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SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 18TH JULY, 2013

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 - 32)

b) Item 6 - Draft Statement of Accounts 2012/13 (Pages 33 - 142)

3. **Minutes** (Pages 143 - 146)

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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 Wright (Executive Member)
Remainder of the Council;
Usual press and officer circulation.

10 July 2013

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes on **Thursday 18 July 2013 at 2.00 p.m.** when your attendance is requested.

Yours sincerely

Jo Doney
Member Support Officer

**FOR ANY QUERIES ON THIS AGENDA PLEASE CONTACT JO DONEY
MEMBER SUPPORT OFFICER ON DIRECT LINE 01803 861466**

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 13 June 2013 (pages 1 to 6);
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 7 to 35);
 6. **Draft Statement of Accounts 2012/13** – to consider a report which presents a summary of net revenue and capital expenditure (pages 36 to 144).
- 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

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SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	18 July 2013
REPORT TITLE	SYSTEM OF INTERNAL CONTROL; and ANNUAL GOVERNANCE STATEMENT - 2012/13
Report of	Head of Finance and Audit (S.151 Officer); Monitoring Officer; and Chief Internal Auditor
WARDS AFFECTED	All/Corporate

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 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 to the Audit Committee.

Financial implications:

Within existing budgets.

RECOMMENDATION:

It is RECOMMENDED that Members consider the draft Annual Governance Statement (AGS) for 2012/13 and supporting evidence provided by this report and recommend approval to the Council.

Officer contact:

Allan Goodman, Chief Internal Auditor: 01803 861375

allan.goodman@swdevon.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' (AGS).
- 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

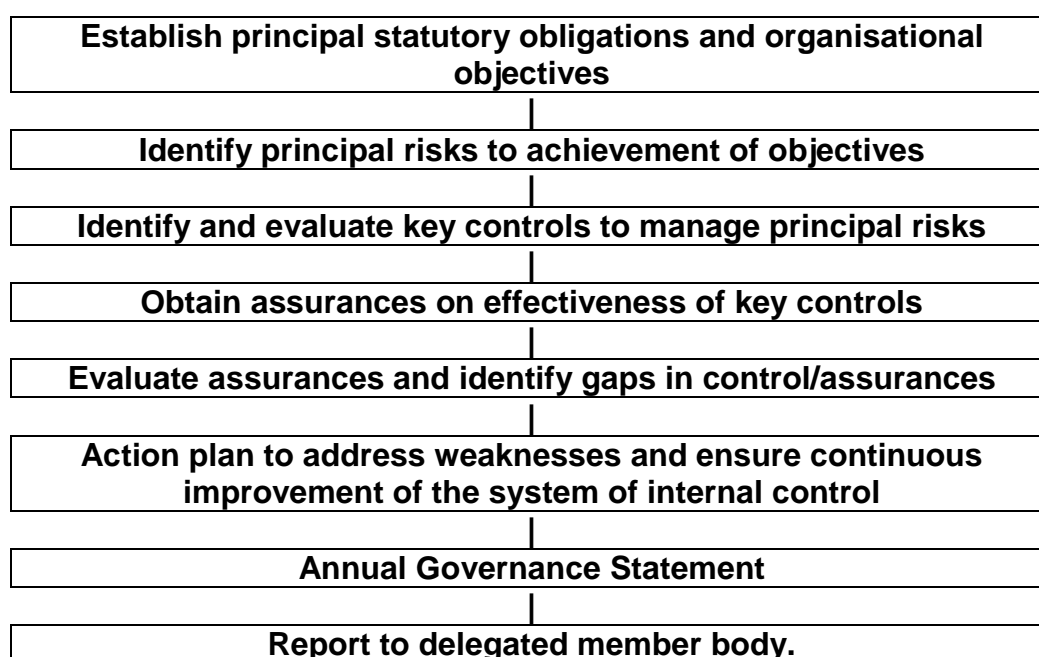
- 1.6 The System of Internal Control (SIC) process is based on guidance issue by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Audit Commission, and the subsequent CIPFA/ Society of Local Authority Chief Executives (SOLACE) documents 'Delivering Good Governance in Local Government' 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). It reflects reflect the CIPFA *Statement on the Role of the Chief Financial Officer in Public Service Organisations* – June 2009.
- 1.9 CIPFA's 2012 updated guidance suggests that there is a need for the Code to be updated to reflect the role of the head of internal audit. However, the template Code provided does not reflect the suggested changes, and as a consequence, the Council's Code of Corporate Governance has remained unchanged while the requirements are clarified. This is considered to be low risk as the role of the head of internal audit is overseen by the Audit Committee.
- 1.10 The Code of Corporate Governance sets out the requirement for it to be monitored and tested for compliance on an annual basis.
- 1.11 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 consider the Council's arrangements for corporate governance and to ensure compliance with best practice and to receive and comment upon an annual review of the Council's Code of Corporate Governance'*.
- 1.12 The results of the 'Compliance Review of the Code of Corporate Governance' appeared on the agenda of the Audit Committee meeting of 13th June 2013.

