

# Public Document Pack



## **SOUTH HAMS AUDIT COMMITTEE - TUESDAY, 17TH JULY, 2012**

Agenda, Reports and Minutes for the meeting

### **Agenda No    Item**

1.    **Agenda Letter** (Pages 1 - 2)

2.    **Reports**

Reports to Audit:

a)    Item 5 - System of Internal Control and Annual Governance Statement (Pages 3 - 28)

b)    Item 6 - Draft Statement of Accounts 2011/12 (Pages 29 - 136)

3.    **Minutes** (Pages 137 - 140)

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# Agenda Item 1

Please reply to: Jo Doney  
Service: Corporate Services  
Direct Telephone: 01803 861466 Direct Fax: 01803 866669  
E-Mail: Jo.Doney@southhams.gov.uk

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

Our Ref: CS/JD

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

6 July 2012

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes on **Tuesday 17 July 2012 at 10.00am** 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 June 2012 (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. **System of Internal Control and Annual Governance Statement** – to consider a report that provides Members with information to enable them to independently examine the draft Annual Governance Statement and the supporting process and assurance streams (pages 5 to 30);
  6. **Draft Statement of Accounts 2011/12** – to consider a report which presents a summary of net revenue and capital expenditure (pages 31 to 137).
- 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**

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**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**

\* \* \* \* \*

AGENDA  
ITEM

**5**

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

**5**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>17 July 2012</b>
<b>REPORT TITLE</b>	<b>SYSTEM OF INTERNAL CONTROL; and ANNUAL GOVERNANCE STATEMENT 2011/12</b>
<b>Report of</b>	<b>Head of Finance and Audit (S.151 Officer) Monitoring Officer Chief Internal Auditor</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

### **Summary of report:**

The purpose of this report is to provide Members with sufficient information to allow them to independently examine the draft Annual Governance Statement and the supporting process and assurance streams; and recommend approval of the Annual Governance Statement to the Council.

The Accounts and Audit (Amendment) (England) Regulations 2006 and 2011 require the Council to publish an Annual Governance Statement.

It will provide a public confirmation that this Council has a sound framework of governance and system of internal control, which facilitates the effective exercise of the Council's functions and includes arrangements for the management of risk.

Overall responsibility for Governance rests with the Council, but monitoring of compliance with the Code is carried out on its behalf by the S.151 Officer, Monitoring Officer and Chief Internal Auditor reporting annually to the Audit and Standards Committees.

### **Financial implications:**

Within existing budgets.

### **RECOMMENDATION:**

**It is RECOMMENDED that Members consider the draft Annual Governance Statement (AGS) for 2011/12 and supporting evidence provided by this report and recommend approval of the Statement to the Council.**

### **Officer contact:**

Allan Goodman, Chief Internal Auditor: 01803 861375  
[allan.goodman@southhams.gov.uk](mailto:allan.goodman@southhams.gov.uk)

## **1 BACKGROUND**

### **Introduction to the Annual Governance Statement (AGS)**

- 1.1 The Accounts and Audit Regulations 2003 introduced a new section requiring every local authority, police authority and fire authority in England to publish a 'Statement on Internal Control'.
- 1.2 Regulation 4(1) of the Regulations state that 'The relevant body (South Hams District Council), shall be responsible for ensuring that financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk'.
- 1.3 Regulation 4(2) goes on to state that 'The relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices' with any relevant financial statements the body is required to publish.
- 1.4 In 2006, the Accounts and Audit Regulations were amended to replace the Statement of Internal Control with the 'Annual Governance Statement'.
- 1.5 The 2011 Accounts and Audit Regulations removed the requirement to publish the AGS within the Council's Statement of Accounts. The Regulations suggest that the AGS should 'accompany' the accounting statements rather than being included within them.

### **Guidance Relating to Corporate Governance and Internal Control**

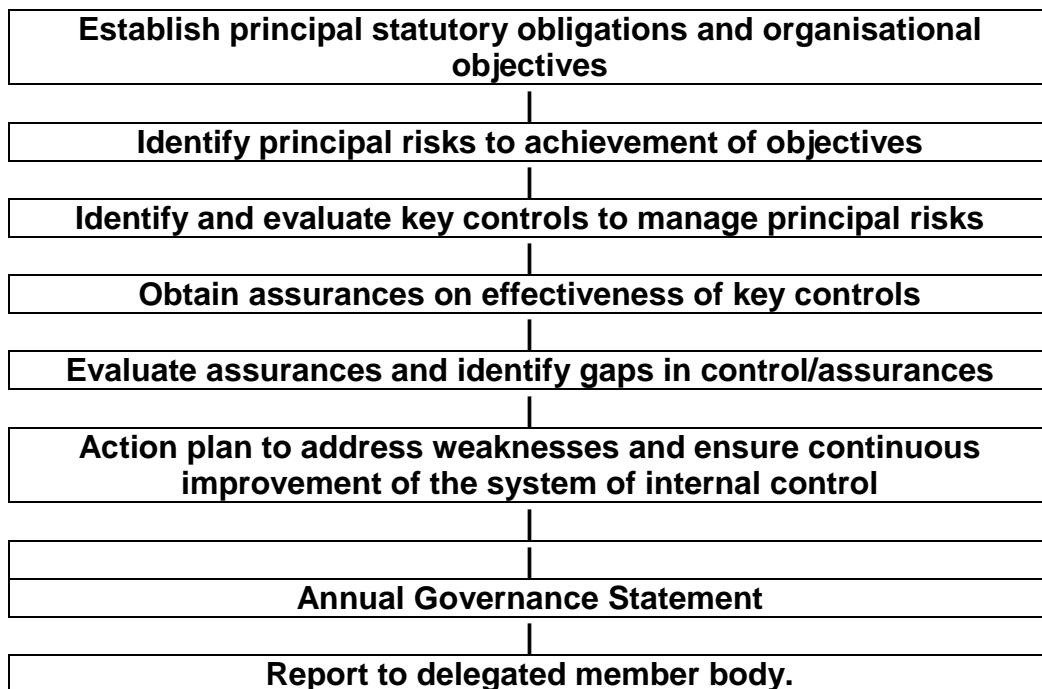
- 1.6 The System of Internal Control (SIC) process is based on guidance issue by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Audit Commission, and the subsequent CIPFA/ Society of Local Authority Chief Executives (SOLACE) documents 'Delivering Good Governance in Local Government' suggests a framework for governance and the basis of the annual statement.
- 1.7 The Council is required to show that:
  - It has conducted an annual review of the effectiveness of its governance framework, including the system of internal control, and reported on this in the governance statement;
  - The assurance framework is fully embedded in the Council's business processes; and
  - Governance arrangements with respect to partnerships are subject to regular review and updating.

### **Corporate Governance Framework for the Council**

- 1.8 A revised Code of Corporate Governance was approved on behalf of the Council by the Executive at their March 2011 meeting (minute E.92/10). The key difference between the 2008 Code and the revised 2011 document was the requirement to reflect the CIPFA *Statement on the Role of the Chief Financial Officer in Public Service Organisations* – June 2009.
- 1.9 The Code of Corporate Governance sets out the requirement for it to be monitored and tested for compliance on an annual basis.
- 1.10 It states that the subsequent report with an action plan for significant governance issues will be presented to the **Audit Committee** whose Terms of Reference include *‘to monitor the effective development and operation of risk management and corporate governance in the Council’*; and, the **Standards Committee** who are charged to *‘promote and maintain effective processes for governance issues, including the receipt of an annual review of the Council’s Code of Corporate Governance and approval of any action plan arising from the review’*.
- 1.11 The results of the compliance review of the Code of Corporate Governance appeared on the agenda of a joint Audit Committee and Standards Committee meeting in April 2012. Each Committee at this meeting made a resolution in line with the Constitution. (A.41/11 and S.23/11)

### **System of Internal Control (SIC) - Process**

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



## **2. RESPONSIBILITIES FOR CORPORATE GOVERNANCE AND SIC**

2.1 Both sets of guidance set out the responsibilities for the governance framework, including the system of internal control, and these are detailed in a table in Part 4 of the Annual Governance Statement.

2.2 It includes the responsibilities of the:

- 'Relevant Body' - South Hams District Council;
- Executive;
- Audit Committee as the 'Delegated Member Body';
- Standards Committee;
- Heads of Service;
- S.151 Officer and Monitoring Officer;
- Chief Internal Auditor
- Risk Management Group; and
- External Auditor and Other Review Agencies and Inspectorates.

2.3 The extract from the CIPFA Finance Advisory Network guidance (Appendix A) sets out a suggested framework for the SIC part of the AGS and the assurance gathering process and as detailed above is broadly followed.

## **3. ASSURANCES TO BE CONSIDERED BY THE AUDIT COMMITTEE**

3.1 The following paragraphs summarise the assurance provided by the various sources as set out in the framework at Appendix A.

### **Compliance Review of the Code of Corporate Governance**

3.2 Overall responsibility for Governance rests with the Council, but monitoring of compliance with the Code is carried out on its behalf by the S.151 Officer, Monitoring Officer and Chief Internal Auditor reporting annually to the Audit and Standards Committees.

3.3 The result of the 2011/12 compliance review is generally satisfactory with issues raised only for Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles; and, Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk. Minutes A.41/11 & S.23/11 refer.

3.4 The findings have been taken to the AGS with one exception where the required action has been completed on an interim basis (although further action will be required):

Principle 3: Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour:

*Overleaf*



Issue Identified	Action Taken
<p>The Localism Act 2011 requires local authorities to adopt a code of conduct for their Members.</p> <p>There is no longer any prescription to what it should contain.</p> <p>The Authority may set its own rules about declaring interests but Members will be required to disclose 'dischargeable pecuniary interest'. Failure to disclose will be a criminal offence.</p>	<p>The Monitoring Officer has devised a new member code of conduct, and arrangements for operating it, following receipt of the regulations from the Department for Communities and Local Government (DCLG).</p> <p>Council approved the 'Devon' code on an interim basis at the meeting of the 28<sup>th</sup> June 2012, in order to be compliant with the legislation.</p>

### Effectiveness of the System of Internal Audit

- 3.5 An annual report has been presented to the Audit Committee (14<sup>th</sup> June 2012) summarising the activities and key findings of Internal Audit (IA).
- 3.6 In this report the Chief Internal Auditor gave his 'Opinion on the Adequacy of Internal Control'. *He concluded that the Council's overall control environment is adequate and effective for the purposes of the AGS.* This opinion is based on the work done on the risk based annual audit plan for 2011/12, which was approved by the Audit Committee.
- 3.7 The Chief Internal Auditor also reviewed the effectiveness of the system of internal audit, which was the subject of a separate report to the 14<sup>th</sup> June 2012 Audit Committee, covering:
- Compliance with the standards set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government;
  - Effectiveness of the Audit Committee (including annual workshop);
  - Reliance/assurance gained by external audit on Internal Audit (IA);
  - Client and management opinion; and
  - Extent to which IA adds value and helps delivery of corporate objectives.

The results are considered to be satisfactory and provide assurance for the System of Internal Control and the AGS.

### Statutory Officers

#### *S.151 Officer*

- 3.8 As required by the guidance, the S.151 Officer has provided signed assurance that the systems and procedures of internal control were in operation and effective in 2011/12.
- 3.9 The S.151 Officer raised the following significant issues:

- Shared Services - The Financial Controls and Governance Arrangements for Shared Services are being reviewed as a project of the 2015 Transformation Programme;
- Updating of the Risk Management and Partnership Management Frameworks – required due to the approval of a new Risk Management Policy and partnership changes.

### *Monitoring Officer*

3.10 As required by the guidance, the Monitoring Officer has provided signed assurance that the systems and procedures of internal control were in operation and effective in 2011/12.

3.11 The Monitoring Officer has raised issues that have been identified from other assurance sources, such as governance issues relating to shared services as reported to the Audit and Standards Committees, and the charging of fees relating to Land Charges.

### **Heads of Service (Managers)**

3.12 Heads of Service have recorded their service functions, obligations and improvement objectives, and risks to achieving these objectives in a 'Service Plan', which is linked to the Council's Priorities.

3.13 Their service plans enable service objectives to be formally linked to risk and include controls to mitigate the risks. The risk element of the Service Plans feeds the Council's operational risk register maintained by the Risk Management Group.

3.14 An element of this Service Planning round requires managers to carry out an assessment of the controls in place to mitigate the risks, and provide assurance to the management group drafting the AGS that controls were in place and operating satisfactorily.

3.15 Heads of Service are required to make available evidence to demonstrate that the controls to mitigate the risks to their objectives are in place and operating satisfactorily.

3.16 Heads of Service that identified significant weaknesses or issues have been identified for inclusion in the AGS.

### **Performance Management**

3.17 Mechanisms are in place to establish corporate objectives:

- Consultation with stakeholders on priorities and objectives;
- The Council's priorities and objectives have been agreed and communicated to all staff; and
- Objectives are reflected in departmental plans and matched with associated budgets;

3.18 Performance management arrangements are in place:

- Effective performance management systems operate routinely;
- Key performance indicators are established and monitored;
- The Council knows how it is performing against its planned outcomes;
- Performance achieved is used to support decisions and drive improvements; and
- Performance management is continuously improved.

3.19 For 2011/12 no significant weaknesses or risks have been identified.

### **Risk Management Group**

3.20 The Council's risk management process is in place and is monitored by the Risk Management Group and Audit Committee on a quarterly basis, as well as Internal Audit and the Council annually.

3.21 For 2011/12 no significant weaknesses or risks have been highlighted but a new Corporate Risk Management Policy was approved in April 2012. The review of the Code of Corporate Governance highlighted the need for the risk management framework supporting the Policy to be updated.

### **External Audit and other Inspections**

3.22 The External Auditor also contributes to the assurance for the Annual Governance Statement through their suite of reports to management and the Audit Committee.

3.23 The reports did not raise any significant issues for the AGS for 2011/12 other than those already raised by the Council's assurance streams.

### **Last Year's Annual Governance Statement (2010/11)**

3.24 Last year the Annual Governance Statement reported the following issues. The following list includes the progress made:

#### *From the 2010/11 Compliance Review of the Code of Corporate Governance*

3.25 The progress made on the issues raised in the 2010/11 AGS from the Compliance Review of the Code of Corporate Governance was discussed in the 2011/12 Compliance Review of the Code of Corporate Governance report to the Joint Audit and Standards Committee meeting of April 2011, Minutes A.45/10 & S.38/10 refer.

