contract*. **For example, a Contract let for 5 years at an estimated £20,000 per year, excluding VAT, has a Total Value of £100,000. The procurement must be based on £100,000 NOT the annual amount.**
- 3.8 Forms supported by the evidence that the exemption criteria have been met, must be sent to the *Monitoring Officer* or *Internal Audit*, and the *Corporate Procurement Officer*, in the first instance.
- 3.9 The original copy of the fully completed form must be sent to the *Monitoring Officer*, with a copy to Internal Audit.
- 3.10 The number of approved Exemptions will be reported to the Audit Committee by Internal Audit.
- 3.11 In exceptional circumstances an Exemption may be deemed necessary that is outside of the four criteria at 3.3. Any such Exemption can only be granted by the relevant member body on receipt of a joint report of the applicant and the *Corporate Procurement Officer*.

Contracts between One or More Public Bodies

- 3.12 Where the *Council* seeks to provide goods, works or services through its own internal resources it may do so without triggering a procurement exercise (links to *Financial Procedure Rules*).
- 3.13 Where the *Council* seeks to provide goods, works or services by entering in to a formal arrangement with another public sector body over which it has some ownership or control it may do so without triggering a procurement exercise where it can be demonstrated that three limited conditions are met, that:
- The *Council* must exercise over the body to be awarded the *Contract* “a control which is similar to that which it exercises over its own departments”; meaning that the *Council* must have a power of decisive influence over both strategic objectives and significant decisions of the body awarded the *Contract*,

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- More than 80% of the activities of the body to be awarded the *Contract* must be carried out in the performance of tasks entrusted to it by the *Council*; and
 - There must be no direct private capital participation in the body to be awarded the *Contract*.
- 3.14 Where the public sector body that is controlled by the *Council* seeks to provide goods, works or services by entering in to a formal arrangement with its controlling *Council* or another public sector body controlled by the same *Council* it may do so without triggering a procurement exercise where it can be demonstrated that a limited condition is met, that:
- There is no direct private capital participation in the body being awarded the *Contract*.
- 3.15 Where the *Council* seeks to provide goods, works or services by entering in to a formal arrangement with one or more public sector bodies over which it has no control it may do so without triggering a procurement exercise where it can be demonstrated that three limited conditions are met, that:
- The *Council* must exercise jointly with other public sector bodies “a control which is similar to that which it exercises over its own departments” over the body to be awarded the *Contract*;
 - More than 80% of the activities of the body to be awarded the *Contract* must be carried out in the performance of tasks entrusted to it by the joint public sector bodies; and
 - There must be no direct private capital participation in the body to be awarded the *Contract*.
- 3.16 The *Council* and other public sector bodies can be said to exercise joint control over another body where all of the following conditions are met, that:
- The decision-making bodies of the controlled body are composed of representatives of all participating public sector bodies;
 - The participating public sector bodies are able to jointly exert decisive influence over the strategic objectives and significant decisions of the body awarded the *Contract*; and
 - The body to be awarded the *Contract* does not pursue any interests which are contrary to those of the controlling public sector bodies.
- 3.17 A *Contract* concluded exclusively between two or more public sector bodies may not trigger a procurement exercise where it can be demonstrated that three limited conditions are met, that:
- The *Contract* establishes or implements a co-operation between the participating public sector bodies with the aim of ensuring that public services they have to perform are provided with a view to achieving common objectives;
 - The implementation of that co-operation is governed solely by considering relating to the public interest; and
 - The participating public sector bodies perform on the open market less than 20% of the activities with which the *Contract* is concerned;

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- 3.18 *Officers* must proceed with caution when invoking any of the exceptions given within this section, and advice must be sought from the *Corporate Procurement Officer*.

COLLABORATIVE ARRANGEMENTS

- 3.19 The *Corporate Procurement Officer* must be consulted prior to commencing a procurement process using any purchasing consortia *Contracts* e.g. Crown Commercial Services (CCS). The terms and conditions of *Contract* applicable to any purchasing consortia arrangement, including the requirement to undertake competition between providers, must be fully complied with.
- 3.20 In order to secure *Value for Money*, the *Council* may enter into collaborative procurement arrangements. The *Officer* must consult the *Corporate Procurement Officer* where the purchase is to be made using collaborative procurement arrangements with another local authority, government department, statutory undertaker or public service purchasing consortium.
- 3.21 All purchases made via a purchasing consortium are deemed to comply with these Contract Procedure Rules and no exemption is required.
- 3.22 However, purchases above the *EU Threshold* must be let under the *EU Procedure*, unless the consortium has demonstrated that it has satisfied this requirement already by letting their *Contract* in accordance with the *EU Procedures* on behalf of the authority and other purchasing consortium members.
- 3.23 Any *Contracts* entered into through collaboration with other local authorities or other public bodies, where a competitive process has been followed that complies with the Contract Procedure Rules of the leading organisation, will be deemed to comply with these Contract Procedure Rules and no exemption is required. However, **advice must be sought from the *Corporate Procurement Officer***.
- 3.24 The use of electronic procurement technology enhances the administrative process for tendering (audit trails etc.) but does not negate the requirement to comply with all elements of these Contract Procedure Rules, particularly those relating to competition and *Value for Money*.

4. RELEVANT CONTRACTS

- 4.1 All *Relevant Contracts* must comply with these Contract Procedure Rules. A *Relevant Contract* is any arrangement made by, or on behalf of, the *Council* for the carrying out of works or for the supply of goods, materials or services. These include arrangements for:
- The supply of goods (for disposal of goods and assets see the *Financial Procedure Rules*)
 - The hire, rental or lease of goods or equipment
 - The delivery of services, including (but not limited to) those related to:
 - the recruitment of staff
 - financial, legal and *Consultancy* services
 - Development Agreements under certain circumstances (see Section 25 for further details)

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- *Concession Contracts*

and where the *Supplier* is:

- Another public sector organisation, to include a town and/or parish *Council*
- A body wholly or jointly owned or controlled by the *Council*
- A third sector organisation, to include social enterprises, not-for-profit organisations or charities.

4.2 *Relevant Contracts* **do not include:**

- *Contracts* of employment which make an individual a direct employee of the authority; or
- Agreements regarding the acquisition, disposal, or transfer of land and buildings (for which *Financial Procedure Rules* shall apply), subject to the detail provided at section 24; or
- *S. 151 Officer* dealing in the money market or obtaining finance for the *Council*; or
- *Contracts* made by the *Monitoring Officer* for the appointment of counsel
- Allocation of grant funding.

5. STEPS PRIOR TO PURCHASE

5.1 The *Officer* must appraise the purchase, in a manner commensurate with its complexity and value and taking into account any *Purchasing Guidance*, by:

- Ensuring the Social Value (Public Services) Act 2012 is complied with for all service *Contracts* where the *Total Value* exceeds the *EU Threshold*
- Taking into account the requirements from any relevant *Value for Money* review and the views of the community where appropriate and in line with related *Council* guidance
- Appraising the need for the expenditure and its priority, including the position of any existing *Contract* or *Framework Agreement* in terms of end date/required notice
- Defining the objectives of the purchase and consider whether it is appropriate to *Tender* on the same basis as the existing arrangement (see also Rule 2.1.2)
- Assessing the risks associated with the purchase and how to manage them
- Considering what procurement method is most likely to achieve the purchasing objectives, including internal or external sourcing, partnering, packaging strategy and collaborative procurement arrangements with another local authority, government department, statutory undertaker or public service purchasing consortium
- Consulting users as appropriate about the proposed procurement method, *Contract* standards and performance and user satisfaction monitoring
- Ensuring that the appropriate terms and conditions are used to apply to the proposed *Contract* (if other than the *Council's* standard terms and conditions, the advice of the *Corporate Procurement Officer*, the *Council's* Solicitor and/or *Monitoring Officer* must be sought)

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- Setting out these matters in writing if the *Total Value* of the purchase exceeds £7,500.

5.2 The *Officer* must also confirm that:

- There is member or delegated approval for the expenditure and the purchase accords with the approved policy framework and scheme of delegation as set out in the *Constitution*
- South Hams - If the purchase is a *Key Decision* (as defined in the *Constitution*), all appropriate steps have been taken.
- In the case of expenditure on an asset (particularly property), that the asset is the *Council's* responsibility.

6. RECORDS AND REPORTING

6.1 Where the ***Total Value*** is less than **£50,000**, the following records must be kept:

- Invitations to quote and *Quotations*
- A record:
 - of any exemptions and the reasons for them
 - of the reason if the lowest price is not accepted (to accept a *Quotation* other than the lowest, the *Officer* must be satisfied that the *Tender* represents the most economically advantageous bid and best *Value for Money*. The *Award Criteria* for this should have been set out in advance and evaluation records must be retained. See Rule 10).
- Written (including electronic) records of communications with the successful *Contractor*.