System of Internal Control (SIC) - Process

- 1.13 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 including as the 'Delegated Member Body';
- 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 Committee.

3.3 The result of the 2012/13 compliance review is generally satisfactory with issues raised only for Principle 1: Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area: and, Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.

3.4 The findings have been taken to the AGS at Appendix B.

Effectiveness of the System of Internal Audit

3.5 An annual report has been presented to the Audit Committee (13th June 2013) summarising the activities and key findings of Internal Audit (IA).

- 3.6 In this report the **Chief Internal Auditor** (as head of internal audit) 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 2012/13, 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 13th June 2013 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);
 - Assurance gained by external audit from 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 2012/13.
- 3.9 The S.151 Officer raised the following significant issues:
- Matters identified in the Review of the Code of Corporate Governance as reported to the Audit and Committee, including:
 - Updating of the Partnership Management Framework – required in part due to partnership changes.
 - Future financial uncertainties.

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 2012/13.
- 3.11 The Monitoring Officer has raised issues that have been identified from other assurance sources, such as governance issues in the Review of the Code of Corporate Governance as reported to the Audit and Committee, 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 ('Blueprint'), 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 risk registers maintained by the Risk Management Group.
- 3.14 An element of this service planning 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 Significant weaknesses or issues identified by Heads of Service have been included 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 2012/13 no significant weaknesses or risks have been identified for inclusion in the AGS.

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. Improvements to the risk management framework supporting the Risk Management Policy are continuing (raised as an issue in the 2011/12 AGS).
- 3.21 For 2012/13 one significant weakness or risk has been highlighted for inclusion in the AGS: the need for improvement to some aspects of contract management.

External Audit and other Inspections

External Auditor

- 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 2012/13 other than those already raised by the Council's assurance streams.

Grant Thornton – Reviews of VAT and PAYE

- 3.24 The report to the Council on its VAT procedures concluded that 'SHDC's VAT systems were found to be excellent'. A small number of minor recommendations were made and reported to the Audit Committee. In strictest terms the assurance provided is limited, because as the work was carried out in 2012/13, the transactions tested related to 2011/12. That said the system has not changed compared with that reviewed.
- 3.25 The Employment Taxes Review (PAYE) was equally positive and made a small number of recommendations. A summary of the report was presented to the Audit Committee in June 2013. It has also been passed to the HMRC as part of the evidence provided for an inspection currently underway. No assurance can be gained from the HMRC inspection itself because although it started in 2012/13, their work has continued into 2013/14 and the results are still awaited.

Peer Review

- 3.26 The Council asked a peer team to provide an external view of the two councils and give recognition, where appropriate, of progress made; and supportive challenge and feedback on how we are prepared to meet future issues and opportunities for South Hams and West Devon.

The team was asked to provide specific feedback on:

- Progress on shared services and future opportunities
- The will and commitment of the two councils (Members and staff) to the shared services programme and how it may be developed

- The financial basis for shared service delivery and capacity (leadership and organisational) to progress this
- The internal transformation process
- The progress that the two councils have made on 'Localism' and working arrangements with the voluntary/community and business sectors and town and parish councils.

As the report states that 'It is important to stress that this was not an inspection. Peer challenges are improvement-focused and tailored to meet councils' needs', it is reasonable that the positive report conclusions are not presented as assurance for the AGS, nor its 'suggestions' reflected in the Statement itself.

Last Year's Annual Governance Statement (2011/12)

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

From the 2011/12 Compliance Review of the Code of Corporate Governance

3.28 The progress made on the issues raised in the 2011/12 AGS taken from the Compliance Review of the Code of Corporate Governance was discussed in the 2012/13 Compliance Review of the Code of Corporate Governance report to the Audit Committee meeting of June 2013.

From the 2011/12 System of Internal Control:

Issue Raised - Published 2011/12 AGS	Progress on Action Plan to Date
<p>Dartmouth Embankment</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. This would provide a reserve for repairs etc. if accepted by DHNA.</p> <p>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>Updated in the 2012/13 AGS at Appendix B.</p>
<p>Pay and Grading</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</p>	<p>The pay and grading review programme commenced in June 2012 on a service by service basis is continuing as per timetable with a planned completion date of 31st March 2014 (the target date published in the 2011/12 AGS).</p>

two Authorities which includes Pay. 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.	
Land Charges 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. No claim has been served upon the Council.	Updated in the 2012/13 AGS at Appendix B.