From the 2010/11 System of Internal Control:

Issue Raised - Published 2010/11 AGS	Progress on Action Plan to Date
<p><b>Shared Services – Operating Agreements</b></p> <p>The Council has entered into shared working arrangements with West Devon Borough and Teignbridge District Councils under which some officers services are shared. These officers have Shared Service Operating Agreements by means of which their services are made available to the partner authorities as well as their employer. It is likely that some Operating Agreements will no longer be valid following the current senior management review.</p>	<p>Ongoing process. Updated statement included in the 2011/12 Annual Governance Statement attached to this report, part of the Shared Services project of the 2015 Transformation Programme.</p>
<p><b>Shared Services – Scheme of Delegation</b></p> <p>The Monitoring Officer's report to the March 2011 Council meeting advised Members that the Scheme of Delegation will need to be revised following the outcome of the senior management review.</p> <p>All of the new Directors and Shared Heads of Service will be working across both Councils. They must be formally empowered to act by means of a resolution of each Council because it is essential that there is no doubt that they have proper authority, particularly (for example) where formal notices or permissions are issued or contracts signed.</p> <p>Interim measures have been accepted by Members pending a review of the Constitution when senior managers are in post.</p>	<p>On 29th March 2012 South Hams District Council approved new delegations to member bodies and senior officers covering the Council's Functions and Responsibilities (Part 3 of the Constitution).</p> <p>The Monitoring Officer is working through delegations to officers below the Heads of Service, which is covered by the updated statement included in the 2011/12 Annual Governance Statement attached to this report, part of the Shared Services project of the 2015 Transformation Programme.</p>
<p><b>Single Status Review</b></p> <p>No formal job evaluation scheme is in place which may lead to potential equal pay claims as bonus payments are made to predominantly male occupational groups. It is still the Council's intention to reach an agreement with the trade unions to remove these potentially discriminatory bonus payments.</p> <p>Through the 'Transformation Programme' the Council will be addressing the convergence of employee Terms &amp; Conditions and Pay &amp; Grading with West Devon Borough Council.</p>	<p>Updated statement included in the 2011/12 Annual Governance Statement attached to this report</p>
<p><b>Shared Services</b></p> <p>The Council has embarked on a programme of shared services with West Devon Borough Council.</p> <p>It is already generating significant financial savings. These are anticipated to increase as more services are shared.</p> <p>By summer 2011 all services will be shared at Head of Service level, with the challenge to deepen the level of sharing, where appropriate, at all levels to capitalise on the savings that may be secured and draw on best practice to</p>	<p>The Financial Controls and Governance Arrangements for Shared Services are being reviewed as a project of the 2015 Transformation Programme.</p> <p>Parts 1, 2, 3, 6 and 7 of the Constitution have been completed and the relevant member approvals obtained.</p> <p>Contract Procedure Rules; Anti Fraud, Corruption and Bribery Policy and Strategy; and Joint Anti Money Laundering Policy have been aligned as far as possible and approved by</p>

<p>raise the quality of services.</p> <p>All Heads of Service are accountable to each authority separately and much work has been done to ensure that each Council is paying for the resources it uses.</p>	<p>Members.</p> <p>Ongoing process. Updated statement included in the 2011/12 Annual Governance Statement attached to this report, part of the Shared Services project of the 2015 Transformation Programme.</p>
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*From the 2010/11 System of Internal Control (continued):*

Issue Raised - Published 2010/11 AGS	Progress on Action Plan to Date
<p><b><i>Sherford New Community</i></b></p> <p>The current economic circumstances have made the resolution of the planning agreement challenging. There remains a risk that agreement will not be reached and therefore there is the potential for appeal. Any appeal is likely to involve significant costs to defend the Council's position due to the complexity of the scheme.</p> <p>Furthermore the nature of the scheme in terms of public profile, as well as emerging ecological issues, means that there remains an ongoing risk of judicial review, which the Council is seeking to manage.</p> <p>Section 106 negotiations continue with a view to attaining a result which conforms to the Council's objectives for Sherford, but also remains a viable and deliverable scheme.</p>	<p>There is a risk of significant costs associated with progressing the proposal for the new community at Sherford. Positive negotiations have taken place over the last 12 months and both South Hams District Council and Plymouth City Council have agreed revised Section 106 heads of terms and granted outline planning permission subject to completion of a legal agreement.</p> <p>At this stage, the level of financial risk appears to have reduced unless a detailed S106 cannot be agreed or a subsequent judicial review is lodged. This is disclosed in the 2011/12 Statement of Accounts as a Contingent Liability and consequently has not been repeated in the AGS.</p>
<p><b><i>Local Development Framework (LDF)</i></b></p> <p>Nationally the LDF system is proving to be slow to deliver against government objectives. The Council, however, has made good progress, adopting the following documents:</p> <p>South Hams LDF Core Strategy 2006; Sherford Area Action Plan in 2008; Affordable Housing Development Plan Document (DPD) in 2008; Development Policies DPD 2010; and Site Allocations (DPDs) Spring 2011.</p>	<p>Superseded by the new planning framework and therefore not an issue for the 2011/12 Annual Governance Statement.</p>

**The Annual Governance Statement (AGS) 2011/12 - (Appendix B)**

- 3.26 The Statement is a corporate document and is owned by all members and senior officers of the Council.
- 3.27 A draft AGS for 2011/12 appears at Appendix B to this report, based on the pro-forma statement supplied in the original and updated CIPFA guidance.
- 3.28 The Statement includes an action plan to address any significant governance and internal control issues, which have been identified through the assurance processes described above.
- 3.29 The guidance states that these practices need to take place throughout the period under review.

#### 4. LEGAL IMPLICATIONS

- 4.1 The Accounts and Audit (Amendment) (England) Regulations 2003, 2006 and 2011 (Statutory Instrument No. 817) require the Council to publish an Annual Governance Statement.

#### 5. FINANCIAL IMPLICATIONS

- 5.1 Within existing budgets.

#### 6. RISK MANAGEMENT

- 6.1 The risk management implications follow these considerations:

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Section 111, Local Government Act 1972; and Accounts and Audit Regulations 2003, 2006 and 2011 (Statutory Instrument No. 817).
<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>	Code of Corporate Governance for South Hams District Council 2008 CIPFA/SOLACE (2007) Delivering Good Governance in Local Government – incl. Guidance Note for English Authorities Accounts and Audit (Amendment) (England) Regulations 2006 Independent Commission on Good Governance in Public Services (2005): The Good Governance for Public Services CIPFA/SOLACE document: Corporate Governance in Local Government: A Keystone for Community Governance: CIPFA (2001)
<b>Appendices attached:</b>	<b>Appendix A</b> – Framework for the System of Internal Control and Annual Governance Statement <b>Appendix B</b> – Annual Governance Statement for 2011/12

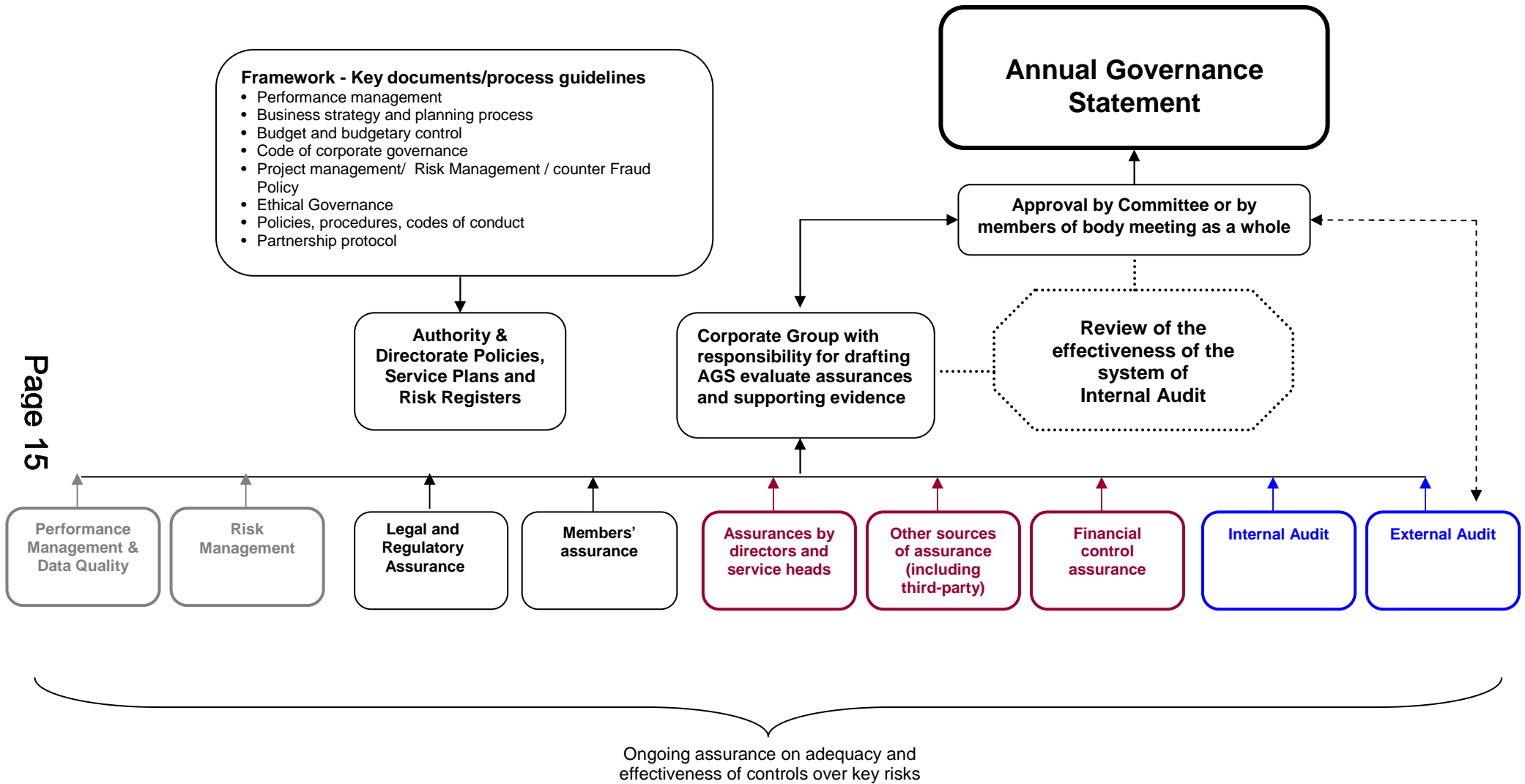
## STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1.	Opportunity	<p>The Council is able demonstrate that the policies, processes, tasks, behaviours and other aspects of the Council, taken together:</p> <ul style="list-style-type: none"> <li>Facilitate effective and efficient operation by enabling an appropriate response to significant business, operational, financial, compliance and other risks to achieving the Council's objectives (including the safeguarding of assets from inappropriate use, loss or fraud, and ensuring that liabilities are identified and managed);</li> <li>Help ensure the quality of internal and external reporting.</li> <li>Help ensure compliance with applicable laws and regulations, and internal policies with respect to the conduct of business.</li> </ul>	-	-	-	-	Monitoring compliance of the Code of Corporate Governance and the System of Internal Control will feed the Annual Governance Statement (AGS) process and provide assurance to the community that a good governance framework is in place.	The Council Audit Committee Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
2	System of Internal Control - Formal Identification of objectives, risks and related controls.	Senior managers may be unable to demonstrate that they have set their service objectives linked to those of the Council, identified the risks to achieving these service objectives and assessed the controls in place to mitigate the risks.	2	2	4	↔	Service planning guidance reminds managers that the service plan process is the basis for the System of Internal Control supported by a formal assessment of controls, with evidence of their satisfactory operation.	Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor
3	Assurance streams for the Annual Governance Statement (AGS)	Risk that the Council does not have the system in place to produce a meaningful AGS to be included in the accounts; or that the process does not satisfy the requirements under the Accounts and Audit Regulations 2003/2006/2011.	3	2	6	↔	AGS completed through the annual reviews of the Code of Corporate Governance and System of Internal Control, in line with all the relevant national guidance, and subject to review by the external auditor.	The Council Audit Committee Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor
3	Annual Governance Statement (AGS)	Risk that if the Corporate Governance process is not formalised and brought together, some aspects may fall by the wayside. The Council may not approve the AGS or the Leader and Chief Executive be able to sign because issues are identified, resulting in adverse comment. The Council may not act within the 'Accounts and Audit Regulations', and be publicly criticised by the external auditor as a result.	3	2	6	↔	The Council will produce an Annual Governance Statement, in line with the latest guidance, describing the governance framework and reflecting issues identified from a number of assurance streams including the review of the Code of Corporate Governance. The Annual Governance Statement will include an action plan to address any issues identified by the compliance monitoring of Corporate Governance, and will be reviewed by the Council's external auditors and published with the Council's accounts.	The Council Audit Committee Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor



# ANNUAL GOVERNANCE STATEMENT FRAMEWORK



## South Hams District Council

### Annual Governance Statement

#### 1. Scope of Responsibility

South Hams District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

South Hams District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the Chartered Institute for Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) Framework *Delivering Good Governance in Local Government*. A copy of the Council's code is available on our website [www.southhams.gov.uk](http://www.southhams.gov.uk) or can be obtained from the Chief Internal Auditor, South Hams District Council, Follaton House, Plymouth Road, Totnes TQ9 5NE.

This statement explains how South Hams District Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2011 in relation to the publication of a statement on internal control.

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

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of South Hams District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at South Hams District Council for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

### 3. The Governance Framework

The key elements of the systems and processes that comprise the Council's governance arrangements follow under the headings (*italics*) suggested by the CIPFA/SOLACE guidance:

**1. Identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users: and**  
**2. Reviewing the vision and its implications for the Council's governance arrangements:**

The Strategic direction is set by Members at formal meetings. The December 2010 meeting of the Council approved four new high level priorities: Community Life, Economy, Environment and Homes.

The Council's vision and ambition was recommended in the report to the January 2011 Executive, 'Shared Services and Beyond', as well as the development of the 'Transformation Programme'. The Leader presented a report to the March 2011 meeting of the Council recommending that the Shared Services and Beyond document be formally adopted and 'South Hams Voice' be developed as the means by which the Council increases engages with the voluntary/community sector, business sector and the community at large.

On 14th July 2011, the Executive approved the Connect Strategy. This sets out the priorities for the period 2011-2015 and the four detailed Delivery Plans (Community Life, Economy, Environment and Homes) for that period for each of the new priorities.

The Connect Strategy is produced by the South Hams and West Devon Connect Partnership, replacing the Local Strategic Partnerships, and brings together key stakeholders from the community, voluntary, business and public sectors.

The Strategic direction is communicated to the citizens and service users through a booklet sent annually with all Council Tax and Business Rates bills, reports sent to all households in the Council's joint magazine with Devon County Council, as well as on the Council's web-site.

The booklet includes a statement from the Leader of the Council, and sets out the Council's achievements and opportunities.

The implication for the governance arrangements is considered by an annual compliance review of the Code of Corporate Governance with the results reported to a joint meeting of the Audit and Standards Committees (5<sup>th</sup> April 2012). The report and minutes are available on the Council's web-site and any issues identified included in this Annual Governance Statement.

**3. Measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources:**

The Connect Strategy referred to above links to plans of partner organisations and the Partnership's Governance arrangements includes a Delivery Group comprising of the key stakeholders to monitor plans and report to a Board, Elected Member Board etc.