6.2 Where the ***Total Value*** exceeds **£50,000** the following records must be kept:

- Pre-Tender market research
- Any exemption under Rule 3 together with the reasons for it
- The method for obtaining *Bids* (see Rule 8.1)
- The *Selection Criteria* in descending order of importance
- The *Award Criteria* in descending order of importance
- *Invitation to Tender* documents sent to and received from *Suppliers*
- Clarification and post-*Tender* negotiation (to include minutes of meetings)
- Any *Contracting Decision* and the reasons for it
- Legal advice
- The *Contract* documents and any variations or extensions
- Post-Contract evaluation and monitoring
- Communications with *Suppliers* and with the successful *Contractor* throughout the period of the *Contract*,
- Ongoing checking of the financial position of the successful *Contractor* throughout the period of the *Contract* (see also Section 10 Contract Management).

6.3 Records required by this rule must be kept for **six years** after the end of the *Contract*.

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- 6.4 Documents which relate to unsuccessful *Suppliers* must be destroyed after **12 months** has elapsed from the date of the award of successful *Contract*, provided there is no dispute about the award.
- 6.5 Where the **Total Value exceeds the EU Threshold** the *Officer* shall draw up a written report which shall include at least the following:
- The name and address of the *Council*, the subject-matter and value of the *Contract*, *Framework Agreement* or *Dynamic Purchasing System*;
 - Where applicable, the results of the *Selection* stage and reduction in *Tenderers*, namely:-
 - The names of the selected *Tenderers* and the reason for their selection;
 - The names of the rejected *Tenderers* and the reasons for their rejection;
 - The reasons for the rejection of *Tenders* found to be abnormally low; the name of the successful *Tenderer* and the reasons why its *Tender* was selected and, where known:-
 - The share (if any) of the *Contract* or *Framework Agreement* which the *Tenderer* intends to sub-contract to third parties; and
 - The names of the main *Contractor's* sub-contractors (if any);
 - For *Competitive Procedures with Negotiation* and *Competitive Dialogue* the circumstances which justify the use of those procedures;
 - For *Negotiated Procedures without Prior Publication*, the circumstances which justify the use of this procedure
 - Where applicable, the reasons why the *Council* has decided not to award a *Contract* or *Framework Agreement* or to establish a *Dynamic Purchasing System*
 - Where applicable, the reasons why means of communication other than electronic means have been used for the submission of *Tenders*;
 - Where applicable, conflicts of *Interest* and subsequent measures taken.

Where the *Contract Award Notice* contains the information required above, the *Council* may refer to that notice.

7. ADVERTISING, FRAMEWORK AGREEMENTS AND DYNAMIC PURCHASING SYSTEMS

7.1 Identifying and Assessing Potential Suppliers

Identifying

- 7.1.1 Wherever practicable *Officers* shall ensure that where the *Total Value* of the proposed *Contract* does not exceed **£50,000** they shall invite a minimum of three *Suppliers*, one of whom must have a head office which is registered within the *Council's* boundaries. *Officers* shall be seen to alternate the *Suppliers* to whom *Quotation* documentation is sent so as to ensure fair competition within the market.

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7.1.2 *Officers* shall ensure that, where proposed *Contracts*, irrespective of their *Total Value*, might be of interest to potential *Suppliers* located in other member states of the EU, a sufficiently accessible advertisement is published. Generally, the greater the interest of the *Contract* to potential bidders from other member states, the wider the coverage of the advertisement should be. Advertisements must be placed on the *Council's* electronic tendering system and *Contracts Finder*. Advertisements must include at least:

- The time by which any interested *Supplier* must respond to the opportunity;
- How and to whom the *Supplier* is to respond; and
- Any other requirements for participating in the procurement.

7.1.3 Where the *Council* published information on *Contracts Finder* it shall by means of the internet offer unrestricted and full direct access free of charge to the *Relevant Contract* documents and specify in the information published on *Contracts Finder* the internet address at which those documents are available.

7.1.4 In addition to the above, advertisements may also be placed in:

- The *Council's* website
- National official journals, or
- The Official Journal of the European Union (OJEU)/E-Notices/*Tenders Electronic Daily* (TED) (even if there is no requirement within the *EU Procedure*).

7.1.5 Notices must be placed in the OJEU for *Contracts* with a value exceeding the *EU Threshold* and may take the form of a *Contracts Notice for Prior Information Notice*.

7.1.6 For proposed *Contracts* that are expected to exceed £50,000, assessment and selection will be in conjunction with the *Corporate Procurement Officer*.

Assessing

7.1.7 The *Council* shall not include a pre-qualification stage in a procurement under the *EU Threshold*.

7.1.8 In any event the *Council* may ask *Suppliers* to answer *Selection* questions to assess their ability to meet requirements or minimum standards of suitability, capability, legal status or financial standing, only if each such question is:

- Relevant to the subject-matter of the procurement; and
- Proportionate.

7.2 Approved Lists

7.2.1 *Approved Lists* will not be maintained. This is because of the cost of proper administration and the need to ensure that competition is maximised.

7.2.2 *Suppliers* interested in doing business with the *Council* must register on the *Council's* electronic tendering system, which is available at www.supplyingthesouthwest.org.uk

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7.2.3 A register of pre-qualified *Contractors* and *Consultants* maintained by or on behalf of central government (e.g. Constructionline, Accredited) will be not be deemed to be an *Approved List* for the purpose of these Contract Procedure Rules and therefore can be used after having sought the advice of the *Corporate Procurement Officer*.

7.3 Framework Agreements

- 7.3.1 A *Framework Agreement* is an arrangement of one or more *Contracting* authorities with one or more *Suppliers* in order to establish the terms governing the *Contracts* awarded during a given period.
- 7.3.2 In setting up a *Framework Agreement* the term must not exceed four years. There must be one (a single-provider framework), or more than two (2) (multi-provider framework) *Suppliers* within an agreement under EU procurement law. The *Council's Corporate Procurement Officer* must always be consulted before any action is taken.
- 7.3.3 New framework *Suppliers* may not be added during the life of a *Framework Agreement*.
- 7.3.4 The *Total Value* of the *Framework Agreement* must be the total of all *Contracts* that are anticipated to be awarded under the agreement and as such it is recommended that a realistic range be provided within the *Contracts Notice* or *Tender* advertisement.
- 7.3.5 *Contracts* based on *Framework Agreements* may be awarded by either:
- Applying the terms laid down in the *Framework Agreement* (where such terms are sufficiently precise to cover the particular call-off) without reopening competition (also known as a *direct award*), or
 - Where the terms laid down in the *Framework Agreement* are not precise enough or complete for the particular call off by holding a further competition in accordance with the following procedure:
 - inviting the organisations within the *Framework Agreement* that are capable of executing the subject of the *Contract* to submit written *Tenders*
 - fixing a time limit which is sufficiently long to allow *Tenders* for each specific *Contract* to be submitted, taking into account factors such as the complexity of the subject of the *Contract*
 - awarding the *Contract* to the *Tenderer* who has submitted the best *Tender* on the basis of the *Award Criteria* set out in the specifications of the *Framework Agreement*.
- 7.3.6 *Contracts* based on a *Framework Agreement* may under no circumstances entail substantial modifications to the terms laid down in that *Framework Agreement*.
- 7.3.7 When a *Framework Agreement* has been selected for use only the *Suppliers* that appear on the agreement may be approached to provide the *Contract*. Multiple *Framework Agreements* may not be selected for use to procure one single *Contract*.

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- 7.3.8 *Contracts* may be awarded beyond the life of a *Framework Agreement* provided that such *Contracts* are not awarded improperly or in a way that seeks to distort competition. As an example it would serve to distort competition to award a *Contract* that significantly exceeded the life of the *Framework Agreement* where it was not common practice or expected by the market to do so.
- 7.3.9 A *Contract* procured under a *Framework Agreement* by another user may not be used by way of avoiding running a further competition, unless expressly permitted by the terms of the *Framework Agreement* or resultant call-off *Contract*.
- 7.3.10 The *Standstill* obligations need only be applied to *Contracts* awarded against a *Framework Agreement* that will exceed the *EU Threshold*.