From the 2011/12 System of Internal Control:

Issue Raised - Published 2011/12 AGS	Progress on Action Plan to Date
Internal and External Audit Reports Some issues have been identified in audit reports by the Council's external auditor and the shared in-house internal audit team. Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed.	Repeated for 2012/13 audits. Internal and external audit plans and their outcomes are reported to the Audit Committee on a regular basis.

The Annual Governance Statement (AGS) 2012/13 - (Appendix B)

- 3.29 The Statement is a corporate document and is owned by all members and senior officers of the Council.
- 3.30 A draft AGS for 2012/13 appears at Appendix B to this report, based on the pro-forma statement supplied in the original and updated CIPFA guidance.
- 3.31 The Statement concludes that 'Overall the Council's governance arrangements are satisfactory for 2012/13'. It includes an action plan to address any significant governance and internal control issues, which have been identified through the assurance processes described above.

4. LEGAL IMPLICATIONS

- 4.1 The Accounts and Audit (Amendment) (England) Regulations 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:

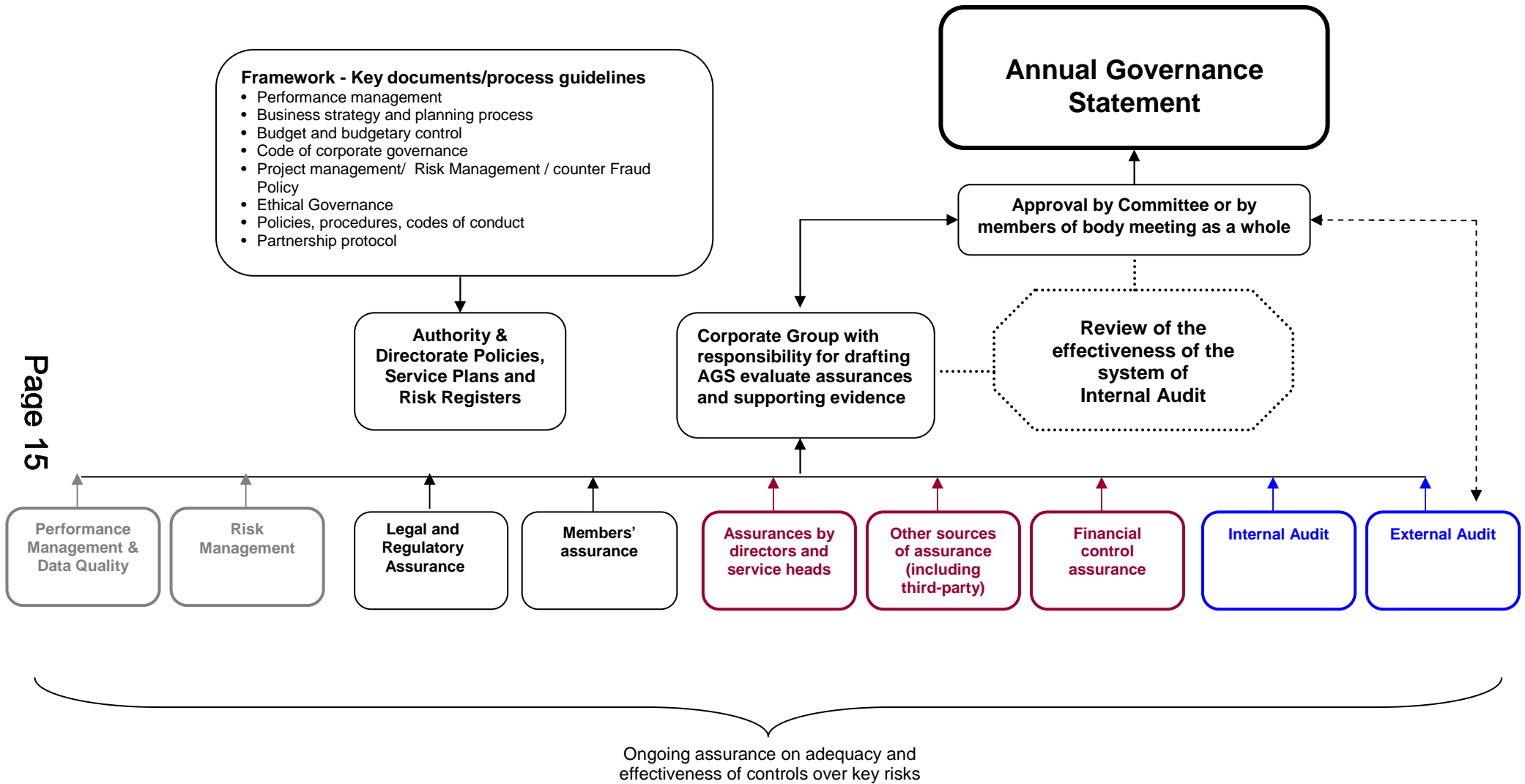
Corporate priorities engaged:	All/Corporate
Statutory powers:	Section 111, Local Government Act 1972; and Accounts and Audit Regulations 2011 (Statutory Instrument No. 817).
Considerations of equality and human rights:	There are no specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	There are no specific crime and disorder issues arising from this report.
Background papers:	<ul style="list-style-type: none"> • Code of Corporate Governance for South Hams District Council 2011 • CIPFA/SOLACE (2007, 2010, 2012) Delivering Good Governance in Local Government – incl. Guidance Note for English Authorities • 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)
Appendices attached:	<p>Appendix A – Framework for the System of Internal Control and Annual Governance Statement</p> <p>Appendix B – Annual Governance Statement for 2012/13</p>

