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## **SOUTH HAMS AUDIT COMMITTEE - WEDNESDAY, 28TH SEPTEMBER, 2011**

Agenda, Reports and Minutes for the meeting

### **Agenda No    Item**

1.    **Agenda Letter** (Pages 1 - 2)

2.    **Reports**

Reports to Audit:

- a)    Item 5 - Audit Commission Progress Summary (Pages 3 - 4)
- b)    Item 6 - Audit Commission - Annual Governance Review (Pages 5 - 26)
- c)    Item 7 - Progress against the 2011/12 Internal Audit Plan with EXEMPT appendices  
(Pages 27 - 44)
- d)    Item 8 - Revision of the Contract Procedure Rules (Pages 45 - 80)
- e)    Item 9 - Anti Fraud, Corruption and Bribery Policy and Strategy and Benefit Fraud  
Prosecution and Sanction Policy (Pages 81 - 104)
- f)    Item 10 - Audited Statement of Accounts 2010/11 (Pages 105 - 220)

3.    **Minutes** (Pages 221 - 226)

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# Agenda Item 1

Please reply to: Darryl White  
Service: Corporate Services  
Direct Telephone: 01803 861247 Direct Fax: 01803 866669  
E-Mail: [darryl.white@southhams.gov.uk](mailto:darryl.white@southhams.gov.uk)

To: Chairman & Members of the Audit Committee  
(Cllrs Bramble, Bruce-Spencer, Cane, Hodgson and Pennington);

Our Ref: CS/DW

cc: Cllr Hicks (Lead Executive Member)  
Remainder of the Council;  
Usual press and officer circulation.

16 September 2011

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes on **Wednesday, 28 September 2011 at 10.00 am** when your attendance is requested.

Yours sincerely

Jo Doney  
Member Support Officer

<p><b>FOR ANY QUERIES ON THIS AGENDA PLEASE CONTACT JO DONEY MEMBER SUPPORT OFFICER ON DIRECT LINE 01803 861466</b></p>
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## A G E N D A

1. **Minutes** – to approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 14 July 2011 (pages 1 to 4);
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 prejudicial interests, including the nature and extent of such interests, they may have in any items to be considered at this meeting;
5. **Audit Commission Progress Summary** – to consider a report which summarises the work currently in progress to 15 September 2011 (pages 5 to 6);
6. **Audit Commission – Annual Governance Review** – (report to follow under separate cover)

*[Please note: there may be other reports for this agenda from the Audit Commission which we have not yet been advised of, but which the Chairman has agreed can be considered under agenda 'Item 2: Urgent business' if the need arises]*

7. **Progress against the 2011/12 Internal Audit Plan with EXEMPT appendices** – to consider a report that informs Members of the principal activities and findings of the Internal Audit Section of Financial Services for 2011/12 to 31 August 2011 (pages 7 to 22);
8. **Revision of the Contract Procedure Rules** – to consider a report that provides Members with an overview of the updated Contract Procedure Rules required as a result of the internal management changes, shared service agenda and the introduction of the Bribery Act 2010. (pages 23 to 58);
9. **Anti Fraud, Corruption and Bribery Policy and Strategy and Benefit Fraud Prosecution and Sanction Policy** – to consider a report that seeks Members approval for a revised Anti Fraud, Corruption and Benefit Policy and Strategy updated to reflect the introduction of the Bribery Act 2010, internal management changes and the shared services agenda (pages 59 to 81);
10. **Audited Statement of Accounts 2010/11** – (report to follow under separate cover).

**N.B.** Legal and financial officers will not, as a general rule, be present throughout all meetings, but will be on standby if required. Members are requested to advise Member Support Services in advance of the meeting if they require any information of a legal or financial nature.

\* \* \* \* \*

**MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER**

**THIS AGENDA HAS BEEN PRINTED ON ENVIRONMENTALLY FRIENDLY PAPER**

If you or someone you know would like this publication in a different format, such as large print or a language other than English, please call Darryl White on 01803 861247 or by email at: [darryl.white@southhams.gov.uk](mailto:darryl.white@southhams.gov.uk)

**Members of the public may wish to note that the Council's meeting rooms are accessible by wheelchairs and have a loop induction hearing system**

## Audit Progress Summary to 15 September 2011



### South Hams District Council

#### Reports issued by the Audit Commission since last meeting

- Annual Governance Report 2010/11 (to follow) containing:
  - Proposed opinion on the financial statements
  - Details of significant errors identified
  - Significant recommendations re internal control and quality of the financial statements
  - Proposed value for money conclusion
  - Request for letter of representation

#### Work in progress

- Audit of government grant claims

#### Audit Commission events and national reports

- September 2011 – The AC launched consultation on its work programme and fee proposals for the 2012/13 audit year. A reduction of 10 per cent from the published 2011/12 scale fees is proposed for principal bodies and the consultation will close on 24 October. The AC will publish the final work programme and scales of fees in April 2012, following completion of the exercise to outsource all AC audit work.
- August 2011 – Following the confirmation by DCLG of the outsourcing of local audit work undertaken by AC in-house staff from 2012/13, a timetable has now been established for the procurement process. The AC has written individually to all affected audited bodies setting out the timetable, as follows:
  - 5 September 2011 - Issue of contract notices
  - 24 October 2011 - Invitations to tender will be issued, with a deadline for submissions of 16 December 2011
  - 20 February 2012 – Approval of contracts to be awarded
  - 23 April–13 July 2012 - Consultation with audited bodies on proposed appointments
  - 23 July 2012 - Auditor appointments confirmed
  - 1 September 2012 - New contracts start.

The privatised in-house audit practice is expected to bid for some of this work alongside other suppliers. The contracts will run for 3 to 5 years.

- August 2011 – The AC reported the results of its Quality Review Programme for its audit suppliers. Based upon the work of the independent Audit and Inspection Unit, the results of suppliers' internal quality monitoring programmes and compliance with regulatory requirements, the report concluded that all suppliers were meeting the performance and professional auditing standards required.
- July 2011 – The AC published its detailed response to the DCLG *Future of Local Public Audit* consultation. The document expanded upon the concerns expressed by the Chairman of the AC when the proposals were published in March.
- July 2011 – The AC announced that it will be making 8% rebates on agreed 2011/12 audit fees.
- July 2011 – The AC's annual report and accounts were laid before Parliament and are available on the AC website.

- June 2011 - The AC report on 2009/10 Grant Certification Work includes information on the number and value of claims certified. It comments that some authorities could improve performance in key areas including preparation of claims, attention to scheme terms and conditions, and the quality of working papers. Following the announcement of plans to disband the Commission, the DCLG consultation on the future of local public audit says that certification work will continue in some form and that the detail will be covered in a forthcoming draft bill and accompanying consultation.

The documents referred to above are available from either the Audit Commission or the DCLG websites.

Steve Brown  
Audit Manager  
Audit Practice  
15 September 2011

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

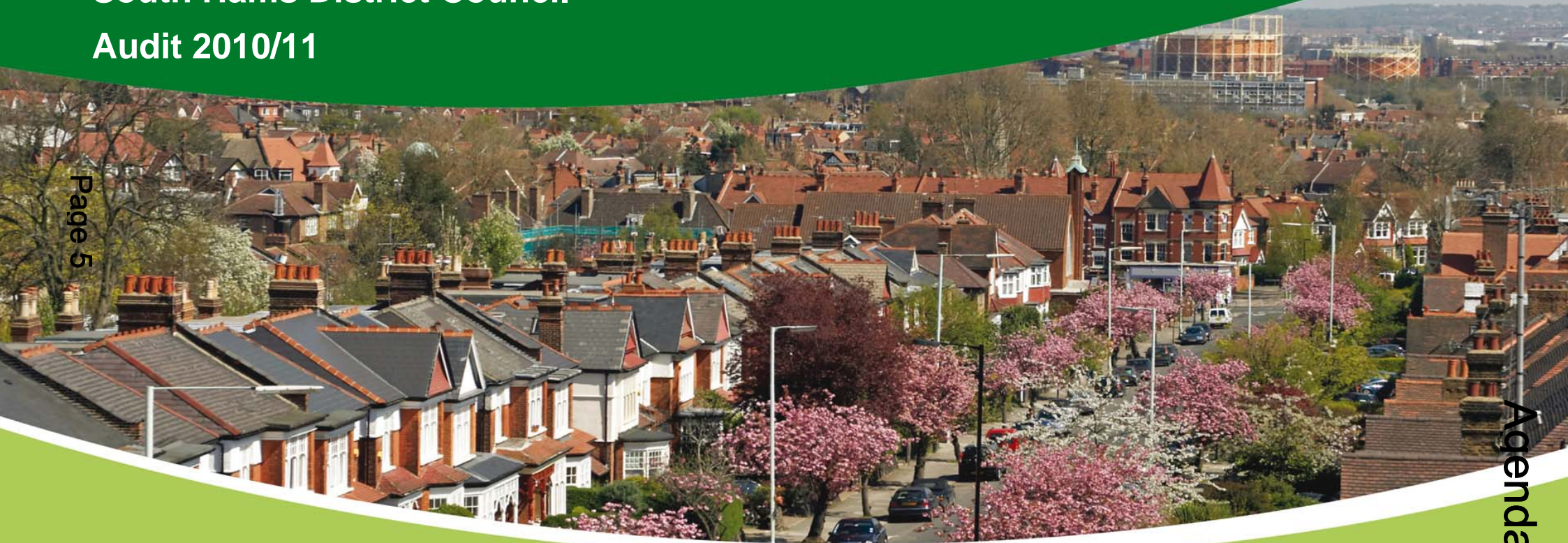


# Annual governance report

South Hams District Council

Audit 2010/11

Page 5



# Contents

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<b>Key messages</b>	<b>3</b>
Audit opinion and financial statements	3
Value for money	3
<b>Before I complete my audit</b>	<b>4</b>
<b>Financial statements</b>	<b>5</b>
Opinion on the financial statements	5
Errors in the financial statements	5
<b>Value for money</b>	<b>10</b>
<b>Appendix 1 – Draft audit report</b>	<b>12</b>
<b>Appendix 2 – Amendments to the draft financial statements</b>	<b>15</b>
<b>Appendix 3 – Unadjusted misstatements to the financial statements</b>	<b>18</b>
<b>Appendix 4 – Glossary</b>	<b>19</b>



# Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

## Our findings

Unqualified audit opinion



Proper arrangements to secure value for money



## Audit opinion and financial statements

Subject to satisfactory clearance of outstanding matters, I propose to issue an unqualified opinion on the financial statements.

My audit identified no material errors and two non-trivial errors in the financial statements:

- The Council has amended one of the errors: £570k incorrect accounting for the revaluation and amalgamation of two building assets, as shown in Appendix 2. There is no overall effect on the Authority's surplus for 2010/11.
- The Council does not plan to amend the 2010/11 accounts for the second non-trivial error: £20k overstated income in advance, as shown in Appendix 3.

I have also identified a number of disclosure errors/omissions, which have been corrected in the accounts (Appendix 2 and page 7).

## Value for money

I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission:

- Financial resilience
- Securing economy, efficiency and effectiveness

I have shown my conclusions for both of these on pages 10-11.

Appendix 1 contains a draft version of my audit report, including my opinion on the financial statements and my value for money conclusion.

B/W symbol key: Red  Amber  Green 

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

## I ask you to confirm to me

### I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree your response to the errors identified which management are proposing not to amend (Appendix 3) and include this in the letter of representation; and
- approve the letter of representation provided alongside this report, on behalf of the Council, before I issue my opinion and conclusion.

# Financial statements

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**I propose to issue an unqualified opinion on the financial statements. Appendix 1 includes a draft version of my audit report, including my opinion on the financial statements.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## **Errors in the financial statements**

I have identified the following errors that the Council has adjusted in the 2010/11 accounts:

- one non-trivial error relating to the incorrect accounting for the revaluation and amalgamation of two building assets (Appendix 2).
- a number of disclosure errors or omissions (Appendix 2 and page 7)

Page 9

I identified a further non-trivial error, £20k overstated income in advance, that the Council does not plan to adjust in the 2010/11 accounts (Appendix 3).

## **Recommendation**

**R1** I recommend that the Council takes action to address the issues I have raised in relation to quality assurance of the financial statements and the provision of valuation information (pages 7-8).

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# Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

## Key audit risk and our findings

Key audit risk	Finding
<b>1. First time adoption of the International Standards on Financial Reporting (IFRS)</b> The Council is required to implement new International Financial Reporting Standards in 2010/11.	<ul style="list-style-type: none"><li>• I reviewed the Council's plans for implementing and accounting for the new Standards and liaised with the Council's finance team to review the principles that had been applied in adopting IFRS for the 2010/11 accounts.</li><li>• I carried out audit procedures to ensure that the Authority have made appropriate disclosures in accordance with adopted accounting policies and the requirements of the Code and IFRS.</li><li>• I carried out appropriate audit tests on the IFRS compliant accounts to ensure that they are materially correct.</li><li>• As a result I am proposing to give an unqualified opinion on the 2010/11 accounts.</li></ul>
<b>2. Fixed assets (property, plant &amp; equipment)</b> The Council implemented a new Fixed Assets system in the year of audit.	<ul style="list-style-type: none"><li>• I have carried out appropriate audit tests to ensure that the council's fixed assets are accounted for correctly and that the values recorded in the accounts are materially correct.</li></ul>

# Financial statements

## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you:

### Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<b>1. Disclosure amendments</b> A number of disclosure changes were requested and made during the audit.	The main areas where changes were made were: <ul style="list-style-type: none"><li>■ The disclosure re pension liability estimates was expanded</li><li>■ Comparatives for 01/04/09 were added for material balance sheet notes as required by the Code of Practice</li><li>■ The Council's property, plant &amp; equipment componentisation policy was disclosed in the accounting policies.</li><li>■ A number of further minor changes were made including correction of typos and clarifications.</li></ul>
<b>2. Quality</b> A number of the disclosure errors and other minor errors could have been picked up by the Council if a more rigorous quality review process had been carried out prior to the accounts being submitted for audit.	<ul style="list-style-type: none"><li>■ More rigorous Quality Assurance checks should be implemented for future years</li></ul>

## Issue

### 3. Valuation information

Standard valuation information was sought from the valuer at the start of the audit but was only provided much later after repeated reminders and with the assistance of service leads.

## Findings and recommendations

- Requested information should be provided early in the audit by the Council's valuer and follow-up valuation queries should be responded to promptly.

# Financial statements

## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

The letter of representation will be presented for your approval at the meeting where the Annual Governance Report is received.



# Value for money

**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

## Value for money criteria and our findings

Criterion	Findings
<b>1. Financial resilience</b> <b>The organisation has proper arrangements in place to secure financial resilience.</b>  Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<b>The criterion is met.</b> <ul style="list-style-type: none"><li>• The Council agreed a balanced budget for 2011/12 in January 2011, the robustness of which was confirmed by the s151 officer.</li><li>• South Hams has updated its Medium Term Financial Plan in July 2011 and has developed a clear strategy for addressing the pressure on funding.</li><li>• The Council's reserves are adequate and their robustness has been confirmed by the s151 officer</li><li>• The Council's framework of control confirms that the underlying financial and risk management systems are operating effectively.</li></ul>

Criterion	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p><b>The criterion is met.</b></p> <ul style="list-style-type: none"> <li>• The Council continues to perform well overall.</li> <li>• The 2011/12 budget prioritised resources to meet tighter budget constraints and the strategy adopted with the Medium Term Financial Plan in July 2011 clearly identifies how it plans to target future savings</li> <li>• The Council's Annual Governance Statement confirms that underlying performance management systems continue to operate effectively.</li> <li>• There were no issues of concern identified by the Audit Commission's VFM profiles.</li> </ul>

# Appendix 1 – Draft audit report

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## Independent Auditor's Report to the Members of South Hams District Council

### Opinion on the Authority's accounting statements

I have audited the accounting statements of South Hams District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of South Hams District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of South Hams District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

### Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, South Hams District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## Certificate

I certify that I have completed the audit of the accounts of South Hams District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Alun Williams  
District Auditor

Audit Commission  
3-4 Blenheim Court  
Lustleigh Close  
Matford Business Park  
Exeter EX2 8PW

September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Page 19

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Property, plant & equipment (Note 9)	Amended to correct the accounting for the revaluation and amalgamation of two building assets.	570 (MIRS)	570 (NCS planning & development expenditure)	557 (Revaluation reserve)	557 (Capital adjustment account)
Property, plant & equipment (Note 9)	The figures for 'Revaluation increases/(decreases) recognised in the revaluation reserve' and 'Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services' in the PPE note were shown net of depreciation charged to the CIES (understated by £268k).		Affects note only		

		Comprehensive income and expenditure statement	Balance sheet
Property, plant & equipment (Note 9)	The disposal of the harbour debtors system £12k had been misclassified within Land and Buildings as a revaluation – now corrected	Affects note only	
2009/10 Balance sheet	A £300k provision was shown in both current and long term liabilities in the 2009/10 comparatives. This is thought to be a typographical error as the net assets total was correctly stated. The figures have been amended.		Amended in 2009/10 balance sheet comparatives
Operating leases (Note 32)	The lease disclosure note did not accord with the Code of Practice ie did not show the future minimum lease payments  Additional disclosures added: Authority as lessee £432k (2010/11), £504k (2009/10) Authority as lessor £34,029k (2010/11), £34,539k (2009/10)	Affects note only	
Adjustments between accounting basis and funding basis under regulation (Note 4)	The pensions reserve figures in Note 4 could not be agreed to those in the pensions note (Note 35). Corrected - the amendments had no overall effect on the accounts.	Affects note only	



		Comprehensive income and expenditure statement	Balance sheet
Financial Instruments (Note 12)	<p>Monetary assets/liabilities that arise from statute rather than from contract (eg VAT, PAYE, NI) had only been excluded in part from financial instruments.</p> <p>Adjustments made:</p> <p>'Financial assets carried at contract amounts' were adjusted by -£175k to £3,965k (2009/10) and -£97k to £3,358k (2010/11).</p> <p>'Financial liabilities carried at contract amount' were adjusted by £265k to -£3,665k (2009/10) and £248k to -£3,566k (2010/11).</p>	Affects note only	
Salcombe Harbour Income & Expenditure (Note 23)	I&E grossed up for netted-off funding from reserves/grant income +£31k	Affects note only	
Car and boat parking Expenditure (Note 23)	Amended to include share of Follaton House revaluation overhead +£19k	Affects note only	

# Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Page 22

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Creditors (Balance sheet)	Income received in advance overstated (rent not split between 2010/11 and 2011/12)	20 (extrapolated from actual error £15k)			

# Appendix 4 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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- any director/member or officer in their individual capacity; or
- any third party.



AGENDA  
ITEM

**7**

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

**7**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>28th September 2011</b>
<b>REPORT TITLE</b>	<b>PROGRESS AGAINST THE 2011/12 INTERNAL AUDIT PLAN</b>
<b>Report of</b>	<b>Head of Finance and Audit; and Internal Audit Manager</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

### Summary of report:

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2011/12 to the 31<sup>st</sup> August 2011, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by the section against the 2011/12 annual audit plan, reviewed by this Committee in April 2011.

### Financial implications:

None, within existing budgets.

### RECOMMENDATIONS:

**That the Audit Committee considers the progress made against the 2011/12 Internal Audit Plan and comments on the summary of issues arising.**

### Officer contact:

Allan Goodman, Internal Audit Manager  
Email: [allan.goodman@southhams.gov.uk](mailto:allan.goodman@southhams.gov.uk)

### 1. BACKGROUND

- 1.1 The Terms of Reference for Internal Audit were presented to the Audit Committee in April 2011 (Minute reference A.30/10) and cover:

Purpose, Authority and Responsibility;  
Independence;



Audit Management;  
Scope of Internal Audit's Work;  
Audit Reporting; and  
Audit Committee.

- 1.2 The Audit Strategy was updated for 2011/12 and was approved by the Audit Committee in April 2011 (Minute reference A.39/10 refers) and covers:

Objectives and Outcomes;  
Opinion on Internal Control;  
Local and National Risk Issues;  
Provision of Internal Audit; and  
Resources and Skills.

## **2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2011/12**

### *Audit Plan 2011/12*

- 2.1 The 2011/12 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2011 (A.40/10 refers).

### *Local and National Risk Based Amendments to the Plan*

- 2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated into the audit plan either through the contingency days or by change to the plan, depending on the significance.
- 2.3 There are no proposed amendments to the 2011/12 plan as at the 31st August 2011.
- 2.4 Overspends on the estimated time for individual audits occur as the time in the audit plan is an estimate based on risk and generally not the amount of time needed to do the work required. All efforts are made to 'cut our cloth according to our means', but in some circumstances where control issues are identified, a risk based assessment is carried out. This constitutes consideration, depending on the significance, of whether additional time should be spent and if so where the work is to be charged, either contingency or by change to the audit plan.
- 2.5 The following table sets out the significant overspends on time budgets (3.5 days or more) on individual audits as totalled in Appendix A, and the reasons for the overrun:

<b>Audit</b>	<b>Planned Days</b>	<b>Days Used</b>	<b>Reason for Overspend</b>
-	-	-	None over 3.5 days
-	-	2	Total of over or under spends of all other finalised audits
<b>Total</b>	<b>8</b>	<b>2</b>	<b>Overspends to date – 2 days</b>

- 2.6 Audit work for 2011/12 must include transactions from 2011/12. As a consequence April and a small part of May and June of each year is used to complete the audit work of the previous year, to ensure that when the 2011/12 audits begin there is sufficient data to be tested for a 2011/12 audit opinion to be given.
- 2.7 The chosen method, which has run for a number of years and seen by two different external audit providers to the Audit Commission without challenge, is for the plan to run from May to May and the variation reported. It is accepted that an alternative approach is for the annual Audit Plan to be set up to reflect this position.

Audit	Planned	Days Used	
Completion of 2010/11 audit – April to June 2011	0	26	Finishing of 2010/11 systems and computer audits (42 equivalent days in previous year).
<b>Total</b>	<b>0</b>	<b>26</b>	

### Resources and Skills

- 2.8 Sickness to the end of August 2011 is 4 days (2010/11 equivalent 0 days).
- 2.9 The number of audit days provided by the Auditor at the end of August was 96 days set against the planned 180 days for the year (2010/11 equivalent 90 days).
- 2.10 No audit specific external training has been provided so far this year to the audit team. Other related training has and is being undertaken as follows:

#### Internal Audit Manager

- Council Contracts & Your Actions (in-house)

#### Senior Auditor:

- Council Contracts & Your Actions (in-house)

#### Auditor:

- Council Contracts & Your Actions (in-house)

### Progress Against the Plan

- 2.11 The 2011/12 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.

- 2.12 The reporting of individual high priority recommendations is set out at **Exempt Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.
- 2.13 **Exempt Appendix C** provides a summary of the main issues raised for all of the audits where a final audit report has been issued. This too forms part of the report to the S.151 Officer. In addition, the Appendix shows the results of our follow up of previous audit work and tasks that have not produced an audit report.
- 2.14 **Exempt Appendix D** provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

#### Non Compliance with Financial Procedure Rules

- 2.15 There are no significant issues to bring to the attention of the Committee so far this year.

#### Fraud

- 2.16 No actual, suspected or allegations of fraud have been identified so far this year.

#### Performance Indicators

- 2.17 Internal Audit's performance indicators are mainly collected annually and will be reported to the Audit Committee in full in the year-end report. The full list of those recorded is set out in the Audit Strategy 2011/12.
- 2.18 At this stage in the year, the key indicator 'Completion of 2011/12 Audit Plan' is as follows:

Indicator	Target %	Actual %	Comments
Audits completed from 2010/11 audit plan.	90	98	As reported to the Audit Committee June 2011.
Audits at the end of August at various stages of completion from 2011/12 audit plan.			
SHDC	-	37%	(38% at August 2010).
WDBC	-	34%	(16% at August 2010).
Combined plan	90	38%	(35% at August 2010). Target 30%

#### Internal Audit – Shared Services

2.19 The following has been achieved since the last Audit Committee:

West Devon

- Revised Contract Procedure Rules and Anti-Fraud and Corruption Strategy documents updated for both Councils' Audit Committee agendas, to reflect recent manager reviews and shared services; and
- Progress on the 2011/12 audit plan.