It has four detailed Delivery Plans (Community Life, Economy, Environment and Homes). Wherever possible the delivery plans seek to maximise opportunities from shared services to deliver efficiencies, be more cost-effective and improve outcomes for local people. The targets set within these plans will be achievable and realistic delivering outcomes for local communities. Progress against targets will be reported regularly to the Connect Partnership Board and Elected Member Board.

This Data Quality Assurance Strategy outlines the approach that is needed to maintain the highest possible standards, controls and validation throughout all the data processes. It clearly indicates the role each individual has to play in the production and analysis of data and recognises the need that data is accurate, reliable and timely in informing service provision and in supporting good decision-making.

The Council uses a suite of performance indicators that includes measurement of the quality of service. A 'Balanced Scorecard' system of regular reporting of the key indicators to the Senior Management Team (SMT), and Members (Corporate Performance and Resources Scrutiny Panel) is in place.

Performance measures are being reviewed for 2012/13 with new or revised indicators linked to drivers, goals and the service/Council priorities.

Each Head of Service draws up a service plan (now known as a Blue Print) setting out, for the coming year, the obligations and objectives of their area of responsibility linked to the Council's priorities. The service plans also link to the budget setting process, risk management framework and the system of internal control.

The Council publishes a Medium Term Resource Strategy each year, which covers a four year period. That for the period 2012/13–2015/16 was approved by the Executive in July 2011 and has regard to the Priorities, business planning – pressures and savings, government grant settlements, council tax, and reserves. It also reflects the revenue implications of the capital programme.

Inspectorate reports are received and acted upon. The external auditors' reviews and reports on the Council's Statement of Accounts, governance arrangements, and value for money are summarised in an Annual Audit Letter to members, which is presented with other reports to the Audit Committee.

**4. Defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication:**

Parts 2 and 3 of the Council's Constitution, which is available on the Council's web-site and Intranet, defines and documents the roles and responsibilities of the executive, non executive, scrutiny and officer functions, and contains clear delegation arrangements.

Part 5 of the Constitution includes a Protocol on Councillor/Officer Relations. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted members of Council bodies in their dealings with officers where appropriate. It seeks to reflect the respective codes of conduct.

Protocols for effective communication are in place including a Corporate Communications Policy.

**5. Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff;**

Part 5 of the Constitution sets out the Code of Conduct for elected members (2007).

There is also a Code of Practice for Members considering Planning matters. Its aim is to ensure that in the planning process there are no grounds for suggesting that a decision has been biased, partial or not well founded. It links to the Code of Conduct.

An Officer's Code of Conduct also appears in Part 5 of the Constitution and the Staff Pages of the Council's Intranet (internal website).

The Codes require interests, and, gifts and hospitality for both members and officers to be reported to the Monitoring Officer who maintains a Register. Training on the Code of Conduct is provided to members, and officers also receive training on their Code and the wider ethical framework as part of induction and other internal training.

The Standards Committee's remit includes monitoring the conduct of Members and investigating complaints in respect of individual Members.

**6. Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks:**

Part 3 of the Council's Constitution contains a Scheme of Delegation to Officers, which together with the Contract Procedure Rules & Finance Procedure Rules, supporting procedure notes and manuals form a key part of the Council's control environment. These are reviewed annually and updated as required;

The formal management of risk is in place and subject to annual internal audit, external inspection through the Audit Commission, and reporting to the Audit Committee quarterly and annually to the Council. The risk management process includes an approved Strategy, a Risk Management Group, risk registers, systems for identifying emerging risks, consideration of risk and opportunities in reports to members and project management.

A new Corporate Risk Management Policy was approved in April 2012. The review of the Code of Corporate Governance highlighted the need for the risk management framework supporting the Policy to be updated.

**7. Ensuring that the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer.**

For 2011/12 the Council appointed the Head of Finance and Audit as the designated officer responsible for the proper administration of the Council's financial affairs as required under Section 151 of the Local Government Act 1972 (the 'S.151 Officer'). This appointment is reflected in the Article 12 of the Constitution.

A self assessment of the Role of the Chief Financial Officer (CFO) confirmed that the Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government'.

The assessment highlighted the potential for a conflict of interest as the CFO (also known as the S.151 Officer) is also the S.151 Officer at West Devon Borough Council. This risk is mitigated by formally appointed Deputy S.151 Officers who are dedicated to each Council (not shared).

**8. Undertaking the core functions of an Audit Committee, as identified in CIPFA's document 'Audit Committees – Practical Guidance for Local Authorities':**

Article 10 of the Constitution sets out the functions of the Audit Committee, which is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance and to oversee the financial reporting process and the effectiveness of the Treasury Management function

The Terms of Reference are based on the CIPFA document: Audit Committees – Practical Guidance for Local Authorities;

Part 4 of the Constitution includes 'Rules for Other Bodies of the Council', sets out the membership requirements for the Audit Committee.

**9. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful:**

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Article 1 confirms that the local authority will act within the law and the Provisions of the Constitution.

Some of the services provided are statutory, whilst others are a matter for the Council to decide upon. There is a process to ensure that any new legislation is identified and acted upon, which includes letters to the Chief Executive from the relevant government departments, and Monitoring Officer reviews of their web-sites. Part 3 of the Council's Constitution includes both the Responsibility for Functions (Local Choice and Council) and the Scheme of Delegation to Officers.

Article 12 of the Constitution sets out the statutory functions of the 'Monitoring Officer', which includes ensuring lawfulness and fairness in decision making. These responsibilities are reflected in the related job description and specification. The Scheme of Delegation to Officers reflects statutory provisions. The Monitoring Officer reviews the reports to Members for legality.

There is the potential for a conflict of interest as the Council's Monitoring Officer is also the Monitoring Officer at West Devon Borough Council. This risk is mitigated by formally appointed Deputy Monitoring Officers who are dedicated to each Council (not shared).

A system of consultation of other professionals in advance of presentation of reports to Members is in place, particularly where a recommendation requires the input of more than one profession e.g. legal advice, financial advice etc.

Adherence to regulations, policies and procedures are also reviewed and monitored on behalf of the S.151 Officer by Internal Audit and the Audit Committee.

The Council has an active internal audit function which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. Internal audit is responsible for monitoring the quality and effectiveness of the Council's control framework which includes ensuring that activities are lawful and internal policies and procedures are complied with. A risk based audit plan, approved annually by the Audit Committee ensures there is adequate audit coverage for this purpose.

#### **10. Whistle-blowing and receiving and investigating complaints from the public:**

The Council's whistle-blowing policy, known as the Confidential Reporting Policy, is available to all staff on the Council's Intranet (including Frequently Asked Questions) and is also publicised internally on an occasional basis to maintain its profile.

The Council's website also includes a Complaints and Suggestions page which outlines the procedure for making a complaint, a complaint about a Member, suggestions, and how to contact the Local Government Ombudsman.

A procedure for dealing with complaints is included within the Complaints Policy, which was updated in December 2011 linked to the introduction of new internal complaint management software.

In addition the web-site publishes related documents:

- An Anti Fraud, Corruption and Bribery Policy and Strategy;
- An Anti Money Laundering Policy; ;
- Links to the Local Government Ombudsman;
- A Local Code of Conduct – Complaints Procedure enables people to complain about members who may have breached the Code.

#### **11. Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training:**

##### *Members*

Article 2 of the Constitution states that "Councillors will develop and maintain a working knowledge of the authority's services and policies and take advantage of appropriate training and development opportunities to enable them to fulfil their role".

Immediately after any elections, a comprehensive Induction Programme is delivered for newly elected Members. The Induction covers the role of the Councillor, chairing skills, governance arrangements and processes etc.

A politically balanced Member Development Steering Group has been formed and the group's terms of reference were agreed. A Member Development Strategy was approved by the Council and has contributed into the 2011 induction programme.

At the February 2012 Council meeting, as part of the report of the Political Structures Working Group, recommendations were accepted to amend procedures to:

- (i) All Members will be expected to attend planning training refresher sessions as and when they are provided;

- (ii) Newly elected Members will have to attend appropriate induction Planning Training before they can take part in the planning decision-making process;
- (iii) Repeat sessions will be held in conjunction with West Devon Borough Council to provide additional opportunities for Members to meet the requirement to attend the induction training;
- (iv) If they so wish, re-elected Members will be welcome to attend the induction sessions.

Other ad hoc training is also provided as required, Members and officers receive a weekly Members Bulletin which provides an update on current issues, background information on training events and a range of other topics.

#### *Senior Officers*

The responsibilities of each management post are reflected in the related job descriptions and specifications. A programme of training is provided to these officers that is linked to the corporate employee appraisal and competency scheme, which includes identification of one off training requirements as well ongoing professional training.

### **12. Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:**

Article 3 of the Constitution sets out what citizens can expect from their Council and what rights they have. This includes the right to attend meetings of the Council, the Executive and other bodies of the Council except where confidential or exempt information is likely to be disclosed.

Part 4 of the Constitution includes the Council's 'Access to Information Procedure Rules' which requires the Council to provide the public with access to Agenda and Reports. Meetings of Member bodies are scheduled using a calendar of meetings, and recorded through a system of Agendas and Minutes. It contains the Rules of Procedure for all formal meetings and Forward Plans detail issues to be considered at future meetings. It is also available on the Council's web-site

In addition, the 360 Assessment has been developed and rolled out to all relevant staff. An assessment must be completed for all new/changed policies, strategies and relevant projects including new service delivery. The assessment covers Equality, Duty to Involve, Human Rights, Data Protection, Crime and Disorder, Child Protection, Biodiversity and Sustainability.

#### *Connect Strategy*

The Connect Strategy and related Delivery Plans are produced by the South Hams and West Devon Connect Partnership brings together key stakeholders from the community, voluntary, business and public sectors. Annual stakeholder events are held for each Council Priority.

The Council is developing the 'Voice': Business Voice, Town and Parish Voice, and Voluntary Voice, consulting and engaging covering issues that are important to the particular groups.

#### *Local Development Framework*

The 2004 Planning and Compulsory Purchase Act requires local planning authorities to prepare a Statement of Community Involvement (SCI). This document sets out how and when



the Council will involve the community in preparing development plans and processing planning applications. In 2006, the Council adopted its SCI.

However, a recent update makes it clear how the Council will engage with the community, in line with the latest planning legislation, for plan making and planning applications. In October 2011 South Hams and West Devon Councils agreed to publish a draft SCI for formal consultation. The comments received during the 6 week consultation have informed amendments to the final version of the SCI, which was presented to the March 2012 Executive to recommend adoption by the Council.

### *Other Arrangements*

In addition there are numerous other arrangements through which the Council engages with local people and other stakeholders, including input to the budget planning process, surveys, various fora, town and parish cluster meetings, South Hams Connect, the magazine etc.

A more comprehensive, but not exclusive, list was included in the compliance review of the Code of Corporate Governance presented to the Joint Audit and Standards Committees meeting (5<sup>th</sup> April 2012). The report and minutes are available on the Council's web-site.

### **13. Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements:**

Article 11 of the Constitution allows members and officers to enter into joint arrangements with other bodies in order to promote the economic, social or environmental well-being of the Council's area.

The Executive approved the adoption of a Partnership Policy and Guidance document, which contains Appendices to guide officers in considering the purpose of joining a partnership, risk management, governance arrangements, information sharing, monitoring and scrutiny.

It also includes the requirement for an annual report to Members for significant partnerships covering an appraisal of the outputs/achievements/outcomes, a review of the aims and objectives and an evaluation of whether they align with the Council's objectives and priorities, cross-cutting themes and commitments and an appraisal of the financial commitment/staff input and whether the partnership continues to provide value for money for the Council. The partnership risk register is also be reviewed annually by Members.

## **4. Review of the Effectiveness of the Governance Framework**

South Hams District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

The effectiveness of the governance framework is considered by an annual compliance review of the Council's Code of Corporate Governance with the results reported to a joint meeting of the Audit and Standards Committees (5<sup>th</sup> April 2012).

This and the review of effectiveness of the system of internal control is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and

also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework including the system of internal control for 2011/12 is as follows:

<b>Responsibility</b>	<b>Responsible Party</b>
<ul style="list-style-type: none"> <li>• Oversee the effective management of risk by officers of the Council.</li> <li>• Maintain a system of internal control.</li> <li>• Review system of internal control annually.</li> <li>• Evaluate assurance and conclude as to the independence and objectivity of the various sources of assurance before coming to an overall conclusion. This can be delegated to an appropriate member body to recommend approval, although approval remains with the Council.</li> <li>• Approve the Annual Governance Statement.</li> </ul>	<p style="text-align: center;">‘The Relevant Body’ - South Hams District Council</p>
<ul style="list-style-type: none"> <li>• Propose the budget and policy framework to the Council, including the Code of Corporate Governance, Risk Management Strategy etc.</li> </ul>	<p style="text-align: center;">The Executive</p>
<ul style="list-style-type: none"> <li>• Review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and particular service areas.</li> </ul>	<p style="text-align: center;">Scrutiny</p>
<ul style="list-style-type: none"> <li>• Promote and maintain effective processes for governance issues including maintaining high standards of conduct by the Councillors and Co-opted members of the authority,</li> <li>• Receipt of an annual review of the Council’s Code of Corporate Governance and approval of any action plan arising from the review.</li> </ul>	<p style="text-align: center;">Standards Committee</p>
<ul style="list-style-type: none"> <li>• Monitor the effective development and operation of risk management and corporate governance in the Council.</li> <li>• Consider the Council’s arrangements for corporate governance and to ensure compliance with best practice.</li> <li>• Consider internal audit’s annual report and opinion, and summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council’s corporate governance arrangements;</li> <li>• Carry out an annual self assessment of the effectiveness of the Committee;</li> <li>• Oversee the production of the Council’s Annual Governance Statement and recommend its adoption to the Council.</li> </ul>	<p style="text-align: center;">Audit Committee (Delegated Member Body)</p>
<ul style="list-style-type: none"> <li>• Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks.</li> <li>• Provide assurance through routine monitoring of internal controls as an integral part of the risk management process.</li> <li>• Regularly report on the operation of internal controls to elected members through the management team.</li> </ul>	<p style="text-align: center;">Heads of Service</p>

Responsibility (Continued)	Responsible Party
<ul style="list-style-type: none"> <li>• These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective.</li> <li>• With the Chief Internal Auditor complete a compliance review of the Code of Corporate Governance and System of Internal Control and produce the Annual Governance Statement.</li> </ul>	S.151 and Monitoring Officers
<ul style="list-style-type: none"> <li>• With the S.151 and Monitoring Officers complete a compliance review of the Code of Corporate Governance and System of Internal Control.</li> <li>• Review the effectiveness of the system of internal audit annually and report results to the Audit Committee.</li> <li>• Subject to complying with the Code of Practice for Internal Audit in Local Government, provide independent and objective assurance across the whole range of the Council's activities.</li> <li>• The annual internal audit report to the Council (Audit Committee) to include an opinion on the overall adequacy and effectiveness of the internal control environment, providing details of any weaknesses that qualify this opinion and issues relevant to the preparation of the Annual Governance Statement.</li> </ul>	Chief Internal Auditor
<ul style="list-style-type: none"> <li>• Provide explicit assurance on the control environment and governance arrangements in relation to their area of responsibilities.</li> </ul>	Risk Management Group External Auditor Other Review Agencies/Inspectorates