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 to demonstrate that the policies, processes, tasks, behaviours and other aspects of the Council, taken together:</p> <ul style="list-style-type: none"> • 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); • Help ensure the quality of internal and external reporting. • Help ensure compliance with applicable laws and regulations, and internal policies with respect to the conduct of business. 	-	-	-	-	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	↔	Senior managers are aware that the service plan (Blueprint) 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 2011.	3	2	6	↔	The AGS is 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 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 the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, 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 services and value for money.

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 and potential impact of those risks being 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 2013 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 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. These are to be reviewed in early 2013/14.

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 engages with the voluntary/community sector, business sector and the community at large.

At the meeting of 12th July 2012, the Executive resolved that members reaffirm their ambitions to break new ground in the way that the Council engages with local people to deliver better services; have local communities that feel supported; be innovative and do more with less.

The Connect Strategy (see section 3 below) 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 meeting of the Audit Committee (13th June 2013). 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 (value for money):**

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.

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 the Council. A Connect Strategy 'Annual Update' was published in 2012/13 and is available on the Council's website.

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 Strategy was written in 2009 and, although much of it remains fit for purpose, it would benefit from an update. This has been reflected in Part 5 of this Statement.*

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

Each Head of Service draws up a service plan (now known as a Blueprint) 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 Financial Strategy each year, which covers a four year period. That for the period 2013/14–2016/17 was approved by the Executive in September 2012 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. Their latest Annual Audit Letter was sent to members separately in September 2012. The letter referred to the Annual Governance Report (Audit Commission) and confirmed the conclusion that the Council made proper arrangements to secure economy, efficiency and effectiveness in the use of resources. The letters and reports are made available on the Council's website.

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:

Part 2 of the Council's Constitution, Articles, with Part 3 the Delegation Scheme is available on the Council's web-site and Intranet. They define and document the roles and responsibilities of the executive, non executive, scrutiny and officer functions, and contain 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.

Lead Executive members are aligned to services areas and regularly communicate with and provide strategic direction to the relevant Head of Service.

The Council has approved an updated Communications Policy 2012 – 2015.

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

Members

The Codes of Conduct for councillors (Part 5a of the Constitution) and staff (Part 5b of the Constitution) set out the standard of conduct and ethics expected.

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 personal / prejudicial interests has been provided to Members and officers.

The Member Code of Conduct changed as a result of the Localism Act. The revised Code was adopted by the Council at the meeting of 28th June 2012 with a start date of the 1st July 2012. The Constitution also includes a 'Members Planning Code of Good Practice' and a 'Protocol on Councillor / Officer Relations'.

Part 3 of the Constitution, Delegation Scheme, gives the new Terms of Reference for the Council's Standards function under the Corporate Performance and Resources Scrutiny Panel and its sub-committee – the Code of Conduct Scrutiny Panel.

Staff

Officers are currently subject to a Code of Conduct. This is a requirement of the National Scheme of Conditions of Service applicable to all Local Government Officers. The 'Code of Conduct and Standard of Behaviour for Staff' is published on the Council's Intranet and is linked to the confidential reporting (whistle blowing) system.

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, 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. Financial Procedure Rules were reviewed, updated and aligned as far as possible with the West Devon Borough Council equivalent, with presentation to the Audit Committee in December 2012 and approval by Council in January 2013.