Teignbridge

- Exchange of audit programmes, advice and best practice;
- Liaison over Contract Procedure Rules; Anti-Fraud and Corruption Strategy, Anti Money Laundering Policy

### 3. LEGAL IMPLICATIONS

3.1 Statutory Powers: **Accounts and Audit Regulations 2003, 2006, 2011**

### 4. FINANCIAL IMPLICATIONS

4.1 None, within existing budgets.

### 5. RISK MANAGEMENT

5.1 The risk management implications are:

Opportunities	Benefits
A risk based audit plan directs scarce audit resources away towards areas of high risk to the Council.	Audit work completed in line with the audit plan and to the required quality standards will ensure that the external auditor places reliance upon the work of internal audit, resulting in no additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.

Issues/Obstacles/Threats	Control measures/mitigation
The directing of scarce audit resources away from areas of high risk may undermine the opinion provided to the Council by the Internal Audit Manager on the System of Internal Control..	Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.
The external auditor placing no reliance upon the work of internal audit, resulting in additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the	Regular liaison with the external auditor.  Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the

Annual Governance Statement.	year. Regular monitoring of progress by the S.151 Officer and the Audit Committee.
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<b>Issues/Obstacles/Threats</b>	<b>Control measures/mitigation</b>
The Council's Annual Governance Statement cannot be signed if Internal Audit fails to complete the work set out in the approved risk based audit plan due to unforeseen circumstances.	Regular monitoring of performance by the S.151 Officer and the Audit Committee.  Audit approach adheres to the appropriate professional standards.  Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year.

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Accounts and Audit Regulations 2003, 2006, 2011
<b>Considerations of equality and human rights:</b>	There are no specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	There are no specific crime and disorder issues arising from this report.
<b>Background papers:</b>	CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2015/16.
<b>Appendices attached:</b>	<b>Appendix A:</b> Audit Plan 2011/12 – Progress to 31 August 2011 <b>Exempt Appendix B:</b> Planned Audit 2011/12 – Final Reports: Detailed Items <b>Exempt Appendix C:</b> Planned Audit 2011/12 – Summary of Results <b>Exempt Appendix D:</b> Unplanned Audit 2011/12 – Summary of Results

# APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Reprt	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
MAS & Budgetary Control	11									
Creditor Payments	9									
Payroll	10									
Council Tax	12									
Business Rates (NDR)	10									
Benefits	20									
Debtors	9									
Treasury Management	7									
Capital Expenditure	8									
<b>Fundamental Systems</b>	<b>96</b>									
Email Monitoring	4	■								75% completed.
Internet Monitoring	4	■								75% completed.
Computer Audit	26									
Car and Boat Parking	9									
Dartmouth Lower Ferry	9									
Private Sector Housing Renewal	8	■								11% completed.
National & Performance Indicators incl. Data Quality	5	■								88% completed.
Salcombe Harbour	10									
Grants - RDPE Rural Community LAGs	60	46 days used								149 Claims audited (2 quarters); plus 48 Management & Admin invoices

# APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Reprt	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Follow Up of Previous Year's Audits	10	3 days used				-	-	-	-	
Contingency (Unplanned)	50	20 days used	-	-	-	-	-	-	-	See table at Appendix D.
Corporate Governance	8									
Exemptions to Contract or Financial Procedure Rules	4	0.8 day used	-	-	-	-	-	-	-	5 Exemption applications received April to August 2011 and processed. 4 accepted and reported to Executive.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	-	-	-	Recommended to the Council for approval following report to the Audit Committee - July 2011
Risk Management / Business Continuity	5									
West Devon Borough Council	85	34 days used	-	-	-	-	-	-	-	Separate report to WDBC Audit Committee
Dartmouth Town Council	5	■	■	■	■	-	-	-	-	Summary to Audit Committee - September 2011
<b>Other Essential</b>	<b>307</b>									
Elections	8	■								90% complete
CST/Cash Collection	8	■	■							Draft report issued 18 <sup>th</sup> July 2011
Public Conveniences	8	■	■	■	■		■			Summary to Audit Committee - September 2011
Recycling	9	■	■							Draft report issued 19 <sup>th</sup> July 2011
Leisure Client and Tourism	8	■	■							Draft report issued 19 <sup>th</sup> August 2011
Travel and Subsistence	8	■	■	■	■		■			Summary to Audit Committee - September 2011
Building Regulations incl Other Building Control Work	10									
Employment Estates	8	■	■							Draft report issued 4 <sup>th</sup> August 2011
Stores	5									



# APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Reprt	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Advice to Information Compliance/Other Groups	3	0 days used				-	-	-	-	
Asset Management	7									
Shared Services	8	■				-	-	-	-	37% completed. See Miscellaneous below.
<b>Other</b>	<b>90</b>									
Audit Administration	20	14 days used	-	-	-	-	-	-	-	
Audit Management, including Audit Planning	15	7 days used	-	-	-	-	-	-	-	
Audit Monitoring Reports to Management and Audit Committee	20	5 days used	-	-	-	-	-	-	-	
Training	10	0.6 day used	-	-	-	-	-	-	-	
Miscellaneous e.g. Financial Regulations etc.	5	1.3 day used	-	-	-	-	-	-	-	Revised Contract Procedure Rules; Anti fraud and Corruption Strategy, to September 2011 Audit Committee
<b>Other</b>	<b>70</b>									
<b>Overall Total</b>	<b>601</b>									
<b>Included above:</b>										
Installation & Healthcheck	7									
Computer and Network Management & Security	9									
Change Control	7									
Other Reviews	3									
<b>Computer Audit</b>	<b>26</b>									

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AGENDA  
ITEM

**8**

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

**8**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>28 September 2011</b>
<b>REPORT TITLE</b>	<b>REVISION of the CONTRACT PROCEDURE RULES</b>
<b>Report of</b>	<b>S.151 Officer Monitoring Officer Internal Audit Manager</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

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### Summary of report:

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 and the amended rules surrounding exemptions.

The internal management changes, shared service agenda and the introduction of the Bribery Act 2010 from 1<sup>st</sup> July 2011, have meant an update is necessary.

The updated Contract Procedure Rules appear at Appendix A which the changes on the previous version highlighted in red.

### Financial implications:

None, within existing budgets.

### RECOMMENDATIONS:

**That the Audit Committee review the updated version of the Council's Contract Procedure Rules (Appendix A) and RECOMMEND THAT COUNCIL approve the document and the revised exemption process, and its inclusion in the Council's Constitution,**

### Officer contact:

Allan Goodman, Internal Audit Manager  
Email: [allan.goodman@southhams.gov.uk](mailto:allan.goodman@southhams.gov.uk)

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## **1. BACKGROUND**

- 1.1 The Internal Audit Managers of South Hams (SHDC) and Teignbridge District Councils (TDC) and the Shared Corporate Procurement Officer have previously worked together to deliver a revised set of Financial Rules, for adoption by both Councils.
- 1.2 This collaboration culminated in the presentation of the Contract Procedure Rules to the Council by the Audit Committee in December 2007, revised in June 2010. The Committee recommended approval and inclusion of the document in the Constitution (minute A.08/10 refers).
- 1.3 The previous versions were based on a model supplied free of charge by CIPFA tailored to local circumstances. The key limits and rules were aligned between South Hams and Teignbridge Councils.

## **2. THE REVISED CONTRACT PROCEDURE RULES**

### **Update for June 2010**

- 2.1 Members of the Audit Committee, following their consideration with the Standards Committee of the Compliance Review of the Code of Corporate Governance (April 2011), and in recommending acceptance to the Council of the Annual Governance Statement expressed concern about the impact of the management review and shared services on the Council's governance framework.
- 2.2 In response, the June 2011 South Hams and West Devon Joint Steering Group approved a project plan to review the Shared Services Governance Arrangements which included certain key financial arrangements. This included producing one set of Contract Procedure Rules for adoption by and implementation in both South Hams and West Devon. Part of the rationale for this was to reduce the scope for confusion about the Rules for officers working in both Councils.
- 2.3 The Internal Audit Manager for both South Hams (SHDC) and West Devon Councils (WDBC), the shared Corporate Procurement Officer, the shared Legal team and the Head of Assets have therefore reviewed the June 2010 Contract Procedure Rules to reflect:
  - Shared services (aligning of arrangements as far as can be done);
  - Management review; and
  - The implementation of the Bribery Act 2010.
- 2.4 We also consulted with the Internal Audit Manager at Teignbridge District Council.

### **Key Changes in the September 2011 Document**

2.5 The Contract Procedure Rules amended for September 2011 have been drafted and are attached at **Appendix A**. Any changes to the 2010 document are highlighted in a **red typeface**. The Key changes are:

- **Exemptions** – The required signatures for granting and exemption have been changed, in part to reflect the changes in the Executive Arrangements and senior management but also to ease alignment with the equivalent process for West Devon. One of the main differences is changing the retrospective reporting of approved exemptions from the Executive to the Audit Committee;
- **Capital Programme** – additional controls over management of the Capital Programme, including monitoring of expenditure and approval of overspends;
- **Shared Services** – The equivalent document is to be presented to the West Devon Borough Council Audit Committee on 27<sup>th</sup> September 2011, with as many of the arrangements aligned as possible having regard to the different governance arrangements; and
- **General** – various areas of improvement including reflecting the Bribery Act 2010, the process for the signing and storage of contracts, and responsibility changes from Strategic Directors to Heads of Service.

### **3. LEGAL IMPLICATIONS**

3.1 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.

3.2 Now that all services are to be shared with West Devon, and the Procurement Officer is also 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. Aligning the Rules, and then training relevant officers about the changes is a sensible precaution.

3.3 Neither Council will lose by alignment of the Rules as local authorities are best advised to follow guidance offered by CIPFA, as has been done in this case, and most councils' Rules are similar. Of course South Hams has its own set of Rules couched in its own name, as required.

#### 4. FINANCIAL IMPLICATIONS

4.1 None, within existing budgets.

#### 5. RISK MANAGEMENT

5.1 The risk management implications are:

<b>Opportunities</b>	<b>Benefits</b>
To provide managers with a set of comprehensive rules with the flexibility to enable them to act quickly were the need arises.	Opportunities for local suppliers to be used whilst having regard for the need not to favour any specific suppliers and all of the Council's procurement guidelines.
Provide such flexibility, within a sound control environment, which may reduce some administrative costs while providing the similar results in value for money terms.	

<b>Issues/Obstacles/Threats</b>	<b>Control measures/Mitigation</b>
Rules may differ to those of West Devon Borough Council with the potential to create difficulties for service sharing. Confusion may lead to improper practice, liability to contractors and loss of reputation	Provide a level playing field for the purpose of potential shared services by ensuring that the key financial arrangements and limits and rules are the same.
There is a risk that allowing greater flexibility in procurement may in some circumstances undermine the control environment and impact upon the budgetary performance.	Mitigated through improving compensating controls such as budget monitoring at a higher level.
Risk to the current business environment and potential cost the Council if Contract Procedure Rules are not followed.	The System of Internal Control and the responsibility placed upon Heads of Service to self access their controls and report any significant weaknesses in an assurance certificate, plus, continuing risk based internal audits.
The Corporate Procurement Officer may be restricted in the benefits that she/he can bring through shared procurement arrangements,	All key procurement arrangements and limits brought up to date and recommended alignment for the future benefit of any shared service agenda.

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Section 135 Local Government Act 1972; and Accounts and Audit Regulations 2003, 2006 and 2011.



<b>Biodiversity considerations:</b>	No specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	No specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	No specific crime and disorder issues arising from this report.
<b>Background papers:</b>	Constitution: Contract Procedure Rules CIPFA: Contract Procedure Rules - Guidance and Template 2006
<b>Appendices attached:</b>	<b>Appendix A:</b> Contract Procedure Rules 2011.



# **South Hams District Council**

## **Draft Contract Procedure Rules**

**September 2011**

## CONTENTS

### A BRIEF GUIDE TO CONTRACT PROCEDURE RULES

#### SECTION 1: SCOPE OF CONTRACT PROCEDURE RULES

##### Para

1	BASIC PRINCIPLES
2	OFFICER RESPONSIBILITIES
3	EXEMPTIONS
3. 11	COLLABORATIVE & E-PROCUREMENT ARRANGEMENTS
4	RELEVANT CONTRACTS

#### SECTION 2: COMMON REQUIREMENTS

##### Para

5	STEPS PRIOR TO PURCHASE
6	RECORDS
7	ADVERTISING AND FRAMEWORK AGREEMENTS

#### SECTION 3: CONDUCTING PURCHASE AND DISPOSAL

##### Para

8	COMPETITION REQUIREMENTS FOR PURCHASE OR DISPOSAL AND PARTNERSHIP ARRANGEMENTS
9	PRE-TENDER MARKET RESEARCH AND CONSULTATION
10	STANDARDS AND SELECTION & AWARD CRITERIA
11	INVITATIONS TO TENDER/QUOTATIONS
12	SHORTLISTING
13	SUBMISSION, RECEIPT AND OPENING OF TENDERS/QUOTATIONS
14	CLARIFICATION PROCEDURES AND POST-TENDER NEGOTIATION
15	EVALUATION, AWARD OF CONTRACT, AND DEBRIEFING SUPPLIERS

#### SECTION 4: CONTRACT AND OTHER FORMALITIES

##### Para

16	CONTRACT DOCUMENTS
17	BONDS AND PARENT COMPANY GUARANTEES
18	PREVENTION OF CORRUPTION & ANTI COMPETITIVE BEHAVIOUR
19	DECLARATION OF INTERESTS

#### SECTION 5: CONTRACT MANAGEMENT

##### Para

20	MANAGING CONTRACTS
21	RISK ASSESSMENT AND CONTINGENCY PLANNING
22	CONTRACT MONITORING, EVALUATION AND REVIEW

### DEFINITIONS APPENDIX

## 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 or disposal 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 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 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 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:  
Internal Audit: South Hams and West Devon Councils (Shared)  
Legal team: South Hams and West Devon Councils (Shared)  
Corporate Procurement Officer (Shared)  
S.151 Officer and Monitoring Officer  
Head of Assets and Property Services Manager  
Internal Audit: Teignbridge District Council

## SECTION 1: SCOPE OF CONTRACT PROCEDURE RULES

### 1. BASIC PRINCIPLES

All purchasing and disposal procedures must:

- 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 corporate Sustainable Procurement Strategy, Policy and Guidance and competition policy
- **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 or disposal 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 £75,000, take a report to the Executive 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 Heads of Service

2.2.1 **Heads of Service** must:

## SECTION 1: SCOPE OF CONTRACT PROCEDURE RULES

- 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
- Ensure that the originals of all contracts are given to the Monitoring Officer who shall maintain the Contracts Register lodge all documentation securely in the Legal safe.

### 3. EXEMPTIONS TO THESE RULES

#### Principles

3.1 The Council and its *Executive* have power to authorise exemptions from the requirement to seek quotations or invite tenders for specific projects, and any such decision may be a *Key Decision*.

3.2 Where necessary because of exceptional circumstances the *Officer or Head of Service* 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.

## SECTION 1: SCOPE OF CONTRACT PROCEDURE RULES

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

Total Value (excl. VAT)	Urgent or Non Urgent	Exemption Authorised By
£5,001–£50,000	Both	Internal Audit Monitoring Officer S.151 Officer
£50,001–EU Threshold	Urgent	Internal Audit Monitoring Officer S.151 Officer Leader or Deputy Leader
£50,001–EU Threshold	Non Urgent	Report to the Executive by the Head of Service for a decision, supported by recommendations from S151 Officer and Monitoring Officer
Above EU Threshold	N/A	No exemption permitted

3.7 *Total Value* is discussed at Paragraph 8 and the Definitions Appendix, 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* 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.

### **COLLABORATIVE & E-PROCUREMENT ARRANGEMENTS**

3.11 The *Corporate Procurement Officer* must be consulted prior to commencing a procurement process using any consortia contracts e.g. **Government Procurement Service**. The terms and conditions of contract applicable to any consortia arrangement, including the requirement to undertake competition between providers, must be fully complied with.

3.12 In order to secure *Value for Money*, the authority 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.

3.12.1 All purchases made via a local authority purchasing and distribution consortium are deemed to comply with these contract procedure rules and no exemption is required.

## SECTION 1: SCOPE OF CONTRACT PROCEDURE RULES

3.12.2 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 consortium members.

3.12.3 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.**

3.13 The use of e-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 authority for the carrying out of works or for the supply of goods, materials or services. These include arrangements for:

- The supply or disposal of goods (see also 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 and consultancy services.

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); 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.



## SECTION 2: COMMON REQUIREMENTS

### 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:

- 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 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* and *Monitoring Officer* must be sought)
- Setting out these matters in writing if the *Total Value* of the purchase exceeds £5,000.

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
- 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

6.1 Where the *Total Value* is less than £30,000, 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
- Written (including electronic) records of communications with the successful contractor.

## **SECTION 2: COMMON REQUIREMENTS**

6.2 Where the *Total Value* exceeds £30,000 the following records must be kept:

- The method for obtaining bids (see Rule 8.1)
- Any *Contracting Decision* and the reasons for it
- Any exemption under Rule 3 together with the reasons for it
- The *Award Criteria* in descending order of importance
- Tender documents sent to and received from *Suppliers*
- Pre-tender market research
- Clarification and post-tender negotiation (to include minutes of meetings)
- Legal advice
- The contract documents
- Post-contract evaluation and monitoring
- Communications with *Suppliers* and with the successful contractor throughout the period of the contract.

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

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.

## **7. ADVERTISING AND FRAMEWORK AGREEMENTS**

### **7.1 Identifying and Assessing Potential Suppliers**

#### Identifying

7.1.1 *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. Examples of where such advertisements may be placed include:

- The Council's website
- Portal websites specifically created for contract advertisements
- 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).

7.1.2 For proposed contracts that are expected to exceed £30,000 but NOT £75,000, assessment and selection will be in conjunction with the Corporate Procurement Officer by, as a minimum, Invitation to Tender to at least four Suppliers although best practice in relation to advertising is encouraged.

## SECTION 2: COMMON REQUIREMENTS

### Assessing

7.1.3 Officers are responsible for ensuring that all Suppliers for a Relevant *Contract* are suitably assessed. The assessment process shall establish that the potential *Suppliers* have sound:

- Economic and financial standing
- Technical ability and capacity

to fulfil the requirements of the authority.

7.1.4 This shall be achieved in respect of proposed contracts that are expected to **exceed £75,000** by selecting firms from shortlists assessed from expressions of interest in a particular contract submitted in response to a public advertisement.

### 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 e-tendering system, which is available on the Council's web-site.

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 contractors with one or more suppliers in order to establish the terms governing the contracts awarded during given period.**

**In setting up a *Framework Agreement* the term of must not exceed four years. There must be one, three or more providers (not 2) within an agreement under EU procurement law. The Council's *Corporate Procurement Officer* must always be consulted before any action taken.**

7.3.2 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, or
- Where the terms laid down in the *Framework Agreement* are not precise enough or complete for the particular call off by holding a **mini competition** in accordance with the following procedure:

## SECTION 2: COMMON REQUIREMENTS

- 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 each 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*.

## SECTION 3: CONDUCTING PURCHASE AND DISPOSAL

### **8. COMPETITION REQUIREMENTS FOR PURCHASE OR DISPOSAL AND PARTNERSHIP ARRANGEMENTS**

To obtain the estimated value of the contract, the *Officer* must calculate the *Total Value* (excluding VAT) for the period of the contract. *The Total Value calculation (in money or equivalent value) is important and the base criteria are set out in the Definitions Appendix. If any doubt exists the Officer should contact the Corporate Procurement Officer.*

**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. See also the Definitions Appendix, Total Value.**

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* or Internal Audit.

#### **8.1 Purchasing: Competition Requirements to Obtain Quotations or Tenders**

8.1.1 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.

<b>Total Value (excl. VAT)</b>	<b>Award Procedure</b>	<b>Short listing</b>
Up to £5,000	One quotation, but good practice to seek most favourable prices and terms, having regard to the Council's Procurement Strategy.	<i>Officer</i> - See also Financial Procedure Rules
£5,001 – £30,000	Three written Quotations	<i>Officer/Service Manager</i>
£30,001–£75,000	Invitation to Tender to at least four suppliers	<i>Officer and Service Manager</i> in consultation with the <i>Corporate Procurement Officer</i> – see Rule 7.1.5
£75,001– <i>EU Threshold</i>	Invitation to Tender by advertisement/list to at least four suppliers	<i>Officer and Service Manager</i> in consultation with the <i>Corporate Procurement Officer</i>
Above <i>EU Threshold</i>	EU Procedure (Seek advice from the <i>Corporate Procurement Officer</i> )	<i>Officer, Service Manager and Head of Service</i> in consultation with the <i>Corporate Procurement Officer</i>
Up to <i>EU Threshold</i>	All purchases made via a local authority purchasing and distribution consortium are deemed to comply with these contract procedure rules and no exemption is required e.g. simple purchases through Devon Procurement Partnership.	See paragraph 3.7.

## SECTION 3: CONDUCTING PURCHASE AND DISPOSAL

### 8.1 Purchasing – Competition Requirements (continued)

Total Value (excl. VAT)	Award Procedure	Short listing
All values. Collaborative Contracts	The <i>Corporate Procurement Officer</i> must be consulted prior to commencing any procurement process using Collaborative Contracts. The terms and conditions applicable to any Collaborative Contract arrangement, including the requirement to undertake competition between providers, must be fully complied with.	See paragraphs 3.6 to 3.8
All values. ICT	All system developments and purchases of computer equipment or software must be approved by the <b>Head of ICT &amp; Customer Services</b> , or her/his nominated deputy, and awarded in line with these Rules.	<i>Officer, Service Manager</i> and <b>Head of ICT &amp; Customer Services</b> , in consultation with the Corporate Procurement Officer

8.1.2 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.

8.1.3 An *Officer* must not enter into separate contracts nor select a method of calculating the *Total Value* in order to minimise the application of these contract procedure rules.

8.1.4 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.

### 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 3). If in doubt, *Officers* must seek the advice of the *Monitoring Officer* and the *Corporate Procurement Officer*. See table at Rule 8.1.

### 8.3 The Appointment of Consultants to Provide Services

8.3.1 Consultant architects, engineers, surveyors and other professional *Consultants* shall be selected and commissions awarded in accordance with the limits and procedures detailed within these contract procedure rules and as outlined at Rule 8.1.1.

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

### SECTION 3: CONDUCTING PURCHASE AND DISPOSAL

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.

#### 8.4 Assets for Disposal

8.4.1 Assets for disposal (other than Land and Buildings) must be sent to public auction except where better *Value for Money* is likely to be obtained by inviting *Quotations* and *Tenders* or other approved method. (These may be invited by advertising on the Council's internet site). In the latter event, the method of disposal of surplus or obsolete stocks/stores or assets must be formally agreed as required by *Financial Procedure Rules* and the Scheme of Delegation.

#### 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* must not seek or accept technical advice on the preparation of an *Invitation to Tender* or *Quotation* from anyone who may have a commercial interest in them, if this may prejudice the equal treatment of all potential *Suppliers* or distort competition, and should seek advice from the *Monitoring Officer* and the *Corporate Procurement Officer*.

### 10. STANDARDS AND SELECTION & AWARD CRITERIA

10.1 The *Officer* must ascertain what are the relevant British or equivalent European or international standards which apply to the subject matter of the contract. The *Officer* must include those standards which are necessary properly to describe the required quality. This includes sustainability standards. The *Monitoring Officer* and *Corporate Procurement Officer* must be consulted if it is proposed to use standards other than European standards.



## SECTION 3: CONDUCTING PURCHASE AND DISPOSAL

10.2 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)

If the last criterion is adopted, it must be further defined by reference to sub-criteria which may refer only to relevant considerations. These may include price, service, quality of goods, running costs, technical merit, previous experience, delivery date, cost effectiveness, relevant environmental considerations, aesthetic and functional characteristics (including security and control features), safety, after-sales services, technical assistance and any other relevant matters.