## 5. Significant Governance Issues

Overall the Council's governance arrangements are satisfactory for 2011/12. However, the following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

### ***From the Compliance Review of the Code of Corporate Governance (Joint Meeting of Audit and Standards Committees 5<sup>th</sup> April 2012) issues for:***

Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Partnership Management</b></p> <p>The Council's Partnership Policy and Guidance and reporting requirements would benefit from a review and update as a shared approach with West Devon Borough Council, following the changes in the Risk Management Framework.</p>	<p>The Council's Risk and Health &amp; Safety Advisor, in association with a Director, should review the Council's Partnership Management Framework and ensure that the related Policy and Guidance is updated as a shared document with West Devon Borough Council.</p>	<p>Risk and Health &amp; Safety Advisor Director 30<sup>th</sup> September 2012</p>

Principle 2 (continued): Members and officers working together to achieve a common purpose with clearly defined functions and roles:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Shared Services – Operating Agreements</b></p> <p>The Council has entered into shared working arrangements with West Devon Borough and Teignbridge District Councils under which some officers' services are shared. These officers have Shared Service Operating Agreements by means of which their services are made available to the partner authorities as well as their employer. It is likely that some Operating Agreements will no longer be valid following the current senior management review.</p>	<p>Fresh Operating Agreements will be concluded with the new Heads of Service and Middle Managers appointed under the senior management and middle manager review after the revision of the overall agreement between the Councils has been completed. (Part of the Financial Controls and Governance Arrangements for Shared Services project within the Council's 2015 Transformation Programme.)</p>	<p>Monitoring Officer 30<sup>th</sup> September 2012</p>
<p><b>Shared Services – Financial Controls and Governance Arrangements</b></p> <p>The Financial Controls and Governance Arrangements for Shared Services are being reviewed as a project of the 2015 Transformation Programme.</p> <p>The project is being managed by the S.151 Officer, Monitoring Officer and Chief internal Auditor and tasks include:</p> <p>a) To consolidate the existing elements of the framework for the Governance of the Shared Services arrangements (both financial and legal):</p> <p>b) Recharging the salaries of Shared Service officers</p> <p>Extensive detailed work has been carried out by a small group of officers on the recharging of salaries for the 2011/12 financial year for shared officers, following the Senior Management Review (effective from 1st April 2011) and the Middle Manager Review (effective from 1st October 2011). Officers have produced a methodology for recharging the salary costs of shared costs of shared officers using an appropriate ratio e.g. call volumes, property numbers, caseloads etc. and as a last resort time recording. The work carried out includes establishing from the Heads of Service the relevant recharge requirements for every member of staff, which will feed into a review of the method used for 2011/12 against other options.</p>	<p>The S.151 Officer, Monitoring Officer and Chief Internal Auditor, as the Project Managers for the Financial Controls and Governance Arrangements for Shared Services project of the 2015 Transformation Programme, should ensure that key tasks are completed in line with the formal project plan reported and monitored by the Shared Services Joint Steering Group .</p>	<p>S.151 Officer Monitoring Officer Chief Internal Auditor</p> <p>Timescales in Line with those reported to the Shared Services Joint Steering Group</p>

Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Risk Management Framework</b></p> <p>The Council's Risk Management Strategy is in the course of being updated and aligned as a single document with West Devon Borough Council, following the presentation of a new Joint Risk Management Policy to the April 2012 Audit Committees.</p> <p>Other improvements to the Risk Management Framework are being developed but these have yet to be finalised against the revised Policy.</p>	<p>The Council's Risk and Health &amp; Safety Advisor, in association with a Director, should review the Council's Risk Management Framework and ensure that it meets the requirements of a revised Policy and good practice.</p>	<p>Risk and Health &amp; Safety Advisor Director 30th September 2012</p>

### **From the System of Internal Control:**

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Dartmouth Embankment</b></p> <p>A previous formal management agreement between the Council and Dart Harbour Navigation Authority (DHNA) for the latter to manage the Embankment was terminated by the Council in 2003 in exchange for retaining all harbour dues.</p> <p>This was as a result of the increasing costs of maintaining the asset and the long term need for monies to be reserved to replace the coast protection that the Embankment provides when it comes to the end of its useful life.</p> <p>Further negotiations have taken place with DHNA since, with some disagreement over the interpretation of Section 54 and related parts of the Dart Harbour Navigation Act 1975. The legislation says that 75% of the net harbour dues should be paid to the Council.</p> <p>This would provide a reserve for repairs etc. if accepted by DHNA. Speciality legal advice may be required to clarify the position of the Council and the DHNA if agreement cannot be reached.</p> <p>Dialogue with the current DHNA Harbour Master has commenced.</p>	<p>The Head of Assets is to:</p> <ul style="list-style-type: none"> <li>• Continue dialogue with the Dart Harbour Master with a view to reaching agreement for some annual contribution to a sinking fund for maintaining the Embankment, and clarifying the management responsibilities for the Embankment;</li> <li>• Discuss with the Council's Solicitor (DJE) the need to obtain specialist legal advice to clarify the legislation; and</li> <li>• Draw up a new formal agreement if satisfactory solutions can be found.</li> </ul>	<p>Head of Assets 31<sup>st</sup> March 2013</p>

**From the System of Internal Control (Continued):**

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Pay and Grading</b></p> <p>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.</p> <p>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.</p>	<p>A pay and grading review programme commenced in June 2012 on a service by service basis with a planned completion date of 31<sup>st</sup> March 2014.</p>	<p>Head of Paid Service Head of Corporate Services 31 March 2014</p>
<p><b>Land Charges</b></p> <p>In common with 370 other English district and unitary councils, South Hams District Council may be the subject of a claim by a group of companies whose business is the making of personal searches of our land charges records.</p> <p>No claim has been served upon the Council and the issue is whether the charges were lawfully imposed. The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those regulations were unlawfully made, the Government should compensate.</p>	<p>The matter is being dealt with by the Local Government Association.</p> <p>The case was due for another case management discussion at the High Court on 19<sup>th</sup> June 2012, which was adjourned and rescheduled for September 2012.</p> <p>Any action the Council takes will be dependant upon the judgement.</p>	<p>Monitoring Officer Head of Planning, Economy and Community</p>
<p><b>Internal and External Audit Reports</b></p> <p>Some issues have been identified in audit reports by the Council's external auditor and the shared in-house internal audit team.</p> <p>Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed.</p>	<p>All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors' 'follow up' procedures.</p>	<p>Heads of Service S.151 Officer Chief Internal Auditor In line with agreed timescales</p>

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

**Signed and Dated:**

.....  
**Leading Member & Chief Executive on behalf of  
South Hams District Council**



AGENDA  
ITEM

**6**

## SOUTH HAMS COUNCIL

AGENDA  
ITEM

**6**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>17 July 2012</b>
<b>REPORT TITLE</b>	<b>DRAFT STATEMENT OF ACCOUNTS 2011/12</b>
<b>Report of</b>	<b>Head of Finance and Audit</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**Summary of report:**

This report presents a summary of net revenue and capital expenditure for Members' consideration and provides an opportunity for Members to comment on the Draft Statement of Accounts for 2011/2012 (attached).

**Financial implications:**

The report advises Members that a surplus of £260,000 was generated in 2011/2012.

**RECOMMENDATIONS:**

**The Draft Statement of Accounts for the financial year ended 31 March 2012 is noted.**

**Officer contact:**

Michael Tithecott, Chief Accountant Tel: 01803 861374 Email: [mike.tithecott@southhams.gov.uk](mailto:mike.tithecott@southhams.gov.uk)

**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 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 IAS 19 – “Employee Benefits”**

- 2.1.1 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.

### **2.2 Revenue Expenditure**

- 2.2.1 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.
- 2.2.2 The surplus on the General Fund in 2011/2012 is £260,000 which represents less than 0.5% of the Council's gross turnover of £59m. The main differences from budget are shown in paragraph 4 of the Explanatory Forward in the SOA.

### **2.3 Capital Expenditure**

- 2.3.1 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £3.4M in 2011/12 and is analysed in the Explanatory Foreword to the SOA.



## 2.4 Audit of Accounts

2.4.1 Members are advised that the accounts will be audited by our External Auditors, the Audit Commission, during August. Following the Audit, the SOA will be brought back to the Audit Committee for approval in September.

## 3. LEGAL IMPLICATIONS

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).

## 4. FINANCIAL IMPLICATIONS

The financial implications to this report are that a surplus of £260,000 was generated in 2011/2012.

## 5. RISK MANAGEMENT

The Risk Management implications are shown at the end of this report in the Strategic Risks Template

## 6. OTHER CONSIDERATIONS

<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
<b>Appendices attached:</b>	Appendix A – Statement of Accounts

## STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Man
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel		
1	Public Accountability	A formal review of the Statement of Accounts forms an essential component of the Council's systems for public accountability and is a statutory requirement.	5	1	5	↔	The accounts ha in strict accordan <i>of Practice on Lo</i> <i>Accounting in the</i> 2011/12 which is statute as repres accounting practi
2	Resource Planning	Consideration of the balance sheet and revenue outturn provides a platform for future resource planning.	5	1	5	↔	The Executive ta significant issues the Council's Me Financial Strateg

Direction of travel symbols ↓ ↑ ↔

# **South Hams District Council**

## **Draft Statement of Accounts**

***(Un-audited)***

**2011/2012**



**South Hams  
District Council**

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## 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 2011/12 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>	9,917	9,618	(299)
Parish precepts	1,537	1,537	0
Interest and Investment income	(280)	(242)	38
<b>Amount to be met from government grants and taxation</b>	<b>11,174</b>	<b>10,913</b>	<b>(261)</b>
<i>Financed from:</i>			
Formula Grant	(4,203)	(4,203)	0
Council tax	(6,662)	(6,662)	0
Surplus on collection fund	(80)	(80)	0
Council Tax Freeze Grant	(129)	(128)	1
New Homes Grant	(100)	(100)	0
<b>SURPLUS</b>	<b>0</b>	<b>(260)</b>	<b>(260)</b>

4. The surplus on the General Fund of £260,000 represents less than 0.5% of the Council's gross turnover of £59m. 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>	
Car Parks – reduction in income/ increased rates	<b>194</b>
Transport – additional expenditure on fuel and repairs & maintenance (R &M) largely due to price increases	<b>156</b>
Trade Waste – Reduction in income	<b>57</b>
Investment Income – interest rates lower than anticipated	<b>38</b>
Discretionary Rate Relief – payments have risen in line with inflation	<b>32</b>
Employment Estates – mainly loss of rate relief on empty properties	<b>31</b>
Grounds Maintenance – reduction in income following change in specification to Highways Contract	<b>20</b>
Dartmouth Ferry – mainly increased R&M	<b>15</b>
External Audit Fees – anticipated reduction not realised	<b>12</b>
<b>Reductions in expenditure/additional income</b>	
Senior Management Review – shared service salary savings arising from the new management structure (see next section for further details).	<b>(214)</b>
Inflation – central provision for pay awards not required	<b>(135)</b>
Other salary savings – mainly due to additional income from the Shared Services initiative	<b>(129)</b>
ICT Product Support – full budget provision not required as a number of contracts were terminated or renegotiated	<b>(107)</b>
Housing Benefit – additional subsidy and improved recovery of debt	<b>(100)</b>
Household Waste Collection & Recycling – mainly additional grant contribution towards running costs of Tor Quarry from Devon County Council.	<b>(52)</b>
Democratic Representation – various savings including printing, hospitality and travel.	<b>(20)</b>
Council Tax & Business Rate Collection – mainly additional administration grant	<b>(20)</b>
Subscriptions – Ordnance Survey Public Service Mapping Agreement subscription no longer payable.	<b>(19)</b>
Pannier Markets – additional income	<b>(19)</b>
<b>TOTAL SURPLUS</b>	<b>(260)</b>

## **Senior Management Review**

5. In November 2010, the Chief Executive for South Hams District Council and West Devon Borough Council carried out a senior management review to rationalise the senior staffing structure and achieve efficiency savings.
6. 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.
7. A net provision of £587,000 was made in the 2010/11 accounts for the redundancy costs from the senior Management Review. An accrual of £328,000 for pension “strain” payments was also 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 (Material Items)
8. 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.

## **Middle Management Review**

9. Following the Senior Management Review in the spring of 2011, a complete review of all of the middle management positions was undertaken by the Heads of Service. New operational structures were created and these have been in place since the 1<sup>st</sup> October 2011.
10. Since 1<sup>st</sup> October 2011, all services have been shared at senior management level and middle management level, with the exception of the Finance team at both Councils, which have remained separate.

## **Savings from Shared Services**

11. In total, the Council is saving approximately £600,000 per annum as a result of shared services. This would equate to a Council Tax increase of approximately 12%.
12. The total amount recharged to South Hams District Council for shared services provided by West Devon Borough Council in 2011/12 was approximately £600,000. Similarly, the total amount recharged to West Devon Borough Council for shared services provided by South Hams District Council in 2011/12 was approximately £1,400,000. The difference is largely due to the fact that the revenues and benefits service, the payroll service and the internal audit service are wholly

provided by South Hams District Council to West Devon Borough Council and this equates to approximately £720,000.

### **Pension Liability**

13. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The pension fund liability at 31 March 2012 is estimated at £29M which compares with £15M at 31 March 2011. The significant increase in the net deficit is mainly due to the fact that the actuarial assumptions used to value the liabilities have moved unfavourably and the assets have not earned as much return as was expected last year. This has led to an overall actuarial loss over the year of £13.2m charged to the Income and Expenditure Account. The deficit is derived by calculating the pension assets and liabilities at 31 March 2012. See Note 37 for further information.

### **Icelandic Banks**

14. At the 20 April 2012 the Council had £351,765 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.
15. 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.
16. The Administrators had paid ten dividends at the end of the financial year 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**

17. The Council spent more than £3m on capital projects. The main areas of expenditure were as follows:
- house renovation grants (£0.7m)
  - improvements to parks and open spaces (£0.5m)
  - vehicle replacements (£0.5m)
  - harbour infrastructure (£0.5m)
  - affordable housing (0.4m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 33).

## **Issue of accounts**

18. The Head of Finance and Audit authorised the unaudited Statement of Accounts 2011/12 for issue on the 29th June 2012.

## **FINANCIAL NEEDS AND RESOURCES**

19. 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.
20. Revenue reserves have increased by £152,000 from the preceding year and stand at £9.1m at 31 March 2012. Revenue reserves may be used to finance capital or revenue spending plans. The General Fund Balance (un-earmarked reserve) stands at £2.4m.
21. Capital Reserves are represented by capital receipts and capital contributions unapplied on the balance sheet. The balance at 31 March 2012 amounts to £5.9m which compares to £6.8m at the end of the previous year.

## **LOOKING FORWARD TO THE FUTURE**

22. 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 at its September 2012 meeting.
  