7.4 Dynamic Purchasing System

- 7.4.1 A *Dynamic Purchasing System* is similar to a *Framework Agreement* insofar as it is an arrangement of one or more contracting authorities with one or more *Suppliers* in order to establish the terms governing the *Contracts* awarded during a given period. The *Total Value* must be the total of all contracts that are anticipated to be awarded under it.
- 7.4.2 The way in which the *Dynamic Purchasing System* is different to a *Framework Agreement* is that additional *Suppliers* can be added throughout the life of the arrangement and the life of the arrangement can be for a period, which is proportionate to the nature of the works, services or goods to be procured under it, as specified by the *Council*. Additionally, the term of the *Dynamic Purchasing System* is not limited to four years.
- 7.4.3 In opening up access to *Suppliers* to the *Dynamic Purchasing System* the *Officer* must:
- Offer unrestricted, direct and full access to the procurement documents by electronic means at all times throughout the life of the *Dynamic Purchasing System*;
 - Allow new applications to be submitted throughout the life of the *Dynamic Purchasing System*;
 - Complete the evaluation of a newly submitted application within ten days of its receipt;
 - Admit to the *Dynamic Purchasing System* all new *Suppliers* that satisfy the *Selection Criteria*; and
 - Notify *Suppliers* of their admission to the *Dynamic Purchasing System* or rejection of their application.
- 7.4.4 In awarding a *Contract* under the *Dynamic Purchasing System* the *Officer* must:
- Place an advertisement against the *Dynamic Purchasing System* to notify *Suppliers* of the requirement to award a *Contract*. Where the *Dynamic Purchasing System* has been established in accordance with the EU procurement rules, i.e. where the *Total Value* exceeds the *EU Threshold*, this must take the form of a simplified *Contracts Notice*;

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- Evaluate any new applications in response to the advertisement prior to issuing *Invitations to Tender* under the *Dynamic Purchasing System*;
- 7.4.5 All *Suppliers* admitted to the *Dynamic Purchasing System* must be given an opportunity to respond to the *Invitation to Tender*. The *Contract* shall be awarded to the *Supplier* that submits the best *Bid* in accordance with the *Selection and Award Criteria* set out in the original advertisement or *Contracts Notice*.
- 7.4.6 The *Council's Corporate Procurement Officer* must always be consulted before any action is taken to establish a *Dynamic Purchasing System*.

8. COMPETITION REQUIREMENTS FOR PURCHASE AND PARTNERSHIP ARRANGEMENTS

8.1 Purchasing: Competition Requirements to Obtain Quotations or Tenders

- 8.1.1 The *Total Value* of a *Contract* is the whole of the value or estimated value (in money or equivalent value) for a single purchase in the following circumstances:
- The total amount payable, net of VAT, as estimated by the *Council*, including any form of option and any renewals of the *Contracts* as explicitly set out in the procurement documents, to include any prizes or payments that the *Council* intends to make to the *Councils*
 - Where the purchase is regular in nature or is intended to be renewed within a given period, the calculation of the estimated *Contract* value shall be based on either of the following:
 - the total actual value of the successive *Contracts* of the same type awarded during the preceding 12 months or financial year adjusted, where possible, to take account of the changes in quantity or value which would occur in the course of the 12 months following the initial *Contract*;
 - the total estimated value of the successive *Contracts* awarded during the 12 months following the first delivery, or during the financial year where that is longer than 12 months.
 - Where the *Contract* does not indicate a *Total Value*, the basis for calculating the estimated *Contract* value shall be the following:
 - in the case of fixed-term *Contracts* where that term is less than or equal to 48 months, the *Total Value* for their full term;
 - in the case of *Contracts* without a fixed term or with a term greater than 48 months, the monthly value multiplied by 48.
 - Where a proposed work or a proposed provision of services may result in *Contracts* being awarded in the form of separate *Lots*, account shall be taken of the total estimated value of all such *Lots*.
 - Where the *Contract* relates to the leasing, hire, rental or hire purchase of products, the value to be taken as a basis for calculating the estimated *Total Value* shall be as follows:
 - for fixed-term *Contracts*, where that term is less than or equal to 12 months, the total estimated value for the term of the *Contract* or, where the term of the *Contract* is greater than 12 months, the *Total Value* including the estimated residual value;
 - for *Contracts* without a fixed term, or public *Contracts* the term of which cannot be defined, the monthly value multiplied by 48.

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- For *Contracts* for insurance services, the premium payable and other forms of remuneration
- For *Contracts* for banking and other financial services, the fees, commissions payable, interest and other forms of remuneration
- For design *Contracts*, the fees, commissions payable and other forms of remuneration
- Where the contracting body is comprised of separate operational units, account shall be taken of the total estimated value for all those units except where the separate operational unit is independently responsible for its procurement, or certain categories of its procurement, the values may be estimated at the level of the unit in question
- In the case of *Framework Agreements* and *Dynamic Purchasing Systems*, the value to be taken into consideration shall be the maximum estimated value, net of VAT, of all the *Contracts* envisaged for the total term of the *Framework Agreement* or the *Dynamic Purchasing System*
- In the case of innovation partnerships, the value to be taken into consideration shall be the maximum estimated value, net of VAT, of the research and development activities to take place during all stages of the envisaged partnership as well as of the supplies, services or works to be developed and procured at the end of the envisaged partnership
- For works *Contracts*, the calculation of the estimated value shall take account of both the cost of the works and the total estimated value of the goods and services that are made available to the *Contractor* by the Authority provided that they are necessary for executing the works.

8.1.2 The general rules when calculated the *Total Value* of a *Contract* are as follows:

- The choice of the method used to calculate the estimated value of a *Contract* shall not be made with the intention of excluding it from the scope of the Contract Procedure Rules
- A *Contract* shall not be subdivided with the effect of preventing it from falling within the scope of the Contract Procedure Rules
- The estimated value shall be calculated as at the moment at which the call for competition is sent or, at the moment at which the *Council* commences the procurement procedure
- The *Total Value* shall be that part of the main *Contract* to be fulfilled by the *Nominated Supplier* or *Sub-Contractor*.

8.1.3 The following procedures apply where there are no other procedures which take precedence (such as agency agreements with government). If in doubt, *Officers* must seek the advice of the *Corporate Procurement Officer*.

8.1.4 Where the *Total Value* for a purchase is within the values in the first column below, the *Award Procedure* in the second column must be followed. *Short listing* shall be done by the persons specified in the third column.

Total Value (excl. VAT)	Award Procedure	Short listing
(Up to £7,500)	A minimum of one <i>Quotation</i> , but good practice to seek most favourable prices and terms, having regard to the <i>Council's Procurement Strategy</i> .	<i>Officer</i> - See also <i>Financial Procedure Rules</i>

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(£7,501 - £50,000)	A minimum of three written <i>Quotations</i>	<i>Officer and Lead Specialist or Level 3 Manager</i>
(£50,001 – <i>EU Threshold</i>)	<i>Invitation to Tender</i> by advertisement	<i>Officer and Lead Specialist or Level 3 Manager</i> in consultation with the <i>Corporate Procurement Officer</i>
Above <i>EU Threshold</i>	<i>EU Procedure</i> or, where this does not apply, <i>Invitation to Tender</i> by advertisement	<i>Officer and Lead Specialist or Level 3 Manager and Group Manager</i> in consultation with the <i>Corporate Procurement Officer</i>
All values. Collaborative Contracts. ICT	All system developments and purchases of computer equipment or software must be approved by the Community of Practice Lead for ICT and awarded in line with these Rules.	<i>Officer, Support Services Group Manager</i> in consultation with the <i>Corporate Procurement Officer</i>

- 8.1.5 Where it can be demonstrated that there are insufficient suitably qualified *Suppliers* to meet the competition requirement, all suitably qualified *Suppliers* must be invited to quote and *Tender* and the *Corporate Procurement Officer* informed. If it can be clearly demonstrated that less than the required *Quotations* are available, then an Exemption form in line with paragraph 3.3 must be completed.
- 8.1.6 Where the *EU Procedure* is required, the *Officer* shall also consult the *Corporate Procurement Officer*, as appropriate, to determine the method of conducting the purchase. See table at Rule 8.1.4.
- 8.1.7 Where the *Council* procures on behalf of itself and other partners (acting as lead authority, the *Total Value* will be the overall value of the *Contract* and not the element of cost that applies to the *Council* itself.
- 8.1.8 Where procurement is for a service to be shared between authorities, it must be stated in advance both how the costs are to be apportioned between the partners and where the ownership of any assets falls.

8.2 Collaborative and Partnership Arrangements

- 8.2.1 Collaborative and partnership arrangements are subject to all UK and EU procurement legislation and must follow these Contract Procedure Rules (Rule 1). If in doubt, *Officers* must seek the advice of the *Monitoring Officer* and the *Corporate Procurement Officer*. See table at Rule 8.1.4.

8.3 The Appointment of Consultants to Provide Services

- 8.3.1 Construction *Consultants*, to include architects, engineers and surveyors, financial and management *Consultants*, legal advisors and *Consultants* and any other professional persons considered *Consultants* as per the definition provided shall be selected and commissions awarded in accordance with the limits and procedures detailed within these Contract Procedure Rules and as outlined at Rule 8.1.4.