10.3 *Award Criteria* must not include:

- *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.

## **11. INVITATIONS TO TENDER/QUOTATIONS**

### **Invitations to Tender**

11.1 The *Invitation to Tender* shall state that no *Tender* will be considered unless it is received by the date and time stipulated in the *Invitation to Tender*. No *Tender* delivered in contravention of this clause shall be considered.

11.2 All *Invitations to Tender* shall include the following:

- (a) A specification that describes the Council's requirements in sufficient detail to enable the submission of competitive offers.
- (b) A requirement for tenderers to declare that the *Tender* content, price or any other figure or particulars concerning the *Tender* have not been disclosed by the tenderer to any other party (except where such a disclosure is made in confidence for a necessary purpose).
- (c) A requirement for tenderers to complete fully and sign all *Tender* documents including a form of *Tender* and certificates relating to canvassing and non-collusion.
- (d) Notification that *Tenders* are submitted to the Council on the basis that they are compiled at the tenderer's expense.



### SECTION 3: CONDUCTING PURCHASE AND DISPOSAL

- (e) A description of the *Award Procedure* and a definition of the *Award Criteria* (including any scoring mechanism or sub criteria) or in objective terms and if possible in descending order of importance.
- (f) Notification that no *Tender* will be considered unless it is:
  - o enclosed in a sealed unmarked envelope or container (electronic) which bears the word 'Tender' followed by the subject to which it relates, but no other name or mark indicating the sender; or
  - o submitted via the Council's electronic tendering system.
- (g) A stipulation that any *Tenders* submitted by fax or e-mail shall not be considered, see Rule 13.3 re electronic tendering.
- (h) The method by which any arithmetical errors discovered in the submitted *Tenders* is to be dealt with. In particular, whether the overall price prevails over the rates in the *Tender* or vice versa.

11.3 All *Suppliers* invited to *Tender* or quote 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.

#### Invitations to Tender or Quotations

11.4 All *Invitations to Tender* or *Quotations* must specify the goods, service or works that are required, together with the terms and conditions of contract that will apply (see Rule 16).

11.5 The *Invitation to Tender* or *Quotation* 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 Any *Shortlisting* must have regard to the financial and technical standards relevant to the contract and the *Award Criteria*. Special rules apply in respect of the *EU Procedure*.

12.2 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.

12.3 The officers responsible for *Shortlisting* are specified in Rule 8.1.1.

### **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*).

## SECTION 3: CONDUCTING PURCHASE AND DISPOSAL

- 13.2 All *Tenders* must be returned to the Member Services department or if electronically be submitted through the Council's approved and secure electronic tendering system. **Member Services must inform the Monitoring Officer when a tender opening has been completed.**
- 13.3 The Council's electronic tendering system should be used where practical. However, *Tenders* received by fax or other electronic means (e.g. email) must be rejected.
- 13.4 The *Officer* must not disclose the names of *Suppliers* to any staff involved in the receipt, custody or opening of *Tenders*.
- 13.5 The Member Services department shall be responsible for the safekeeping of *Tenders* until the appointed time of opening. 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*.

### 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. The *Officer* or his or her representative must be present. *Tenders* must be opened in the presence of an officer representing the Head of Corporate Services and a Council Member. Where the *Total Value* is more than the *EU Threshold*, the *Corporate Procurement Officer* shall also attend.
- 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;
  - 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*

### SECTION 3: CONDUCTING PURCHASE AND DISPOSAL

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.

*Officers* appointed by the *Head of Service* 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.

- 14.4 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.

- 14.5 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 Contracts must be evaluated and awarded in accordance with the *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 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**.

- 15.5 Where the *Total Value* is over £30,000, the *Officer* must notify all *Suppliers* 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. The *Officer* must provide unsuccessful *Suppliers* with a period of at

### SECTION 3: CONDUCTING PURCHASE AND DISPOSAL

least **five working days (or 10 working days for OJEU contracts)** in which to challenge the decision before the *Officer* awards the contract. 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*.

15.6 The *Officer* shall notify in writing all those *Suppliers* who submitted a bid only of the following (unless authorised by the *Monitoring Officer* in association with the *Corporate Procurement Officer* or an EU contract):

- How the Award Criteria were applied;
- The prices or range of prices submitted, in either case not correlated to *Suppliers'* names;
- The names of *Suppliers* where there were three or more *Suppliers*.

15.7 **For EU contracts**, if a *Supplier* requests in writing the reasons for a *Contracting Decision*, the *Officer* must give the reasons in writing (**describing relative advantages and disadvantages of the bid**) within 15 days of the request. If requested, the *Officer* may also give the debriefing information at Rule 15.6 above to *Suppliers* who were deselected in a pre-tender *Short listing* process.

## SECTION 4: CONTRACT AND OTHER FORMALITIES

### **16. CONTRACT DOCUMENTS**

#### **16.1 Relevant Contracts**

16.1.1 All Contracts above £5,000 shall be 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.

16.1.3 **The Council's order form 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 £30,000 must also state clearly as a minimum:

- That the contractor may not assign or sub-contract without prior written consent
- Any insurance requirements
- Health and safety requirements
- Ombudsman requirements
- Data protection requirements, if relevant
- That charter standards are to be met if relevant
- Race relations requirements
- Disability Discrimination Act requirements
- Freedom of Information Act requirements
- Where *Agents* are used to let contracts, that *Agents* must comply with the Council's contract procedure rules
- 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.**

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 £30,000; or
- **Below £30,000 if other than the Council's standard terms and conditions are to be used; or**

## SECTION 4: CONTRACT AND OTHER FORMALITIES

- 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 £30,000; or
- Those that are complex in any other way.

### 16.2 Contract Formalities

16.2.1 Agreements shall be completed as follows:

Total Value	Method of Completion	By
Purchase orders - up to £30,000	Electronic Order or Signature	Authorised officer (see Rule 16.2.3)
Contracts and licences up to £30,000. Council's Standard Terms and Conditions	Signature	Head of Service or Nominated Deputy (Rule 16.2.3) or Monitoring Officer
Contracts and licences up to £30,000 Non Standard Terms and Conditions	Signature	Head of Service, on the advice of the Monitoring Officer (Rule 16.2.3) or Monitoring Officer
£30,001 to £75,000	Sealing (unless advised by the Monitoring Officer that sealing is not necessary)	Head of Service, on the advice of the Monitoring Officer (Rule 16.2.3) or Monitoring Officer
Above £75,000 or if any of para 16.1.5 applies except ICT software.	Sealing (unless advised by the Monitoring Officer that sealing is not necessary)	Monitoring Officer (See also Rule 16.2.3 and 16.3), on the instruction of the Head of Service
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 <b>Head of ICT &amp; Customer Services</b> , and not the Head of Service.

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.

## SECTION 4: CONTRACT AND OTHER FORMALITIES

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

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.

16.2.4 All contracts, (save straight forward purchase orders, must be given to the Monitoring Officer for secure storage. An electronic copy must be copied to the *Corporate Procurement Officer* for all contracts with value over £30k.

### 16.3 Sealing

16.3.1 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*.

16.3.2 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*.

16.3.3 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.

## **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 £75,000, 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.



## SECTION 4: CONTRACT AND OTHER FORMALITIES

### **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 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.



## SECTION 4: CONTRACT AND OTHER FORMALITIES

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 a pecuniary 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.

19.3 All Councillors must comply with Paragraph 8 of 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 South Hams District Council 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) whichever is the lower.

19.4 The *Monitoring Officer* shall maintain a record of all declarations of interests notified by members and *Officers*.

## SECTION 5: CONTRACT MANAGEMENT

### **20. MANAGING CONTRACTS**

20.1 **Heads of Service must appoint contract managers for all new contracts and for the entirety of the contract.**

20.2 Contract managers must follow the procedures set out in the Council's *purchasing guidance*.

20.3 **Variations or Extensions** should not be made unless this is provided for in the invitation to tender and the contract itself. Heads of Service must contact the *Monitoring Officer and the Corporate Procurement Officer* before any variation is actioned (excludes site variations for construction projects).

Any variations 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 **Liquidated and ascertained damages** must be deducted for all periods of delay in line with the terms of the contract.

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 151 Officer*.

20.6 The Contract Manager must notify the Monitoring Officer, the responsible **Head of Service**, and the *S.151 Officer* promptly on becoming aware of any significant **dispute**, or **claim for additional payment** in connection with a contract.

No liability shall be accepted without the approval of the Executive in such cases.

### **21. RISK ASSESSMENT AND CONTINGENCY PLANNING**

21.1 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.

21.2 For all contracts with a value of over £75,000, 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

## SECTION 5: CONTRACT MANAGEMENT

### **22. CONTRACT MONITORING, EVALUATION AND REVIEW**

#### **Contracts Financed from Revenue**

- 22.1 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.
- 22.2 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 Management Team** detailing the financial and service performance.
- 22.3 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.
- 22.4 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.
- 22.5 When the contract is completed the Contract Manager must submit a report to the **Senior Management 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**

- 22.6 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 Head of Assets and S.151 Officer with retrospective reporting through the monitoring process. Above these amounts the specific approval of the Executive should be sought prior to acceptance.
- 22.7 The Head of Finance and Audit (S.151 Officer), assisted by the Head of Assets, has monitoring responsibilities to receive regular reports from Project Managers on the performance of their project; and report quarterly to the Executive on the overall progress of the Capital Programme.
- 22.8 The monitoring report will outline the budget position as a whole and include, as a minimum, the financial position of each approved project.

## SECTION 5: CONTRACT MANAGEMENT

### Project Overspends

22.9 In monitoring expenditure on a project, the *Officer*/Project Manager should seek the formal approval of the S.151 Officer, Head of Assets or Members at the 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 <i>Total Value</i> <i>excl. VAT</i>	Overspend excl. VAT	Authorised By
Up to £500,000	£25,000 to £50,000	S.151 Officer Head of Assets With retrospective reporting to the Executive within the quarterly monitoring report.
Up to £500,000	Exceeds £50,000	Executive
Over £500,000	10%	Executive

## DEFINITIONS APPENDIX

Term	Definition
<b>Agent</b>	A person or organisation acting on behalf of the Council or on behalf of another organisation.
<b>Award Criteria</b>	The criteria by which the successful <i>Quotation</i> or <i>Tender</i> is to be selected (see further Rules 10 and 11.2e).
<b>Award Procedure</b>	The procedure for awarding a contract as specified in Rules 8, 10 and 15.
<b>Bond</b>	An insurance policy: if the contractor does not do what it has promised under a contract with the Council, the Council can claim from the insurer the sum of money specified in the bond (often 10% of the contract value). A bond is intended to protect the Council against a level of cost arising from the contractor's failure.
<b>Code of Conduct (Officers)</b>	The code regulating conduct of Officers, available on the Council's Intranet.
<b>Code of Conduct (Members)</b>	As set out in the Constitution – Part 5.
<b>Constitution</b>	The constitutional document approved by the Council which: <ul style="list-style-type: none"> <li>• allocates powers and responsibility within the Council and between it and others</li> <li>• delegates authority to act to the Executive, Other Member Bodies and Officers; regulates the behaviour of individuals and groups through rules of procedure, codes and protocols.</li> <li>• available on the Internet</li> </ul>
<b>Consultant</b>	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 Council has no ready access to employees with the skills, experience or capacity to undertake the work.
<b>Contracting Decision</b>	Any of the following decisions: <ul style="list-style-type: none"> <li>• composition of Approved Lists</li> <li>• withdrawal of Invitation to Tender</li> <li>• whom to invite to submit a Quotation or Tender</li> <li>• Short listing</li> <li>• award of contract</li> <li>• any decision to terminate a contract.</li> </ul>
<b>Corporate Contract</b>	A contract let by the <i>Corporate Procurement Officer</i> to support the Council's aim of achieving <i>Value for Money</i> .
<b>Corporate Procurement Officer</b>	The Council's procurement officer charged with providing strategic direction and advice to secure <i>Value for Money</i> in the Council's procurement activities.
<b>Executive</b>	The Council's Executive as defined in the <i>Constitution</i> .
<b>EU Procedure</b>	The procedure required by the EU where the <i>Total Value</i> exceeds the <i>EU Threshold</i> .
<b>EU Threshold</b>	The value at which the EU public procurement directives apply.
<b>European Economic Area</b>	The members of the European Union, and Norway, Iceland and Liechtenstein.
<b>Financial Procedure Rules</b>	The Financial Procedure Rules outlining <i>Officer</i> responsibilities for financial matters issued by the <i>S.151 Officer</i> in accordance with the <i>Constitution</i> (Financial Procedure Rules).

## DEFINITIONS APPENDIX

Term	Definition
<b>Framework Agreement</b>	An agreement between one or more authorities and one or more economic operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity envisaged.
<b>Government Procurement Agreement</b>	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.
<b>Head of Service/Director</b>	The officers defined as such in the <i>Constitution</i> .
<b>High Profile</b>	A high-profile purchase is one that could have an impact on functions integral to Council service delivery should it fail or go wrong.
<b>High Risk</b>	A high-risk purchase is one which presents the potential for substantial exposure on the Council's part should it fail or go wrong.
<b>High Value</b>	A high-value purchase is where the value exceeds the <i>EU Threshold</i> values.
<b>Invitation to Tender (ITT)</b>	Invitation to tender documents in the form required by these contract procedure rules.
<b>Key Decision</b>	Decisions that are defined as key decisions in the <i>Constitution</i> .
<b>Monitoring Officer</b>	As identified in the <i>Constitution</i> . The Monitoring Officer or the Monitoring Officer's formally nominated deputy
<b>Nominated Suppliers</b>	Those persons specified in a main contract for the discharge of any part of that contract.
<b>Non-commercial Considerations</b>	<p>(a) The terms and conditions of employment by contractors 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 contractors contract with their sub-contractors constitute, in the case of contracts with individuals, contracts 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 contractors with irrelevant fields of government policy.</p> <p>(d) The conduct of contractors or workers in industrial disputes between them or any involvement of the business activities of contractors 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, contractors.</p> <p>(f) Any political, industrial or sectarian affiliations or interests of contractors or their directors, partners or employees.</p> <p>(g) Financial support or lack of financial support by contractors for any institution to or from which the authority gives or withholds support. <i>Continues Overleaf</i>.</p>

## DEFINITIONS APPENDIX

Term	Definition
<b>Non-commercial Considerations (continued)</b>	(h) Use or non-use by contractors 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 non-commercial considerations 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.
<b>Officer</b>	The officer designated by the <i>Head of Service</i> to deal with the contract in question.
<b>Parent Company Guarantee</b>	A contract which binds the parent of a subsidiary company as follows: if the subsidiary company fails to do what it has promised under a contract with the Council, the Council can require the parent company to do so instead.
<b>Portfolio Holder</b>	A member of the <i>Executive</i> to whom political responsibility is allocated in respect of specified functions.
<b>Priority Services</b>	Those services required to be tendered as defined in the EU public procurement directives.
<b>Procurement Strategy</b>	The document setting out the Council's approach to procurement and key priorities for the next few years.
<b>Purchasing Guidance</b>	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 Council's intranet.
<b>Quotation</b>	A quotation of price and any other relevant matter (without the formal issue of an <i>Invitation to Tender</i> ).
<b>Relevant Contract</b>	Contracts to which these contract procedure rules apply (see Rule 4).
<b>S.151 Officer</b>	The officer as may be designated S.151 Officer by the Council in line with the Constitution, including the appointed Deputy S.151 Officer.
<b>Service Manager</b>	The <i>Officer's</i> immediate superior or the <i>Officer</i> designated by the <i>Head of Service</i> to exercise the role reserved to the Service Manager by these contract procedure rules.
<b>Shortlisting</b>	The process of selecting <i>Suppliers</i> who are to be invited to quote or bid or to proceed to final evaluation.
<b>Sub-Contractors</b>	Those persons specified in a main contract for the discharge of any part of that contract.
<b>Supplier</b>	Any person who asks or is invited to submit a <i>Quotation</i> or <i>Tender</i> .
<b>Tender</b>	A <i>Supplier's</i> proposal submitted in response to an <i>Invitation to Tender</i> .
<b>Tender Register Pro Forma</b>	The log kept by the Monitoring Officer to record details of <i>Tenders</i> (see Rule 13.5).



## DEFINITIONS APPENDIX

Term	Definition
<b>Total Value</b>	<p>The whole of the value or estimated value (in money or equivalent value) for a single purchase or disposal calculated as follows:</p> <p>(a) where the contract is for a fixed period, by taking the total price to be paid or which might be paid during the whole of the period</p> <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 contract is for an uncertain duration, by multiplying the monthly payment by 48</p> <p>(d) for feasibility studies, the value of the scheme or contracts which may be awarded as a result</p> <p>(e) for <i>Nominated Suppliers and Sub-contractors</i>, the total value shall be the value of that part of the main contract to be fulfilled by the <i>Nominated Supplier or Sub-contractor</i>.</p>
<b>TUPE Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006 No.246)</b>	<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 contractor, local authority in-house team) to another (e.g. following a contracting out 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>
<b>Value for Money</b>	<p>Value for money 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>



AGENDA  
ITEM

9

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

9

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>13 September 2011</b>
<b>REPORT TITLE</b>	<b>Anti Fraud, Corruption and Bribery Policy and Strategy; and Benefit Fraud Prosecution And Sanction Policy</b>
<b>Report of</b>	<b>S.151 Officer Monitoring Officer Internal Audit Manager</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

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### Summary of report:

The purpose of the report is to seek Members' approval for a revised Anti Fraud, Corruption and Benefit Policy and Strategy. Although the previous version of the document was fit for purpose, the introduction of the Bribery Act 2010 from 1<sup>st</sup> July 2011, internal management changes and the shared service agenda has meant an update is necessary.

The pressure on Local Authorities to be vigorous in their approach when any fraudulent activity is discovered is undiminished, whether that be internal fraud, corruption or bribery or fraudulent benefit claims, perpetrators should be prosecuted whenever it is in the public interest to do so.

The adoption of this updated Anti Fraud, Corruption and Policy and Strategy, and Benefit Fraud Prosecution and Sanction Policy, which includes a prosecution policy, will ensure a consistent approach is applied and that the Council operates to 'best practice' standards.

### Financial implications:

None, within existing budgets.

### RECOMMENDATIONS:

**That the Audit Committee RECOMMENDS to the Council that the Anti Fraud, Corruption and Bribery Policy and Strategy and Benefit Fraud Prosecution and Sanction Policy 2011 be adopted.**

### Officer contact:

Allan Goodman, Internal Audit Manager

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## **1. BACKGROUND**

1.1 The Council has a responsibility to take the risk of fraud, corruption or bribery seriously and for many years has operated within an Anti Fraud and Corruption Strategy which set out our approach zero tolerance of fraud and corruption.

1.2 The objectives of the Strategy were to:

- Provide a clear statement of the Council's position on fraud and corruption;
- Minimise the risk to the Council's good name and loss of its assets;
- Promote a culture of integrity and accountability, two of the fundamental principles of good governance, in members, staff and all those the Council does business with;
- Enhance existing procedures aimed at preventing, discouraging and detecting fraud and corruption; and
- Raise awareness of the risk of fraud and corruption being perpetrated against the Council.

1.3 The external auditors and CIPFA have been actively promoting good governance and particularly the arrangements for prevention and detection of fraud through the following:

- Audit Commission Documents – Protecting the Public Purse checklist to those charged with governance outlining the Councils arrangements for countering fraud and corruption
- CIPFA Better Governance Forum document: 'Managing the Risk of Fraud – Actions to Counter Fraud and Corruption';
- The Benefits Fraud Inspectorate - concerned with the administration of Housing and Council Tax Benefits and provides guidance and recommendations on best practice to ensure that risks of Fraud are identified and dealt with.

## **2. ISSUES FOR CONSIDERATION**

### **Changes from the Previous Version of the Document**

2.1 Although the previous version of the document was fit for purpose and the objectives remain, the introduction of the Bribery Act 2010 from 1st July 2011, internal management changes and the shared service agenda has meant an update is necessary.

2.2 The previous version of the Strategy was reviewed and compared with:

- West Devon's existing Strategy;
- CIPFA (Technical Information Service) guidance of April 2011 – Adopting the Right Strategy
- CIPFA Better Governance Forum document: 'Managing the Risk of Fraud – Actions to Counter Fraud and Corruption';
- Bribery Act 2010: guidance issued by the Ministry of Justice; and
- The 2011 Strategy of several other Councils (to whom we extend our gratitude).

2.3 The main changes to the previous version of the document are:

- Alignment of the Policy and Strategy and its presentation with West Devon BC as part of the shared service agenda, the best of both used to create a new document (Appendix A);
- Updating the Policy and Strategy to reflect the recent management changes
- Reflecting the requirements of the Bribery Act 2010 that came into force on 1<sup>st</sup> July 2011;
- Separating the detailed Fraud, Corruption and Bribery Response Plan. This is effectively a procedure document, which will be updated and made available on the Council's Intranet.

2.4 The Benefit Fraud Prosecution and Sanction Policy (Appendix B) remains unchanged.

### **3. LEGAL IMPLICATIONS**

3.1 To ensure that the Council complies with the Fraud Act 2006 and the Bribery Act 2010.

### **4. FINANCIAL IMPLICATIONS**

4.1 None, within existing budgets.

### **5. RISK MANAGEMENT**

5.1 The risk management implications are:

<b>Opportunities</b>	<b>Benefits</b>
Communicating the Anti Fraud stance to members, officers and the public may deter those that consider that an attempted fraud is work risking.	The Council demonstrates its commitment to an Anti Fraud culture, by the regular review, updating and approval of an Anti Fraud Strategy.

<b>Issues/Obstacles/Threats</b>	<b>Control measures/mitigation</b>
Investigations are commenced promptly after suspicions are aroused.	The approach to investigating suspected fraud is clearly laid out in the Council's Fraud, Corruption and Bribery Response Plan.

<b>Issues/Obstacles/Threats</b>	<b>Control measures/mitigation</b>
Preventative measures are in place, including a system of internal controls which are regularly reviewed.	Controls are regularly reviewed by managers and Internal Audit on a risk basis, with vulnerability to fraud being a key part of the audit risk assessment.
Risk of fraud or corruption being perpetrated on the Council.	Preventative measures are in place, including a system of internal controls which are regularly reviewed.
Fraud or corruption is not identified at an early stage.	The Council's Confidential Reporting Policy (whistle blowing) encourages members, officers and the public to report suspected fraud without fear of reprisals. Internal control measures are in place.
Suspected fraud or corruption is not investigated in a sound professional way.	Only appropriately trained officers are appointed to investigate suspected fraud.

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Fraud Act 2006 Bribery Act 2010
<b>Considerations of equality and human rights:</b>	No specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	No specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	No specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	No specific crime and disorder issues arising from this report.
<b>Background papers:</b>	Protecting the Public Purse – Local Government Fighting Fraud' (Audit Commission September 2009); Protecting the Public Purse – Fighting Fraud against Local Government and local Taxpayers (Audit Commission October 2010). Disciplinary Procedures; CIPFA Better Governance Forum: Managing the Risk of Fraud.
<b>Appendices attached:</b>	<b>Appendix A:</b> Anti Fraud, Corruption and Bribery Policy and Strategy 2011. <b>Appendix B:</b> Benefit Fraud Prosecution and Sanction Policy



**ANTI FRAUD, CORRUPTION and BRIBERY  
POLICY and STRATEGY**

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY****1.0 INTRODUCTION**

- 1.1 This document sets out the non-tolerance position held by South Hams District Council on fraud, corruption and bribery.
- 1.2 The objectives of an Anti Fraud, Corruption and Bribery Policy and Strategy are to:
- ♦ Provide a clear statement of the Council's position on fraud, corruption and bribery;
  - ♦ Minimise the risk to the Council's good name and loss of its assets;
  - ♦ Promote a culture of integrity and accountability, two of the fundamental principles of good governance, in members, staff and all those the Council does business with;
  - ♦ Enhance existing procedures aimed at preventing, discouraging and detecting fraud, corruption and bribery; and
  - ♦ Raise awareness of the risk of fraud, corruption and bribery being perpetrated against the Council.
- 1.3 In managing its responsibilities the Council is determined to protect itself against fraud and corruption both from within the authority and from outside. The Council is committed to an effective Policy and Strategy which is designed to:
- ♦ Encourage prevention;
  - ♦ promote detection; and
  - ♦ Identify a clear pathway for investigation.
- 1.4 To combat fraud, corruption and bribery the Council's Policy and Strategy is based on a series of comprehensive procedures. These cover:
- ♦ Risk Management (paragraph 3);
  - ♦ Policy Statements (paragraph 5);
  - ♦ Deterrence and Prevention (paragraph 6);
  - ♦ Detection, Investigation, Sanctions and Redress (paragraph 7); and
  - ♦ Publicity and Training (paragraph 8)
- 1.5 There is an inter-relationship between the Strategy and other existing Council policy documents. These include Financial Regulations **(Financial and Contract Procedure Rules)**, dealing with action to be taken when irregularities or suspected irregularities arise, the **Confidential Reporting (Whistle Blowing) Policy, Gift and Hospitality Registers for Members and Officers, Codes of Conduct for Members and Staff** and the **Disciplinary Procedures**.
- 1.6 There is a separate Anti Money Laundering Policy and related guidance and procedures.