23. The Council has embarked on the 2015 Transformation Programme in order to make the Authority fit for purpose in a rapidly changing world. Key projects include a strategic review of our assets; the way we use ICT; how best to introduce localism into our communities and how we ensure our staff are able to work more effectively to meet the future needs of our customers and the wider community.

## **FURTHER INFORMATION**

24. 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	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2010</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 the 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 2010/11</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>

## 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 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>
<b>Movement in Reserves during 2011/12</b>							
Surplus or (deficit) on provision of Services	(2,333)	0	0	0	(2,333)	0	(2,333)
Other Comprehensive Income and Expenditure	0	0	0	0	0	(10,194)	(10,194)
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,333)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,333)</b>	<b>(10,194)</b>	<b>(12,527)</b>
Adjustments between accounting basis & funding basis under regulations (Note 4)	2,485	0	(897)	1	1,589	(1,589)	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>152</b>	<b>0</b>	<b>(897)</b>	<b>1</b>	<b>(744)</b>	<b>(11,783)</b>	<b>(12,527)</b>
Transfers to/from Earmarked Reserves (Note 5)	975	(975)	0	0	0	0	0
<b>Increase/Decrease in Year</b>	<b>1,127*</b>	<b>(975)*</b>	<b>(897)</b>	<b>1</b>	<b>(744)</b>	<b>(11,783)</b>	<b>(12,527)</b>
<b>Balance at 31 March 2012 Carried forward</b>	<b>2,443</b>	<b>6,628</b>	<b>5,634</b>	<b>221</b>	<b>14,926</b>	<b>33,456</b>	<b>48,382</b>

\*At 1 April 2011, the Contingency and Working Balance Reserves had a combined balance of £767,000 within earmarked reserves. However, for financial planning purposes these reserves have been treated as un-earmarked balances. To reflect this, the balances have been moved from earmarked reserves to the General Fund Balance.

## 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.

2010/11				2011/12		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Service Division	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
8,731	(7,444)	1,287	Central services to the public	8,340	(7,223)	1,117
3,130	(708)	2,422	Cultural & Related	3,094	(572)	2,522
8,194	(1,985)	6,209	Environmental	8,120	(2,041)	6,079
4,154	(5,196)	(1,042)	Highways and transport	3,469	(5,027)	(1,558)
22,943	(21,622)	1,321	Housing	23,873	(22,290)	1,583
5,863	(2,804)	3,059	Planning & Development	3,839	(2,913)	926
2,227	(93)	2,134	Corporate and democratic core	1,735	(12)	1,723
43	(50)	(7)	Non distributed costs	247	(21)	226
(6,588)	(302)	(6,890)	Exceptional Items (note 2)	0	0	0
<b>48,697</b>	<b>(40,204)</b>	<b>8,493</b>	<b>Cost of Services</b>	<b>52,717</b>	<b>(40,099)</b>	<b>12,618</b>
1,474	(15)	1,459	Other operating expenditure (Note 6)	1,901	(313)	1,588
981	(1,231)	(250)	Financing and investment income and expenditure (Note 7)	4,478	(4,687)	(209)
0	(12,719)	(12,719)	Taxation and non-specific grant income (Note 8)	31	(11,695)	(11,664)
<b>51,152</b>	<b>(54,169)</b>	<b>(3,017)</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>59,127</b>	<b>(56,794)</b>	<b>2,333</b>
		(4,156)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(3,039)
		(16,288)	Actuarial (gains)/losses on pension assets / liabilities			13,233
		(20,444)	<b>Other Comprehensive Income and Expenditure</b>			<b>10,194</b>
		(23,461)	<b>Total Comprehensive Income and Expenditure</b>			<b>12,527</b>

## SECTION 2C. BALANCE SHEET

31 March 2011		Notes	31 March 2012
59,344	Property, Plant & Equipment	9	61,856
459	Investment Property	10	322
165	Intangible Assets	11	115
158	Long Term Investments	12	68
-	- accrued interest on investments		-
21	Deferred Credits		-
129	Long Term Debtors	14	91
<b>60,276</b>	<b>Long Term Assets</b>		<b>62,452</b>
14,729	Short Term Investments	12	15,156
157	- accrued interest on investments		41
106	Inventories	13	138
3,661	Short Term Debtors	14	4,769
5,611	Cash and Cash Equivalents	15	2,192
<b>24,264</b>	<b>Current Assets</b>		<b>22,296</b>
(3,702)	Short Term Creditors *	16	(3,386)
(132)	Short Term Revenue Grants in Advance *	31	(186)
(933)	Provisions	17	(109)
<b>(4,767)</b>	<b>Current Liabilities</b>		<b>(3,681)</b>
(3,448)	Long Term Revenue Grants in Advance - Section 106 Deposits		(3,518)
(141)	Provisions	17	(94)
(14,861)	Pensions Liability	37	(28,927)
(414)	Capital Grants- Receipts in Advance	31	(146)
<b>(18,864)</b>	<b>Long Term Liabilities</b>		<b>(32,685)</b>
<b>60,909</b>	<b>Net Assets</b>		<b>48,382</b>
15,670	Usable Reserves	18	14,926
45,239	Unusable Reserves	19	33,456
<b>60,909</b>	<b>Total Reserves</b>		<b>48,382</b>

\* Short term Creditors have been restated to separately identify short term revenue grants received in advance.

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

*The unaudited accounts were issued on 29 June 2012.*

## 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.

2010/11 £000		2011/12 £000
<b>(2,447)</b>	<b>Net (surplus) or deficit on the provision of services</b>	<b>2,333</b>
3,187	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 20 )	(1,941)
(5,426)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 21)	(4,314)
(669)	Interest received	(345)
<b>(5,355)</b>	<b>Net cash outflows/ (inflow) from Operating Activities</b>	<b>(4,267)</b>
1,689	Net increase/ ( decrease) in Investing Activities (Note 22)	1,782
3,438	Net cash outflow/ (inflow) from Financing Activities (Note 23)	5,904
<b>(228)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>3,419</b>
5,383	Cash and cash equivalents at the beginning of the reporting period	5,611
<b>5,611</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 15)</b>	<b>2,192</b>



***Section 3***

***Notes to the***

***Financial Statements***

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

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### SECTION 3. NOTES TO THE ACCOUNTS

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

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

The item in the Authority's Balance Sheet at 31 March 2012 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>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>The value of pension assets is estimated based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets, but this difference is not considered to be material.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2 million.</p> <p>Please refer to Note 37 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 were included on the face of the CIES in 2010/11. There are no exceptional items in 2011/12.

	<b>Expenditure*</b> <b>£000</b>	<b>Income**</b> <b>£000</b>	<b>Net</b> <b>£000</b>
Pension Liability – past service gain	(7,805)		<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*

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

The draft Statement of Accounts (SOA) for 2011/12 was certified by the Head of Finance and Audit on 29 June 2012. 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 17 July 2012.

### 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.

2011/12	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	1,809			(1,809)
Revaluation losses on Property Plant and Equipment	577			(577)
Movements in the market value of Investment Properties	17			(17)
Amortisation of intangible assets	95			(95)
Capital grants and contributions applied	(223)			223
Revenue expenditure funded from capital under statute	159			(159)
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	358			(358)
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Capital expenditure charged against the General Fund	(728)			728
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(15)		15	0
Application of grants to capital financing transferred to the Capital Adjustment Account			(14)	14

### SECTION 3. NOTES TO THE ACCOUNTS

2011/12	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	(300)	300		0
Transfer of unattached capital receipts	(135)	135		
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,335)		1,335
Repayment of mortgage and parish loans		3		(3)
<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 37)	2,199			(2,199)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,366)			1,366

2011/12	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	31			(31)
<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>2,485</b>	<b>(897)</b>	<b>1</b>	<b>(1,589)</b>

### SECTION 3. NOTES TO THE ACCOUNTS

2010/11 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>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 (REFCUS)	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 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 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
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,559)		1,559
Transfer of unattached capital receipts	(335)	335		0
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

2010/11 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 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

### 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 2011/12.

	Balance at 31 March 2011	Transfers Out	Transfers In	Balance at 31 March 2012
	£ 000	£ 000	£ 000	£ 000
<b>EARMARKED RESERVES</b>				
<b>General Fund</b>				
Working Balance	750	(750)	-	-
Contingency	117	(117)	-	-
Affordable Housing	946	(414)	8	540
Drawing Office	10			10
Strategic Issues	1,096	(1)	230	1,325
Community Parks and Open Spaces	74	(1)	17	90
Economic Regeneration & Community Wellbeing	36	(27)	12	21
Pension Fund Strain	-		62	62
Repairs and Maintenance	249		175	424
Members Sustainable Community Locality Fund	-		25	25
Land and Development	400	(148)	30	282
Ferry Repairs and Renewals	342	(17)	25	350
Economic Initiatives	253	(31)		222
Vehicles and Plant Renewals	292	(495)	525	322
Pay and Display Equipment	105	(87)	21	39
On-Street Parking	33		11	44
Print Equipment	66		3	69
ICT Development	542			542
Sustainable Waste Management	215	(64)		151
Community Grants	14	(12)		2
District Elections	46	(44)	28	30
Beach Safety	17			17
Planning Policy & Major Developments	1,210	(207)		1,003
Building Control	49		50	99
Section 106 agreements	95	(46)		49
Revenue Grants	243	(81)	225	387
Capital Programme	-		198	198
<b>Sub Total</b>	<b>7,200</b>	<b>(2,542)</b>	<b>1,645</b>	<b>6,303</b>
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	140	(100)	1	41
Harbour Renewals	123	(29)	1	95
General Reserve	135	(47)	96	184
<b>Sub Total</b>	<b>398</b>	<b>(176)</b>	<b>98</b>	<b>320</b>
<b>Trust &amp; Bequest</b>	<b>5</b>			<b>5</b>
<b>TOTAL EARMARKED REVENUE RESERVES</b>	<b>7,603</b>	<b>(2,718)</b>	<b>1,743</b>	<b>6,628</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 6. OTHER OPERATING EXPENDITURE

2010/11 £000s		2011/12 £000s
1,474	Parish council precepts	1,537
(15)	(Gains)/losses on the disposal of non-current assets	51
<b>1,459</b>	<b>Total</b>	<b>1,588</b>

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

2010/11 £000s		2011/12 £000s
10	Interest payable and similar charges	2
(563)	Interest receivable and similar income	(229)
(335)	Other investment income	(142)
16	Investment (gains)/ losses	(60)
827	Pensions interest cost and expected return on pensions assets	209
(205)	Investment properties	11
<b>(250)</b>	<b>Total</b>	<b>(209)</b>

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

2010/11 £000s		2011/12 £000s
(6,586)	Council tax income	(6,663)
(17)	Collection Fund adjustment:	31
(30)	Collection Fund - distribution of surplus	(80)
(4,845)	Non domestic rates	(3,211)
	Non ring- fenced government grants :	
(704)	• Revenue Support Grant	(992)
(35)	• Area Based Grant	0
0	• Council Tax Freeze Grant	(128)
0	• New Homes Grant	(298)
0	• Local Services Support Grant	(85)
(502)	Capital grants and contributions	(238)
<b>(12,719)</b>	<b>Total</b>	<b>(11,664)</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 9. PROPERTY, PLANT AND EQUIPMENT

#### Movements in 2011/12:

	Land and Buildings	Vehicles, Plant, Furniture & Equipm't	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>						
<b>At 1 April 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>
Additions	345	734	190	51	776	2,096
revaluation increases/ (decreases) recognised in the Revaluation Reserve	1,991					1,991
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(576)					(576)
derecognition – disposals	(160)	(162)				(322)
other movements in cost or valuation	(54)					(54)
<b>At 31 March 2012</b>	<b>54,207</b>	<b>8,107</b>	<b>3,756</b>	<b>722</b>	<b>2,042</b>	<b>68,834</b>
<b>Accumulated Depreciation and Impairment</b>						
<b>at 1 April 2011</b>	<b>1,669</b>	<b>3,413</b>	<b>1,273</b>			<b>6,355</b>
depreciation charge	843	824	142			1,809
Depreciation written out to the Revaluation Reserve	(1,048)					(1,048)
impairment losses/(reversals)						-
derecognition – disposals	(6)	(158)				(164)
other movements in depreciation and impairment	26					26
<b>At 31 March 2012</b>	<b>1,484</b>	<b>4,079</b>	<b>1,415</b>	<b>0</b>	<b>0</b>	<b>6,978</b>
<b>Accumulated Impairment at 1 April 2011</b>	-	-		-	-	-
Charge for 2011/12	-	-	-		-	-
Derecognition – disposals	-					-
<b>At 31 March 2012</b>	-	-	-	-	-	-
<b>Net Book Value</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>
<b>at 31 March 2012</b>	<b>52,723</b>	<b>4,028</b>	<b>2,341</b>	<b>722</b>	<b>2,042</b>	<b>61,856</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### Comparative Movements in 2010/11:

	Land and Buildings  £000	Vehicles, Plant, Furniture & Equipm't  £000	Infrastruct ure Assets  £000	Communit y Assets  £000	Assets Under Constructi on  £000	Total Property, Plant and Equipment  £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>						
<b>at 1 April 2010</b>	<b>1,983</b>	<b>3,138</b>	<b>1,090</b>			<b>6,211</b>
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**

### **Depreciation**

The 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 commitment of £300,000 relates to the re-routeing of Dartmouth Ford Leat. This scheme is due to be completed in 2012/13.

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

	<b>Land and buildings £000s</b>	<b>Vehicles, plant furniture &amp; equipment £000s</b>	<b>Total £000s</b>
<b>Valued at historical cost</b>	<b>3,180</b>	<b>5,916</b>	<b>9,096</b>
<b>New certified valuation included in balance sheet</b>			
2011/2012	14,476		14,476
2010/2011	24,511		24,511
2009/2010	10,955		10,955
2008/2009	419		419
2007/2008	2,399		2,399
<b>Total</b>	<b>55,940</b>	<b>5,916</b>	<b>61,856</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>2010/11 £000</b>	<b>2011/12 £000</b>
Rental income from investment property	(61)	(57)
Direct operating expenses arising from investment property	53	50
<b>Net (gain)/ loss</b>	<b>(8)</b>	<b>(7)</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>2010/11 £000</b>	<b>2011/12 £000</b>
Balance at start of the year	<b>378</b>	<b>459</b>
Additions	0	0
Disposals	(119)	(200)
Net gains/losses from fair value adjustments	200	
Transfers (to) / from Property, Plant and Equipment	0	63
<b>Balance at end of the year</b>	<b>459</b>	<b>322</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 live 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 £95,000 charged to revenue in 2011/12 was charged to the cost centres holding the assets.