The formal management of risk is in place and subject to monitoring by the Senior Management Team and reporting to the Audit Committee. The risk management process includes an approved Policy (April 2012), a Risk Management Group, risk registers, systems for identifying emerging risks, consideration of risk and opportunities in reports to members and project management.

The 2011/12 AGS highlighted the need for the risk management framework supporting the Policy to be updated. Work has been and continues to be carried out to improve the risk management framework.

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.

S.151 Officer (Chief Financial Officer)

The Constitution states that the Council will appoint a 'S.151 Officer'. S.113 of the Local Government Finance Act 1988 requires the S.151 Officer to hold a recognised professional qualification. The Council's S.151 Officer is a qualified accountant.

The S.151 Officer, who acts as the Chief Financial Officer (CFO), will have responsibility for the administration of the financial affairs of the Council; will contribute to the corporate management of the Council, in particular through the provision of professional financial advice; will provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity, and budget and policy framework issues to all Members and will support and advise Members and officers in their respective roles; and, will provide financial information to the media, Members of the public and the community. (Constitution Article 12)

The CFO leads the promotion of good financial management including through the provision and publication of Financial and Contract Procedure Rules which are recommended for approval to the Council by the Audit Committee and are included in Part 4 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 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).

Head of Paid Service

Under Part 3 of the Constitution, the Chief Executive has delegated authority for the following:

- Responsibilities of the Head of Paid Service;
- Responsibilities of Returning Officer and Electoral Registration Officer;
- Shared Services.

The Head of Paid Service will report to Full Council on the manner in which the discharge of the Council's functions is co-ordinated, the number and grade of officers required for the discharge of functions and the organisation of officers.

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

Article 9 of the Constitution and Part 3 Delegation Scheme set out the functions of the Audit Committee, which is to provide independent assurance of the adequacy of the governance framework, risk management framework and the associated control environment, and independent scrutiny of the Council's financial and non-financial performance and to oversee the financial and governance reporting process.

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, the number of times it meets (normally a minimum of four times) and the number of members required to attend to ensure a quorum.

Meetings of Member bodies, including the Audit Committee, are scheduled using a calendar of meetings, and recorded through a system of published Agendas and Minutes.

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. 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, the Monitoring Officer reviews of their web-sites and information received from managers' professional bodies.

Monitoring Officer

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 and also include responsibility for maintaining the Constitution, supporting the Standards function, provide advice etc. 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 a formally appointed Deputy Monitoring Officer who is also shared, but is an employee of the other Council.

The Monitoring Officer cannot be the Chief Financial Officer or the Head of Paid Service.

Chief Financial Officer's (CFO) Influence

A system of consultation for all reports to decision makers is in place that includes the CFO for any financial matters. As discussed above, Article 12 of the Constitution allows for robust challenge of any course of action or proposal that is likely to cause a loss or unlawful expenditure. This Article also requires the S.151 Officer (as CFO) to ensure the lawfulness and financial prudence of decision making with the Head of Paid Service and Monitoring Officer, administer financial affairs, and contribute to corporate management.

Internal Audit/Audit Committee

Adherence to regulations, policies and procedures are also reviewed and monitored on behalf of the S.151 Officer by the head of internal audit (Chief Internal Auditor) and the audit team, and by 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.

Assurance for the role of internal audit and the effectiveness of the 'system of internal audit' is confirmed to the Audit Committee (June 2013). It includes an annual self assessment of the effectiveness of the Audit Committee itself.

Internal audit's annual report and opinion, a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements is presented by the Chief Internal Auditor at the same meeting.

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

Whistle Blowing

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. It is also available on the Council's web-site.

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.

Counter Fraud

The Council has effective counter fraud arrangements. It published an updated Anti-fraud, Corruption and Bribery Policy and Strategy, and separate Response Plan, which is available on the Council's website, and publicised through electronic bulletins, Intranet, leaflets on notice boards and officer Induction training etc.

An annual review of the Council's counter fraud arrangements are presented to the Audit Committee annually. The latest, April 2013, was based on the checklist from the Audit Commission document: 'Protecting the Public Purse 2012 (Fighting Fraud against Local Government)'.

A dedicated housing benefit fraud and visiting team cover revenues, benefits and housing. Counter fraud and corruption arrangements are also a key part of the internal audit of the Council's financial systems and governance framework.

Complaints

The Council's Constitution 'Citizens and the Council' outlines the rights of Citizens including to complain to or about the Council.

As well as the normal 'Contact Us' information, the Council's website includes a Comments and Complaints page which outlines the procedure for making a complaint, 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.

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 to the 2011 induction programme.