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

- 1.7 All references to 'Members' within this document refer to both elected members and co-opted members who sit on the Standards Committee, and any other co-optees from time to time appointed (for example, on to Scrutiny Panels). Likewise references to 'staff' should be taken to include full and part-time staff and permanent, temporary and agency staff.

**Benefits Fraud**

- 1.8 Whilst the general principles outlined in this Strategy apply to all areas of the Council's operations, it should be noted that a specific policy document is in place in respect of the prevention and detection of benefit fraud.
- 1.9 This deals with the requirements of the Council's Benefits service and dedicated Fraud Team, and that of the equivalent in the Department of Work and Pensions, attached in the Council's **Benefit Fraud Prosecution and Sanction Policy** (Appendix B).

**2.0 DEFINITION OF FRAUD, CORRUPTION AND BRIBERY****Fraud**

- 2.1 Fraud has been defined as: *the intentional and dishonest distortion of financial statements and other records by persons internal or external to the Council which is carried out to conceal the misappropriation of assets or otherwise for gain.* (Source: CIPFA)
- 2.2 The Fraud Act 2006 came into effect on 15 January 2007. The Act created a new general offence of fraud with three ways of committing it:
- ♦ Fraud by false representation (dishonest representation) to gain or cause loss or risk of loss;
  - ♦ Fraud by failing to disclose information (where there is a legal duty, e.g. under written or oral contracts);
  - ♦ Fraud by abuse of position.

It also created new offences:

- ♦ Obtaining services dishonestly
- ♦ Possessing, making and supplying articles for use in frauds
- ♦ Fraudulent trading applicable to non-corporate traders. (extends Companies Acts to sole traders etc)

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY****Corruption**

- 2.3 Corruption has been defined as: *the offering, giving, soliciting or acceptance of an inducement or reward, which may influence a person to act against the interests of the organisation.* (Source: Audit Commission)

**Bribery**

- 2.4 Bribery is defined as: *The offering, giving or soliciting of an inducement or reward which may influence a person to perform a function or activity improperly.*

- 2.5 The 2010 Bribery Act says that a person is guilty of an offence if either of the following cases applies:

Person A **offers, promises or gives** a financial or other advantage to another person, and

- ♦ Intends the advantage to induce Person B to perform improperly a relevant function or activity, or to reward a person for the improper performance of such a function or activity, or knows or believes that the acceptance of the advantage would itself constitute the improper performance of a relevant function or activity

Person B is guilty of an offence if any of the following cases applies.

- ♦ Where Person B **requests, agrees to receive or accepts** a financial or other advantage intending that, in consequence, a relevant function or activity should be performed improperly (whether by Person B or another person); or where the request, agreement or acceptance itself constitutes the improper performance by Person B of a relevant function or activity under the Bribery Act and organisation can be prosecuted if it has failed to prevent bribery.

- 2.6 Public sector organisations are explicitly covered by the offences in sections 1, 2 and 6 of the Act.

- 2.7 Members and staff must note that this Policy and Strategy reflects the Council's zero tolerance of both the offering and receipt of bribes.

**3.0 RISK MANAGEMENT**

- 3.1 Areas most commonly at risk from fraud are both internal and external and include those involving the handling of any asset of an attractive and portable nature. Among typical high risk areas are cash, cheques,



**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

credit cards, contracts, income, payments, expense claims, housing benefits, loans, investments, payroll, grants and stores etc.

- 3.2 Areas where corrupt practices or bribery may be found may include, but are not limited to the award of permissions, planning consents and licences, canvassing for appointments, hospitality, interests of members and officers, secondary employment of staff which may influence their work for an authority, pressure selling, tendering and award of contracts, settlement of contractors' final accounts and claims and the disposal of assets.
- 3.3 The risk of fraud, corruption and bribery is reflected in the Council's Risk Register. The risk registers link to the Council's objectives and priorities, and the System of Internal Control.
- 3.4 These processes require managers to identify the key risks to achieving their service objectives and the controls to mitigate these risks, which may include fraud or corruption. Assurance that the controls to mitigate the risks are in place and operating satisfactorily is required, also annually, and give consideration to 3.1 and 3.2 above.

**4.0 EXTERNAL SCRUTINY**

- 4.1 The Council is aware of the high level of external scrutiny of its affairs by a variety of bodies and individuals including:
- Local tax payers and community groups
  - Pressure groups
  - Service users
  - Local press
  - The Council's external auditors
  - Government Departments and Agencies
  - HM Revenue and Customs
- 4.2 The adoption of a formal anti fraud, corruption and bribery strategy will provide a degree of assurance to those external bodies and individuals interested in the Council's activities.

**5.0 POLICY STATEMENTS****Culture**

- 5.1 The Council is determined that the culture and tone of the organisation will be, and is seen to be, one of openness, honesty and opposition to fraud, corruption or bribery.

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

- 5.2 The Council is committed to discouraging, preventing and detecting fraud, corruption and bribery where attempted on, or from within, the Council's organisation.
- 5.3 The Council expects members and staff at all levels to be aware of the standards of conduct expected of them and the procedures designed to reduce the risk of fraud, corruption and bribery occurring.
- 5.4 Members and staff are responsible for their own conduct and compliance with this strategy and are required to comply with their respective codes of conduct.
- 5.5 There is an expectation and requirement that individuals, suppliers and organisations associated in whatever way with the Council will act with integrity, and that members and Council staff will lead by example in these matters.

**Members and Staff**

- 5.6 Members and staff are positively encouraged to raise any concerns on fraud, corruption and bribery matters normally, but not exclusively, through a Head of Service or other line manager. This they can do in the knowledge that such concerns will be treated in confidence and properly investigated. If necessary a route other than through a line manager may be used to raise such concerns, e.g. Internal Audit, Chief Executive, S.151 Officer, Director, or Monitoring Officer.
- 5.7 The Council has drawn up a separate policy and procedure to deal with any area of concern that an employee may wish to bring to the attention of the management, the '**Confidential Reporting (Whistle Blowing) Policy**'.
- 5.8 The Council's Monitoring Officer needs to be informed of any actual or suspected breaches of the law or codes of practice. Regular formal meetings between the S.151 Officer, Monitoring Officer and Internal Auditor, an officer group known as the Probitry Group, discuss potential issues and the Group holds urgent meetings when suspected breaches of the law or codes of practice are identified. (See section 7 of this document relating to investigation). .
- 5.9 The primary responsibility for maintaining sound arrangements to prevent and detect fraud, corruption and bribery rests with management. Any manager made aware of suspected fraud, corruption and bribery will adopt defined procedures by:
  - ♦ Dealing promptly with the matter;

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

- ♦ Recording all evidence received;
  - ♦ Ensuring that evidence is sound and adequately supported;
  - ♦ Ensuring security of evidence collected;
  - ♦ Notifying the s.151 Officer, and the Council's Monitoring Officer; &
  - ♦ Implementing Council disciplinary procedures were appropriate.
- 5.10 Any abuse of this process by knowingly raising unfounded and/or malicious allegations may be dealt with as a disciplinary matter.
- 5.11 The Council can be expected to deal swiftly and thoroughly with any member or member of staff who defrauds or attempts to defraud the Council or who is corrupt. The Council will be robust in dealing with financial malpractice.

**Partner Organisations and Members of the Public**

- 5.12 In addition, partner organisations or members of the public are also encouraged to report concerns through any of the above avenues. The principles and processes described in this Strategy and its Appendices, and the Council's **Confidential Reporting (Whistle Blowing) Policy**, will be applied to any concerns formally reported by partner organisations or members of the public.

**Monitoring**

- 5.13 The S.151 Officer will monitor the effectiveness of all aspects of the arrangements for the anti fraud, corruption and bribery culture including the approach to investigations, success of sanctions and processes for recovering loss. On a risk basis, the S.151 Officer will make informed judgements about the levels of budgetary investment in work to counter fraud, corruption and bribery.
- 5.14 The Audit Committee's terms of reference require them to monitor Council policies on **confidential reporting, anti fraud, anti corruption and anti bribery**.
- 5.15 A regular report to the Committee by the Internal Auditor will inform Members of any suspected or proven fraud, corruption or bribery identified and the system changes required to ensure that the circumstances are not repeated.

**6.0 DETERRENCE AND PREVENTION**

- 6.1 The effectiveness of the Council's financial arrangements will have a major bearing on its ability to minimise fraud, corruption and bribery. To

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

actively prevent fraud the Council must identify and remove the opportunity to commit crime from new policies and systems and to revise existing ones to remove apparent weaknesses.

- 6.2 The Council will endeavour to act robustly and decisively when fraud, bribery or corruption is suspected and proven. This will be demonstrated through disciplinary action or prosecution. The Council will take action to help ensure the maximum recoveries for the Council.

**Prevention – Internal Controls**

- 6.3 As the appointed officer under 'Section 151' of the Local Government Act, 1972 and the Accounts and Audit Regulations (various years) responsible for making arrangements for the proper administration of the Council's financial affairs, the Head of Finance and Audit is required to:

- ♦ Maintain an effective accounting system;
- ♦ Comply with statutory financial reporting deadlines; and
- ♦ Maintain an adequate and effective internal audit.

The Regulations required that a Deputy s.151 Officer be formally nominated and this is currently the Chief Accountant.

The 2003, 2006 and 2011 Accounts and Audit Regulations require the Council to ensure that it has adequate and effective financial management and a sound **System of Internal Control (SIC)**. It must review the system annually and publish a statement with the accounts (the Annual Governance Statement).

- 6.4 The Council's Financial Procedure Rules (part of the Constitution) also require the S.151 Officer to maintain a planned continuous **internal audit** to form part of the system of internal control, assist in the protection of the Council's assets and the detection and prevention of fraud and error. In consultation with the internal and external audit managers, special attention within audit plans is paid to those activities particularly exposed to the risk of fraud, corruption and bribery (paragraph 3.0).
- 6.5 The adequacy and appropriateness of the Council's financial systems is independently reviewed by both internal and external audit. Senior management are required to be responsive to audit recommendations, and any issues.
- 6.6 The Council's arrangements for preventing fraud will be considered by the Audit Committee on a regular basis. The arrangements will include Internal Audit and the Benefits Fraud Team carrying out pro-active and reactive work.

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

- 6.7 The Internal Auditor will take the appropriate steps to communicate to the appropriate managers, on a timely basis, the details of any fraud bulletins (warnings) received from the external auditor and any other source to ensure safeguards are in place.
- 6.8 The Council will liaise and co-operate with other interested agencies and authorities, including the Audit Commission, Department for Work and Pensions, the Police, professional bodies, and other local authority networks, by, for example, exchanging information on current trends and remedies and membership of the National Anti Fraud Network (NAFN).

**Prevention – Staff**

- 6.9 The Council recognises that a key preventative measure in the fight against fraud, corruption and bribery is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential staff in terms of their propriety and integrity. Staff recruitment is therefore required to be in accordance with procedures laid down by the Head of Corporate Services, and, to obtain a written reference regarding known honesty and integrity of potential staff before employment offers are made.
- 6.10 In the case of agency staff, references will have been taken by the agency to establish the honesty and integrity of the employee.
- 6.11 Council staff are expected to follow any **Code of Conduct** related to their employment or to their professional bodies or qualifications. This will be emphasised in staff induction procedures.
- 6.12 Employees who hold professional, trade or other appropriate qualifications are expected to comply with codes of conduct issued by the organisations of which they are members.
- 6.13 Council staff are required to notify the Council's Monitoring Officer of offers of gifts or hospitality in any way related to their employment.
- 6.14 Any relevant pecuniary interests which, if publicly known, could be perceived as being likely to interfere with their independent judgement, must also be notified to, and recorded by, the Monitoring Officer.

**Prevention – Members**

- 6.15 The Council's constitution contains a statement of the roles, functions, rights and duties of Members of the Council of Councillors. All members are required to comply with the Constitution which includes a Code of Conduct.

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

- 6.16 All members of the Council are required under the Council's **Code of Conduct** to notify the Council's Monitoring Officer of:
- ♦ Any areas of conflict between their Council duties and other areas of their personal or professional lives
  - ♦ Any offers of gifts or hospitality as specified in the code (to a value exceeding £25), which are in any way related to the performance of their duties to the Council.
- 6.17 The Authority has in place a Standards Committee that promotes and maintains high standards of member conduct and assists members to observe the code of conduct.

**7.0 DETECTION, INVESTIGATION, SANCTIONS AND REDRESS**

- 7.1 Prevention systems, particularly internal control systems, within the Council have been designed to provide indicators of any fraudulent activity.
- 7.2 It is often the alertness of staff and the public to such indicators that enables detection to occur and the appropriate action to take place when there is evidence that fraud or corruption may be in progress.
- 7.3 Despite the best efforts of financial managers and auditors, many frauds are discovered by chance or 'tip off', and the Council has in place arrangements to enable such information to be properly dealt with - the **Confidential Reporting (Whistle Blowing) Policy and the Fraud, Corruption and Bribery Response Plan** both of which are available on the Council's Intranet.
- 7.4 Other methods of detection will be employed, on a risk basis, by those officers of the Council charged to do so e.g. Internal Audit, Benefit Fraud Team.
- 7.5 These will include analytical intelligence techniques and the sharing of information, within the data protection rules, with other agencies both locally and nationally. Examples of bodies involved in sharing such intelligence and data are the Audit Commission, National Fraud Initiative (NFI), and Benefit Agency (HBMS).

**Investigation**

- 7.6 An Investigating Officer will be appointed by the Chief Executive and/or S.151 Officer, following liaison with the Monitoring Officer for fraud, corruption or bribery investigations (normally the Internal Auditor).

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

- 7.7 A detailed **Fraud, Corruption and Bribery Response Plan** has been written which contains Flow Diagrams showing the Reporting, Investigation and Action stages under the following headings:
- ♦ Notifying Suspected Fraud
    - ♦ Line Management;
    - ♦ Confidential Reporting - S.151 Officer, Director, Monitoring Officer, Chief Executive, Internal Audit;
  - ♦ Investigating Suspected Fraud
    - ♦ Steps to be taken;
    - ♦ Responsibilities of the Investigating Officer
  - ♦ Liaison with External Audit and the Police
  - ♦ Interim Report/Final Report
  - ♦ Outcomes
    - ♦ Disciplinary;
    - ♦ Prosecution;
    - ♦ Exoneration
  - ♦ Confidentiality
  - ♦ Postscript – Defamation
- 7.8 The Response Plan is available to all staff on the Council's Intranet.
- 7.9 Depending on the nature and anticipated extent of the allegations, Internal Audit will normally work closely with management and other agencies such as the Police to ensure that all allegations and evidence are properly investigated and reported upon.
- 7.10 Any control weaknesses identified by an investigation must be reported to the relevant manager to allow improvements to be made that will ensure that there is no opportunity for further fraud or corruption.

**Sanctions and Redress**

- 7.11 The Council's **Disciplinary Procedures** will be used where the outcome of the Investigation indicates improper behaviour of staff.
- 7.12 Sanctions by Standards Committee for members would follow a finding of the breach of the Members Code of Conduct.
- 7.13 For both staff and Members In cases where financial impropriety is discovered, the Council will normally wish the Police and Crown Prosecution Service to assess evidence and make the decision to prosecute or not.
- 7.14 The Council will always seek to recover any losses incurred as a result of fraud, corruption or bribery, wherever this is practical, including the use of the civil law if appropriate. Losses will be calculated using a

**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

professional statistical methodology for making accurate estimates, building in a proper level of independent valuation as required.

**Investigations Not Involving Fraud or Corruption**

- 7.15 The investigation process related to the Council's **Disciplinary Procedures** will only be used to for those enquiries where no fraud, corruption or bribery is suspected.
- 7.16 The manager responsible for human resources will outline any investigations undertaken under the Disciplinary Procedures to the S.151 Officer, Monitoring Officer and Chief Internal Auditor, who meet as an officer group known as the Probity Group, on a regular basis

**8.0 TRAINING AND PUBLICITY**

- 8.1 The Council recognises that the continuing success of its Anti Fraud, Corruption and Bribery Policy and Strategy and its general credibility will depend largely on the effectiveness of programmed training and responsiveness of staff throughout the organisation through publication.

**Training**

- 8.2 It is, therefore, apparent that all staff involved in fraud work should be properly and regularly trained in all aspects of it. The training plans of all relevant staff, produced annually as part of the Council's appraisal system, will reflect this requirement and include both internal and externally training provision. Such training will be tailored to the needs of the individual staff member concerned, and is therefore dependent upon knowledge and experience.
- 8.3 The Council supports the concept of induction and subsequent training for all staff in this area, but particularly for staff involved in internal control systems to ensure that their responsibilities and duties are regularly highlighted and reinforced. This can be linked with training and awareness of other key documents such as the Confidential Reporting Policy and Anti-Money Laundering Procedures.
- 8.4 The possibility of disciplinary action against staff that ignore such training and guidance is clear.



**ANTI FRAUD, CORRUPTION and BRIBERY POLICY and STRATEGY**

**Publicity**

8.5 Methods of publication of the Strategy and Response Plan will be sought, with the clear goal of ensuring that all staff are aware of the zero tolerance culture and targeting those officers in areas of high risk of fraud loss.

- ♦ The Council's Website;
- ♦ Externally through the Council's community publications;
- ♦ The Council's Intranet;
- ♦ Member's Bulletin or equivalent;
- ♦ Promotional sessions at section team meetings;
- ♦ Flyer on Notice Boards or accompanying payslips; and
- ♦ Occasional reminder e-mails to all staff and members.

**9.0 POLICY REVIEW**

9.1 The Council has in place a clear network of systems and procedures to assist in the fight against fraud, corruption and bribery. It is determined that these arrangements will keep pace with any future developments in both preventative and detection techniques regarding fraudulent or corrupt activity that may affect its operation.

9.2 To this end, the Council maintains a continuous overview of such arrangements through, in particular, its S.151 Officer and its Internal and External Auditors and through the probity role of the Monitoring Officer and the Probity Group.

9.3 This policy will be reviewed annually by the S.151 Officer or at the specific request of the Council's Monitoring Officer, and formally updated at least every 3 years.



**BENEFIT FRAUD  
PROSECUTION and SANCTION POLICY**

**BENEFIT FRAUD PROSECUTION AND SANCTION POLICY**

This Policy relates specifically to benefit fraud but links to the principles set out in the **Council's Anti Fraud, Corruption and Bribery Policy and Strategy**.

**Statement of Intent**

South Hams District Council Revenue and Benefits Section is committed to protecting the public purse. Local Authorities have been vigorously encouraged by District Audit and the Benefit Fraud Inspectorate to develop prosecution and sanction policies to deal with those who commit fraud against their Housing Benefit and Council Tax Benefit administration. This policy allows the Revenue and Benefits Service to ensure, an equitable and consistent approach to the prosecution and sanction of offenders and that when Fraud is identified it is dealt with effectively and in the public's best interest.

Where sufficient evidence has been gathered to show that a fraud has been committed, then a sanction or prosecution should be the normal outcome.

However, there are instances, where prosecution is not the correct option and the policy must identify those offences which should be cautioned or sanctioned. Conversely, it should also set out those types of cases where these remedies are not applicable. Prosecution and Sanction principles have been drawn up to enable consistent decisions to be made on each case that falls to be considered so that it can be shown that each instance has been treated fairly and reasonably. However comprehensive the policy might appear, it still will not cover every circumstance or series of events and should be regarded as providing the general principles and guidance to make a consistent and fair decision

Where it is decided that the case does not fall within the Council's criteria to prosecute or sanction, the Council is still committed to recovering all overpaid benefit.

When proceedings are considered, there are four basic standards to be borne in mind by the Council.

- Is there sufficient evidence to justify the laying of information before the magistrate?
- Is a prosecution in the public interest?
- Does the prosecution meet the criteria laid down in South Hams District Council's policy (equivalent to that in the Code for Crown Prosecutors)?
- Should an administrative penalty or formal caution be issued as an alternative?

**Prosecutions**

If any of the factors below are present in a case and the quality of the evidence is such that a successful prosecution could be brought, then prosecution should be seriously considered:

- The amount of money obtained is substantial and in excess of £2,000

**BENEFIT FRAUD PROSECUTION AND SANCTION POLICY**

- Whether there is evidence of the offence being pre-meditated.
- The fraud has continued over a long period
- Any previous incidence of fraud
- Whether multiple claims are involved
- Whether the alleged offender is in a position of trust
- Whether there is Landlord/tenant or employer/employee collusion
- Whether the offence, although not serious itself, is widespread in the area it was committed
- Whether there are grounds for believing that the offence is likely to be continued or repeated, for example by a history of recurring conduct
- Whether there would be positive publicity which would act as a deterrent to others
- An involvement by the perpetrator in other fraudulent benefit or allowance claims.
- A refusal of the perpetrator to accept a caution or an administration penalty when offered

Factors present in a case which might argue against prosecution:

- The alleged offender's physical and mental condition
- Voluntary disclosure and full co-operation with the investigation by the alleged offender
- Mitigating social/domestic factors e.g. if the perpetrator is elderly or infirm
- First offence
- Where a more fitting sanction would be an administration penalty or Local Authority caution
- Offer of restitution [either in full or by instalments]
- Adverse publicity
- Failure in benefits administration, including delay
- Most crucially concerns or doubts about the quality of the evidence obtained.

Whereas the factors laid out above are general guiding principles, each case still needs to be treated on its own merits and a decision then reached as to whether a prosecution would be both in the Council's and the general public interest.

As an alternative to prosecution it may be appropriate to offer either an administrative penalty or a caution

**Administrative Penalties**

An administrative penalty is a financial penalty amounting to 30% of the gross adjudicated overpayment. It can be offered in any of the following cases:

- Where there is enough evidence to prosecute
- The amount involved is more than £750 and less than £2000, and not so serious as to warrant prosecution at the outset.
- A first time offence where it is considered that the imposition of the financial penalty is sufficient punishment in itself

**BENEFIT FRAUD PROSECUTION AND SANCTION POLICY**

- The fraud has not continued over a considerable period [should be less than 6 months]
- The fraud was not planned or premeditated
- There has been no previous agreement by the perpetrator to pay an administration penalty
- There has been no collusion, or
- The person has not been in a position of trust as an officer or member

The administration penalty will be recovered over and above the fraudulent overpayment. Where the administrative penalty is refused by the perpetrator, or where it is not in the public interest to offer such a penalty, the Council will prosecute, unless there are very exceptional circumstances not to do so.

**Cautions**

There are cases where it may be appropriate to issue a formal Local Authority caution. This is a written warning issued by the Local Authority for a benefit offence and is intended to act as a deterrent or warning against future conduct. The written warning is to be signed by the perpetrator clearly stating that the offence is admitted and the caution accepted. A copy of the caution will be given to the person receiving it and will state that should that person be reported for another offence then the original caution may be taken into consideration. In adopting this procedure we are following the Department of Work and Pensions, who regularly invoke a similar procedure.

A caution is an alternative to prosecution and can only be considered in cases where enough evidence exists to prosecute. Refusal to accept a caution should generally result in a prosecution being instituted.