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

	2010/11	2011/12
	£000s	£000s
<b>Gross carrying amount</b>	<b>340</b>	<b>285</b>
Accumulated amortisation	(100)	(120)
<b>Net carrying amount at start of year</b>	<b>240</b>	<b>165</b>
Purchases	38	45
Amortisation for the period	(113)	(95)
<b>Net carrying amount at end of year</b>	<b>165</b>	<b>115</b>

Comprising:

<b>Gross carrying amount</b>	<b>285</b>	<b>376</b>
Accumulated amortisation	(120)	(261)
<b>Net carrying amount at end of year</b>	<b>165</b>	<b>115</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 2012 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	68	N/A	68	N/A
Short term – Heritable Bank	156	18	174	N/A
Short term – other	15,000	16	15,016	15,025
<b>TOTAL</b>	<b>15,224</b>	<b>34</b>	<b>15,258</b>	

\* The fair value of the investments is higher than the carrying amount, because the Council's portfolio of investments includes 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).

#### 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.

At the time that Local Authority Accounting Panel (LAAP) Bulletin 82 Update 5 was issued, the total amount to be received was estimated to be between 86% and 90% of the claim and the ninth interim dividend was due in October 2011 with no estimate as to the amount of this payment. The tenth progress report from the administrators was issued on 4 November 2011. A further report covering the three months to 31 December 2011 was issued in February 2012. These reports have not provided a revised estimate of the base case return which therefore remains at the level estimated in Update 5. Since then the following interim payments have been made; the ninth interim payment was made in October 2011, and was for 4.18% of the claim, the tenth interim payment was made in January 2012 and was for 3.32% of the claim.

In cash terms a total of £851,000 has now been received by South Hams District Council at 31 March 2012.

In view of the above information, LAAP recommends that the estimate of the recoverable amount is based on a total repayment of 88% based on the mid point of the base case return and that subsequent repayments are profiled equally with the exception of the final repayment. This will produce a revised repayment schedule as follows:

<b>Date</b>	<b>Repayment</b>	<b>Date</b>	<b>Repayment</b>
April 2012	3.79%	April 2013	5.81%
July 2012	3.50%		
October 2012	3.50%		
January 2013	3.50%		

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%	851,000	224,000	175,000

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 was 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	0 (de-recognised)	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 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
<b>Investments</b>				
Loans and receivables (principal)	158	68	14,729	15,156
Loans and receivables (accrued interest)			150	34
<b>Total investments</b>	<b>158</b>	<b>68</b>	<b>14,879</b>	<b>15,190</b>
<b>Debtors</b>				
Loans and receivables	150	91		
Financial assets carried at contract amounts			3,358	3,725
<b>Total Debtors</b>	<b>150</b>	<b>91</b>	<b>3,358</b>	<b>3,725</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	(4,003)			
Financial liabilities carried at contract amount			(3,566)	(2,657)
<b>Total creditors</b>	<b>(4,003)</b>	<b>0</b>	<b>(3,566)</b>	<b>(2,657)</b>

**SECTION 3. NOTES TO THE ACCOUNTS**

**Income, Expense, Gains & Losses**

	Financial Assets 2010/11			Financial Assets 2011/12		
	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		2	2
Reductions in fair value	1	6	7			0
<b>Total expense in Surplus or deficit on the provision of Services</b>	<b>1</b>	<b>15</b>	<b>16</b>	<b>0</b>	<b>2</b>	<b>2</b>
Interest income	(361)	(107)	(468)	(194)	(47)	(241)
Interest income accrued on impaired financial assets	(32)		(32)	14		14
Increases in fair value			0	(62)		(62)
<b>Total expense in Surplus or deficit on the provision of Services</b>	<b>(393)</b>	<b>(107)</b>	<b>(500)</b>	<b>(242)</b>	<b>(47)</b>	<b>(289)</b>
<b>Net (gain)/loss for the year</b>	<b>(392)</b>	<b>(92)</b>	<b>(484)</b>	<b>(242)</b>	<b>(45)</b>	<b>(287)</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 13. INVENTORIES

2010/11 TOTAL £000	Depot 2011/12 £000	Printing Materials 2011/12 £000	TOTAL £000	
<b>101</b>	<b>Balance at 1 April</b>	<b>92</b>	<b>14</b>	<b>106</b>
<b>718</b>	Purchases	652	21	<b>673</b>
<b>(713)</b>	Recognised as an expense in the year	(618)	(23)	<b>(641)</b>
<b>106</b>	<b>Balance at 31 March</b>	<b>126</b>	<b>12</b>	<b>138</b>

### 14. DEBTORS

#### Short term

31.3.2011 £000s		31.3.2012 £000s
29	HMRC	130
1,512	Other Government departments	732
518	Local authorities	733
146	NNDR Debtor (Government)	790
60	Council tax payers	48
1,396	Other entities & individuals	2,336
<b>3,661</b>	<b>Totals</b>	<b>4,769</b>

#### Long term

31.3.2011 £000s		31.3.2012 £000s
106	Strain payments payable to West Devon Borough Council	71
23	Parish loans	20
<b>129</b>	<b>Totals</b>	<b>91</b>



### SECTION 3. NOTES TO THE ACCOUNTS

#### 15. CASH AND CASH EQUIVALENTS

<b>31.3.2011</b> <b>£000s</b>		<b>31.3.2012</b> <b>£000s</b>
(894)	Cash held by the Authority	(1,223)
4,000	Bank current accounts	3,415
2,505	Money Market Funds	0
<b>5,611</b>	<b>Total Cash and Cash Equivalents</b>	<b>2,192</b>

#### 16. CREDITORS

<b>31.3.2011</b> <b>£000s</b>		<b>31.3.2012</b> <b>£000s</b>
(248)	HMRC	(233)
(157)	Other Government departments*	(133)
(340)	Other local authorities*	(358)
(1,884)	Sundry creditors*	(1,745)
(120)	Employee benefits	(126)
(47)	Council taxpayers	(47)
(906)	Council taxpayers – preceptors a/c	(744)
<b>(3,702)</b>	<b>Totals</b>	<b>(3,386)</b>

\* 2010/11 Creditors have been restated to exclude revenue grants received in advance (now disclosed separately on the Balance Sheet).

## 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</b>	<b>Senior Management Review/ Other Redundancies</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Balance at 1 April 2011</b>	<b>150</b>	<b>924</b>	<b>1,074</b>
Provisions made in year	-	62	62
Amounts used in year	(150)	(783)	(933)
<b>Balance at 1 April 2012</b>	<b>0</b>	<b>203</b>	<b>203</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 was made in 2010-11 to reflect the redundancy payments payable to employees leaving in 2011. In addition, a long term provision of £141,000 was 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.

**Other Redundancies** - A decision to make a member of staff redundant was made in 2011-12, but the employee in question is not leaving the employment of the Council until the 2012-13 financial year. A long term provision of £52,000 has been made for the pension fund strain payments arising from this early retirement. A short term provision of £10,000 has been made for the redundancy payment payable in 2012-13.

### 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

31.3.2011 £000s		31.3.2012 £000s
11,875	Revaluation Reserve	14,710
48,214	Capital Adjustment Account	47,700
(14,861)	Pensions Reserve	(28,927)
130	Collection Fund Adjustment Account	99
(119)	Accumulated Absences Account	(126)
<b>45,239</b>	<b>Total Unusable Reserves</b>	<b>33,456</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.

31.3.2011 £000s		31.3.2012 £000s	31.3.2012 £000s
7,823	<b>Balance at 1 April</b>		11,875
5,176	Upward revaluation of assets	3,807	
(1,020)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(768)	
	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		<b>3,039</b>
4,156	Difference between fair value depreciation and historical cost depreciation	(182)	
(104)	Accumulated gains on assets sold or scrapped	(22)	
-	<b>Amount written off to the Capital Adjustment Account</b>		<b>(204)</b>
(104)			
<b>11,875</b>	<b>Balance at 31 March</b>		<b>14,710</b>

## 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.

2010/11 £000		2011/12 £000	2011/12 £000
<b>49,714</b>	<b>Balance at 1 April</b>		<b>48,214</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(1,621)	▪ Charges for depreciation of non-current assets	(1,809)	
(2,183)	▪ Revaluation losses on Property, Plant and Equipment	(577)	
272	▪ Revaluation gains/(losses) on Investment Properties	(17)	
(113)	▪ Amortisation of intangible assets	(95)	
(247)	▪ Revenue expenditure funded from capital under statute (REFCUS) – funded from capital receipts	(159)	
(127)	▪ 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	(358)	
<b>(4,019)</b>	<b>Total</b>		<b>(3,015)</b>
0	Amounts of Revaluation Reserve balance written off on disposal or sale of Property, Plant & Equipment		22
104	Adjusting amounts written out of the Revaluation Reserve		182
<b>(3,915)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>(2,811)</b>
	Capital financing applied in the year:		
1,559	Use of the Capital Receipts Reserve to finance new capital expenditure	1,335	
371	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	223	
17	Application of grants to capital financing from the Capital Grants Unapplied Account	14	
(36)	Reversal of capital financing accrual	0	
508	Capital expenditure charged against the General Fund	728	
(4)	Repayment of parish loans	(3)	
<b>2,415</b>	<b>Total</b>		<b>2,297</b>

### SECTION 3. NOTES TO THE ACCOUNTS

48,214	Balance at 31 March	47,700
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#### 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 was a temporary arrangement and these entries were 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.

31.3.2011 £000s		31.3.2012 £000s
(236)	<b>Balance at 1 April</b>	<b>0</b>
	Investment Interest Due	
	Movement in impairment (increase)/ decrease	
236	Transfer of balance to Comprehensive Income & Expenditure Account	0
<b>0</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>31.3.2011</b>		<b>31.3.2012</b>
<b>£000s</b>		<b>£000s</b>
<b>(37,034)</b>	<b>Balance at 1 April</b>	<b>(14,861)</b>
16,288	Actuarial gains or losses on pensions assets and liabilities	(13,233)
4,809	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	(2,440)
1,369	Employer's pensions contributions and direct payments to pensioners payable in the year	1,366
(293)	Accrued strain payments*	(52)
-	Reversal of accrued strain payments	293
<b>(14,861)</b>	<b>Balance at 31 March</b>	<b>(28,927)</b>

\* The 2010/11 accrual relates to the Senior Management Review and has been reversed in 2011/12. A further accrual of £52,000 has been provided for following a redundancy decision in 2011/12 where the employee is leaving in 2012/13.

### **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>31.3.2011</b> <b>£000s</b>		<b>31.3.2012</b> <b>£000s</b>
<b>113</b>	<b>Balance at 1 April</b>	<b>130</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		(31)
<b>130</b>	<b>Balance at 31 March</b>	<b>99</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.

31.3.2011 £000s		31.3.2012 £000s	31.3.2012 £000s
(112)	<b>Balance at 1 April</b>		(119)
112	Settlement or cancellation of accrual made at the end of the preceding year	119	
(119)	Amounts accrued at the end of the current year	(126)	
	<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)
(119)	<b>Balance at 31 March</b>		(126)

### SECTION 3. NOTES TO THE ACCOUNTS

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

2010/11 £000s		2011/12 £000s
(1,621)	Depreciation	(1,809)
(2,482)	Impairment & downward valuations	(594)
(113)	Amortisation	(95)
(910)	Increase/(decrease) in Debtors	627
758	Increase/(decrease) in Creditors	910
0	Increase/(decrease) in Stock	32
6,893	Movement in pension liability	(833)
0	Carrying amount of non-current assets held for sale, sold or derecognised	(358)
662	Other non-cash items charged to the net surplus or deficit on the provision of services	179
<b>3,187</b>	<b>Total</b>	<b>(1,941)</b>

### SECTION 3. NOTES TO THE ACCOUNTS

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

2010/11 £000s		2011/12 £000s
0	Proceeds from the sale of Property, Plant & Equipment & Investment Properties	435
(5,426)	Other non-cash items charged to the net surplus or deficit on the provision of services	(4,749)
<b>(5,426)</b>	<b>Total</b>	<b>(4,314)</b>

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

2010/11 £000s		2011/12 £000s
2,169	Purchase of property, plant and equipment, investment property and intangible assets	2,092
164	Net (increase)/decrease in investments	277
(157)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(304)
(487)	Other receipts from investing activities (capital grants & contributions)	(283)
<b>1,689</b>	<b>Net cash flows from investing activities</b>	<b>1,782</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 23. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for financing activities are as follows:

<b>2010/11</b> <b>£000s</b>		<b>2011/12</b> <b>£000s</b>
(1,544)	Net NNDR receipts paid to/ (received) from Central Government	583
4,982	Net Council Tax receipts paid to / (received) from major preceptors	5,321
<b>3,438</b>	<b>Total</b>	<b>5,904</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 24. 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 2011-12

	Central Services	Cultural, Environ- mental, & Planning etc.	Highways	Housing	CDC	NDC	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(653)	(4,074)	(4,991)	(579)	(12)	(20)	(10,329)
Government grants & contributions	(6,570)	(1,453)	(37)	(21,711)	0	0	(29,771)
<b>Total Income</b>	<b>(7,223)</b>	<b>(5,527)</b>	<b>(5,028)</b>	<b>(22,290)</b>	<b>(12)</b>	<b>(20)</b>	<b>(40,100)</b>
Employee expenses	1,155	5,984	1,260	937	206	247	9,789
Other service expenses	6,374	5,988	1,610	22,056	557	0	36,585
Depreciation / amortisation	10	1,529	362	526	0	0	2,427
Support service recharges	801	1,553	237	355	971	0	3,917
<b>Total Expenditure</b>	<b>8,340</b>	<b>15,054</b>	<b>3,469</b>	<b>23,874</b>	<b>1,734</b>	<b>247</b>	<b>52,718</b>
<b>Net Expenditure</b>	<b>1,117</b>	<b>9,527</b>	<b>(1,559)</b>	<b>1,584</b>	<b>1,722</b>	<b>227</b>	<b>12,618</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 25. TRADING OPERATIONS - GENERAL

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

2010/11 (Surplus)/ Deficit £000s	Service	Turnover £000s	Expenditure £000s	2011/12 (Surplus)/ Deficit £000s
(1,690)	Car & Boat Parking	(2,951)	1,492	(1,459)
(15)	Dartmouth Ferry	(855)	843	(12)
1,271	Employment Estates*	(1,281)	488	(793)
(73)	Pannier Markets	(135)	48	(87)
(50)	Salcombe Harbour	(958)	862	(96)
10	Trade Refuse	(751)	776	25
<b>(547)</b>	<b>Net surplus on trading units</b>	<b>(6,931)</b>	<b>4,509</b>	<b>(2,422)</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 at a level which will ensure that the provision and management of facilities 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

### 26. TRADING OPERATIONS – BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function – ‘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 2010/2011 £000s</b>		<b>Chargeable £000s</b>	<b>Non – Chargeable £000s</b>	<b>Total Building Control 2011/2012 £000s</b>
	<b>Expenditure</b>			
365	Employee expenses	244	122	366
22	Premises	0	16	16
14	Supplies and Services	18	8	26
31	Transport	25	11	36
86	Support Services	15	33	48
<b>518</b>	<b>Total Expenditure</b>	<b>302</b>	<b>190</b>	<b>492</b>
	<b>Income</b>			
(408)	Building Regulations Charges	(352)	(11)	(363)
(23)	Other Income	0	(7)	(7)
<b>(431)</b>	<b>Total Income</b>	<b>(352)</b>	<b>(18)</b>	<b>(370)</b>
<b>87</b>	<b>(Surplus)/ Deficit for Year</b>	<b>(50)</b>	<b>172</b>	<b>122</b>

### 27. 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 £25,000 in 2011/2012 (£33,000 in 2010/2011).

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

#### **28. MEMBERS' ALLOWANCES**

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

<b>2010/11 £000s</b>		<b>2011/12 £000s</b>
252	Allowances	249
21	Expenses	23
<b>273</b>	<b>Total</b>	<b>272</b>

#### **29. OFFICERS' REMUNERATION**

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

In March 2011, a new management team, shared with West Devon Borough Council was appointed. From 1 April 2011, two Corporate Directors and seven Heads of Service now work across both Councils and the new team replaces four Corporate Directors and fifteen Heads of Service. (Further explanation is shown in the Explanatory Foreword).