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Total

- 8.3.2 The engagement of a *Consultant* shall follow the agreement of a brief that adequately describes the scope of the services to be provided and shall be subject to completion of a formal letter or *Contract* of appointment to be in the form agreed by the *Monitoring Officer*.
- 8.3.3 Records of *Consultancy* appointments shall be maintained in accordance with Rule 6.
- 8.3.4 *Consultants* shall be required to provide evidence of, and maintain professional indemnity insurance policies to the satisfaction of the *Council's Insurance Officer* for the periods specified in the respective agreement.
- 8.3.5 *Officers* must be aware of the *Council's* duty to assess the employment status of individuals and to assess whether they will be working for the *Council* in an "employed capacity" or "self employed". The HM Revenue and Customs criteria must be used in the assessment of status and if the individual could be deemed as employed, the *Council's* recruitment and payroll procedures must be followed (links to *Financial Procedure Rules*).

8.4 Assets - Disposal

- 8.4.1 The disposal of assets must be made in line with the requirements of *Financial Procedure Rules* and the Delegation Scheme.

8.5 Contracts to Provide Services to External Purchasers

- 8.5.1 The *Monitoring Officer*, *Corporate Procurement Officer* and *Financial Procedure Rules* must be consulted where *Contracts* to work for organisations other than the authority are contemplated.

9. PRE-TENDER MARKET RESEARCH AND CONSULTATION

- 9.1 The *Officer* responsible for the purchase: may, prior to the issue of the *Invitation to Tender/Quotation*, consult potential *Suppliers* in general terms about the nature, level and standard of the supply, *Contract* packaging and other relevant matters, provided this does not prejudice any potential *Supplier*.
- 9.2 The *Officer* may seek or accept advice from potential *Suppliers* that can be used in the planning and conduct of the procurement procedure, provided that it does not have the effect of distorting competition and does not result in the violation of the principles of non-discrimination and transparency.
- 9.3 The *Officer* shall take appropriate measures to ensure that competition is not distorted, including:
- (a) Communicating to the other *Tenderers* any relevant information exchanged resulting from the involvement of the *Supplier/s*; and
 - (b) Fixing adequate time limits for the receipt of *Tenders*.

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- 9.4 *Supplier/s* that have assisted the *Officer* in preparing the procurement procedure shall only be excluded from the procedure where there are no other means to ensure compliance with the duty to treat all *Suppliers* equally and *Supplier/s* shall be given the opportunity to prove that their involvement in preparing the procurement procedure is not capable of distorting competition.
- 9.5 For service *Contracts* where the *Total Value* will exceed the *EU Threshold* the *Officer* must give due consideration to the Social Value (Public Services) Act 2012 prior to the commencement of the procurement process.

10. STANDARDS AND SELECTION & AWARD CRITERIA

- 10.1 The *Officer* must define the *Selection Criteria* that are related and proportionate to the subject matter of the *Contract*. These shall form a stage one assessment of whether a *Tenderer* may progress with a *Tender* process, whether from the *Pre-Qualification Questionnaire (PQQ)* to *Tender* stage or from the *Selection* stage evaluation to the *Award* stage evaluation in an open *Tender*. The criteria to be assessed against may be chosen from the following:
- Criteria for the mandatory exclusion of the *Supplier*, such as conspiracy, prior criminal convictions, evidence of corruption, bribery, fraud, terrorism, money laundering, tax evasion, etc. (this list is not exhaustive)
 - Criteria for the discretionary exclusion of the *Supplier*, such as bankruptcy, grave professional misconduct, evidence of distorting competition, conflict of *Interest*, significant deficiencies in the delivery of a prior public *Contract*, etc. (this list is not exhaustive)
 - Information as to economic and financial standing; such as, insurances, statements of accounts, statements of turnover, etc. (this list is not exhaustive)
 - Information as to technical or professional ability; such as
 - the *Supplier's* professional ability, taking into account in particular that economic operator's skills, efficiency, experience and reliability;
 - evidence of a sufficient level of experience demonstrated by suitable references from *Contracts* performed in the past
 - evidence that the *Supplier* possesses the necessary human and technical resources and experience to perform the *Contract* to an appropriate quality standard (this list is not exhaustive).
- 10.2 The *Officer* shall include within its procurement procedures the Crown Commercial Services Standard *Pre-Qualification Questionnaire* for the purposes of assessing the *Selection Criteria*. This shall apply to all procurement procedures with the exception of *Contract* for *Works*, which can include the PAS 91 standard for assessing the *Selection Criteria*.

The *Corporate Procurement Officer* must be consulted where the *Total Value* of the *Contract* is likely to exceed the *EU Threshold* and in any event to provide advice and guidance concerning the *Crown Commercial Services Pre-Qualification Questionnaire* to ensure that the questions are related and proportionate to the subject matter of the *Contract*.

- 10.3 *Selection Criteria* must not include:

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- *Award Criteria*;
 - *Non-Commercial Considerations*; or
 - Criteria that is not related and proportionate to the subject matter of the *Contract*.
- 10.4 The *Officer* must ascertain what are the relevant British or equivalent European or international standards which are linked to the subject matter of the *Contract* and are appropriate to define characteristics of the *Works, Goods* or *Services* that are the subject-matter of the *Contract*. The *Officer* must include those standards which are necessary properly to describe the required quality. This includes sustainability, environmental and health and safety standards. The *Monitoring Officer and Corporate Procurement Officer* must be consulted if it is proposed to use standards other than European standards.
- 10.5 The *Officer* must set out the technical specification in the procurement documents that lay down the characteristics required of the *Works, Services* or *Goods*, which can include the following:
- Levels of environmental and climate performance;
 - Design for all requirements (including accessibility for disabled persons)
 - Performance
 - Safety or dimensions
 - Procedures concerning quality assurance
 - Packaging
 - Rules relating to design and costing
 - Inspection and acceptance conditions, etc. (this list is not exhaustive).
- 10.6 The *Officer* must define *Award Criteria* that are appropriate to the purchase and designed to secure an outcome giving *Value for Money* for the authority. The basic criteria shall be:
- 'Most economically advantageous', where considerations in addition to price also apply;
 - 'Lowest price' where payment is to be made by the authority when the *Award Criteria* is price alone; or
 - 'Highest price' if payment is to be received (See *Financial Procedure Rules* on disposal of assets).
- 10.7 If the former criterion is adopted, it must be further defined by reference to sub-criteria which may refer only to relevant considerations. The criteria to be assessed against may be chosen from the following:
- Quality, including technical merit, aesthetic and functional characteristics, social, environmental and innovative characteristics
 - Organisation, qualification and experience of staff assigned to perform the *Contract*
 - After-sales service and technical assistance
 - Cost, on the basis of a fixed price or life-cycle costing, etc. (this list is not exhaustive)
- 10.8 *Award Criteria* must be accompanied by the relative weightings ranked in order of importance to the *Council* in the context of the specific procurement and must be linked to the subject-matter of the *Contract*.

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10.9 *Award Criteria* must not include:

- *Selection Criteria*;
- *Non-Commercial Considerations* (See Definitions Appendix);
- Matters which discriminate against *Suppliers*, irrespective of size, from the *European Economic Area* or signatories to the *Government Procurement Agreement*
- Criteria that is not related and proportionate to the subject matter of the *Contract*.

11. PROCUREMENT DOCUMENTATION

11.1 *Council Officers* must prepare their *Procurement Documentation* using the *Council's* standard templates, which are available on the *Council's* Intranet site or via the *Corporate Procurement Officer*.

11.2 The *Procurement Documentation* shall state that no *Bid* will be considered unless it is received by the date and time stipulated. No *Bid* delivered in contravention of this clause shall be considered under any circumstances.

11.3 The *Procurement Documentation* shall include the following:

- A specification that describes the *Council's* requirements in sufficient detail to enable the submission of competitive *Bids*;
- A requirement for *Suppliers* to declare that the *Bid* content, price or any other figure or particulars concerning the *Bid* have not been disclosed by the *Supplier* to any other party (except where such a disclosure is made in confidence for a necessary purpose);
- A requirement for *Suppliers* to complete fully and sign all *Bid* documents including a form of *Tender* and certificates relating to canvassing and non-collusion;
- Notification that *Bids* are submitted to the *Council* on the basis that they are compiled at the *Supplier's* expense;
- In the event that the *Contract* will not be divided in to separate *Lots*, the procurement documents will indicate the main reasons why not;
- A description of the *Award Procedure* and, unless defined in a prior advertisement, a definition of the *Award Criteria* in objective terms and if possible in descending order of importance;
- Notification that no *Bid* will be considered unless it is submitted via the *Council's* approved electronic tendering system;
- A stipulation that any *Tenders* submitted by fax or e-mail shall not be considered, see Rule 13.3;
- The method by which any arithmetical errors discovered in the submitted *Bids* is to be dealt with. In particular, whether the overall price prevails over the rates in the *Tender* or vice versa;
- Instructions to *Suppliers* concerning the procurement process and *Procurement Documentation* and information concerning the *Contract* opportunity;
- The pricing schedule, schedule of rates, whole life costing schedule or other such appropriate pro-forma for gathering the *Supplier's* pricing;
- A requirement for *Suppliers* to indicate in its *Tender* any share of the *Contract* that it intends to sub-contract to third parties and details of those sub-contractors, if known;

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- A requirement for *Suppliers* to indicate in its *Tender* whether it is bidding as part of a consortium and details of the other consortia members.
- 11.4 All *Suppliers* invited to *Bid* must be issued with the same information at the same time and subject to the same conditions. Any supplementary information must be given on the same basis.
- 11.5 All *Procurement Documentation* must specify the goods, service or works that are required, together with the terms and conditions of *Contract* that will apply (see Rule 16).
- 11.6 The *Procurement Documentation* must state that the *Council* is not bound to accept any *Quotation* or *Tender*, either as a whole or in part.