Cautions may be appropriate in the following instances:

- The fraud is a first time offence
- The amount involved is more than £750 but less than £2,000
- The perpetrator voluntarily disclosed the fraud or admits it
- There are mitigating social or domestic or personal factors
- An offer of restitution has been made

The formal Local Authority caution will be issued by the Investigations Manager and should be recorded in a register. These cautions will also be recorded by the CFIS team at Plymouth Department of Work and Pensions who record sanctions which have been imposed as a result of Department of Work and Pensions and Local Authority investigations.

It may not be appropriate to consider a caution where the perpetrator has already been involved in other offences involving Housing/Council Tax Benefit or has been previously cautioned or convicted of benefit fraud.

**BENEFIT FRAUD PROSECUTION AND SANCTION POLICY****General Policy**

- The general policy is that prosecution is not likely to be considered in those cases where the fraud overpayment is less than £750.
- An administrative penalty or caution will not normally be offered if the fraud overpayment is less than £750 or more than £2,000.
- Prosecution will be strongly considered for all cases where the fraud overpayment is greater than £2,000 or where the suspect has a history of fraudulently claiming benefit.
- The decision as to whether to prosecute, issue a caution or offer an administrative penalty will be made by the Investigations Manager after consideration of all relevant details and the prosecution criteria detailed above.
- Legal Services will undertake a scrutiny role of a percentage of those cases processed for administration penalties and cautions to ensure that the correct standards are being applied.

**Implementing and Using This Policy**

To implement an active sanctions policy as envisaged by the Benefit Fraud Inspectorate and the External Auditor requires an investment of time and manpower.

There will be regular consultations between the Investigation staff and the Council's Solicitor concerning prosecution cases in order to ensure that:

- Evidence is gathered in the appropriate manner and that the evidence will be of the quality necessary to secure judgement in favour of South Hams District Council.
- Interviews are conducted in accordance with approved practices
- There is agreement over the final course of action in respect of the file.

Investigations and prosecutions will be carried out in accordance with the recommendations laid down in the Attorney General's guidelines on criteria for prosecution, the Code for Crown Prosecutors, the Criminal Procedures and Investigation Act, Police and Criminal Evidence Act, the Regulation of Investigatory Powers Act, and the Social Security Fraud Act and any other relevant legislation.

In the event of the decision being made to prosecute a case, in the vast majority of cases the prosecution will be conducted through the Council's Solicitor, though in certain circumstances it may be more appropriate to prosecute through the Police or the Department of Work and Pensions, especially in the light of the closer working arrangements with the Department of Work and Pensions.

Fraudsters involved in Housing Benefit and or Council Tax Benefit Fraud are likely at the same time to be perpetrating other benefit or allowance fraud. So it will be imperative to liaise with Department of Work and Pensions and other agencies regarding these policy proposals and to be receptive to valid concerns and requests in order to incorporate them into this policy.

**BENEFIT FRAUD PROSECUTION AND SANCTION POLICY**

There is a warning on the Council application forms that in the event of customer giving incorrect information on the form they may be prosecuted. This statement will always be a separate paragraph within the declaration, to emphasise that the Council has a strong commitment to deter fraud and to prosecute those who ignore the warning.

The Council will attempt to seek appropriate publicity whenever it is believed that the outcome of the prosecution sends a strong message of deterrence to fraudsters.

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AGENDA  
ITEM

10

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

10

NAME OF COMMITTEE	Audit Committee
DATE	28 September 2011
REPORT TITLE	ANNUAL STATEMENT OF ACCOUNTS 2010/11
Report of	Head of Finance and Audit
WARDS AFFECTED	All

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### Summary of report:

This report presents a summary of net revenue and capital expenditure for Members consideration and seeks approval of the audited Statement of Accounts for 2010/2011 (attached). **Following approval of the accounts, the Chairman of the Audit Committee is required sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. **Following approval of its wording, the Chairman of the Audit Committee and the Head of Finance are required to sign the Letter of Representation.**

### Financial implications:

The Council's Statement of Accounts set out the financial position of the Authority as at 31 March 2011. The report advises Members that a surplus of £139,000 was generated in 2010/2011.

### RECOMMENDATIONS:

It is recommended that Members approve:

1. the wording of the Letter of Representation (Appendix A)
2. the audited Statements of Accounts (Appendix B)

### Officer contact:

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## **1. BACKGROUND**

- 1.1 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 introduce 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.
- 1.2 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.
- 1.3 The attached booklet (Appendix B) contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Account, Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow. In addition, the explanatory foreword to the booklet summarises the major variations in income and expenditure from the original budget.
- 1.4 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.

## **2. ISSUES FOR CONSIDERATION**

### **2.1 International Financial Reporting Standards (IFRS)**

- 2.1.2 Members are reminded that this is the first time that the annual accounts have been prepared on an IFRS basis. A major implication of this change is a requirement that the 2009/10 accounts are restated on an IFRS basis for comparative purposes. This has placed an additional and considerable burden on the Council's Finance Team.
- 2.1.3 There have been no changes in accounting policies apart from the requirements to reassess various balances and transactions in 2009/10 (and calculate similarly for 2010/11) under IFRS. Principally this has affected the treatment of employee costs, grants and contributions received property, plant and equipment, income in advance, cash and cash equivalents and leasing. The changes are detailed in Note 41 of the notes to the financial statements.

## **2.2 IAS 19 – “Employee Benefits”**

- 2.2.1 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.

## **2.3 Revenue Expenditure**

- 2.3.1 Revenue expenditure represents the ongoing costs of carrying out day-to-day operations, and is financed from council tax, fees and charges, government grants and interest earned on investment activity.
- 2.3.2 The surplus on the General Fund in 2010/2011 is £139,000 which represents less than 1% of the Council's gross turnover of £52M. The main differences from budget are shown in paragraph 4 of the Explanatory Forward in the SOA.

## **2.4 Capital Expenditure**

- 2.4.1 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £3.3 M in 2010/11 and is analysed in the Explanatory Foreword to the SOA.

## **3. AUDIT OF ACCOUNTS**

- 3.1 The draft Statement of Accounts was considered by the Audit Committee on 14 July 2011. The Draft Statement of Accounts is required to be audited by the Council's external auditors, who give their opinion on the Draft Accounts. The annual audit was undertaken in August 2011 and September 2011 by the Council's external auditors, the Audit Commission. Post audit changes have been incorporated within the SOA in line with the recommendations contained within the auditor's Annual Governance Report.
- 3.2 The Council Constitution delegates approval of the Accounts to the Audit Committee. The Council is also required to sign a Letter of Representation every year, which gives representations to the Council's external auditors. The Chairman of the Audit Committee and the Head of Finance are required to sign the Letter of Representation. The letter is attached at Appendix A. It is recommended that Members approve the wording of the Letter of Representation.

#### **4. LEGAL IMPLICATIONS**

- 4.1 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).

#### **5. FINANCIAL IMPLICATIONS**

- 5.1 There are no material financial implications arising from the audit of the accounts.

#### **6. RISK MANAGEMENT**

- 6.1 The risk management implications are:

<b>Opportunities</b>	<b>Benefits</b>
To approve the accounts in line with the Statutory deadline.	The Council meets its statutory obligations by having procedures in place to fulfil this requirement.
<b>Issues/Obstacles/Threats</b>	<b>Control measures/mitigation</b>
Failure to have the audited accounts approved by the Statutory deadline of 30 <sup>th</sup> September.	The external auditors have completed a thorough review of the Council's financial records and reported their findings.

<b>Corporate priorities engaged:</b>	Effective financial management underpins the achievement of all priorities
<b>Statutory powers:</b>	Section 151 Local Government Act 1972 Section 21 (12) Local Government Act 2003 Accounts and Audit (England) Regulations 2011 SI 2011 No 817
<b>Considerations of equality and human rights:</b>	None directly arising from this report
<b>Biodiversity considerations:</b>	None directly arising from this report
<b>Sustainability considerations:</b>	None directly arising from this report
<b>Crime and disorder implications:</b>	None directly arising from this report
<b>Background papers:</b>	Corporate Finance working papers Annual Governance Report
<b>Appendices attached:</b>	Appendix A – Letter of Representation Appendix B – Statement of Accounts



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To:

Alun Williams

District Auditor

Audit Commission

3-4 Blenheim Court

Lustleigh Close

Matford Business Park

Exeter EX2 8PW

**South Hams District Council - Audit for the year ended  
31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other members of the Senior Management Team of South Hams District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

***Compliance with the statutory authorities***

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

***Uncorrected misstatements***

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

*These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;*

- *The £20,000 income received in advance, where the rent was not split between 2010/11 and 2011/2012, has not been corrected due to the amount not being material.*

***Supporting records***

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

***Internal control***

I have communicated to you all deficiencies in internal control of which I am aware.

***Going Concern***

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

***Irregularities***

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

***Law, regulations, contractual arrangements and codes of practice***

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.



***Accounting estimates including fair values***

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

***Related party transactions***

I confirm that I have disclosed the identity of South Hams District Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

***Subsequent events***

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of South Hams District Council

I confirm that this letter has been discussed and agreed by those charged with governance on 28 September 2011.

Signed

Name	Councillor T Pennington	Mrs Lisa Buckle
Position	Chairman of the Audit Committee	Chief Finance Officer
Date	28 September 2011	28 September 2011

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**APPENDIX B**

**South Hams District Council**

**Statement of Accounts**

**2010/2011**



**South Hams  
District Council**

## Contents

	<b>Page</b>
1. Explanatory Foreword	1-7
• Introduction	
• Review of year	
• Financial needs and resources	
• Further information	
2. Financial Statements	8 -13
• A. Movement in Reserves Statement	
• B. Comprehensive Income & Expenditure Account	
• C. Balance Sheet	
• E. Cash flow Statement	
3. Notes to the Financial Statements	14-97
4. Collection Fund	98-100
5. Statement of Responsibilities/ Approval of Accounts	101-102
6. Auditors' Report	103
7. Glossary	104-106

## 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 2010/2011 and how these compare with actual income and expenditure are set out below:

	<b>Estimate £000s</b>	<b>Actual £000s</b>	<b>Difference Cost/(Saving) £000s</b>
<b>Cost of services (after allowing for income and reserve contributions)</b>	11,065	11,092	27
Parish precepts	1,475	1,475	0
Interest and Investment income	(375)	(506)	(131)
<b>Amount to be met from government grants And taxation</b>	<b>12,165</b>	<b>12,061</b>	<b>(104)</b>
<i>Financed from:</i>			
Formula Grant	(5,549)	(5,549)	0
Council tax	(6,586)	(6,586)	0
Surplus on collection fund	(30)	(30)	0
Area Based Grant	-	(35)	(35)
<b>SURPLUS</b>	<b>0</b>	<b>(139)</b>	<b>(139)</b>

4. The surplus on the General Fund of £139,000 represents less than 1% of the Council's gross turnover of £52M. A summary of the main differences from budget is provided below:

<b>ANALYSIS OF VARIATIONS</b>	<b>£000</b>
<b>Increases in expenditure/reductions in income</b>	
Senior Management Review – provision for redundancy costs (further details are provided in paragraph 6 )	587
Waste Management – additional fuel costs and repairs and maintenance.	99
Car Parks – reduction in net income due to economic conditions	87
Dartmouth Ferry – mainly increased R&M and insurance premium for vessels	39
<b>Reductions in expenditure/additional income</b>	
Inflation – central provision for pay awards not required	(120)
Computer Maintenance Contracts – full budget provision not required as a number of contracts were not renewed	(118)
Housing – mainly improved recovery of Housing Benefit payments.	(118)
Investment Income - the increase in income reflects increased cash flow.	(69)
Insurance – new procurement arrangements are generating significant savings for the Council.	(80)
Employment Units – additional rental income and reduction in utility costs.	(77)
Concessionary Fares – full budget provision not required	(68)
Rent review – interest received from lessee following significant delay in reaching agreement over new lease arrangements.	(62)
Office computers – rephrasing of replacement programme	(50)
Follaton House – reduction in utility costs	(42)
Release of covenant relating to land	(40)
Grounds Maintenance – updated work specifications enabling grounds maintenance, winter projects and tree maintenance work previously contracted out to be brought back in house	(38)
Award of Area Based grant from Central Government	(35)
Planning Applications – significant increase in size of applications in the latter part of the financial year	(34)
<b>TOTAL SURPLUS</b>	<b>(139)</b>

## **Implementation of international financial reporting standards (IFRS)**

5. The Statement of Accounts for 2010/11 are the first to be prepared under International Financial Reporting Standards (IFRS). This is a departure from a UK GAAP basis of accounting. There have been no changes in accounting policies apart from the requirements to reassess various balances and transactions in 2009/10 (and calculate similarly for 2010/11) under IFRS. Principally, this has affected the treatment of employee costs, grants and contributions received, property, plant and equipment, income in advance, cash and cash equivalents and leasing. The changes are detailed in Note 41 of the notes to the financial statements.

## **Senior Management Review**

6. In November 2010, the Chief Executive for West Devon Borough Council and South Hams District Council carried out a senior management review to rationalise the senior staffing structure and achieve efficiency savings. The restructuring at the senior management level covered all Corporate Directors and Heads of Service and was undertaken to enhance joint capacity to deliver a comprehensive range of shared services and to enable both Councils to realise the ambitions set out in the Councils' "Shared Services and Beyond" document.
7. In March 2011, a new management team, shared with West Devon Borough Council was appointed. Two Corporate Directors and seven Heads of Service are now working across both Councils and the new team replaces four Corporate Directors and fifteen Heads of Service.
8. A provision of £587,000 has been made for the redundancy costs from the senior Management Review. An accrual of £328,000 for pension "strain" payments has also been provided for. As a result of early retirement, strain payments are required to be made to the pension fund to compensate for pensions being drawn down before the normal retirement age of 60. A summary of the transactions is provided in Note 2 ((Exceptional Items)
9. The total estimated savings arising from the senior management review shared between both Councils is approximately £500,000 per annum. The annual share of the savings is in the region of £300,000 for South Hams District Council.

## **Pension Liability**

10. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The pension fund liability at 31 March 2011 is estimated at £15M which compares with £37M at 31 March 2010. The significant reduction in the net deficit is mainly due to the Government proposals to increase future pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). A “past service” gain of £7.8M has been recognised in the Comprehensive Income and Expenditure Account as an exceptional item. The deficit is derived by calculating the pension assets and liabilities at 31 March 2011. See Note 35 for further information.

## **Icelandic Banks**

11. At the 30 April 2011 the Council had £544,067 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.
12. The Council placed a deposit of £1,250,000 on 25th September 2008. At the time the deposit was placed the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits) which were within the deposit policy approved by the Council. Both these ratings indicate low risk.
13. The Administrators have paid seven dividends to date with an eighth expected in July 2011 and they have said that up to 85% of liabilities should eventually be paid. The Administrators have kept the bank trading and will slowly wind down the business over a period of years. Further information is provided in Note 12.

## **Capital spending**

14. The Council spent more than £3m on capital projects. The main areas of expenditure were as follows:
  - Improvements to parks and open spaces (£1.0m)
  - house renovation grants (£1.0m)
  - vehicle replacements (£0.6m)
  - car & boat parking (0.4m)The capital programme is funded from capital receipts, capital grants and external contributions and earmarked reserves (please see Note 31).



## **Issue of accounts**

15. The draft Statement of Accounts (SOA) for 2010/11 was certified by the Head of Finance and Audit On 30 June 2011. This is also the date up to which events after the balance sheet date have been considered. The SOA was reviewed by the Audit Committee on 14 July 2011.

## **FINANCIAL NEEDS AND RESOURCES**

16. 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.
17. Revenue reserves have decreased by £559,000 from the preceding year and stand at £9m at 31 March 2011. Revenue reserves may be used to finance capital or revenue spending plans.
18. Capital Reserves are represented by capital receipts and capital contributions unapplied on the balance sheet. The balance at 31 March 2011 amounts to £6.8 M which compares to £7.7M at the end of the previous year.
19. 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 which focuses, not only on one year, but also on the longer term. The Council's Medium Term Financial Strategy is being considered by the Executive on 14 July 2011.

## **FURTHER INFORMATION**

20. 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  
Head of Finance and Audit

## ***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.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Authority Reserves £000</b>
<b>Balance at 31 March 2009</b>	<b>1,785</b>	<b>8,587</b>	<b>7,586</b>	<b>159</b>	<b>18,117</b>	<b>35,678</b>	<b>53,795</b>
<b>Movement in reserves during 2009/10</b>							
Surplus or (deficit) on the provision of services	(6,384)	0	0	0	(6,384)	0	(6,384)
Other Comprehensive Income and Expenditure	0	0	0	0	0	(9,963)	(9,963)
<b>Total Comprehensive Income and Expenditure</b>	<b>(6,384)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(6,384)</b>	<b>(9,963)</b>	<b>(16,347)</b>
Adjustments between accounting basis & funding basis under regulations (Note 4)	5,490	0	9	(52)	<b>5,447</b>	<b>(5,447)</b>	<b>0</b>
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(894)</b>	<b>0</b>	<b>9</b>	<b>(52)</b>	<b>(937)</b>	<b>(15,410)</b>	<b>(16,347)</b>
Transfers to/from Earmarked Reserves (Note 5)	709	(709)	0	0	<b>0</b>	<b>0</b>	<b>0</b>
<b>Increase/Decrease in 2009/10</b>	<b>(185)</b>	<b>(709)</b>	<b>9</b>	<b>(52)</b>	<b>(937)</b>	<b>(15,410)</b>	<b>(16,347)</b>

## SECTION 2A. MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2010 Carried forward</b>	<b>1,600</b>	<b>7,878</b>	<b>7,595</b>	<b>107</b>	<b>17,180</b>	<b>20,268</b>	<b>37,448</b>
<b>Movement in Reserves during 2010/11</b>							
Surplus or (deficit) on provision of Services	3,017	0	0	0	3,017	0	3,017
Other Comprehensive Income and Expenditure	0	0	0	0	0	20,444	20,444
<b>Total Comprehensive Income and Expenditure</b>	<b>3,017</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,017</b>	<b>20,444</b>	<b>23,461</b>
Adjustments between accounting basis & funding basis under regulations (Note 4)	(3,576)	0	(1,064)	113	(4,527)	4,527	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(559)</b>	<b>0</b>	<b>(1,064)</b>	<b>113</b>	<b>(1,510)</b>	<b>24,971</b>	<b>23,461</b>
Transfers to/from Earmarked Reserves (Note 5)	275	(275)	0	0	0	0	0
<b>Increase/Decrease in Year</b>	<b>(284)</b>	<b>(275)</b>	<b>(1,064)</b>	<b>113</b>	<b>(1,510)</b>	<b>24,971</b>	<b>23,461</b>
<b>Balance at 31 March 2011 Carried forward</b>	<b>1,316</b>	<b>7,603</b>	<b>6,531</b>	<b>220</b>	<b>15,670</b>	<b>45,239</b>	<b>60,909</b>

## SECTION 2B. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2009/10				2010/11		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Service Division	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
7,692	(6,653)	1,039	Central services to the public	8,731	(7,444)	1,287
4,107	(471)	3,636	Cultural & Related	3,130	(708)	2,422
8,051	(2,254)	5,797	Environmental	8,194	(1,985)	6,209
4,300	(5,147)	(847)	Highways and transport	4,154	(5,196)	(1,042)
22,534	(21,068)	1,466	Housing	22,943	(21,622)	1,321
4,671	(2,851)	1,820	Planning & Development	5,863	(2,804)	3,059
1,945	(24)	1,921	Corporate and democratic core	2,227	(93)	2,134
213	(69)	144	Non distributed costs	43	(50)	(7)
			Exceptional Items (note 2)	(6,588)	(302)	(6,890)
<b>53,513</b>	<b>(38,537)</b>	<b>14,976</b>	<b>Cost of Services</b>	<b>48,697</b>	<b>(40,204)</b>	<b>8,493</b>
2,461	0	2,461	Other operating expenditure (Note 6)	1,474	(15)	1,459
2,110	(985)	1,125	Financing and investment income and expenditure (Note 7)	981	(1,231)	(250)
0	(12,178)	(12,178)	Taxation and non-specific grant income (Note 8)	0	(12,719)	(12,719)
<b>58,084</b>	<b>(51,700)</b>	<b>6,384</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>51,152</b>	<b>(54,169)</b>	<b>(3,017)</b>
		(3,687)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(4,156)
		13,650	Actuarial (gains)/losses on pension assets / liabilities			(16,288)
		<b>9,963</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(20,444)</b>
		<b>16,347</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(23,461)</b>

## SECTION 2C. BALANCE SHEET

1 April 2009	31 March 2010		Notes	31 March 2011
55,106	56,794	Property, Plant & Equipment	9	59,344
1,953	378	Investment Property	10	459
249	240	Intangible Assets	11	165
10,048	2,843	Long Term Investments	12	158
-	106	- accrued interest on investments		-
28	24	Deferred Credits		21
21	27	Long Term Debtors	14	129
<b>67,405</b>	<b>60,412</b>	<b>Long Term Assets</b>		<b>60,276</b>
6,850	11,704	Short Term Investments	12	14,729
660	350	- accrued interest on investments		157
80	105	Inventories	13	106
2,417	5,825	Short Term Debtors	14	3,661
3,501	5,383	Cash and Cash Equivalents	15	5,611
<b>13,508</b>	<b>23,367</b>	<b>Current Assets</b>		<b>24,264</b>
(3,889)	(4,644)	Short Term Creditors	16	(3,834)
0	0	Provisions	17	(933)
<b>(3,889)</b>	<b>(4,644)</b>	<b>Current Liabilities</b>		<b>(4,767)</b>
(1,299)	(3,491)	Section 106 Deposits		(3,448)
-	(300)	Provisions	17	(141)
(21,320)	(37,034)	Pensions Liability	35	(14,861)
(610)	(862)	Capital Grants- Receipts in Advance	29	(414)
<b>(23,229)</b>	<b>(41,687)</b>	<b>Long Term Liabilities</b>		<b>(18,864)</b>
<b>53,795</b>	<b>37,448</b>	<b>Net Assets</b>		<b>60,909</b>
18,117	17,180	Usable Reserves	18	15,670
35,678	20,268	Unusable Reserves	19	45,239
<b>53,795</b>	<b>37,448</b>	<b>Total Reserves</b>		<b>60,909</b>

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

## SECTION 2D. CASH FLOW STATEMENT

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

<b>2009/10 £000</b>		<b>2010/11 £000</b>
<b>6,384</b>	<b>Net (surplus) or deficit on the provision of services</b>	<b>(2,447)</b>
(6,497)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	3,187
(5,830)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(5,426)
(1,005)	Interest received	(669)
<b>(6,948)</b>	<b>Net cash outflows/ (inflow) from Operating Activities</b>	<b>(5,355)</b>
(1,878)	Net increase/ ( decrease) in Investing Activities (Note 20)	1,689
6,944	Net cash outflow/ (inflow) from Financing Activities (Note 21)	3,438
<b>(1,882)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>(228)</b>
3,501	Cash and cash equivalents at the beginning of the reporting period	5,383
<b>5,383</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 15)</b>	<b>5,611</b>

***Section 3***

***Notes to the***

***Financial Statements***



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

### **CONTENTS**

1. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
2. Material Items of Income and Expense
3. Events After the Balance Sheet Date
4. Adjustments between Accounting Basis and Funding Basis under Regulations
5. Transfers to/from Earmarked Reserves
6. Other Operating Expenditure
7. Financing and Investment Income and Expenditure
8. Taxation and Non-Specific Grant Income
9. Property, Plant and Equipment
10. Investment Properties
11. Intangible Assets
12. Financial Instruments
13. Inventories
14. Debtors
15. Cash and Cash Equivalents
16. Creditors
17. Provisions
18. Usable Reserves
19. Unusable Reserves
20. Cash Flow - Investing Activities
21. Cash Flow - Financing Activities
22. Amounts Reported for Resource Allocation Decisions
23. Trading Operations – General
24. Trading Operations – Building Control
25. Agency Services
26. Members' Allowances
27. Officers' Remuneration
28. External Audit Costs
29. Grant Income
30. Related Parties
31. Capital Expenditure and Capital Financing
32. Leases
33. Impairment Losses
34. Termination Benefits
35. Defined Benefit Pension Schemes
36. Contingent Liabilities
37. Nature and Extent of Risks Arising from Financial Instruments
38. Accounting Policies
39. Accounting Standards Issued, Not Adopted
40. Critical Judgements in Applying Accounting Policies
41. Transition to IFRS

### **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 item in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
<b>Pensions Liability</b>	<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>The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £8M million.</p> <p>Please refer to Note 35 for further information about the assumptions used by the actuaries.</p>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 2. MATERIAL ITEMS OF INCOME AND EXPENSE

The following exceptional items are included on the face of the CIES:

	<b>Expenditure*</b> <b>£000</b>	<b>Income**</b> <b>£000</b>	<b>Net</b> <b>£000</b>
Pension Liability – past service gain	<b>(7,805)</b>		<b>(7,805)</b>
Senior Management Review:			
• Redundancy provisions	783	(196)	<b>587</b>
• Strain payment provisions	434	(106)	<b>328</b>
<b>TOTAL</b>	<b>(6,588)</b>	<b>(302)</b>	<b>(6,890)</b>

*NB \* Includes direct payments in respect of South Hams employees and contributions paid to West Devon BC in respect of their costs.*

*\*\* Represents contributions received from West Devon BC*

Further information is provided in the Explanatory Foreword.