The Devon Member Development Officer, managed through the Council, offered all Members a 'one to one' interview which helped to formulate a corporate training plan for Members, and also identify individual development needs which were drawn up into Personal Development Plans.

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 are 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 would be welcome to attend the induction sessions.

A 360 degree Appraisal process is being undertaken, involving many of the councillors. The Leader is to review the results to form the basis of the recommendation to Council of senior member appointments for 2013/14.

Other ad hoc training is also provided as required, and is recorded on the web-site. Members 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 development and 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. 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. Meetings of Member bodies are scheduled using a calendar of meetings, and recorded through a system of Agendas and Minutes.

The Council's new website, under 'Your Council' includes the 'How You Can Get Involved' page, which provides advice on areas such as Public Questions at Meetings and 'Becoming a Councillor'.

In addition, the 360 Assessment has been developed and rolled out to all relevant staff. An assessment was completed for all new/changed policies, strategies and relevant projects including new service delivery, but this was amended during the year to cover only significant changes that affect the community or staff. The assessment covers Equality, 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, bring together key stakeholders from the community, voluntary, business and public sectors. Annual stakeholder events are held for each Council Priority. The Council has developed 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.

South Hams and West Devon have worked together on a revised SCI. This document sets out how communities and other stakeholders can get involved in planning and was adopted by South Hams District Council on 29th March 2012 and West Devon Borough Council on 17th April 2012.

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 Audit Committee meeting (13th June 2013). 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:

The Council has entered into shared working arrangements with West Devon Borough Council under which officers' services are shared. These officers have Shared Service Operating Agreements by means of which their services are made available to the partner authority as well as their employer. Although work on a number of the governance issues relating to shared services have been completed, there are still some areas to complete and these are reflected in Part 5 of this statement.

Progressing the shared services approach fell under the 2015 Transformation Programme, which was professionally project managed using the Prince 2 (PProjects IN Controlled Environments) methodology.

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 should also be reviewed annually by Members.

The 2012/13 Review of the Code of Corporate Governance presented to the Audit Committee in June 2013 accepts that some of the governance around partnership management can be improved, updated and aligned as far as possible with West Devon Borough Council. An action plan has been agreed and the issue reflected in Part 5 of this Statement.

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

The governance framework is considered by an annual compliance review of the Council's Code of Corporate Governance with the results reported to a meeting of the Audit Committees (13 June 2013).

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework, including the system of internal control for 2012/13, is as follows:

Responsibility	Responsible Party
<ul style="list-style-type: none"> • To adopt and approve the Constitution and governance arrangements including the form of the Executive. • Oversee the effective management of risk by officers of the Council. • Maintain a system of internal control. • Approve the Annual Governance Statement. 	'The Relevant Body' - South Hams District Council
<ul style="list-style-type: none"> • Propose the budget and policy framework to the Council, including the Code of Corporate Governance etc. 	The Executive
<ul style="list-style-type: none"> • Review and scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions. 	Scrutiny Panels

<ul style="list-style-type: none"> • Monitor the performance of the “back office” services, complaints (including Ombudsman complaints and those against Members alleging a breach of the Code of Conduct), access to information and related policies and protocols. • To be responsible for the new standards responsibilities under the Localism Act (to include the new Code, Registers of Interests, training, advice, standards complaints, investigations, considering reports, hearings, sanctions and dispensations). 	<p>Corporate Performance and Resources Scrutiny Panel</p>
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Responsibility (Continued)	Responsible Party
<ul style="list-style-type: none"> • Monitor the effective development and operation of risk management and corporate governance in the Council. <p>Consider:</p> <ul style="list-style-type: none"> • The annual review of the Constitution and recommend approval to the Council; • The Council's arrangements for corporate governance and to ensure compliance with best practice; • The effectiveness of the 'system of internal audit'. Including an annual self assessment of the effectiveness of the Committee; • 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; and • Oversee the production of the Council's Annual Governance Statement and recommend its adoption to the Council. Evaluate assurance provided and conclude as to the independence and objectivity of the various sources of assurance before coming to an overall conclusion. 	<p>Audit Committee (Delegated Member Body)</p>
<ul style="list-style-type: none"> • Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks. • Provide assurance through routine monitoring of internal controls as an integral part of the risk management process. • Regularly report on risk and internal controls through the management team. 	<p>Heads of Service</p>
<ul style="list-style-type: none"> • With the Chief Internal Auditor complete a compliance review of the Code of Corporate Governance and the System of Internal Control and produce the Annual Governance Statement. • These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective. 	<p>S.151 and Monitoring Officers</p>
<ul style="list-style-type: none"> • Review the effectiveness of the system of internal audit annually and report results to the Audit Committee. 	<p>Chief Internal Auditor (as head of internal audit)</p>