12. SHORTLISTING

- 12.1 The *Officer* will not include a *Pre-Qualification* stage in any procurement under the relevant *EU Threshold*. *Officers* may reject *Bids* from *Suppliers* submitted against procurement procedures under this threshold only in accordance with the mandatory or discretionary rejection *Selection Criteria*.
- 12.2 Where the procurement exceeds the *EU Threshold*, any *Shortlisting* must be done in accordance with the permitted *Selection Criteria*.
- 12.3 Evaluation criteria must be transparent and sub-criteria specified. *Shortlisting* records must be kept and held for the period specified in the *Council's* Document Retention Policy and Rule 6.
- 12.4 Where the *Contract* is subdivided in to *Lots* the procurement documents shall indicate whether *Tenders* may be submitted for one, for several or for all of the *Lots*.
- 12.5 Where the *Contract* is subdivided in to *Lots* the procurement documents may state the number of *Lots* that may be awarded to one *Supplier* and any criteria or rules that will be applied in determining the way in which the *Lots* will be awarded.
- 12.6 *Officers* must contact the *Corporate Procurement Officer* prior to implementing *Shortlisting* criteria in to their procurement documents. The *Officers* responsible for *Shortlisting* are specified in Rule 8.1.4.

13. SUBMISSION, RECEIPT AND OPENING OF TENDERS/QUOTATIONS

- 13.1 *Suppliers* must be given an adequate period in which to prepare and submit a proper *Quotation* or *Tender*, consistent with the complexity of the *Contract* requirement. Normally at least four weeks should be allowed for submission of *Tenders*. The *EU Procedure* lays down specific time periods (see the *Council's Purchasing Guidance on the Council's Intranet*).
- 13.2 All *Tenders* must be submitted through the *Council's* approved and secure electronic tendering system.
- 13.3 *Tenders* received by fax or other electronic means (e.g. email) must be rejected.

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13.4 Each *Tender* must be:

- Suitably recorded so as to subsequently verify the date and precise time it was received
- Adequately protected immediately on receipt to guard against amendment of its contents
- Recorded immediately on receipt in the *Tender Register Pro-Forma*.

13.5 *Tenders* received after the set date and time must not be accepted and the *Corporate Procurement Officer* informed of late submissions. For the purposes of these rules the time will be deemed to be at the first stroke e.g. noon will be 12.00.00.

Tender Opening

13.6 The Member Services department will ensure that all *Tenders* are opened at the same time when the period for their submission has ended. *Tenders* in excess of the *EU Threshold* must be opened in the presence of a *Council Member*.

13.7 Upon opening, a summary of the main terms of each *Tender* (i.e. significant issues that are unique to each *Tender* submission and were not stated in the *Tender* invitation documents such as *Tender* sum) must be recorded in the *Tender Register Pro-Forma*. The summary must be signed by all present. Where an electronic tendering process is used, those involved must verify the results to the screen.

14. CLARIFICATION PROCEDURES AND POST-TENDER NEGOTIATION

14.1 Providing clarification to potential or actual *Suppliers* of an *Invitation to Tender* or *Tender* is permitted:

- In writing via the *Council's* electronic tendering system;
- At a meeting provided that a written record is made of the meeting
- In a way that is fair, transparent and equal to all participants.

14.2 Discussions with *Tenderers* after submission of a *Tender* and before the award of a *Contract* with a view to obtaining adjustments in price, delivery or content (i.e. post-tender negotiations) **must be the exception** rather than the rule. In particular, such decisions must not be conducted in an *EU Procedure* where this might distort competition, especially with regard to price. If in doubt, seek professional advice from the *Corporate Procurement Officer* or *Monitoring Officer*.

14.3 If post-tender negotiations are necessary after a single-stage *Tender* or after the second stage of a two-stage *Tender*, then such negotiations shall only be undertaken with the *Tenderer* who is identified as having submitted the best *Tender* and after all unsuccessful *Suppliers* have been informed.

14.4 *Officers* appointed by the Group Manager (Lead Specialist or Level 3 Manager) to carry out post-tender negotiations should ensure that there are recorded minutes of all negotiation meetings and that both parties agree actions in writing.

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- 14.5 Post-tender negotiation must only be conducted in accordance with the guidance issued by the *Corporate Procurement Officer* who must be consulted wherever it is proposed to enter into post-tender negotiation. Negotiations must be conducted by a team of at least two *Officers*, one of whom must be from a division independent to that leading the negotiations.
- 14.6 Where post-tender negotiation results in a fundamental change to the specification (or *Contract* terms) the *Contract* must not be awarded but re-tendered.

15. EVALUATION, AWARD OF CONTRACT, AND DEBRIEFING SUPPLIERS

- 15.1 Apart from the debriefing required or permitted by these Contract Procedure Rules, the confidentiality of *Quotations*, *Tenders* and the identity of *Suppliers* must be preserved at all times and information about one *Supplier's* response must not be given to another *Supplier*.
- 15.2 *Tenders* and *Quotations* must be evaluated and awarded in accordance with the *Selection* and *Award Criteria*. During this process, *Officers* shall ensure that submitted *Tender* prices are compared with any pre-tender estimates and that any discrepancies are examined and resolved satisfactorily.
- 15.3 The arithmetic in compliant *Tenders* must be checked. **If arithmetical errors are found they should be notified to the *Tenderer*, who should be requested to confirm the price or withdraw their *Tender*.**
- 15.4 *Officers* may use *Electronic Auctions* as means of driving additional *Value for Money* and as part of the *Award Criteria*, where this process is completed using the *Council's* electronic tendering portal.
- 15.5 *Electronic Auctions* may also be used as a tool for seeking *Bids* in sale transactions, such as land, where the highest possible price is sought from an applicant. (Links to 'Disposals' in *Financial Procedure Rules*). Where the *Officer* wishes to use such a tool, the *Corporate Procurement Officer* must be contacted to offer assistance.
- 15.6 *Officers* may accept *Quotations* and *Tenders* received in respect of proposed *Contracts*, provided they have been sought and evaluated fully in accordance with these Contract Procedure Rules. Awarding of *Contracts* that are expected to exceed the approved budget sum shall be referred back to the S. 151 *Officer*.
- 15.7 Where the **Total Value is over £50,000**, the *Officer* must notify all *Suppliers* in writing simultaneously and as soon as possible of the intention to award the *Contract* to the successful *Supplier*, and include the reasons why for the unsuccessful bidders. Where an unsuccessful *Supplier* requests debrief information the *Officer* may use their discretion in deciding whether or not to comply with the request; there is no legal obligation imperative on the *Officer* to do so.
- 15.8 Where the **Total Value will exceed the EU Threshold** the *Officer* must notify all *Suppliers* in writing simultaneously and as soon as possible of the intention to award the *Contract* to the successful *Supplier*, unless it is known sooner in the procurement process that a *Supplier* has been unsuccessful, in which case the *Officer* must notify the *Supplier* soonest with as much of the

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information required at 15.8 below as possible. (See 15.9 for further details). The latter applies most particularly, but not exclusively, in the case of a Restricted Procedure whereby the *Officer* must communicate the list of shortlisted *Suppliers* to those that have not been shortlisted.

15.9 The letters to the unsuccessful *Suppliers* must contain:

- The criteria for the award of the *Contract*;
- The reasons for the decision, including the characteristics and relative advantages of the successful *Tender*, the score (if any) obtained by:
 - the *Supplier* which is to receive the notice; and
 - the *Supplier* to be awarded the *Contract*, or to become a party to a *Framework Agreement* or *Dynamic Purchasing System*,
- The name of the *Supplier* to be awarded the *Contract*, or to become a party to a *Framework Agreement* or *Dynamic Purchasing System*; and
- A precise statement of either—
 - when the *Standstill Period* is expected to end and, if relevant, how the timing of its ending might be affected by any and, if so what, contingencies; or
 - the date before which the *Council* will not enter into the *Contract* or conclude the *Framework Agreement* or *Dynamic Purchasing System*.