#### 3. EVENTS AFTER THE BALANCE SHEET DATE

The draft Statement of Accounts (SOA) for 2010/11 was certified by the Head of Finance and Audit On 30 June 2011. This is also the date up to which events after the balance sheet date have been considered. The SOA will be reviewed by the Audit Committee on 14 July 2011.

### SECTION 3. NOTES TO THE ACCOUNTS

#### 4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

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.

2010/11	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Charges for depreciation and impairment of non-current assets	1,621			(1,621)
Revaluation losses on Property Plant and Equipment	2,754			(2,754)
Movements in the market value of Investment Properties	(272)			272
Amortisation of intangible assets	113			(113)
Capital grants and contributions applied	(371)			371
Revenue expenditure funded from capital under statute	247			(247)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	127			(127)
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Capital expenditure charged against the General Fund	(508)			508
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(131)		131	0
Application of grants to capital financing transferred to the Capital Adjustment Account			(18)	18

### SECTION 3. NOTES TO THE ACCOUNTS

2010/11	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(120)	120		0
Transfer of unattached capital receipts	(335)	335		
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,559)		1,559
Capital financing accrual reversing		36		(36)
Repayment of mortgage and parish loans		4		(4)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(236)			236
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 35)	(4,516)			4,516
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,369)			1,369

### SECTION 3. NOTES TO THE ACCOUNTS

2010/11	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(17)			17
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	7			(7)
<b>Total Adjustments</b>	<b>(3,006)</b>	<b>(1,064)</b>	<b>113</b>	<b>3,957</b>

### SECTION 3. NOTES TO THE ACCOUNTS

2009/10 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<i><b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b></i>				
Charges for depreciation and impairment of non-current assets	1,562			(1,562)
Revaluation losses on Property Plant and Equipment	1,463			(1,463)
Amortisation of intangible assets	98			(98)
Capital grants and contributions applied	(29)			29
Revenue expenditure funded from capital under statute (REFCUS) – capital receipts	197			(197)
REFCUS funded from capital grants	36			(36)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,416			(2,416)
Capital financing accrual reversing	44			(44)
<i><b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b></i>				
Capital expenditure charged against the General Fund	(504)			504
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(9)		9	0
Transfer of capital grants to revenue	25		(25)	0
Capital grants and contributions received in year	0			0
Application of grants to capital financing transferred to the Capital Adjustment Account	(204)		(36)	240

### SECTION 3. NOTES TO THE ACCOUNTS

	Usable Reserves			
<b>2009/10 Comparatives</b>	<b>General Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Capital Grants Unapplied £000</b>	<b>Movement in Unusable Reserves £000</b>
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,475)	1,475		0
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,469)		1,469
Repayment of mortgage and parish loans		3		(3)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(124)			124
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 35)	3,385			(3,385)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,321)			1,321



### SECTION 3. NOTES TO THE ACCOUNTS

<b>2009/10 Comparatives</b>	<b>Usable Reserves</b>			<b>Movement in Unusable Reserves £000</b>
	<b>General Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Capital Grants Unapplied £000</b>	
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	<b>(59)</b>			<b>59</b>
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	<b>(11)</b>			<b>11</b>
<b>Total Adjustments</b>	<b>5,490</b>	<b>9</b>	<b>(52)</b>	<b>(5,447)</b>

### 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 2010/11.

	Balance at 31 March 2010	Transfers Out	Transfers In	Balance at 31 March 2011
	£ 000	£ 000	£ 000	£ 000
<b>EARMARKED RESERVES</b>				
<b>General Fund</b>				
Working Balance	750			750
Contingency	117			117
Affordable Housing	992	(46)		946
Drawing Office	10			10
Strategic Issues	294	(259)	1,061	1,096
Community Parks and Open Spaces	82	(25)	17	74
Economic Regeneration & Community Wellbeing	53	(32)	15	36
Pension Fund Strain	-	(216)	216	-
Repairs and Maintenance	195	(67)	121	249
Single Status	750	(1,050)	300	-
Members Sustainable Community Locality Fund	16	(16)		-
Land and Development	474	(104)	30	400
Ferry Repairs and Renewals	317		25	342
Economic Initiatives	290	(37)		253
Vehicles and Plant Renewals	376	(574)	490	292
Pay and Display Equipment	84		21	105
On-Street Parking	22		11	33
Print Equipment	75	(13)	4	66
ICT Development	564	(22)		542
Sustainable Waste Management	255	(40)		215
Community Grants	52	(38)		14
District Elections	21	(1)	26	46
Beach Safety	17			17
Planning Policy & Major Developments	1,677	(467)		1,210
Building Control	-		49	49
Section 106 agreements	31	(86)	150	95
Revenue Grants	0	(46)	289	243
<b>Sub Total</b>	<b>7,514</b>	<b>(3,139)</b>	<b>2,825</b>	<b>7,200</b>
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	93		47	140
Harbour Renewals	98	(3)	28	123
General Reserve	168	(83)	50	135
<b>Sub Total</b>	<b>359</b>	<b>(86)</b>	<b>125</b>	<b>398</b>
<b>Trust &amp; Bequest</b>	<b>5</b>			<b>5</b>
<b>TOTAL EARMARKED REVENUE RESERVES</b>	<b>7,878</b>	<b>(3,225)</b>	<b>2,950</b>	<b>7,603</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 6. OTHER OPERATING EXPENDITURE

2009/10 £000s		2010/11 £000s
1,041	Parish council precepts	1,474
1,420	(Gains)/losses on the disposal of non-current assets	(15)
<b>2,461</b>	<b>Total</b>	<b>1,459</b>

#### 7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2009/10 £000s		2010/11 £000s
0	Interest payable and similar charges	10
(801)	Interest receivable and similar income	(563)
(120)	Other investment income	(335)
(47)	Investment (gains)/ losses	16
2,106	Pensions interest cost and expected return on pensions assets	827
(13)	Investment properties	(205)
<b>1,125</b>	<b>Total</b>	<b>(250)</b>

#### 8. TAXATION AND NON SPECIFIC GRANT INCOMES

2009/10 £000s		2010/11 £000s
(6,336)	Council tax income	(6,586)
(59)	Collection Fund adjustment:	(17)
0	Collection Fund - distribution of surplus	(30)
(4,452)	Non domestic rates	(4,845)
	Non ring- fenced government grants :	
(1,028)	• Revenue Support Grant	(704)
(38)	• LABGI	0
(23)	• Area Based Grant	(35)
(242)	Capital grants and contributions	(502)
<b>(12,178)</b>	<b>Total</b>	<b>(12,719)</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 9. PROPERTY, PLANT AND EQUIPMENT

#### Movements in 2010/11:

	Land and Buildings	Vehicles, Plant, Furniture & Equipm't	Infrastruc ture Assets	Communi ty Assets	Assets Under Construct ion	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>						
<b>At 1 April 2010</b>	<b>51,340</b>	<b>6,972</b>	<b>3,556</b>	<b>410</b>	<b>748</b>	<b>63,026</b>
additions	312	1,070	10	261	518	2,171
revaluation increases/ (decreases) recognised in the Revaluation Reserve	3,429					3,429
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,384)					(2,384)
derecognition – disposals		(507)				(507)
other movements in cost or valuation	(36)					(36)
<b>At 31 March 2011</b>	<b>52,661</b>	<b>7,535</b>	<b>3,566</b>	<b>671</b>	<b>1,266</b>	<b>65,699</b>
<b>Accumulated Depreciation and Impairment</b>						
at 1 April 2010	1,983	3,138	1,090			6,211
depreciation charge	663	775	183			1,621
Depreciation written out to the Revaluation Reserve	(740)					(740)
impairment losses/(reversals)	(258)					(258)
derecognition – disposals	-	(500)				(500)
other movements in depreciation and impairment	21					21
<b>At 31 March 2011</b>	<b>1,669</b>	<b>3,413</b>	<b>1,273</b>	<b>0</b>	<b>0</b>	<b>6,355</b>
<b>Accumulated Impairment at 1 April 2010</b>	21	-		-	-	21
Charge for 2010/11	-	-	-		-	-
Derecognition – disposals	(21)					(21)
<b>At 31 March 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>						
<b>at 31 March 2010</b>	<b>49,336</b>	<b>3,834</b>	<b>2,466</b>	<b>410</b>	<b>748</b>	<b>56,794</b>
<b>at 31 March 2011</b>	<b>50,992</b>	<b>4,122</b>	<b>2,293</b>	<b>671</b>	<b>1,266</b>	<b>59,344</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### Comparative Movements in 2009/10:

	Land and Building s £000	Vehicles, Plant, Furniture & Equipme nt £000	Infrastru cture Assets £000	Commun ity Assets £000	Surplus Assets £000	Assets Under Construc tion £000	Total Property, Plant and Equipme nt £000
<b>Cost or Valuation</b>							
<b>At 1 April 2009</b>	49,974	6,326	4,213	355		89	60,957
additions	75	742	334	55		659	1,865
revaluation increases/ (decreases) recognised in the Revaluation Reserve	4,202						4,202
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,426)						(1,426)
derecognition – disposals	(1,581)	(536)	(1,280)				(3,397)
other movements in cost or valuation	96	440	289				825
<b>At 31 March 2010</b>	<b>51,340</b>	<b>6,972</b>	<b>3,556</b>	<b>410</b>	<b>0</b>	<b>748</b>	<b>63,026</b>
<b>Accumulated Depreciation and Impairment</b>							
at 1 April 2009	1,643	2,867	1,340				5,850
depreciation charge	656	740	166				1,562
depreciation written out to the Revaluation Reserve	(68)						(68)
Impairment losses/reversals	(21)						(21)
derecognition – disposals	(136)	(542)	(416)				(1,094)
other movements in depreciation and impairment	(70)	73	0				3
<b>at 31 March 2010</b>	<b>2,004</b>	<b>3,138</b>	<b>1,090</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,232</b>
<b>Net Book Value</b>							
<b>at 31 March 2009</b>	<b>48,331</b>	<b>3,459</b>	<b>2,873</b>	<b>355</b>	<b>0</b>	<b>89</b>	<b>55,107</b>
<b>at 31 March 2010</b>	<b>49,336</b>	<b>3,834</b>	<b>2,466</b>	<b>410</b>	<b>0</b>	<b>748</b>	<b>56,794</b>

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

#### **Depreciation**

Council provides depreciation on all fixed 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 a fixed asset is revised, the carrying amount of the fixed asset is depreciated over the revised remaining life.

#### **Capital Commitments**

The Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment. The major commitments are as follows:

1. Improvements to Public Open Space £1,900,000.
2. Dartmouth Ford Leat, re-route underground  
£300,000
3. Dartmouth Town Jetty and Pontoon, replacement  
£350,000

All schemes due for completion in 2011/12

### SECTION 3. NOTES TO THE ACCOUNTS

#### 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 is undertaken of the entire holding of land and buildings at the end of each financial year. The basis of valuation is set out in the Statement of Accounting policies.

	Land and Buildings	Vehicles, plant furniture & equipment	Total
	£000s	£000s	£000s
<b>Valued at historical cost</b>	2,964	6,022	<b>8,986</b>
<b>New certified valuation included in balance sheet :</b>			
2010/2011	25,008		25,008
2009/2010	11,755		11,755
2008/2009	6,144		6,144
2007/2008	3,017		3,017
2006/2007	4,434		4,434
<b>Total</b>	<b>53,322</b>	<b>6,022</b>	<b>59,344</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 10. INVESTMENT PROPERTIES

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

	<b>2009/10 £000</b>	<b>2010/11 £000</b>
Rental income from investment property	(64)	(61)
Direct operating expenses arising from investment property	51	53
<b>Net (gain)/ loss</b>	<b>(13)</b>	<b>(8)</b>

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

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

	<b>2009/10 £000</b>	<b>2010/11 £000</b>
Balance at start of the year	<b>1,953</b>	<b>378</b>
Additions	0	
Disposals	(753)	(119)
Net gains/losses from fair value adjustments	0	200
Transfers (to) / from Property, Plant and Equipment	(822)	
<b>Balance at end of the year</b>	<b>378</b>	<b>459</b>



### SECTION 3. NOTES TO THE ACCOUNTS

#### 11. INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets 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 £113,000 charged to revenue in 2010/11 was charged to the cost centres holding the assets.

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

	2009/10	2010/11
	£000s	£000s
<b>Gross carrying amount</b>	<b>580</b>	<b>340</b>
Accumulated amortisation	(331)	(100)
<b>Net carrying amount at start of year</b>	<b>249</b>	<b>240</b>
Purchases	133	38
Amortisation for the period	(98)	(113)
Other changes - reversal of creditor accrual	(44)	-
<b>Net carrying amount at end of year</b>	<b>240</b>	<b>165</b>

**Comprising:**

<b>Gross carrying amount</b>	<b>340</b>	<b>285</b>
Accumulated amortisation	(100)	(120)
<b>Net carrying amount at end of year</b>	<b>240</b>	<b>165</b>

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

### **12. 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

#### **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
- 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:

<b>Financial Instrument</b>	<b>Basis of Measurement</b>	<b>Note</b>
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.
Investments – Forward Purchases	Fair value through Income & Expenditure	Please refer to next section.
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.
Operational creditors	Held at invoiced or billed amount	Carrying amount is a reasonable approximation of fair value for these short term liabilities

### SECTION 3. NOTES TO THE ACCOUNTS

The carrying amount and fair values for investments at 31 March 2011 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
Long term – Heritable Bank*	158	N/A	158**	N/A
Short term – Heritable Bank*	227	32	259**	N/A
Short term – other	14,502	118	14,620	14,715
<b>TOTAL</b>	<b>14,887</b>	<b>150</b>	<b>15,037</b>	

\* The fair value of the investments is higher than the carrying amount, because the Council's portfolio of investments include a number of fixed rate loans where the interest rate is higher than the rates available for similar loans at the balance sheet date. Please note that no fair valuation is available for the Heritable Bank investment due to impairment issues (see next section).

\*\* The Council anticipates receiving repayments of £259,000 in 2011-12 and £158,000 in 2012-13.

#### Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. This authority had £1.25m deposited with the Heritable Bank at an interest rate of 6.25%.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

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

#### **Heritable Bank**

Heritable bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008.

For the 2009/10 accounts the authority decided to recognise an impairment based on it recovering 85p in the £ following guidance received from the Local Authority Accounting Panel (LAAP).

The administrators issued a creditors report in January 2010. This report noted that current projections suggest a base case return to creditors of 79 to 85 pence in the pound. The seventh progress report from the administrators was issued on 10 February 2011. As the report does not suggest any changes to the total amount estimated to be received, it is anticipated that the previous range remains appropriate.

In cash terms a total of £628,000 has now been received by South Hams District Council at 31 March 2011.

In view of this information, LAAP recommends that the following repayment schedule is used to estimate the recoverable amount at 31 March 2011. The schedule is based on expected total dividends of 84.98% of the claim.

This estimate is at the top end of the range quoted by the administrators. This is in line with the approach taken in LAAP Bulletin 82, where it was noted that a strategy of winding up the bank by 2012 was expected to produce a return at the top end of the range; a strategy of winding up the bank before 2012 would lead to lower returns. On this basis, the Local Authority Accounting Panel considers that a recovery at the top end of the estimate is the most likely outcome, and this therefore forms its best estimate:

<b>Date</b>	<b>Repayment</b>	<b>Date</b>	<b>Repayment</b>
April 2011	6.25%	April 2012	5.00%
July 2011	5.00%	July 2012	5.00%
October 2011	5.00%	October 2012	5.00%
January 2012	5.00%		

Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 6 October 2008.

The impairment loss recognised in the Income and Expenditure Account has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

### SECTION 3. NOTES TO THE ACCOUNTS

Adjustments to the assumptions will be made in future accounts as more information becomes available.

Summary details of the investment made are as follows:

Date Invested	Maturity Date	Amount Invested £	Interest Rate %	Dividends Received £	Carrying Amount £	Impairment £
25/09/08	22/12/08	1,250,000	6.25%	628,000	385,000	237,000

In previous years the Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £237,000 was transferred to the Financial Instruments Adjustment Account. However, this was a temporary arrangement and the potential impairment loss has been brought into account in the 2010/11 financial year.

#### Forward Deposits

The Council committed £7.5m in “Forward Deposits” which were included as derivatives in the Balance Sheet i.e. at “fair value through profit and loss” in 2008/09. A forward deal is regarded as a derivative between the period of trade date and start date. When the investment passes the start date it is classified under loans and receivables.

The details are summarised in the following table:

Deposit value	£2,500,000	£5,000,000
Trade date	05/06/2007	05/06/2007
Start (settlement) date	23/07/2008	31/07/2008
Maturity Date	22/07/2011	30/07/2010
Forward Interest Rate	6.15%	6.18%
Market Interest Rate at 23/07/08 and 31/07/08	5.88%	5.64%
Duration (years)	3.0	2.0
Deposit Value – amortised cost at year end	£2,502,070	0 (de-recognised)

Any gains (or losses) are unwound after the contract has been settled and continue until maturity. There are no statutory reversals for these transactions. As a result, any such gains or losses are recognised in each financial year for the duration of the investment, but are neutral over its life.

## SECTION 3. NOTES TO THE ACCOUNTS

### Summary of Financial Instruments

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

	Long-term		Current	
	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000
<b>Investments</b>				
Loans and receivables (principal)	2,843	158	11,704	14,729
Loans and receivables (accrued interest)	106		342	150
<b>Total investments</b>	<b>2,949</b>	<b>158</b>	<b>12,046</b>	<b>14,879</b>
<b>Debtors</b>				
Loans and receivables	51	150		
Financial assets carried at contract amounts			3,965	3,358
<b>Total Debtors</b>	<b>51</b>	<b>150</b>	<b>3,965</b>	<b>3,358</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	(4,653)	(4,003)		
Financial liabilities carried at contract amount			(3,665)	(3,566)
<b>Total creditors</b>	<b>(4,653)</b>	<b>(4,003)</b>	<b>(3,665)</b>	<b>(3,566)</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### Income, Expense, Gains & Losses

	Financial Assets 2009/10			Financial Assets 2010/11		
	Investments £000	Investments at Fair Value through I & E £000	Total £000	Investments £000	Investments at Fair Value through I & E £000	Total £000
Losses on derecognition					9	9
Reductions in fair value		31	31	1	6	7
Impairment losses						
<b>Total expense in Surplus or deficit on the provision of Services</b>	<b>0</b>	<b>31</b>	<b>31</b>	<b>1</b>	<b>15</b>	<b>16</b>
Interest income	(343)	(411)	(754)	(361)	(107)	(468)
Interest income accrued on impaired financial assets	(46)		(46)	(32)		(32)
Increases in fair value	(78)		(78)			0
<b>Total expense in Surplus or deficit on the provision of Services</b>	<b>(467)</b>	<b>(411)</b>	<b>(878)</b>	<b>(393)</b>	<b>(107)</b>	<b>(500)</b>
<b>Net (gain)/loss for the year</b>	<b>(467)</b>	<b>(380)</b>	<b>(847)</b>	<b>(392)</b>	<b>(92)</b>	<b>(484)</b>



### SECTION 3. NOTES TO THE ACCOUNTS

#### 13. INVENTORIES

2009/10 TOTAL £000	Depot 2010/11 £000	Printing Materials 2010/11 £000	TOTAL £000
<b>80</b>	<b>90</b>	<b>11</b>	<b>101</b>
Balance at 1 April			
740 Purchases	698	20	<b>718</b>
(715) Recognised as an expense in the year	(696)	(17)	<b>(713)</b>
<b>105</b>	<b>92</b>	<b>14</b>	<b>106</b>
Balance at 31 March			

#### 14. DEBTORS

##### Short term

31.3.2009 £000s	31.3.2010 £000s		31.3.2011 £000s
327	106	HMRC	29
252	190	Other Government departments	1,512
293	736	Local authorities	518
0	1,615	NNDR Debtor (Government)	146
63	70	Council tax payers	60
1,482	3,108	Other entities & individuals	1,396
<b>2,417</b>	<b>5,825</b>	<b>Totals</b>	<b>3,661</b>

##### Long term

31.3.2009 £000s	31.3.2010 £000s		31.3.2011 £000s
0	0	Strain payments payable to West Devon Borough Council	106
21	27	Parish loans	23
<b>21</b>	<b>27</b>	<b>Totals</b>	<b>129</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 15. CASH AND CASH EQUIVALENTS

31.3.2009 £000s	31.3.2010 £000s		31.3.2011 £000s
351	(1,037)	Cash held by the Authority	(894)
3,150	6,420	Bank current accounts	4,000
0	0	Money Market Funds	2,505
<b>3,501</b>	<b>5,383</b>	<b>Total Cash and Cash Equivalents</b>	<b>5,611</b>

#### 16. CREDITORS

31.3.2009 £000s	31.3.2010 £000s		31.3.2011 £000s
(257)	(265)	HMRC	(248)
(187)	(1,136)	Other Government departments	(167)
(210)	(260)	Other local authorities	(397)
(1,999)	(2,157)	Sundry creditors	(1,949)
(123)	(112)	Employee benefits	(120)
(795)	0	NNDR Creditor (Government)	0
(43)	(44)	Council taxpayers	(47)
(275)	(670)	Council taxpayers – preceptors a/c	(906)
<b>(3,889)</b>	<b>(4,644)</b>	<b>Totals</b>	<b>(3,834)</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 17. PROVISIONS

Provisions payable within twelve months of the balance sheet date are classified as current liabilities; provisions payable more than twelve months from the balance sheet date are classified as long term liabilities. The two elements have been combined in the following table:

	<b>Leisure Staffing  £000s</b>	<b>Senior Management Review  £000s</b>	<b>Total  £000s</b>
<b>Balance at 1 April 2009</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance at 1 April 2010</b>	<b>300</b>	<b>0</b>	<b>300</b>
Provisions made in year	-	924	924
Amounts used in year	(150)	0	(150)
<b>Balance at 1 April 2011</b>	<b>150</b>	<b>924</b>	<b>1,074</b>

**Leisure Centre Staffing -** The provision listed above reflects the maximum potential payment to the Council's Leisure Contractor in consideration of an agreement to vary the terms of the Business Transfer Agreement in order to remove the obligations relating to Single Status.

**Senior Management Review –** A short term provision of £783,000 has been made to reflect the redundancy payments payable to employees leaving in 2011. In addition, a long term provision of £141,000 has been made which represents a contribution towards the pension fund strain payments incurred by West Devon Borough Council from its departing staff. This sum is not payable until 2012/13. Please refer to the Explanatory Foreword for a summary of the Management Review.

### SECTION 3. NOTES TO THE ACCOUNTS

#### 18. 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 a set aside monies for specific purposes e.g. vehicle and plant replacement, the funding of strategic issues etc.