<ul style="list-style-type: none"> • 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. • Present an 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. 	
<ul style="list-style-type: none"> • Provide explicit assurance on the control environment and governance arrangements in relation to their area of responsibilities. 	<p>Risk Management Group External Auditor Other Review Agencies/Inspectorates</p>

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

5. Assurances, Conclusion and Significant Governance Issues

Assurances

The appropriate assurances have been obtained for the System of Internal Control and this Annual Governance Statement from:

- Compliance Review of the Code of Corporate Governance (Audit Committee – report to meeting of June 2013);
- Effectiveness of the System of Internal Audit (Audit Committee – report to meeting of June 2013);
- Chief Internal Auditor's 'Opinion on the Adequacy of Internal Control' (Audit Committee – report to meeting of June 2013);
- Statutory Officers - S.151 Officer (Head of Finance and Audit) and Monitoring Officer (Council's solicitor);
- Heads of Service (Managers);
- Performance Management;
- Risk Management Group
- External Audit and other Inspections, including Grant Thornton – Reviews of VAT and PAYE.

Conclusion

Overall the Council's governance arrangements are satisfactory for 2012/13. 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 (Meeting of Audit Committee 13th June 2013) issues for:

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Data Quality Strategy</p> <p>The Data Quality Strategy was written in 2009 and, although much of it remains largely fit for purpose, it would benefit from an update.</p>	<p>The Council's Data Quality Strategy should be reviewed and updated and the appropriate approval sought for any revised document.</p>	<p>Business Development Manager 30th September 2013</p>

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>Shared Services – Overarching Agreement</p> <p>The Monitoring Officer is in the process of reviewing an Overarching Agreement between the two Councils, which will also include responsibilities relating to contract liabilities e.g. costs incurred in relation to disputes by one of the two Councils only under a shared contract.</p>	<p>As planned, the Monitoring Officer will complete the review of an Overarching Agreement between the two Councils, which will also include responsibilities relating to potential contract liabilities.</p>	<p>Monitoring Officer 30th September 2013</p>
<p>Delegation to Middle Managers</p> <p>The Monitoring Officer is putting in place Onward Delegation documents, setting out those areas delegated by the Heads of Service to the relevant Middle Manager.</p>	<p>As planned, the Monitoring Officer should put in place Onward Delegation documents, setting out those areas delegated by the Heads of Service to the relevant Middle Manager.</p>	<p>Monitoring Officer 30th September 2013</p>
<p>Partnership Framework</p> <p>The Council's Partnership Framework, Policy and Guidance and reporting requirements would benefit from a review and update as a shared approach with West Devon Borough Council.</p>	<p>The Council's Corporate Director will consider which corporate resource is best placed to oversee the Council's Partnership Framework, Policy and Guidance.</p> <p>The identified officer will be asked to 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>Corporate Director (TW) 31st December 2013</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>Pay and Grading</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</p>	<p>The pay and grading review programme commenced in June 2012 on a service by service basis and is continuing as per the timetable with a planned completion date of 31st March</p>	<p>Head of Paid Service Head of Corporate Services 31 March 2014</p>

<p>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>	2014	
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Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Dartmouth Embankment</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>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.</p> <p>The legislation says that 75% of the net harbour dues should be paid to the Council.</p> <p>The current Head of Assets, with the support of the Executive Portfolio holder, is making progress on the issues surrounding the Embankment with the current DHNA Chief Executive, by addressing each area in its own right.</p> <p>Previously when attempts were made to address the Act on a much wider basis, the interpretation of the Act by legal representatives of both sides (Counsel for SHDC) failed to come to a single conclusion.</p> <p>Various meetings have been held with DHNA, who appear to accept that there is some breach of the Act.</p>	<p>Dialogue is continuing with the Dart Harbour Authority with a view to reaching agreement for some annual contribution to a sinking fund for maintaining the Embankment, and clarifying the management responsibilities for individual areas on the Embankment.</p>	<p>Head of Assets 31st March 2014</p>
<p>Land Charges</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>A public services law firm is advising the majority of Councils including ours, in conjunction with the Local Government Association (LGA).</p> <p>A case management conference is due to be held on 1 July 2013 at the High Court but this may be adjourned as the process to reconcile fees paid to LA's is not yet complete.</p> <p>A report is being prepared by officers for the Senior Management Team to consider the potential liability of the Council.</p>	<p>Monitoring Officer Head of Planning, Economy and Community</p>

From the System of Internal Control (Continued):