15.10 The *Officer* must provide a *Standstill Period* of at least ten working days, where the communication is made electronically (fifteen days if not) to allow unsuccessful *Suppliers* the opportunity of challenging the decision before the *Officer* awards the *Contract*. The *Standstill Period* shall end at midnight on the final day of *Standstill* and no sooner. Where the last day of the *Standstill Period* is not a working day, the *Standstill Period* is extended to midnight at the end of the next working day. If the decision is challenged by an unsuccessful *Supplier* then the *Officer* shall not award the *Contract* and shall immediately seek the advice of the *Monitoring Officer and Corporate Procurement Officer*.

15.11 Where the *Supplier* has been informed of the fact that they have not been successful at an early stage in the procurement process, they must be provided within fifteen days of any request in writing from said *Supplier*, with the reasons that they were unsuccessful.

16. CONTRACT DOCUMENTS

16.1 Relevant Contracts

16.1.1 All *Contracts* above £7,500 shall be **in writing** in a form approved by the *Monitoring Officer*.

16.1.2 All *Relevant Contracts*, irrespective of value, shall clearly specify:

- What is to be supplied (i.e. the works, materials, services, matters or things to be furnished, had or done)
- The provisions for payment (i.e. the price to be paid and when)
- The time, or times, within which the *Contract* is to be performed
- The provisions for the *Council* to terminate the *Contract*.

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16.1.3 The *Council's* purchase orders or standard terms and conditions must be used for simple purchases of goods. In any circumstances that require special terms and conditions, the advice of the *Monitoring Officer* and *Corporate Procurement Officer* must be sought.

16.1.4 In addition, every *Relevant Contract* of purchase **over £50,000** must also state clearly as a minimum:

- Health and safety requirements (where applicable and proportionate)
- Sustainability and environmental management requirements (where applicable and proportionate)
- Social Value Act requirements (where applicable, i.e. for service *Contracts* with a *Total Value* in excess of the *EU Threshold*)
- Equality Act 2010 requirements (where applicable and proportionate)
- Any insurance requirements
- Data protection requirements, if relevant
- Charter standards to be met, if relevant
- Bribery Act 2010 requirements
- Freedom of Information Act requirements
- A right of access to relevant documentation and records of the *Contractor* for monitoring and audit purposes if relevant
- Prevention of Corruption and Anti Competitive Behaviour (see paragraphs 18.1 and 18.2) and
- A transparency clause that allows the *Council* to comply with the government's transparency agenda
- Any confidentiality requirements
- Tax evasion and avoidance requirements
- A prompt payment clause stating that payment of undisputed invoices will be made within 30 days by *Contractors* and sub*Contractors*
- A clause concerning technical staff where those staff are inherent to the successful outcome of the *Supplier's Bid* giving a requirement for the *Supplier* to notify the Authority where they intend to replace those members of staff
- Termination clauses that are compliant with the *Public Contracts Regulations 2015*.

Where *Agents* are used to let *Contracts*, those *Agents* must comply with the *Council's* Contract Procedure Rules

16.1.5 The formal advice of the *Monitoring Officer* on the form of documentation to be used must be sought for *Contracts* where any of the following apply:

- Where the *Total Value* exceeds £50,000; or
- Below £50,000 if other than the *Council's* standard terms and conditions are to be used; or
- Those involving leasing arrangements (when the *S. 151 Officer* should also be advised); or
- Where it is proposed to use a *Supplier's* own terms; or
- Those involving the purchase of application software with a *Total Value* of more than £50,000; or
- Those that are complex in any other way.

16.2 Contract Formalities

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16.2.1 Agreements shall be completed as follows:

Total Value	Method of Completion	By
Purchase orders - up to £50,000	Electronic Order or Signature	Authorised <i>Officer</i> (see Rule 16.2.3)
<i>Contracts</i> and licences up to £50,000. <i>Council's</i> Standard Terms and Conditions	Signature	<i>Group Manager</i> or Nominated Deputy (Rule 16.2.3) or <i>Monitoring Officer</i>
<i>Contracts</i> and licences up to £50,000 Non Standard Terms and Conditions	Signature	<i>Group Manager</i> , on the advice of the <i>Monitoring Officer</i> (Rule 16.2.3) or <i>Monitoring Officer</i>
Above £50,000 or if any of para 16.1.5 applies except ICT software.	Sealing (unless advised by the <i>Monitoring Officer</i> that sealing is not necessary)	<i>Monitoring Officer</i> (See also Rule 16.2.3 and 16.3)
ICT - system developments and purchases of computer equipment or software	Method of completion in line with limits above	As above, except in all cases to be the Support Service Manager in consultation with the Lead Specialist for ICT

Method of Completion By

16.2.2 All *Contracts* must be concluded formally in writing before the supply, service or construction work begins, except in exceptional circumstances, and then only with the written consent of the *Monitoring Officer* or *S. 151 Officer*.

16.2.3 The *Officer* responsible for securing a signature on the *Contract* must ensure that the person signing for the other *Contracting* party has authority to bind it. An award letter is insufficient. The use of Letters of Intent (which are binding for the *Council*) should be avoided, but in exceptional circumstances they may be used with the approval of and review by the *Monitoring Officer* before issue. The same rules relating to signatures apply.

16.2.4 Any new *Contract* should not be signed until the *Contract* it replaces is either ended or under notice.

16.2.5 Depending on the circumstances an *Officer* of the *Council* may be subject to disciplinary action if he/she signs a *Contract* without being specifically authorised to do so.

16.2.6 All **original** *Contracts*, (save straight forward purchase orders, must be given to the *Monitoring Officer* for secure storage. **It is the responsibility of the Officer to ensure that this happens, only copies of Contracts should be held within services.** An electronic copy must be copied to the *Corporate Procurement Officer* for all *Contracts* with value over £50,000. The *Contract* award must also be notified to the *Business Development Group Manager*.

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16.2.7 *Contract* award notices must be placed on the *Council's* electronic tendering system and *Contracts Finder*.

16.3 Sealing

16.3.1 A *Contract* must be sealed where:

- The *Council* may wish to enforce the *Contract* more than six years after its end
- The price paid or received under the *Contract* is a nominal price and does not reflect the value of the goods or services, or
- There is any doubt about the authority of the person signing for the other *Contracting* party.

South Hams

16.3.2 Where appropriate *Contracts* are completed by each side adding their formal seal. The fixing of the *Council's* seal must be witnessed by a further *Officer* on behalf of the *Monitoring Officer*.

16.3.3 Every *Council* sealing will be consecutively numbered, recorded and signed by the person witnessing the seal. The seal must not be affixed except in accordance with the *Council's Constitution*.

West Devon

16.3.4 *Contracts* must be sealed in accordance with *Council Procedure Rule 16.3* and will be overseen by the *Council's* Solicitor.

17. BONDS AND PARENT COMPANY GUARANTEES

17.1 The *Officer* must consult the *S. 151 Officer* about whether a *Parent Company Guarantee* is necessary when a *Supplier* is a subsidiary of a parent company and:

- The *Total Value* exceeds £50,000, or
- Award is based on evaluation of the parent company, or there is some concern about the stability of the *Supplier*.

17.2 The *Officer* must consult the *S. 151 Officer* about whether a *Bond* is needed:

- Where it is proposed to make stage or other payments in advance of receiving the whole of the subject matter of the *Contract* and there is concern about the stability of the *Supplier* **i.e. following a formal risk assessment.**
- Where the *Total Value* exceeds £500,000.

18. PREVENTION OF CORRUPTION & ANTI COMPETITIVE BEHAVIOUR

18.1 Prevention of Corruption

18.1.1 The *Officer* needs to be aware of the Bribery Act 2010, which introduces general offences of offering or receiving bribes, a specific offence of bribing a foreign public official and the new corporate offence of failing to prevent

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bribery, as well as the *Council's* Anti Fraud, Corruption and Bribery Policy and Strategy.

18.1.2 The *Officer* must comply with the *Officers' Code of Conduct* and must not invite or accept any gift or reward in respect of the award or performance of any *Contract*. It will be for the *Officer* to prove that anything received was not received corruptly. High standards of conduct are obligatory. Corrupt behaviour will lead to dismissal and is a crime under the statutes referred to in Rule 18.1.3 below.