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

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

#### 19. UNUSABLE RESERVES

31.3.2009 £000s	31.3.2010 £000s		31.3.2011 £000s
4,284	7,823	Revaluation Reserve	11,875
53,143	49,714	Capital Adjustment Account	48,214
(360)	(236)	Financial Instruments Adjustment Account	0
(21,320)	(37,034)	Pensions Reserve	(14,861)
54	113	Collection Fund Adjustment Account	130
(123)	(112)	Accumulated Absences Account	(119)
<b>35,678</b>	<b>20,268</b>	<b>Total Unusable Reserves</b>	<b>45,239</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

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

31.3.2010 £000s		£000s	31.3.2011 £000s
4,284	<b>Balance at 1 April</b>		7,823
4,239	Upward revaluation of assets	5,176	
(502)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,020)	
	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		
3,737			4,156
(58)	Difference between fair value depreciation and historical cost depreciation	(104)	
(140)	Accumulated gains on assets sold or scrapped	-	
(198)	<b>Amount written off to the Capital Adjustment Account</b>		(104)
7,823	<b>Balance at 31 March</b>		11,875

## 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. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2009/10 £000		2010/11 £000	2010/11 £000
53,142	<b>Balance at 1 April</b>		49,714
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(1,562)	▪ Charges for depreciation of non-current assets	(1,621)	
(1,462)	▪ Revaluation losses on Property, Plant and Equipment	(2,183)	
	▪ Revaluation gains on Investment Properties	272	
(98)	▪ Amortisation of intangible assets	(113)	
(197)	▪ Revenue expenditure funded from capital under statute (REFCUS) – funded from capital receipts	(247)	
(36)	▪ Reversal of REFCUS funded from capital grants		
(2,416)	▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(127)	
(5,771)	<b>Total</b>		(4,019)
148	Adjusting amounts written out of the Revaluation Reserve		104
(5,623)	Net written out amount of the cost of non-current assets consumed in the year		(3,915)
	Capital financing applied in the year:		
1,469	Use of the Capital Receipts Reserve to finance new capital expenditure	1,559	
29	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	371	
240	Application of grants to capital financing from the Capital Grants Unapplied Account	17	
(44)	Reversal of capital financing accrual	(36)	
504	Capital expenditure charged against the General Fund	508	
(3)	Repayment of parish loans	(4)	
2,195	<b>Total</b>		2,415
49,714	<b>Balance at 31 March</b>		48,214

### SECTION 3. NOTES TO THE ACCOUNTS

#### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Authority has used this Account to mitigate the effects of the potential impairment losses on the Council's investment with the Heritable Bank on the Income and Expenditure Account in previous financial years as permitted by regulations (Statutory Instrument 2009 No.321). However, this is a temporary arrangement and these entries are required to be fully reversed in the financial year beginning on 1<sup>st</sup> April 2010. The impact on the General Fund has been negated by a contribution from the Strategic Issues Reserves.

31.3.2010 £000s		31.3.2011 £000s
(360)	<b>Balance at 1 April</b>	<b>(236)</b>
46	Investment Interest Due	
78	Movement in impairment (increase)/ decrease	
0	Transfer of balance to Comprehensive Income & Expenditure Account	236
<b>(236)</b>	<b>Balance at 31 March</b>	<b>0</b>

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

<b>31.3.2010</b> <b>£000s</b>		<b>31.3.2011</b> <b>£000s</b>
(21,320)	<b>Balance at 1 April</b>	<b>(37,034)</b>
(13,650)	Actuarial gains or losses on pensions assets and liabilities	16,288
(3,385)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	4,809
1,321	Employer's pensions contributions and direct payments to pensioners payable in the year	1,369
	Accrued strain payments*	(293)
<b>(37,034)</b>	<b>Balance at 31 March</b>	<b>(14,861)</b>

\* Relates to Senior Management Review – please refer to Explanatory Foreword.



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

#### **Collection Fund Adjustment Account**

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

<b>31.3.2010</b>		<b>31.3.2011</b>
<b>£000s</b>		<b>£000s</b>
54	<b>Balance at 1 April</b>	<b>113</b>
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	
59		17
<b>113</b>	<b>Balance at 31 March</b>	<b>130</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 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.

31.3.2010 £000s		31.3.2011 £000s
(123)	<b>Balance at 1 April</b>	(112)
	Settlement or cancellation of accrual made at the end of the preceding year	
123		112
	Amounts accrued at the end of the current year	
(112)		(120)
	<b>Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements</b>	(7)
(112)	<b>Balance at 31 March</b>	(119)

### SECTION 3. NOTES TO THE ACCOUNTS

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

2009/10 £000s		2010/11 £000s
1,894	Purchase of property, plant and equipment, investment property and intangible assets	2,169
(2,398)	Net (increase)/decrease in investments	164
(1,341)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(157)
(33)	Other receipts from investing activities (capital grants & contributions)	(487)
<b>(1,878)</b>	<b>Net cash flows from investing activities</b>	<b>1,689</b>

#### 21. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for financing activities are as follows:

2009/10 £000s		2010/11 £000s
2,317	Net NNDR receipts paid to/ (received) from Central Government	(1,544)
4,627	Net Council Tax receipts paid to / (received) from major preceptors	4,982
<b>6,944</b>	<b>Total</b>	<b>3,438</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 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 *Best Value Accounting Code of Practice*. 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 2010-11

	Central Services	Cultural, Environ- mental, & Planning etc.	Highways	Housing	CDC	NDC	Exceptional Items	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(831)	(3,916)	(4,944)	(848)	(57)	(50)	(302)	(10,948)
Government grants & contributions	(6,613)	(1,581)	(252)	(20,774)	(36)			(29,256)
<b>Total Income</b>	<b>(7,444)</b>	<b>(5,497)</b>	<b>(5,196)</b>	<b>(21,622)</b>	<b>(93)</b>	<b>(50)</b>	<b>(302)</b>	<b>(40,204)</b>
Employee expenses	1,250	6,247	1,296	1,038	226	43	1,217	11,317
Adjustment re pension liability							(7,805)	(7,805)
Other service expenses	6,426	6,513	2,444	21,305	718			37,406
Depreciation / amortisation	10	2,528	151	216				2,905
Support service recharges	1,045	1,899	263	384	1,283			4,874
<b>Total Expenditure</b>	<b>8,731</b>	<b>17,187</b>	<b>4,154</b>	<b>22,943</b>	<b>2,227</b>	<b>43</b>	<b>(6,588)</b>	<b>48,697</b>
<b>Net Expenditure</b>	<b>1,287</b>	<b>11,690</b>	<b>(1,042)</b>	<b>1,321</b>	<b>2,134</b>	<b>(7)</b>	<b>(6,890)</b>	<b>8,493</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 23. TRADING OPERATIONS - GENERAL

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. The Council operates a number of trading services:

2009/10		2010/11		
(Surplus)/ Deficit £000s	Service	Turnover £000s	Expenditure £000s	(Surplus)/ Deficit £000s
(1,106)	Car & Boat Parking	(2,963)	1,273	(1,690)
(51)	Dartmouth Ferry	(822)	807	(15)
(532)	Employment Estates*	(1,312)	2,583	1,271
(68)	Pannier Markets	(120)	47	(73)
(31)	Salcombe Harbour	(1,044)	994	(50)
37	Trade Refuse	(762)	772	10
<b>Net surplus on trading units</b>		<b>(7,023)</b>	<b>6,476</b>	<b>(547)</b>

*N.B. Employment estates were revalued in 2010/11 and incurred revaluation losses of £2,067,000*

#### Car & Boat Parking

The Council provides off-street parking at an appropriate level according to demand and environmental impact. Charges are made to at a level which will ensure that the provision and management are not a cost burden to local Council Tax payers.

#### Dartmouth Ferry

The Council operates a public ferry service for cars and foot passengers across the River Dart between Kingswear and Dartmouth.

#### Employment Estates

The Council undertakes the programmed development and letting of identified employment sites to generate quality employment opportunities.

#### Pannier Markets

The Council operates weekly markets in Totnes, Kingsbridge and Ivybridge as permitted by statutory powers and thereby maintains the tradition of market towns for the benefit of customers, traders and the towns as a whole.

#### Salcombe Harbour

The Harbour Board aims to improve, maintain and manage the whole of the Salcombe-Kingsbridge Estuary for the benefit of users, who include commercial fishermen and the sailing communities.

#### Trade Refuse

The Council operates a trade refuse collection service.

### SECTION 3. NOTES TO THE ACCOUNTS

#### 24. 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 – ‘details of the scheme for setting charges’. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

<b>Total Building Control 2009/2010 £000s</b>		<b>Chargeable £000s</b>	<b>Non – Chargeable £000s</b>	<b>Total Building Control 2010/2011 £000s</b>
	<b>Expenditure</b>			
452	Employee expenses	248	117	365
0	Premises	0	22	22
37	Supplies and Services	7	7	14
29	Transport	22	9	31
77	Support Services	46	40	86
<b>595</b>	<b>Total Expenditure</b>	<b>323</b>	<b>195</b>	<b>518</b>
	<b>Income</b>			
(355)	Building Regulations Charges	(408)		(408)
(21)	Other Income	0	(23)	(23)
<b>(376)</b>	<b>Total Income</b>	<b>(408)</b>	<b>(23)</b>	<b>(431)</b>
<b>219</b>	<b>(Surplus)/ Deficit for Year</b>	<b>(85)</b>	<b>172</b>	<b>87</b>

#### 25. AGENCY SERVICES

Certain statutory powers allow the Council to undertake work on behalf of other public bodies. The main arrangement under these powers is the collection of land charge search fees on behalf of Devon County Council. These fees are included within the standard search fee and reimbursed to the County Council on a periodic basis. The amount collected was £33,000 in 2010/2011 (£37,000 in 2009/2010).

### SECTION 3. NOTES TO THE ACCOUNTS

#### 26. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Council during the year.

<b>2009/10</b>		<b>2010/11</b>
<b>£000s</b>		<b>£000s</b>
	Allowances	
250		252
	Expenses	
26		21
<b>276</b>	<b>Total</b>	<b>273</b>

#### 27. OFFICERS' REMUNERATION

Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 [SI 2009 No. 3322] introduced a new 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 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 Allowances £	Pension Contribution £	Total £
<b>Strategic Director (Community)</b>	2010/11	80,000	100	11,400	<b>91,500</b>
	2009/10	79,900	200	11,400	<b>91,500</b>
<b>Strategic Director (Resources)</b>	2010/11	79,900	100	12,000	<b>92,000</b>
	2009/10	79,900	100	12,000	<b>92,000</b>
<b>Legal Services Manager / Monitoring Officer</b>	2010/11	56,700	100	8,500	<b>65,300</b>
	2009/10	43,000	100	6,400	<b>49,500</b>

*Note: South Hams District Council (SHDC) shares a Chief Executive with West Devon Borough Council (WDBC). The shared Chief Executive is employed by WDBC, but 50% of the employment costs (£90,500) are reimbursed to WDBC by SHDC. However the total cost of employing the Chief Executive has to be included in full in the equivalent note of WDBC's Accounts in accordance with the accounting requirements and is therefore excluded from the table above.*

#### **Other officers earning over £50,000**

Remuneration band	2009/2010		2010/2011	
	Number of employees		Number of employees	
	Total	Left during year	Total	Left during year
£50,000 - £54,999	4		4	
£55,000 - £59,999	3		2	
£60,000 - £64,999	3		4	
£65,000 - £69,999				
£70,000 - £74,999		1		
£75,000 - £79,999				
£80,000 - £84,999				
£85,000 - £89,999		2		



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

#### **28. EXTERNAL AUDIT COSTS**

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

	<b>2009/10</b> <b>£ 000</b>	<b>2010/11</b> <b>£ 000</b>
External audit services	66	69
Statutory Inspection (Use of Resources/ Value For Money Conclusion )	28	30
Certification of grant claims and returns	21	20
Other services	-	2
<b>TOTAL</b>	<b>115</b>	<b>121</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 29. GRANT INCOME

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

	2009/10 £000	2010/11 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Taxation:</b>		
Council Tax income	(6,336)	(6,586)
Adjustment re Collection Fund in respect of previous year		(30)
Adjustment re Collection Fund in respect of current year	(59)	(17)
Non domestic rates	(4,452)	(4,845)
<b>Capital grants &amp; contributions:</b>		
- Government Office South West – Shared Outreach Services	(61)	
- Section 106 Deposit – Totnes Southern Area	(55)	
- Devon County Council – Playbuilder Project		(135)
- Wakefield Trust – Heath's Garden		(120)
- Section 106 Deposit – Fallapit House		(87)
Other capital grants & contributions	(126)	(160)
<b>Non ring- fenced Government grants:</b>		
- Revenue Support Grant	(1,028)	(704)
- Local Authority Business Growth Incentive Grant	(38)	
- Area Based Grant	(23)	(35)
<b>Total</b>	<b>(12,178)</b>	<b>(12,719)</b>
<b>Credited to Services</b>		
Department for Transport – Concessionary Fares	(413)	(180)
Devon County Council – Torr Quarry Transfer Station	(255)	(228)
Natural England – Area of Outstanding Natural Beauty	(206)	(177)
Rural Development Agency – Local Action Groups	(174)	
Section 106 Deposit – Landscaping Projects, Langage	(160)	(100)
DCLG – Housing/Planning Delivery Grant	(136)	
Other grants	(212)	(593)
<b>Total</b>	<b>(1,556)</b>	<b>(1,278)</b>

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:

### SECTION 3. NOTES TO THE ACCOUNTS

	31 March 2011 £000
<b>Capital Grants Receipts in Advance</b>	
Department for Communities & Local Govt. – Regional Housing Pot	(216)
Department for Communities & Local Govt – Implementing E Govt. Grant	(73)
Section 106 Deposit – Penn Torr, Salcombe	(84)
Other grants	(41)
<b>Total</b>	<b>(414)</b>

	31 March 2011 £000
<b>Revenue Grants Receipts in Advance</b>	
Devon County Council – Walking for Health	(25)
Various Devon Local Authorities – Member Development Role	(18)
Other grants	(24)
<b>Total</b>	<b>(67)</b>

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

### **30. RELATED PARTIES**

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

#### **Central Government**

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, 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 29.

#### **Members**

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 26.

#### **Tor Homes**

The Council is a member of Tor Homes which is a company limited by guarantee and a registered charity which was set up to own and manage the stock previously owned by the Council. The Council's voting rights as a member of the Company amount to (and are limited by the Company's constitution to) 33.3 per cent. The Council also has the right to appoint four of the Company's twelve trustees (who are the company's board of directors), and four of its Councillors currently serve in this capacity. Their membership of the board does not constitute a controlling interest and indeed these individuals are unable to vote on issues which involve the interests of the District Council.

### SECTION 3. NOTES TO THE ACCOUNTS

#### 31. 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.

	2009/10 £000s	2010/11 £000s
<b>Capital Investment</b>		
Property, plant & equipment	1,867	2,171
Intangible fixed assets	133	38
Revenue expenditure funded from capital under statute (REFCUS)*	1,350	1,111
Loans	10	0
<b>Total expenditure</b>	<b>3,360</b>	<b>3,320</b>
<b>Sources of Finance</b>		
Capital receipts	1,469	1,559
Government grants and other contributions	1,328	1,221
Direct revenue contributions (earmarked reserves)	563	540
<b>Total funding</b>	<b>3,360</b>	<b>3,320</b>

*NB 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

### 32. LEASES

#### Authority as Lessee

The Authority uses certain land and buildings under the terms of operating leases. The most significant is a lease of a parcel of land for car parking. The lease has a term of 10 years, expiring on 31 March 2017.

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

	31 March 2011 £000's	31 March 2010 £000's
Not later than one year	72	72
Later than one year and not later than five years	288	288
Later than five years	72	144
	<b>432</b>	<b>504</b>
The expenditure charged to the Highways, Roads and Transport Services line in the Comprehensive Income and Expenditure Statement during the year in relation to this lease was:		
	2010/11 £000's	2009/10 £000's
Minimum lease payments	72	72
Contingent rents	0	0
Sublease payments receivable	0	0
	<b>72</b>	<b>72</b>

#### Authority as Lessor

The Authority leases various parcels of land to external organisations. The most significant is for the operation of a supermarket. The lease has a term of 99 years expiring on 20 December 2077.

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

	31 March 2011 £000's	31 March 2010 £000's
Not later than one year	510	510
Later than one year and not later than five years	2,040	2,040
Later than five years	31,479	31,989
	<b>34,029</b>	<b>34,539</b>

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

### 33. 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 Note 9 reconciling the movement over the

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

year in the Property, Plant and Equipment balances. No impairment losses other than those relating to revaluation losses were incurred.

#### **34. TERMINATION BENEFITS**

The Authority terminated the contracts of two employees in 2010/11, incurring liabilities of £ 35,000. In 2009/10, four employees were made redundant at a cost of £246,000. Council policy requires a payback in terms of salary savings within five years of any redundancy being made.

#### **35. DEFINED BENEFIT PENSION SCHEMES**

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

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

The authority participates in the Local Government Pension Scheme, administered locally by Devon County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liability with investment assets.

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.

At South Hams District, 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 continue 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 Devon County Council, County Hall, Exeter, EX2 4QJ.**

## SECTION 3. NOTES TO THE ACCOUNTS

### 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 following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2010/11	2009/10
	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services:</b>		
▪ current service cost	2,169	1,191
▪ past service costs/ (gains)	(7,805)	-
▪ settlements and curtailments (accrued*)	293*	88
<b>Financing and Investment Income and Expenditure</b>		
▪ interest cost	4,902	4,765
▪ expected return on scheme assets	(4,075)	(2,659)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>(4,516)</b>	<b>3,385</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
▪ actuarial (gains) and losses**	<b>(16,288)</b>	<b>13,650</b>
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(16,288)</b>	<b>13,650</b>
<b>Movement in Reserves Statement</b>		
▪ reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	<b>(4,516)</b>	<b>3,385</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
▪ employer's contributions payable to scheme	1,175	1,122
▪ retirement benefits payable to pensioners	194	199

\* Liabilities arising from the Senior Management Review for those staff retiring early



### SECTION 3. NOTES TO THE ACCOUNTS

*\*\*The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2010/11 is a loss of £12M. This is since the introduction of FRS17 and adjusted each year.*

#### Assets and liabilities in relation to retirement benefits

<b>Reconciliation of present value of the scheme liabilities (defined benefit obligation)</b>	<b>2010/11 £000</b>	<b>2009/10 £000</b>	<b>2008/09 £000</b>
<b>Opening balance at 1 April</b>	<b>102,650</b>	<b>71,460</b>	<b>67,750</b>
Current service cost	2,169	1,191	1,250
Interest cost	4,902	4,765	4,600
Actuarial (gains) and losses	(19,042)	27,045	(520)
Curtailments (accrued)	293	88	140
Benefits paid	(2,888)	(2,298)	(2,140)
Past service costs	(7,805)	-	-
Contributions by scheme participants	598	598	570
Unfunded pension payments	(195)	(199)	(190)
<b>Closing balance at 31 March</b>	<b>80,682</b>	<b>102,650</b>	<b>71,460</b>

<b>Reconciliation of fair value of the scheme (plan) assets:</b>	<b>2010/11 £000</b>	<b>2009/10 £000</b>	<b>2008/09 £000</b>
<b>Opening balance at 1 April</b>	<b>65,616</b>	<b>50,140</b>	<b>63,310</b>
Expected rate of return	4,075	2,659	4,310
Actuarial gains and losses	(2,754)	13,395	(16,940)
Employer contributions	1,369	1,321	1,220
Contributions by scheme participants	598	598	570
Benefits paid	(3,083)	(2,497)	(2,330)
<b>Closing balance at 31 March</b>	<b>65,821</b>	<b>65,616</b>	<b>50,140</b>

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2010 for the year to 31 March 2011). The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) at the relevant date. The returns on equities and property are then assumed to be a margin above gilt yields.

The actual return on scheme assets in the year was £4,559,000 (2009/10: £16,054,000).

### SECTION 3. NOTES TO THE ACCOUNTS

#### Scheme History

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Present value of liabilities Accrual for future strain payments	71,470	67,750	71,460	102,650	80,389 293
Fair value of assets in the Local Government Pension Scheme	63,580	63,310	50,140	65,616	65,821
<b>Surplus/(deficit) in the scheme</b>	<b>(7,890)</b>	<b>(4,440)</b>	<b>(21,320)</b>	<b>(37,034)</b>	<b>(14,861)</b>

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £14.9M 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.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £1M. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £200,000.

### SECTION 3. NOTES TO THE ACCOUNTS

#### 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 as at 31 March 2011, the actuaries have rolled forward the value of the Employer's liabilities calculated for the Triennial valuation as 31 March 2010 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2010.

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.

	31/03/11	31/03/10
<b>Long-term expected rate of return on assets in the scheme:</b>		
Equity investments	7.4%	7.5%
Gillts	4.4%	4.5%
Other Bonds	5.5%	5.5%
Property	5.4%	6.5%
Cash	3.0%	3.0%
Target Return Portfolio	5.0%	5.0%
<b>Total</b>	<b>6.5%</b>	<b>6.6%</b>
<b>Mortality assumptions:</b>		
Retiring today		
➤ Men	20.3	23.1
➤ Women	24.4	25.0
Retiring in 20 years		
➤ Men	22.4	25.4
➤ Women	26.3	27.3
<b>Financial Assumptions</b>		
RPI increases	3.5%	3.9%
CPI increases	2.7%	n/a
Rate of increase in salaries	5.0%	5.4%
Rate of increase in pensions	2.7%	3.9%
Rate for discounting scheme liabilities	5.5%	5.5%

### SECTION 3. NOTES TO THE ACCOUNTS

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2011 is estimated to be 7.4%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date.

The estimated asset allocation for South Hams District Council as at 31 March 2011 is as follows:

<b>Employer Asset Share – Bid Value</b>	<b>31/03/11 £000</b>	<b>31/03/11 %</b>	<b>31/03/10 £000</b>	<b>31/03/10 %</b>
Equities	46,075	70%	45,275	69
Gilts (Government bonds)	11,190	17%	11,155	17
Other bonds	0	0	0	-
Property	3,291	5%	3,937	6
Cash	4,607	7%	4,593	7
Target Return Portfolio	658	1%	656	1
<b>Total</b>	<b>65,821</b>	<b>100</b>	<b>65,616</b>	<b>100</b>

Based on the above, the Employer's share of the assets of the Fund is approximately 3%.

#### History of Experience Gains and Losses

The actuarial gains/losses identified as movements on the Pensions Reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities.

<b>Amounts for the current and previous periods</b>	<b>2010/11 £000</b>	<b>2009/10 £000</b>	<b>2008/09 £000</b>	<b>2007/08 £000</b>	<b>2006/07 £000</b>
Differences between expected level of liabilities and actual experience	5,079	148	(350)	(990)	(160)
<i>Percentage of liabilities</i>	6.3%	0.1%	-0.5%	1.5%	0.2%
Differences between the expected and actual return on assets	(2,754)	13,395	(16,940)	(4,150)	580
<i>Percentage of assets</i>	-4.2%	20.4	-33.8	-6.6%	0.9%

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

### **36. CONTINGENT LIABILITIES**

- a) 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 Tor Homes) 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).
- b) During 1992 the Council's insurers, Municipal Mutual Insurance Ltd (MMI) ceased accepting new business or renewing policies as they expired due to a lack of sufficient solvency to meet the Department of Trade and Industry's requirements. Whilst the Council has insured elsewhere from 1 June 1993, it had a number of outstanding claims with MMI and arrangements are in place for the orderly settlement of the sums due. A contingent liability exists in that it is possible that if at some time in the future the Directors of MMI cannot foresee the conclusion of such orderly settlement, the company would invoke a Scheme of Arrangement with its major creditors, one of which is this Council. Should the Scheme of Arrangement be invoked the Council's maximum exposure to loss would be £118,608. MMI is a party to litigation (Durham v BAI (run off) Ltd and others 2008, known as the "Employers Liability Policy Trigger Litigation"). The original case was heard in the high Court in June/July 2008 and the ruling confirmed that the "causation date" should be the date of inhalation of asbestos. A discussion took place on the date of assumed sub-clinical injury and this has been reduced from 10 years to 5 years prior to first symptoms arising. Leave to appeal was granted and the Appeal Court hearing took place in November 2009. Details of the judgement were published on 8 October 2010 but this failed to provide definitive clarification and it is expected that the case will be referred to the Supreme Court in order to achieve that. It is understood that judgement could follow by Easter 2012. As at 30 June 2009, the Annual Report and Accounts stated that the Directors foresaw a solvent run-off. At the Creditors' Committee of 17 November 2010, the Finance Director reported that the Company's solvency was dependent upon a successful result to the litigation and the resolution of uncertainties surrounding claim provisions. The Company's leading Counsel believes that the Company had a good chance of a successful appeal.