### SECTION 3. NOTES TO THE ACCOUNTS

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

<b>Post</b>	<b>Year</b>	<b>Salary, Fees and Allowances £</b>	<b>Expenses Allowances £</b>	<b>Pension Contribution £</b>	<b>Total £</b>
<b>Strategic Director (Community) – post deleted 31.3.11</b>	2011/12				<b>Nil</b>
	2010/11	80,000	100	11,400	<b>91,500</b>
<b>Strategic Director (Resources) – left 11.7.11</b>	2011/12	22,300	100	4,100	<b>26,500</b>
	2010/11	79,900	100	12,000	<b>92,000</b>
<b>Legal Services Manager / Monitoring Officer (shared)</b>	2011/12	60,200	2,100	11,000	<b>73,300</b>
	2010/11	56,700	100	8,500	<b>65,300</b>
<b>Director – Shared Services (wef 1.4.11)</b>	2011/12	75,800	3,700	13,900	<b>93,400</b>
	2010/11				<b>Nil</b>
<b>Director – Shared Services (wef 1.4.11)</b>	2011/12	71,900	3,300	13,100	<b>88,300</b>
	2010/11				<b>Nil</b>
<b>Head of Corporate Services (wef 1.4.11)</b>	2011/12	62,000	4,400	11,300	<b>77,700</b>
	2010/11				<b>Nil</b>
<b>Head of Environmental Health &amp; Housing (wef 1.4.11)</b>	2011/12	62,000	3,900	11,300	<b>77,200</b>
	2010/11				<b>Nil</b>
<b>Head of Assets (wef 6.6.11)</b>	2011/12	50,800	3,000	9,300	<b>63,100</b>
	2010/11				<b>Nil</b>

*Note 1: The total cost of senior employees employed by WDBC have been included in the equivalent note of WDBC's Accounts in accordance with the accounting requirements and is therefore excluded from the table above. In 2011/12 SHDC reimbursed costs amounting to £240,700 in respect of the Chief Executive and four Heads of Services employed by WDBC. SHDC received a reimbursement in 2011/12 from WDBC of £229,400 in respect of the above shared senior employees.*

### SECTION 3. NOTES TO THE ACCOUNTS

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

Remuneration band	2010/2011 Number of employees		2011/2012 Number of employees	
	Total	Left during year	Total	Left during year
£50,000 - £54,999	4		2	2
£55,000 - £59,999	2			2
£60,000 - £64,999	4			4
£65,000 - £69,999				
£70,000 - £74,999				
£75,000 - £79,999				
£80,000 - £84,999				
£85,000 - £89,999				

### 30. 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:

	2010/11 £ 000	2011/12 £ 000
External audit services	69	87
Statutory Inspection (Use of Resources/ Value For Money Conclusion )	30	0
Certification of grant claims and returns	20	22
Other services	2	0
<b>TOTAL</b>	<b>121</b>	<b>109</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 31. GRANT INCOME

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

	2010/11 £000	2011/12 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Taxation:</b>		
Council Tax income	(6,586)	(6,663)
Adjustment re Collection Fund in respect of previous year	(30)	(80)
Adjustment re Collection Fund in respect of current year	(17)	31
Non domestic rates	(4,845)	(3,211)
<b>Capital grants &amp; contributions:</b>		
- Devon County Council – Torr Quarry		(102)
- Devon County Council – Playbuilder Project	(135)	(45)
- Wakefield Trust – Heath’s Garden	(120)	0
- Section 106 Deposit – Fallapit House	(87)	0
Other capital grants & contributions	(160)	(91)
<b>Non ring- fenced Government grants:</b>		
- Revenue Support Grant	(704)	(992)
- Area Based Grant	(35)	0
- Council Tax Freeze Grant		(128)
- New Homes Grant		(298)
- Local Services Support Grant		(85)
<b>Total</b>	<b>(12,719)</b>	<b>(11,664)</b>
<b>Credited to Services</b>		
Department for Transport – Concessionary Fares	(180)	0
Devon County Council – Torr Quarry Transfer Station	(228)	(243)
Natural England – Area of Outstanding Natural Beauty	(177)	(139)
Section 106 Deposit – Landscaping Projects, Langage	(100)	(53)
Other grants	(593)	(587)
<b>Total</b>	<b>(1,278)</b>	<b>(1,022)</b>

### SECTION 3. NOTES TO THE ACCOUNTS

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

	31 March 2011 £000	31 March 2012 £000
<b>Capital Grants Receipts in Advance</b>		
Department for Communities & Local Govt – Regional Housing Pot	(216)	0
Department for Communities & Local Govt – Implementing E Govt. Grant	(73)	(31)
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(41)	(31)
<b>Total</b>	<b>(414)</b>	<b>(146)</b>

	31 March 2011 £000	31 March 2012 £000
<b>Revenue Grants Receipts in Advance</b>		
Department for Communities & Local Govt – New Homes Bonus 2012/13	0	(67)
Devon County Council – Walking for Health	(25)	(10)
Various Devon Local Authorities – Member Development Role	(18)	(28)
Rural Development Agency – Slapton Adaption Plan	(65)	(32)
Other grants	(24)	(49)
<b>Total</b>	<b>(132)</b>	<b>(186)</b>

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

### **32. RELATED PARTIES**

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

#### **Central Government**

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, 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 31.

#### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in Note 28.

#### **Tor Homes**

In 1999 under LSVT the Council transferred its housing stock to the newly formed South Hams Housing (subsequently renamed Tor Homes).  
On 3 November 2011 the Council approved:

1. the amalgamation of Tor Homes as an Industrial and Provident Society with Devon & Cornwall Housing and Penwith Housing Association;
2. the exchange of the Council's 33% membership in Tor Homes for Local Authority membership in the new Tor Homes, when that is established as a Community Interest Company;
3. at that time, a consequent reduction in the number of board members nominated by South Hams District Council (SHDC) from 4 to 1, subject to the proviso that there be an ongoing permanent right for the Council to nominate one member to the Tor Homes Board on the basis of skills required;

The board of Tor Homes comprises 12 members in total. Anyone (including the SHDC appointee) who serves on the Board is legally obliged to act in the interests of the company, not those of a third party (which expression would include SHDC).

## SECTION 3. NOTES TO THE ACCOUNTS

### 33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2010/11 £000s	2011/12 £000s
<b>Capital Investment</b>		
Property, plant & equipment	2,171	2,096
Intangible fixed assets	38	45
Revenue expenditure funded from capital under statute (REFCUS)	1,111	1,216
<b>Total expenditure</b>	<b>3,320</b>	<b>3,357</b>
<b>Sources of Finance</b>		
Capital receipts	1,559	1,335
Government grants and other contributions	1,221	904
Direct revenue contributions (earmarked reserves)	540	1,118
<b>Total funding</b>	<b>3,320</b>	<b>3,357</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

### 34. LEASES

#### *Operating Leases*

#### Authority as Lessee

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

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

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

	31 March 2012 £000's	31 March 2011 £000's *
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	173	172
Later than one year and not later than five years	702	698
Later than five years	1,224	1,401
	<b>2,099</b>	<b>2,271</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 these leases was:

	2011/12 £000's	2010/11 £000's *
Minimum lease payments	172	170
Contingent rents	0	0
Sublease payments receivable	0	0
	<b>172</b>	<b>170</b>

\*2010/11 comparative figures have been restated following further investigation.

### SECTION 3. NOTES TO THE ACCOUNTS

#### Authority as Lessor

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

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

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

	31 March 2012 £000's	31 March 2011 £000's *
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	594	594
Later than one year and not later than five years	2,375	2,375
Later than five years	31,478	32,072
	<b>34,447</b>	<b>35,041</b>
*2010/11 comparative figures have been restated following further investigation.		

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



## SECTION 3. NOTES TO THE ACCOUNTS

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

### 36. EXIT PACKAGES

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

Exit package cost band (incl. special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
£0 - £20,000 *	2	1			2	1	35,800	17,300
£20,001 - £40,000		1				1		23,100
£40,001 - £60,000 *		2				2		85,300
£60,001 - £80,000	1				1		76,200	
£80,001 - £100,000 *		1				1		99,700
£100,001 - £150,000	3	1			3	1	414,300	114,000
£150,001 - £200,000	3				3		495,700	
<b>TOTAL</b>	<b>9</b>	<b>6</b>			<b>9</b>	<b>6</b>	<b>1,022,000</b>	<b>339,400</b>

*The 2010/11 exit packages mainly relate to the Senior Management Review carried out in March 2010. Details of this are in the Explanatory Foreword. A provision of £915,000 was made in the 2010/11 Accounts for the redundancy and strain payment costs from the Senior Management Review taking into account reimbursements of costs due from West Devon Borough Council of £302,000. This is shown in Note 2 Material Items of Income and Expenditure in the Notes to the Accounts. The Senior Management Review produced savings of £300,000 per year for South Hams District Council and the payback period of the exit packages costs was 2.2 years.*

*In 2011/12 a contribution of £60,700 was received from West Devon Borough Council towards the above \* exit packages. Conversely, South Hams District Council contributed £24,700 to West Devon Borough Council for exit package costs for the 2011/12 period.*

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

### **37. 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 Council, unfunded benefits take the form of pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions. Such benefits are charged to the Council as they are paid. For new retirees CAY pensions are no longer payable. The liabilities that the Council 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:

	2011/12	2010/11
	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services:</b>		
▪ current service cost	1,764	2,169
▪ past service costs/ (gains)	467	(7,805)
▪ settlements and curtailments (accrued*)	52*	293*
▪ settlements and curtailments (reversal of 2010/11 accrual)	(293)	-
<b>Financing and Investment Income and Expenditure</b>		
▪ interest cost	4,407	4,902
▪ expected return on scheme assets	(4,198)	(4,075)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>2,199</b>	<b>(4,516)</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
▪ actuarial (gains) and losses**	<b>13,233</b>	<b>(16,288)</b>
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>13,233</b>	<b>(16,288)</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>2,199</b>	<b>(4,516)</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
▪ employer's contributions payable to scheme	1,167	1,175
▪ retirement benefits payable to pensioners	199	194

\* Liability arising from a redundancy decision in 2011/12, employee leaving in 2012/13.

\*\* The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £25m. This is since the introduction of FRS17 and adjusted each year.

### SECTION 3. NOTES TO THE ACCOUNTS

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

<b>Reconciliation of present value of the scheme liabilities (defined benefit obligation)</b>	<b>2011/12 £000</b>	<b>2010/11 £000</b>	<b>2009/10 £000</b>
<b>Opening balance at 1 April</b>	<b>80,682</b>	<b>102,650</b>	<b>71,460</b>
Current service cost	1,764	2,169	1,191
Interest cost	4,407	4,902	4,765
Actuarial (gains) and losses	11,109	(19,042)	27,045
Curtailments (reversal of 2010/11 accrual)	(293)		
Curtailments (accrued)	52	293	88
Benefits paid	(3,424)	(2,888)	(2,298)
Past service costs	467	(7,805)	-
Contributions by scheme participants	582	598	598
Unfunded pension payments	(199)	(195)	(199)
<b>Closing balance at 31 March</b>	<b>95,147</b>	<b>80,682</b>	<b>102,650</b>

<b>Reconciliation of fair value of the scheme (plan) assets:</b>	<b>2011/12 £000</b>	<b>2010/11 £000</b>	<b>2009/10 £000</b>
<b>Opening balance at 1 April</b>	<b>65,821</b>	<b>65,616</b>	<b>50,140</b>
Expected rate of return	4,198	4,075	2,659
Actuarial gains and losses	(2,124)	(2,754)	13,395
Employer contributions	1,366	1,369	1,321
Contributions by scheme participants	582	598	598
Benefits paid	(3,623)	(3,083)	(2,497)
<b>Closing balance at 31 March</b>	<b>66,220</b>	<b>65,821</b>	<b>65,616</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 2011 for the year to 31 March 2012). The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield respectively 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 £2,074,000 (2010/11: £4,559,000).

## SECTION 3. NOTES TO THE ACCOUNTS

### Scheme History

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Present value of liabilities	67,750	71,460	102,650	80,389	95,095
Accrual for future strain payments				293	52
Fair value of assets in the Local Government Pension Scheme	63,310	50,140	65,616	65,821	66,220
<b>Surplus/(deficit) in the scheme</b>	<b>(4,440)</b>	<b>(21,320)</b>	<b>(37,034)</b>	<b>(14,861)</b>	<b>(28,927)</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 £28.9m 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 £1.1m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £200,000.

### 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 2012, 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 2011.

### SECTION 3. NOTES TO THE ACCOUNTS

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.

	31/03/12	31/03/11
<b>Long-term expected rate of return on assets in the scheme:</b>		
Equity Investments	6.3%	7.4%
Gilts	3.3%	4.4%
Other Bonds	4.6%	5.5%
Property	4.3%	5.4%
Cash	3.0%	3.0%
Target Return Portfolio	4.7%	5.0%
<b>Total</b>	<b>5.4%</b>	<b>6.5%</b>
<b>Mortality assumptions:</b>		
Retiring today		
➤ Men	20.5	20.3
➤ Women	24.5	24.4
Retiring in 20 years		
➤ Men	22.5	22.4
➤ Women	26.4	26.3
<b>Financial Assumptions</b>		
RPI increases	3.3%	3.5%
CPI increases	2.5%	2.7%
Rate of increase in salaries	4.7%	5.0%
Rate of increase in pensions	2.5%	2.7%
Rate for discounting scheme liabilities	4.6%	5.5%

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2012 is estimated to be 3%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date.

### SECTION 3. NOTES TO THE ACCOUNTS

The estimated asset allocation for South Hams District Council as at 31 March 2012 is as follows:

<b>Employer Asset Share – Bid Value</b>	<b>31/03/12 £000</b>	<b>31/03/12 %</b>	<b>31/03/11 £000</b>	<b>31/03/11 %</b>
Equities	45,692	69%	46,075	70%
Gilts (Government bonds)	11,920	18%	11,190	17%
Other bonds	0	0%	0	0%
Property	3,973	6%	3,291	5%
Cash	3,973	6%	4,607	7%
Target Return Portfolio	662	1%	658	1%
<b>Total</b>	<b>66,220</b>	<b>100%</b>	<b>65,821</b>	<b>100%</b>

Based on the above, the Employer's share of the assets of the Fund is approximately 2%.