18.1.3 The following clause must be put in every written *Council Contract*:
“*The Council may terminate this Contract and recover all its loss if the Contractor, its employees or anyone acting on the Contractor's behalf do any of the following things:*

- (a) Offer, give or agree to give to anyone any inducement or reward in respect of this or any other *Council Contract* (even if the *Contractor* does not know what has been done), or
- (b) Commit an offence under the Bribery Act 2010, or
- (c) Commit any fraud in connection with this or any other *Council Contract* whether alone or in conjunction with *Council* members, *Contractors* or employees. Any clause limiting the *Contractor's* liability shall not apply to this clause.”

18.2 Anti Competitive Behaviour

18.2.1 In their guidance for public sector procurers, the Office of Fair Trading has highlighted practical steps to take to reduce the risks of anti-competitive behaviour, and this should be followed where it is practical to do so:

- : (a) Use non-collusion clauses, certificates of independent *Bids* and requests;
- (b) Ensure sufficient credible bidders;
- (c) Look for suspicious bidding patterns (further guidance available);
- (d) Keep good notes of all discussions and potential bidders and systematically scrutinise them for suspicious patterns e.g. geographical prevalence of certain *Suppliers' areas*.

18.2.2 If there is any doubt during a procurement exercise, or for further guidance, the *Officer* should contact the *Corporate Procurement Officer* or Internal Audit.

19. DECLARATION OF INTERESTS

19.1 If it comes to the knowledge of a member or an employee of the authority that a *Contract* in which he or she has an *Interest* has been or is proposed to be entered into by the *Council*, he or she shall immediately give written notice to the *Monitoring Officer*.

19.2 *Officer* must comply with the *Officers' Code of Conduct*, as discussed at paragraph 18.1.2.

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- 19.3 All *Councillors* must comply with the Members' *Code of Conduct* and register all *Contracts* for goods, services or works made between the *Council* and:
- The *Councillor*,
 - A firm in which s/he is a partner
 - A company in which s/he is a remunerated director
 - A member of the *Councillor's* family or a person with whom they have a close association, or a partnership or company employing or operated by such a person
 - Any person or body who has a place of business in the Council's area and in which the *Councillor* has a beneficial interest in a class of securities of that person or body that exceeds the nominal value of £25,000 (or one hundredth of the total issued share capital) which ever the lower.
- 19.4 The *Monitoring Officer* shall maintain a record of all declarations of *Interests* notified by *Councillors* and *Officers*.

20. MANAGING CONTRACTS

- 20.1 **Group Managers (or Lead Specialists and Level 3 Managers) must appoint Contract Managers for all new *Contracts* and for the entirety of the *Contract*.**
- 20.2 Contract Managers must follow best practice in the area of supplier relationship and contract management.
- 20.3 **Extensions** should not be made unless this is provided for in the *Invitation to Tender* and the *Contract* itself. Group Managers (Lead Specialists or Level 3 Managers as appropriate) must contact the *Monitoring Officer* and the *Corporate Procurement Officer* before any extension is actioned. Any extensions to *Contracts* are to be in writing in the form approved by the *Monitoring Officer*, sequentially numbered and stored with the original *Contract*.
- 20.4 **Payments** to *Contractors* will only be made on certification by the designated Contract Manager in line with the *Financial Procedure Rules*.
- 20.5 Ongoing checking of the financial position of the successful *Contractor* throughout the period of the *Contract*. The level of any review will vary depending on the type of *Contract* and *Contractor* involved, so the advice of the *S. 151 Officer* or Internal Audit must be sought
- 20.6 **Liquidated and ascertained damages** must be deducted for all periods of delay in line with the terms of the *Contract*.
- 20.7 If the Contract Manager does not consider that such damages should be deducted s/he must seek and follow the advice of the *Monitoring Officer* and *S. 151 Officer*.
- 20.8 The Contract Manager must notify the *Monitoring Officer*, the responsible *Group Manager* and the *S. 151 Officer* promptly on becoming aware of any significant **dispute**, or **claim for additional payment** in connection with a

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Contract. No liability shall be accepted without the approval of the Executive / Hub Committee in such cases.

21. MODIFICATION OF CONTRACTS DURING THEIR TERM

21.1 *Contracts and Framework Agreements* may be modified during their term without the need for a new procurement procedure in the following limited cases:

- where the change has already been provided for in the original procurement documents in clear, precise and unequivocal review clauses, provided that they state the scope and nature of the possible modifications or options and the conditions under which they may be used and they do not alter the overall nature of the *Contract* or *Framework Agreement*
- for additional works, services or goods by the original *Supplier* that have become necessary and were not included in the initial procurement, where a change of *Supplier* cannot be made for economic or technical reasons or would cause significant inconvenience or substantial duplication of costs
- where the need for change follows circumstances that could not have been foreseen
- where the modification does not alter the overall nature of the *Contract*
- where an increase in the price does not exceed 50% of the value of the original *Contract* or *Framework Agreement*
- where a new *Supplier* replaces the one to which the *Council* originally awarded the *Contract*
- where the change is not substantial.

21.2 Where a change is proposed to a *Contract* that exceeds the *EU Threshold* the *Officer* must contact the *Corporate Procurement Officer*.

22. RISK ASSESSMENT AND CONTINGENCY PLANNING

22.1 A business case must be prepared for all procurements with a potential value over the *EU Threshold*. Provision for resources for the management of the *Contract*, for its entirety, must be identified in the business case.

22.2 For all *Contracts* with a value of over £50,000, *Contract Managers* must:

- Maintain a risk register during the *Contract* period in accordance with the *Council's* Risk Management Strategy
- Undertake appropriate risk assessments and for identified risks (in consultation with the *Council's* Lead *Officer* – Risk Management and Risk Management Strategy as appropriate)
- Ensure contingency measures are in place
- Monitor the financial performance of the *Contractor* or any parent company and alert the *S. 151 Officer* if there is any concerns.

23. CONTRACT MONITORING, EVALUATION AND REVIEW

Contracts Financed from Revenue

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- 23.1 All *Contracts* which have a value higher than the *EU Threshold* limits, or which are *High Risk*, are to be subject to formal review(s) by the Contract Manager with the *Contractor*. The review may be conducted at a frequency that is determined by the risk value and profile of the *Contract*.
- 23.2 As a minimum, for all *Contracts* with a value higher than the *EU Threshold* limits, or which are *High Risk*, an annual report must be submitted to the *Senior Leadership Team* detailing the financial and service performance.
- 23.3 A *Contract* review process must be applied to all *Contracts* deemed to be *High Risk, High Value, or High Profile*. This process must be applied at key stages of major procurements.
- 23.4 During the life of the *Contract*, the Contract Manager must monitor and take any necessary corrective action in respect of:
- Performance
 - Compliance with specification and *Contract*
 - Cost
 - Any *Value for Money* requirements
 - User satisfaction and risk management.
- 23.5 When the *Contract* is completed the Contract Manager must submit a report to the Senior Leadership Team. The report must evaluate the extent to which the purchasing need and the *Contract* objectives (as determined in accordance with Rule 5.2) were met by the *Contract*. Where the *Contract* is to be re-let, a provisional report should also be available early enough to inform the approach to re-letting of the subsequent *Contract*.

Contracts Financed from the Capital Programme

- 23.6 Procurement for approved capital projects must be made in line with these Rules. Having regard to Rule 15.4, where any *Tender* for projects under the Capital Programme **exceeds the available budget by 10% or £50,000** approval to proceed may be made by the Community of Practice Lead Specialist for Assets and *S. 151 Officer* with retrospective reporting through the monitoring process. Above these amounts the specific approval of the Executive / Hub Committees should be sought prior to acceptance.
- 23.7 The *S. 151 Officer* and the Community of Practice Lead Specialist for Assets, has monitoring responsibilities to receive regular reports from Project Managers on the performance of their project; and report quarterly to the Executive / Hub Committee on the overall progress of the Capital Programme.
- 23.8 The monitoring report will outline the budget position as a whole and include, as a minimum, the financial position of each approved project.

Project Overspends

- 23.9 In monitoring expenditure on a project, the *Officer* / Project Manager should seek the formal approval of the *S. 151 Officer*, Community of Practice Lead Specialist for Assets (or Executive / Hub Committee where relevant) at the

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earliest opportunity where the approved expenditure appearing in the capital programme is likely to be exceeded.