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

- c) In July 2009, Executive decided that no further progress towards single status could be made at that time. It is now the Council's intention to work toward convergence of terms and conditions of employment for all staff across the two Authorities which includes Pay. This will commence in June 2011 and it is anticipated that the budget reserved for single status would be used to fund any financial pressure. It is not possible to estimate the cost of such convergence and it is difficult to foresee to what extent the Council will be subject to equal pay claims.
- d) There is a risk of significant costs associated with progressing the proposal for the new community at Sherford. Negotiations relating to the s.106 Agreement stalled last year as the economic climate appeared to make it difficult for the applicant to comply with the adopted planning policies of the Council. During the winter a stalemate had been reached and it appeared likely that the applicant would appeal against non-determination of the submission. The appeal would be costly for both the applicant and the Council because of the scale of the issues which would need to be addressed and the requirement for external legal and professional support. In a major appeal there is also the risk of an award of costs. Since February 2011 more positive discussions have been re-established and the immediate risk of appeal has receded. The ongoing conflict over the cost of legal fees is also progressing more positively. It is difficult to judge the likely scale of risk or the potential cost at this stage, but depending on the nature of the appeal possible costs could range from £250,000 to £500,000.

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

### **37. 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;
- 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.

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

- 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 21 January 2010 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 12 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 2010/11 was approved by the Executive on 21 January 2010 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



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

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 annually a provision for bad debts based on the age of its debt. This provision is adequate to deal with the historical experience of default and there is no reason to believe that it needs adjustment for current market conditions at the 31 March 2011. An analysis of the Council's debtors is provided in Note 14 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.

There is therefore 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 15 to the accounts.

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

#### 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

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

variable interest rate exposure. The Finance team will monitor market 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 £200,000 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.

#### *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.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed 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 provide stability of maturities and returns in relation to the longer term cash flow needs.

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

### **38. ACCOUNTING POLICIES**

#### **i. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. 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 2010/11 and the *Best Value Accounting Code of Practice 2010/11*, 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.

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

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

### SECTION 3. NOTES TO THE ACCOUNTS

- 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.

#### **iv. 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**

#### **v. Exceptional Items**

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

#### **vi. 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.

#### **vii. Charges to Revenue for Non-Current Assets**

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

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

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

### **viii. 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. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

#### **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 35

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

- **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 arising from current year decisions 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
- **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **expected return on assets** – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **gains or losses on settlements and curtailments** – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

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

- **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 – debited to the Pensions Reserve
- **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.

#### **ix. Events After the Balance Sheet Date**

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

Two types of events can be identified:

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

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



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

### **x. 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 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.

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.

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

### **xii. Government Grants and Contributions**

#### **General**

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

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

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

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

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

#### **Area Based Grant**

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ring-fenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

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

#### **xiii. Intangible Assets**

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

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

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

#### **xv. Inventories**

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

#### **xvi. 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.

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

#### **xvii. 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 its incurs and the share of income it earns from the activity of the operation.

#### **xviii. Leases**

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

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

##### **Finance Leases**

The Council does not hold any finance leases as a lessee

##### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. 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 lessee

##### **Operating Leases**

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

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

Income and Expenditure Statement and is credited in accordance with the lease terms.

#### **xix. 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 *Best Value Accounting Code of Practice 2010/11* (BVACOP). 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 BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

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 the Best Value Accounting Code of Practice. The bases of allocation used for the main costs are outlined below:

<b>Cost</b>	<b>Basis of allocation</b>
Staffing and related overheads	Cost of time spent by staff based on timesheets
Administrative buildings	Area occupied
IT costs	Usage of major systems plus a standard charge per PC/printer

#### **xx. 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.

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

#### **Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

## **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 will be accounted separately which have different useful lives and/or depreciation methods.

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

### SECTION 3. NOTES TO THE ACCOUNTS

The criteria for components to be separately valued are that:

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

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

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

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

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

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

- Plant and equipment and engineering services
- Structure

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

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

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



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

#### **Impairment**

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

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

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

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

#### **Depreciation**

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

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

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

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the

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

depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### **Disposals and Non-current Assets Held for Sale**

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

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as 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 fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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

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

#### **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.

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.

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

#### **xxiii. 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.

#### **xxiv. 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.

#### **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.

#### **xv. 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**

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

For 2010/11 the only accounting policy change that needs to be reported relates to FRS 30 Heritage Assets.

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Authority, which will need to be adopted fully by the authority in the 2011/12 financial statements.

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 standard that has been issued, but is not yet required to be adopted by the Authority, in this case, heritage assets. As is set out above, full adoption of the standard will be required for the 2011/12 financial statements. However, the Authority is required to make disclosure of the estimated effect of the new standard in these (2010/11) financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the Authority's Balance Sheet in the 2011/12 financial statements.

Heritage assets are assets that are held by the authority principally for their contribution to knowledge or culture. The Council does not currently recognise any such assets.

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

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

- The assumptions made by the actuary in determining the value of the pension liability are appropriate and reasonable.
- The value of the impairment relating to the investment of funds with the Heritable Bank is calculated on an appropriate and realistic basis.

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

### **41. TRANSITION TO IFRS**

The Statement of Accounts for 2010/11 is the first to be prepared on an International Financial Reporting Standards (IFRS) basis. As detailed in the Explanatory Foreword this is a departure from a UK GAAP basis of accounting to an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following notes explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements. The relevant International Accounting Standard (IAS) is identified for each area.

#### **Short-term accumulating compensated absences (IAS19)**

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not take at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

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

#### **Opening 1 April 2009 Balance Sheet**

	<b>Adjustments Made £'000</b>
Creditors	(123)
Accumulated Absences Account	123

#### **31 March 2010 Balance Sheet**

	<b>Adjustments Made £'000</b>
Creditors	(112)
Accumulated Absences Account	112

#### **2009/10 Comprehensive Income and Expenditure Statement**

##### **Cost of services (net):**

	<b>Adjustments Made £'000</b>
Corporate and Democratic Core	(11)

#### **Government Grants (IAS20)**

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.
- Proportions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- Grants were received in 2009/10 but not used. Previously, no

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

income was recognised in respect of these grants, which were shown in the Grants Unapplied Account within the liabilities section of the balance sheet. Following the change in accounting policy, some of these grants have been recognised in full in the Comprehensive Income and Expenditure Account, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet. Those with conditions and therefore repayable have been posted to the 'capital grants receipts in advance account'.

This has resulted in the following changes being made to the 2009/10 financial statements:

#### **Opening 1 April 2009 Balance Sheet:**

	<b>Adjustments Made £'000</b>
Government Grants Deferred Account	3,857
Capital Adjustment Account	(3,857)
Capital Contributions Unapplied	769
Capital Grants – receipts in advance	(610)
Capital Grants Unapplied	(159)

#### **31 March 2010 Balance Sheet:**

	<b>Adjustments Made £'000</b>
Government Grants Deferred Account	3,575
Capital Adjustment Account	(3,575)
Capital Contributions Unapplied	968
Capital Grants – receipts in advance	(862)
Capital Grants Unapplied	(106)



### SECTION 3. NOTES TO THE ACCOUNTS

#### 2009/10 Comprehensive Income and Expenditure Account:

	<b>Adjustments Made £'000</b>
Central services to the public	23
Cultural and Related Services, Regulatory and Planning Services	48
Environmental	158
Highways, Roads & Transport	19
Other Housing services	36
Planning & Development	247
<b>Cost of services net:</b>	<b>531</b>
<b>Taxation and non specific grant income</b>	<b>(242)</b>

#### Other income in advance and long term liabilities

Other revenue grants and contributions and long term liabilities (including S.106 planning agreements) were analysed to clarify whether any contained conditions. Only grants with repayment conditions can be treated as creditors. The following adjustments have arisen:

#### Opening 1 April 2009 Balance Sheet:

	<b>Adjustments Made £'000</b>
Short term creditors	324
Long term liabilities	53
General Fund Balance	(377)

#### 31 March 2010 Balance Sheet:

	<b>Adjustments Made £'000</b>
Short term creditors	245
Long term liabilities	178
General Fund Balance	(423)

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

#### **Cash and cash equivalents**

The changes here are covered by IAS7 – Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes under the Code.

Under IAS7 – to qualify as a cash equivalent an investment must be readily convertible to a known amount of cash subject to insignificant risk of changes in value. It has been assessed that short term deposits up to a period of 3 months are considered to be readily convertible to cash. The impact here has been to alter the opening 1 April Balance Sheet 2009 only as follows:

#### **Opening 1 April 2009 Balance Sheet:**

	<b>Adjustments Made £'000</b>
Cash and cash equivalents	3,150
Short term investments	(3,150)

#### **31 March 2010 Balance Sheet:**

	<b>Adjustments Made £'000</b>
Cash and cash equivalents	6,420
Short term investments	(6,420)

#### **Property, Plant & Equipment, Investment Property & Assets Held for Sale**

The changes here are covered by IAS16 (property, Plant & Equipment), IAS36 (Impairment of assets) and IAS40 (Investment Property).

The key change for the Council relates to the removal of the revaluation reserve balance for investment properties:

#### **Opening 1 April 2009 Balance Sheet:**

	<b>Adjustments Made £'000</b>
Revaluation Reserve	553
Capital Adjustment Account	(553)

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

#### **31 March 2010 Balance Sheet:**

	<b>Adjustments Made £'000</b>
Revaluation Reserve	135
Capital Adjustment Account	(135)

## SECTION 4. COLLECTION FUND

This statement shows the transactions of the Council as the charging authority in relation to the Council Tax, and how these have been distributed between the Council's General Fund and other precepting authorities. It also summarises the transactions relating to the collection of business rates on behalf of the Government, which are held in a national pool. The total amount held in that pool is re-distributed to local authorities on the basis of population.

2009/2010 £000s	Notes	2010/2011 £000s
<b>Income</b>		
(50,700) Council Tax	1	(52,195)
(5,738) Council Tax Benefits		(6,004)
(21,200) Business Rates	2	(29,775)
(72) Less: Transitional Relief / (Surcharge)		5,995
<b>(77,710)</b>		<b>(81,979)</b>
<b>Expenditure</b>		
Precepts and Demands		
41,188 <i>Devon County Council</i>		42,419
5,615 <i>Devon and Cornwall Police</i>		5,950
2,603 <i>Devon and Somerset Fire Authority</i>		2,727
6,336 <i>South Hams District Council</i>		6,586
Business Rates		
20,871 <i>Payment to national pool</i>		23,317
197 <i>Costs of collection allowance</i>		201
Distribution of previous year's estimated surplus		
- <i>Devon County Council</i>		192
- <i>Devon and Cornwall Police</i>		26
- <i>Devon and Somerset Fire Authority</i>		12
- <i>South Hams District Council</i>		30
Bad and doubtful debts		
Write Offs		
130 <i>Council Tax</i>		117
148 <i>Business Rates</i>		307
Provisions		
59 <i>Council Tax</i>		(8)
55 <i>Business Rates</i>		(45)
<b>77,202</b>		<b>81,831</b>
<b>(508)</b>	<b>MOVEMENT ON FUND BALANCE</b>	<b>(148)</b>

## SECTION 4. COLLECTION FUND

### 1. Council tax and council tax base

In 2010/2011, the Council's average Band D Council Tax was £1,518.06. The charge for each band is a ratio of band D. The 2010/2011 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	843.37
A	6/9	1,012.04
B	7/9	1,180.71
C	8/9	1,349.39
D	1	1,518.06
E	11/9	1,855.41
F	13/9	2,192.75
G	15/9	2,530.10
H	18/9	3,036.12

These charges are before any appropriate discounts or benefits. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2010/2011 was 37,997.17 as calculated below.

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A	0	10.00	10.00	5/9	5.56
A	4,842.00	(955.25)	3,886.75	6/9	2,591.17
B	8,407.00	(1,094.85)	7,312.15	7/9	5,687.23
C	8,302.00	(904.85)	7,397.15	8/9	6,575.24
D	7,774.00	(464.90)	7,309.10	1	7,309.10
E	6,240.00	(549.75)	5,690.25	11/9	6,954.75
F	3,490.00	(235.35)	3,254.65	13/9	4,701.16
G	2,884.00	(245.20)	2,638.80	15/9	4,398.00
H	275.00	(35.10)	239.90	18/9	479.80
<b>Total</b>	<b>42,214.00</b>	<b>(4,475.25)</b>	<b>37,738.75</b>		<b>38,702.01</b>
Less allowance for non collection					(774.04)
Plus adjustment for armed forces dwellings					69.20
<b>Tax base</b>					<b>37,997.17</b>

## **SECTION 4. COLLECTION FUND**

### **2. Rateable value**

The total non-domestic rateable value at 31 March 2011 was £82,429,038 (a revaluation year). This compares to £52,044,579 at 31 March 2010. The standard non-domestic rate multiplier was 43.3p in 2010/11 (2009/10: 48.5p). Without reliefs this would generate a total income of £35,691,773.45 (2009/10 £25,241,620.81). These figures are a snapshot only and differ from the value of NNDR bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

### **3. Collection fund balance**

<b>2009/2010 £000s</b>		<b>2010/2011 £000s</b>
(481)	Fund balance at 1 April	(989)
(508)	(Surplus) / Deficit for year	(148)
<b>(989)</b>	<b>Fund balance as at 31 March</b>	<b>(1,137)</b>

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

<b>2009/2010 £000s</b>	<b>Preceptor</b>	<b>2010/2011 £000s</b>
(728)	Devon County Council	(836)
(101)	Devon and Cornwall Police	(117)
(47)	Devon and Somerset Fire Authority	(54)
(876)	Total surplus due to Preceptors	(1,007)
(113)	South Hams District Council	(130)
<b>(989)</b>	<b>Fund balance as at 31 March – (surplus)/deficit</b>	<b>(1,137)</b>

## **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 Head of Finance and Audit
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts

### ***Responsibilities of the Head of Finance and Audit***

The Head of Finance and Audit 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 Head of Finance and Audit 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 Head of Finance and Audit 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 2011.

.....

**Lisa Buckle BSc, ACA  
– Head of Finance and Audit**

**28 September 2011**

**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 28th September 2011

Signed on behalf of South Hams District Council

.....

**Councillor JT Pennington**

Chairman of the Audit Committee  
28th September 2011



## ***SECTION 6. AUDITORS' REPORT***

**To follow**

## **SECTION 7. GLOSSARY OF TERMS**

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

## **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).
<b>DEMAND</b>	The charging authorities own Demand is, in effect, its precept on the fund.
<b>FEES &amp; CHARGES</b>	In addition to the income from charge payers and the Governments, Local Authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.
<b>FINANCIAL INSTRUMENTS</b>	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
<b>GOVERNMENT GRANTS</b>	Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.
<b>IMPAIRMENT ALLOWANCE ("BAD DEBT PROVISION")</b>	Provisions against income to prudently allow for non collectable amounts.
<b>INTEREST COST</b>	For the pension fund this represents the discount rate at the start of the accounting period applied to the liabilities during the year based on the assumptions at the start of the accounting period.
<b>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) &amp; THE CODE OF PRACTICE (CODE)</b>	Formal financial reporting standards adopted by the accounting profession and to be applied when dealing with specific topics within its accounting Code. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
<b>LIBID</b>	Acronym for the London Inter-bank Bid Rate, being the interest rate at which a market maker or underwriter will offer to buy bonds and securities.
<b>PAST SERVICE COST</b>	These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.

## **SECTION 7. GLOSSARY OF TERMS**

<b>PRECEPT</b>	The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.
<b>PROJECTED UNIT METHOD</b>	<p>An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:</p> <ul style="list-style-type: none"><li>a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and</li><li>b) the accrued benefits for members in service on the valuation date.</li></ul> <p>The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.</p>
<b>RATEABLE VALUE</b>	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
<b>REVENUE EXPENDITURE</b>	Recurring items of day to day expenditure consisting principally of Salaries and Wages, Debt Charges and general running expenses etc.
<b>SETTLEMENTS</b>	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability
<b>STRAIN ON FUND CONTRIBUTIONS</b>	Additional employers pension contributions as a result of an employee's early retirement
<b>SUNDRY CREDITORS</b>	Amounts owed by the Council at 31 March.
<b>SUNDRY DEBTORS</b>	Amounts owed to the Council at 31 March.

## MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT FOLLATON HOUSE, TOTNES ON 28 SEPTEMBER 2011

### MEMBERS

Members in attendance * Denotes attendance			
*	Cllr I Bramble	*	Cllr J M Hodgson
*	Cllr C G Bruce-Spencer (Vice Chairman)	*	Cllr J T Pennington (Chairman)
*	Cllr B F Cane		

Also in attendance and participating	
Cllrs M J Hicks, P W Hitchins, and T R Holway	

Officers in attendance	
All Agenda Items: Head of Finance and Audit, Chief Internal Auditor, Chief Accountant, and Member Support Officer; and The Principal Auditor, The Audit Manager and the District Auditor (Audit Commission)	

#### A.13/11      **MINUTES**

The minutes of the meeting of the Audit Committee held on 14 July 2011 were confirmed as a correct record and signed by the Chairman.

#### A.14/11      **DECLARATIONS OF INTEREST**

Members 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.15/11      **AUDIT COMMISSION PROGRESS SUMMARY TO 15 SEPTEMBER 2011**

Members noted the contents of the Progress Summary.

#### A.16/11      **AUDIT COMMISSION ANNUAL GOVERNANCE REVIEW**

Members considered the Annual Governance Review which set out the results of Audit Commission's audit of the Financial Accounts. Subject to the clearance of outstanding matters, the Audit Commission would issue an unqualified opinion on the accounts and an unqualified conclusion stating that the authority had adequate arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

The District Auditor noted that the workload of the Council's Finance Team had been dominated by the requirement to adequately prepare for and implement the new International Finance Reporting Standards on Financial Reporting (IFRS) and he was pleased to report that Officers had successfully dealt with this implementation.

In terms of key messages, there were few errors, none of which were material. With regard to the quality of the financial statements, the Audit Commission recommended that the Authority implement more rigorous Quality Assurance checks. He also asked that information requested by the Audit Commission from the Council's Valuer be provided in a timely manner. In terms of Value for Money, the Authority had scored well for Use of Resources, the Council had agreed a balanced and robust budget and the Council's reserves were adequate and also robust. Financial and risk management systems were also operating effectively.

In concluding this item, the Chairman expressed thanks to the Council's Finance Team for the hard work they had expended on implementing IFRS, particularly as the guidance on this had not been very clear. He went on to say that this was a very satisfactory report and Council officers should be complimented on their effective approach to financial management.

It was then:

### **RESOLVED**

That the Annual Governance Report be noted and accepted.

## **A.17/11      PROGRESS AGAINST THE 2011/12 INTERNAL AUDIT PLAN**

The Chief Internal Auditor presented the report which informed Members of the principal activities of the Internal Audit Section of Financial Services for 2011/12 to 31 August 2011. The Chief Internal Auditor informed that good progress was currently being made against the plan. There were no significant issues to bring to the attention of the Committee and no actual, suspected or allegations of fraud, and no breaches of financial rules.

In light of the Committee wishing to discuss elements of the exempt appendices, it was:-

### **RESOLVED**

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting during consideration of the following items of business in order to avoid the likely disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act.

Members then discussed the exempt appendices, which had been presented as part of the report, and the Chief Internal Auditor responded to a number of queries that were raised.

It was then:-

### **RESOLVED**

That the public and press be readmitted.

It was then:-

### **RESOLVED**

That the report be noted and has been commented upon.

A.18/11

## **REVISION OF THE CONTRACT PROCEDURE RULES**

The Chief Internal Auditor informed that the Contract Procedure Rules (CPR) had required updating as a result of internal management changes, the shared services agenda and the introduction of the Bribery Act 2010 from 1 July 2011. The key amendments to the rules were;

- **Exemptions** – Changing the retrospective reporting of approved exemptions from the Executive to the Audit Committee;
- **Capital Programme** – additional controls over management of the programme, including monitoring of expenditure and approval of overspends;
- **Shared Services** – The equivalent document is to be presented to the West Devon Borough Council Audit Committee with as many of the arrangements aligned as possible having regard to the different governance arrangements; and
- **General** – various areas of improvement including reflecting the Bribery Act 2010, the process for the signing and storage of contracts, and responsibility changes from Strategic Directors to Heads of Service.

During the discussion, the following points were raised:

**Green Procurement:** A Member commented that the CPR did not appear to take account of sustainability issues or 'green procurement'. In response, the Officer informed the Committee that these rules were the set of standards to be adhered to and did not represent procurement policies. However, the Council did have a Sustainable Procurement Strategy.

**Approved Contractor Lists:** The Committee was informed that any approved list would have to be regularly updated to achieve value for money to the Council.

It was then:

#### **RECOMMENDED**

That full Council be **RECOMMENDED** to adopt the revised Contract Procedure Rules (Appendix A to the presented report) and the revised exemption process and its inclusion in the Council's Constitution.

A.19/11

#### **ANTI FRAUD, CORRUPTION AND BRIBERY POLICY AND STRATEGY; AND BENEFIT FRAUD PROSECUTION AND SANCTION POLICY**

The Chief Internal Auditor presented a report that set out the revised Anti Fraud, Corruption and Benefit Policy and Strategy. The previous version, whilst fit for purpose, had been required to be updated in response to the introduction of the Bribery Act 2010 from 1 July 2011, the shared services agenda and reflected the zero tolerance by the Authority to fraud, corruption and bribery. One of the key changes had been the removal of the detailed Fraud, Corruption and Bribery Response Plan into a separate document which was available on the intranet. The Benefit Fraud Prosecution and Sanction Policy (Appendix B) remained unchanged.

It was then:-

#### **RECOMMENDED**

That full Council be **RECOMMENDED** to adopt the Anti Fraud, Corruption and Bribery Policy and Strategy, and the Benefit Fraud Prosecution and Sanction Policy 2011

A.20/11

#### **AUDITED STATEMENT OF ACCOUNTS 2010/11**



The Chairman introduced a report on the Annual Statement of Accounts 2010/11 which set out a summary of the net revenue and capital expenditure for Members consideration and ultimate approval.

During the discussion, the following points were raised:

Members were informed that:

- Up to 85% of the £1,250,000 deposited with the Icelandic Heritable Bank would eventually be paid back. To date the Administrators had paid seven dividends;
- Planning application income had risen due to the increase in larger scale developments at the end of the financial year;
- New arrangements for Grounds Maintenance had been cost effective;
- That the Council continued to receive income by way of a portion of sales from properties sold by Tor Homes but which had previously been Council owned stock.
- That private firms tended to cherry pick areas with a higher density of customers with regard to Trade Waste, which meant the Council was left to provide a service to more isolated areas at a higher cost with less economy of scale;
- That lower ferry income had been impacted by the ferry being out of action for three weeks due to a maintenance issue;
- That the Council had a strict counter party list in terms of where it could invest and continued to adopt a low risk investment strategy.

It was then:-

## **RESOLVED**

That the report be noted and Members approve the:-

1. Wording of the Letter of Representation as set out in Appendix A to the presented report and;
2. The audited Statement of Accounts as set out in Appendix B to the presented report.

In concluding, the Chairman, on behalf of the Committee wished to formally thank the Audit Manager (Audit Commission) for all the work he had undertaken at South Hams during his long and arduous career and the Deputy Leader also wished to extend his thanks and appreciation.

(Meeting commenced at 10.00 a.m. and concluded at 11.30 am)

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Chairman

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