#### 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.

Amounts for the current and previous periods	<b>2011/12 £000</b>	<b>2010/11 £000</b>	<b>2009/10 £000</b>	<b>2008/09 £000</b>	<b>2007/08 £000</b>
Differences between expected level of liabilities and actual experience	46	5,079	146	(350)	(990)
<i>Percentage of liabilities</i>	<i>0.0%</i>	<i>6.3%</i>	<i>0.1%</i>	<i>(0.5%)</i>	<i>(1.5%)</i>
Differences between the expected and actual return on assets	(2,124)	(2,754)	13,395	(16,940)	(4,150)
<i>Percentage of assets</i>	<i>(3.2%)</i>	<i>(4.2%)</i>	<i>20.4%</i>	<i>(33.8%)</i>	<i>(6.6%)</i>

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

### **38. 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) Municipal Mutual Insurance (MMI) was formed as a limited company by guarantee in 1903 and by 1974 some 90% of local authorities were reliant on the company for the provision of the bulk of their insurance needs. Due to dramatic increases in claims, coincidental with a fall in the property market and poor investment environment, along with its inability to raise capital because of its mutual status, MMI's net assets fell below the minimum regulatory solvency requirement and the company went into run-off in September 1992. Although Zurich Municipal (ZM) acquired the right to renew MMI's policies in 1993, it did not assume financial responsibility for the run-off of MMI's historical portfolio. Therefore, a contingent Scheme of Arrangement (SOA) under Section 425 of the Companies Act 1985 became effective on 21 January 1994, which allowed for a clawback from local authorities previously insured with MMI to be introduced, should MMI not have sufficient funds available to pay remaining claims at any time in the future. Most of MMI's insured public sector members elected to participate in the SOA, effectively becoming scheme creditors, which means that they may have to pay back part of all claims for which they have received settlements since 1993 in the event of the SOA being triggered. Currently the "Initial Scheme of Arrangement" stage still exists, which will end if and when a trigger event occurs. This means that during this period MMI continues to handle the claims it receives in a normal manner, and negotiate settlements with third party claimants in full without requesting any contributory funds from the relevant local authorities. If a trigger event occurs the management of MMI would pass responsibility for the administration of the SOA to the Scheme Administrator and in all likelihood the company would be liquidated. Claims are still being reported to MMI relating to policy years pre-1993 (there were 2,127 reported claims outstanding as at 30 June 2011) comprising principally asbestos related and abuse related claims. MMI's actuaries carry out fresh forecasts of ultimate claims losses each year to enable the company to fulfill its accounting and reporting obligations. Detailed claims development statistics are also provided to its regulatory body, the Financial Services Authority (FSA). Each local



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

authority in the SOA receives an annual statement detailing the potential claw back figure to which they are exposed; this figure is based on the claims outstanding when run-off occurred in 1993. **Should the Scheme of Arrangement be invoked the Council's maximum exposure to loss would be £118,608.**

- c) In common with 370 other English district and unitary councils, SHDC may be the subject of a claim by a group of companies whose business is the making of personal searches of our local land charges records. No claim has been served upon the Council and the issue is whether the charges were lawfully imposed. The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those Regulations were unlawfully made, the Government should compensate. The matter is being dealt with through the Local Government Association.
- d) There is a risk of significant costs associated with progressing the proposal for the new community at Sherford. Positive negotiations have taken place over the last 12 months and both South Hams District Council and Plymouth City Council have agreed revised Section 106 heads of terms and granted outline planning permission subject to completion of a legal agreement. At this stage, the level of financial risk appears to have reduced but if a detailed S106 cannot be agreed or a subsequent judicial review is lodged, the scale of contingent liability outlined in the 2010/11 statement of accounts remains a risk i.e. appeal costs could range from £250,000 to £500,000.

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

### **39. 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 27 January 2011 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 2011/12 was approved by the Executive on 27 January 2011 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 2012. 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 £250,000 in interest would have been generated.

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

#### *Price risk*

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

#### *Foreign exchange risk*

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

#### Refinancing and Maturity Risk

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

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**

### **40. ACCOUNTING POLICIES**

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

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. 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 2011/12 and the *Best Value Accounting Code of Practice 2011/12*, 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:

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

**Key: T = trade date**

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

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

#### **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.

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

#### **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 37

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

#### **Loans and Receivables**

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

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.

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

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.

#### **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 Heritage Assets**

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

### **xiv. Intangible Assets**

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

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

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

### **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.

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

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.

#### **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 it 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.

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

### **The Authority as Lessor**

#### Finance Leases

The Council does not hold any finance leases as a lessor

#### Operating Leases

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

### **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 Service Reporting Code of Practice 2011/1* (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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

<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



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

### **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.

#### **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:

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

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

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

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

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

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

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

#### **Component Accounting**

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

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

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

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.

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

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

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

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

The criteria for components to be separately valued are that:

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

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

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

**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.

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

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.

#### **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

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

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

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

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

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any 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

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

capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### **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.

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

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.

#### **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.

#### **xxv. 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.

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

### **xxvi. Shared Services**

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

### **xxvii. 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.

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

There are no new standards that need to be disclosed for the Council in 2012-13

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

In applying the accounting policies set out in Note 40, 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.
- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads.



## 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.

2010/2011 £000s	Notes	2011/2012 £000s
<b>Income</b>		
(52,195) Council Tax	1	(52,554)
(6,004) Council Tax Benefits		(5,932)
(29,775) Business Rates	2	(29,338)
5,995 Less: Transitional Relief / (Surcharge)		4,214
<b>(81,979)</b>		<b>(83,610)</b>
<b>Expenditure</b>		
Precepts and Demands		
42,419 <i>Devon County Council</i>		42,534
5,950 <i>Devon and Cornwall Police</i>		5,967
2,727 <i>Devon and Somerset Fire Authority</i>		2,734
6,586 <i>South Hams District Council</i>		6,662
Business Rates		
23,317 <i>Payment to national pool</i>		24,835
201 <i>Costs of collection allowance</i>		204
Distribution of previous year's estimated surplus		
192 <i>Devon County Council</i>		515
26 <i>Devon and Cornwall Police</i>		72
12 <i>Devon and Somerset Fire Authority</i>		33
30 <i>South Hams District Council</i>		80
Bad and doubtful debts		
Write Offs		
117 <i>Council Tax</i>		126
307 <i>Business Rates</i>		75
Provisions		
(8) <i>Council Tax</i>		54
(45) <i>Business Rates</i>		11
<b>81,831</b>		<b>83,902</b>
<b>(148)</b>	<b>MOVEMENT ON FUND BALANCE</b>	<b>292</b>

## SECTION 4. COLLECTION FUND

### 1. Council tax and council tax base

In 2011/2012, the Council's average Band D Council Tax was £1,519.60. The charge for each band is a ratio of band D. The 2011/2012 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	844.22
A	6/9	1,013.07
B	7/9	1,181.91
C	8/9	1,350.76
D	1	1,519.60
E	11/9	1,857.29
F	13/9	2,194.98
G	15/9	2,532.67
H	18/9	3,039.20

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 2011/2012 was 38,100.80 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	7.00	7.00	5/9	3.89
A	4,851.00	(934.35)	3,916.65	6/9	2,611.10
B	8,449.00	(1,052.55)	7,396.45	7/9	5,752.79
C	8,316.00	(908.30)	7,407.70	8/9	6,584.62
D	7,813.00	(579.15)	7,233.85	1	7,233.85
E	6,338.00	(564.75)	5,773.25	11/9	7,056.19
F	3,495.00	(243.40)	3,251.60	13/9	4,696.76
G	2,889.00	(265.25)	2,623.75	15/9	4,372.92
H	283.00	(33.60)	249.40	18/9	498.80
<b>Total</b>	<b>42,434.00</b>	<b>(4,574.35)</b>	<b>37,859.65</b>		<b>38,810.92</b>
					(776.22)
					66.10
<b>Tax base</b>					<b>38,100.80</b>

## SECTION 4. COLLECTION FUND

### 2. Rateable value

The total non-domestic rateable value at 31 March 2012 was £82,155,154. This compares to £82,429,038 at 31 March 2011. The standard non-domestic rate multiplier was 45.8p in 2011/12 (2010/11: 43.3p). Without reliefs this would generate a total income of £37,627,225.41 (2010/11 £35,691,773.45). 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>2010/2011</b> <b>£000s</b>		<b>2011/2012</b> <b>£000s</b>
(989)	Fund balance at 1 April	(1,137)
(148)	(Surplus) / Deficit for year	292
<b>(1,137)</b>	<b>Fund balance as at 31 March</b>	<b>(845)</b>

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

<b>2010/2011</b> <b>£000s</b>	<b>Preceptor</b>	<b>2011/2012</b> <b>£000s</b>
(836)	Devon County Council	(618)
(117)	Devon and Cornwall Police	(88)
(54)	Devon and Somerset Fire Authority	(40)
(1,007)	Total surplus due to Preceptors	(746)
(130)	South Hams District Council	(99)
<b>(1,137)</b>	<b>Fund balance as at 31 March – (surplus)/deficit</b>	<b>(845)</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 2012.

.....

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

**29 June 2012**

**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 XXX

Signed on behalf of South Hams District Council

TBA

.....

**Councillor JT Pennington**

Chairman of the Audit Committee

**SECTION 6. AUDITORS' REPORT**

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

## **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).

### **DEMAND**

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

### **FEES & CHARGES**

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

### **FINANCIAL INSTRUMENTS**

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

### **GOVERNMENT GRANTS**

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

### **IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)**

Provisions against income to prudently allow for non collectable amounts.

### **INTEREST COST**

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

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

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

### **LIBID**

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

### **PAST SERVICE COST**

These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.



## **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.

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## MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT FOLLATON HOUSE, TOTNES ON 17 JULY 2012

<b>Members in attendance</b>			
<b>* Denotes attendance    ∅ Denotes apology for absence</b>			
*	Cllr I Bramble	*	Cllr L P Jones
∅	Cllr C G Bruce-Spencer (Vice Chairman)	*	Cllr J T Pennington (Chairman)
∅	Cllr A S Gorman		

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Head of Finance and Audit, Chief Accountant, Chief Internal Auditor, and Member Support Officer;

**A.07/12      MINUTES**

The minutes of the meeting of the Audit Committee held on 14 June 2012 were confirmed as a correct record and signed by the Chairman.

**A.08/12      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.09/12      SYSTEM OF INTERNAL CONTROL; AND ANNUAL GOVERNANCE STATEMENT 2011/12**

Members considered a report which provided them with information to allow them to independently examine the draft Annual Governance Statement and the supporting process and assurance streams. The report further provided confirmation that the Council had a sound framework of governance and system of internal control, and suitable arrangements for the management of risk.

During the discussion, the following points were raised:

**Localism Act - Code of Conduct:** An issue relating to Standards had arisen within the review of the Code of Corporate Governance (Joint Audit and Standards Committee - April 2012) which was reflected in the draft Annual Governance Statement (AGS). It was noted that official guidance on this topic had not been issued until June 2012 and the Council adopted an interim position at its meeting in June 2012. As a result, this would need to be revised in the AGS and an updated version would be brought to the Audit Committee in September, prior to it being signed off by the Leader and Deputy Leader.

**Charging for Shared Officers:** A lot of work had been undertaken to ensure there was robust and transparent re-charging for shared officers to produce the Statement of Accounts. Officers would continue to review how other Councils had approached this issue. For 2011/12 and going forward, the methods that had been adopted thus far were deemed to be cost efficient and practical and had been the subject of an overview by the external auditors. These methods included identifying where staff were managing other staff, or managing the partner authority's case load supported by system data, or fielding telephone calls, but some staff would still be required to continue to time record. Future work would include a visit by officers to another Council, where a process of recharging was being undertaken, to see what could be learned.

**Dartmouth Embankment:** In a previous agreement, the Dartmouth Harbour and Navigation Authority (DHNA) managed the asset in return for any income that the Authority might otherwise have received as Harbour dues. However, in 2003 the then Monitoring Officer felt the arrangement was not fit for purpose and the agreement was terminated. The current Head of Assets would be taking this matter forward with the Council Solicitor and was working with the Harbour Authority to seek an acceptable solution. The Chief Internal Auditor informed Members that he would be reporting back on this issue at the next meeting of the Audit Committee in September 2012.

**Land Charges:** The Officer informed that he would be bringing a report on this issue at the next meeting of the Audit Committee in September 2012.

It was then:

**RECOMMENDED**

That the **Council** be **RECOMMENDED** to approve the Annual Governance Statement (AGS) for 2011/12 and supporting evidence.

A.10/12

**DRAFT STATEMENT OF ACCOUNTS 2011/12**

The Head of Financial Services and Audit wished to record her thanks to all the staff in the Finance Team for all their hard work in producing the Draft Statement of Accounts which had a very tight timescale at the end of June.

The officer and Chief Accountant then presented the Draft Statement of Accounts and covering report. It was noted that the Statement of Accounts was an essential feature of public accountability, since it provided a stewardship report on the use of publically raised funds. The closing of the accounts was also an important part of the budgetary process, as it confirmed the availability of reserves and balances for future use.

During the discussion, the following points were raised:

**Budget Surplus:** Members were informed that a monthly budget monitoring report was produced and a quarterly report was presented to the Executive. Any reductions in income, such as from trade waste was factored into the budgets set for the following year and actions such as reducing costs were considered.

**Audit Savings:** Members were informed that a saving of some £40,000 would be made in the future, arising from using newly appointed external auditors to replace the Audit Commission.

**Pay Inflation:** A provision of £135,000 had been set aside for a 1% pay increase, but this had not been forthcoming and the freeze on pay continued.

**Pension Provisions:** Members were informed that every three years there was a full scale review of the pension fund. Whilst the population was living longer, putting a strain on pension provision, there had been some changes both in terms of the higher age of retirement, the proposed change to a career average from final salary to determine a pension sum and also the fact that people were choosing to work beyond retirement age. Capital funds had been used in the past to top up the fund when required, but with the above changes it was not envisaged that this approach would be required in the future.

**Treasury Management:** Members were informed that a credit rating agency was used on a daily basis to inform decisions about the Authority's Treasury Management Strategy. The Authority had in recent years taken a very cautious approach with regard to investment which, coupled with comparatively low interest rates had resulted in a significant drop in revenue to the Council. Typically, the interest earned on investments had been a major source of income to the Council.

**Employment Estates:** The Chief Accountant informed Members that rental income from Employment Estates was holding up well, though with some turnover in the units. However, if the national economic picture deteriorated further, this situation could change.

It was then:

### **RESOLVED**

That the Draft Statement of Accounts for the Financial Year ended 31 March 2012 has been noted.

(Meeting commenced at 10.00am and finished at 11.20 am).

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Chairman

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