The following table sets out the authorisation required:

Project Total Value excl. VAT	Overspend excl. VAT	Authorised By
Up to £500,000	£25,000 to £50,000	<i>S. 151 Officer</i> Community of Practice Lead Specialist for Assets With retrospective reporting to the Executive/Committee within the quarterly monitoring report.
Up to £500,000	Exceeds £50,000	Executive/Committee
Over £500,000	10%	Executive/Committee

24. STATE AID

Definition

- 24.1 State aid can be defined any assistance offered by a public sector body in any form whatsoever that distorts or threatens to distort competition by favouring certain organisations and/or *Suppliers* or the production of certain goods. Such aid may take the form of a grant (capital injection), business tax relief, a reduction in rent or preferential finance (this is not an exhaustive list).
- 24.2 Where the *Council* wishes to administer aid in this manner careful consideration must be given prior to such a grant so as to ensure that it is compatible with EU law. Aid that is not compatible with EU law may be recovered from the beneficiary with interest.
- 24.3 For a grant to be considered as State Aid the following cumulative criteria must be met:
- The beneficiary receives a grant of a benefit or advantage; and
 - The aid is give by a Member State or through state resources; and
 - The beneficiary receives the aid on a selective basis; and
 - The aid granted distorts or threatens to distort competition; and
 - The aid is capable of affecting trade between Member States

Granted aid must fulfil all of these criteria in order to be deemed as a State Aid for the purposes of EU law.

- 24.4 Where a grant is defined as State Aid it must be notified in sufficient time to the European Commission. Aid will not be permitted to be bestowed upon the beneficiary until the Commission has reached a decision as to whether it can be deemed as compatible with EU law or not. Where Aid is incompatible the *Council* will not be permitted to grant it.

Exemptions for State Aid

- 24.5 Besides seeking approval from the European Commission, State Aid can be said to be compatible with EU law and can therefore be granted legally if:

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- For the most part the total de minimis Aid given to a single recipient is less than €200,000 over a 3-year fiscal period
 - Aid in favour of SMEs, research, innovation, regional development, training, employment of disabled and disadvantaged workers, risk capital and environmental protection.
 - Aid measures promoting female entrepreneurship, such as aid for young innovative businesses, aid for newly created small businesses in assisted regions, and measures tackling problems like difficulties in access to finance faced by female entrepreneurs.
- 24.6 Such Aid must still be notified to the European Commission and as a result *Council Officers* are advised to seek the advice and guidance of the *Council's Solicitor* and/or *Monitoring Officer* and *Corporate Procurement Officer* where State Aid may be said to exist on a particular project or procurement.

25. DEVELOPMENT AGREEMENTS

Definition

- 25.1 A development agreement can be defined as an arrangement between a public sector body and a third party about the use or development of land or property, the nature of which invariably involves the transfer of land that would be otherwise be considered commercially undesirable, which becomes commercial desirable as a result of incentivisation by the public sector body.
- 25.2 Where the *Council* wishes to establish a development agreement that meets the definition above again careful consideration must be given prior to such an agreement being established so as to ensure that it is compatible with EU law. A development agreement that is not compatible with EU law may be said to be a public works or *Concession Contract* and may therefore be subject to the legislation on public procurement.
- 25.3 For a development agreement to be considered as not triggering the public procurement legislation some or all the following characteristics must be met:
- The proposed development (or a significant part) is to be undertaken at the initiative and autonomous intention of the developer. (This may be particularly likely if the developer already owns or has control of land to be developed);
 - The development agreement is ancillary or incidental to a transfer or lease of land or property from the *Council* to the developer, and is intended to protect the interests of the *Council* which is the lessor or otherwise retains an interest in the land or property;
 - The development agreement is based on proposals put forward by the developer, rather than requirements specified by the *Council*, albeit that these proposals may be sought, and the "winner" chosen by the *Council*;
 - There is no pecuniary interest passing from the *Council* to the developer as consideration for undertaking the development, either through direct payment or indirectly, for example by the assumption of obligations such as contributions towards project finance or guarantees against possible losses by the developer;

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- The development agreement does not include specific contractually enforceable obligations on the developer to realise a work or works (even if that work or works is recognised as being the general intent of the parties to the agreement);
- The development does not consist of or contain works for the direct economic benefit of the *Council*. The involvement of the *Council* consists only in the exercise of statutory land-use planning powers.

25.4 Where a development agreement cannot be said to meet the criteria defined above a public works or *Concession Contract* must be awarded in accordance with the public procurement legislation.

South Hams District Council

The Role of Internal Audit

What is Audit?

From Latin “auditus” – to hear

Audit aims to provide an independent assessment of performance of an organisation. Most public sector organisations have external and internal audit:-

- External Audit – provides an opinion on the accuracy of the organisations financial statements
- Internal Audit - has evolved into an assurance and consulting activity focussed on risk management, control and governance processes

The importance of other assurance functions

Before considering the role of internal audit we need to be aware of other assurance functions and how these operate. In particular:-

Risk management. This is “the identification, assessment, and prioritisation of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realisation of opportunities”.

The Authority is required to have sound and effective risk management arrangements in place, and

Corporate governance refers to the system by which organisations are directed and controlled. The governance structure sets out the roles and responsibilities of the different participants in the organisation (such as members, the Leadership Team, managers, etc.) and specifies the rules and procedures for making decisions.

Governance is a mechanism for monitoring the actions, policies and decisions of an organisation.

Role & Objectives of Internal Audit

The Chief Finance Officer of a Council (at South Hams this is the Community of Practice Lead for Finance – the S151 Officer) has a statutory requirement to maintain “adequate and effective internal audit”

This internal audit function must provide assurance around:-

- The extent to which risks are adequately identified and mitigated
- The strength (or otherwise) of internal controls
- Extent of compliance with policies, regulations & procedures
- Suitability and reliability of financial and other data
- Opportunities to promote better value for money
- Extent to which assets safeguarded against waste and losses

Planning Internal Audit Work

It is not possible, or economically desirable, to require internal audit to look at all risks and services of an organisation each year; as a consequence the internal audit team are required to work with senior management in preparing an annual internal audit plan.

The internal audit team maintains a “long list” of risks, service areas, system and operations and this is often referred to as an “audit universe”.

Each year the audit universe is revisited to ensure it captures all activities and is used to plan work for a three year period, and an annual internal audit plan.

This process requires an “audit risk assessment” to take place, which takes into account a number of factors that help to determine when (and if) an area should be audited. Factors include; date last audited; the value of financial transactions; the impact on the organisation should the risk materialise; the impact on customers / service user.

This plan is presented to and agreed by Senior Leadership Team (SLT) and then taken to the Audit Committee for consideration and approval.

For each audit review in the plan a detailed audit brief will be prepared. This is agreed with the service manager to ensure audit work addresses key risks and concerns.

Reporting findings

At the completion of fieldwork, the audit team will undertake an Informal Debrief, following which a Draft Report will be produced. The Draft report requires management response to any issues identified / recommendations made and once received and agreed a final report will be prepared.

The final report provides:-

- Internal audit’s opinion on controls in place to manage exposure to risk
- Summarises recommendations aimed at improving control
- Includes management responses and timescale as to what will be done to strengthen control.
- Assignment reports issued to management – the report is an “internal” document, not in the public domain

Reporting to the Audit Committee

Internal Audit aim to report to each audit committee on the:-

- progress made against the internal audit plan;
- Summaries of work completed;
- Highlights of any areas where action is required & has been taken by management; and
- Areas where action is required but not yet completed – i.e. the risk has not yet been addressed

Annual Internal Audit Report

An annual report is provided to the audit committee which provides a summary of the work for the year. This provides the overall annual opinion of the control environment of the Council

Anti-fraud arrangements

Internal audit has a significant role to play in the prevention, detection and (where appropriate) investigation of fraud and irregularity.

All internal audit work will consider the risk of fraud and consider if arrangements are robustly preventing fraud.

Recommended reading

- What every director should know about internal audit
- The three lines of defence in effective risk management and control

Both available for free at www.iaa.org.uk

The Internal Audit Team

The internal audit team is shared team between South Hams and West Devon Councils. The team has 2 x full time staff; one Specialist Auditor and one Auditor. The team is managed by way of a contract with Devon Audit Partnership (see below) and is based in Follaton House.

The team use the MKi audit management system (supplied by DAP) to record working papers and produce audit reports.

The team can be contacted as follows:-

Julie Hopley Auditor 01803 861234 | julie.hopley@swdevon.gov.uk

Matthew Croughan Specialist – Auditor 01803 861416 matthew.croughan@swdevon.gov.uk

Brenda Davis Audit Manager 01752 306713 brenda.davis@devon.gov.uk

Robert Hutchins Head of Devon Audit Partnership 01392 382438 robert.hutchins@devon.gov.uk

Devon Audit Partnership is a Partnership between Devon County Council, Plymouth City Council and Torbay Council; the Partnership was founded in 2009.

The Partnership has around 36 Audit Staff, many of whom have specialist skills such as computer and contracts auditors.

The Partnership works with a large number of other not-for-profit organisations such as:-

Teignbridge District Council Torridge District Council
Devon and Cornwall Police Devon & Somerset fire & Rescue Service
The majority of schools (including Academies) in Devon
Dartmoor & Exmoor National Parks

Find out more at <http://www.devonaudit.gov.uk/>

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