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Contracts Database</p> <p>A corporate need has been identified to improve the management and monitoring of contracts.</p>	<p>The Corporate Risk Management Group is reviewing the current approach to managing contracts including a proposed internal audit during 2013/14 of individual service arrangements, and possible future procurement of a contract management software system.</p>	<p>Corporate Risk Management Group 2013/14</p>
<p>Internal and External Audit Reports</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>Key recommendations and agreed actions are reported to the Audit Committee.</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 and are reported to the Audit Committee.</p>	<p>Heads of Service S.151 Officer Chief Internal Auditor In line with agreed timescales</p>
<p>Financial Uncertainty</p> <p>As Local Authorities experience reductions in funding, although South Hams District Council currently has a balanced budget, we must continue to review spending and monitor financial plans in order to balance future budgets in the face of the further government funding reductions that are expected.</p>	<p>The Council has commenced several initiatives that aim to help us to reduce our costs and meet the enormous challenge of a significant funding gap. These include:</p> <ul style="list-style-type: none"> • T18 Transformation Programme. The programme will deliver new and very different ways of working; • Strategic Asset Review; and • Strategic Waste Review. 	<p>Senior Management Team Ongoing</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:

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

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AGENDA
ITEM

6

SOUTH HAMS COUNCIL

AGENDA
ITEM

6

NAME OF COMMITTEE	Audit Committee
DATE	18 July 2013
REPORT TITLE	DRAFT STATEMENT OF ACCOUNTS 2012/13
Report of	Acting Head of Finance and Audit
WARDS AFFECTED	All

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 2012/2013 (attached).

Financial implications:

The report advises Members that a surplus of £91,000 was generated in 2012/2013.

RECOMMENDATIONS:

The Draft Statement of Accounts for the financial year ended 31 March 2013 is noted.

Officer contact:

Pauline Henstock, Acting Chief Accountant

Tel: 01803 861377 Email: pauline.henstock@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 introduced revised procedures for the certification, approval and publication of accounting statements. In particular, the requirement for Councils to approve the SOA prior to external audit is removed. In line with common practice in the commercial sector, local authorities are now required to approve the accounts following the completion of the audit.

- 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 2012/2013 is £91,000 which represents less than 0.2% of the Council's gross turnover of £55m. 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 just under £3m in 2012/13, and is analysed in paragraph 10 of the Explanatory Foreword in the SOA.

2.4 Audit of Accounts

2.4.1 Members are advised that the accounts will be audited by our External Auditors, Grant Thornton, 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 £91,000 was generated in 2012/2013.

5. RISK MANAGEMENT

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

6. OTHER CONSIDERATIONS

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

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 Page 36	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 have been drawn up in strict accordance with the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2012/13</i> which is recognised by statute as representing proper accounting practice	Head of Finance & Audit
2	Resource Planning	Consideration of the balance sheet and revenue outturn provides a platform for future resource planning.	5	1	5	↔	The Executive take in account any significant issues when developing the Council's Medium Term Financial Strategy.	Head of Finance & Audit/ Executive

Direction of travel symbols ↓ ↑ ↔

South Hams District Council

Draft Statement of Accounts

(Un-audited)

2012/2013



**South Hams
District Council**

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Section 1

Explanatory Foreword

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 2012/13 and how these compare with actual income and expenditure are set out below:

	Estimate £000	Actual £000	Difference Cost/(Saving) £000
Cost of services (after allowing for income and reserve contributions)	9,417	9,332	(85)
Parish precepts	1,590	1,590	-
Interest and Investment income	(230)	(236)	(6)
Amount to be met from Government grants and taxation	10,777	10,686	(91)
<i>Financed from:</i>			
Formula Grant	(3,777)	(3,777)	-
Council tax	(6,860)	(6,860)	-
Surplus on collection fund	(40)	(40)	-
New Homes Bonus	(100)	(100)	-
SURPLUS	-	(91)	(91)

4. The surplus on the General Fund of £91,000 represents less than 0.2% of the Council's gross turnover of £55m. A summary of the main differences from budget is provided below:

ANALYSIS OF VARIATIONS	£000
Increases in expenditure/reduction in income	
Car parks – mainly reduction in income	296
Dartmouth Ferry – net shortfall in income, Ferry taken out of operation for essential slipway maintenance in January 2013	151
Redundancy Payments – net of salary savings	77
Planning – compensation, external legal fees and other specialist advice	69
Emergency Planning – emergency repairs and maintenance works following the 2012/13 floods	27
Municipal Mutual Insurance – provision made for the initial levy payable by all scheme creditors following the trigger of the Scheme of Arrangement	18
Discretionary Rate Relief – payments have risen in line with inflation	9
Reductions in expenditure/additional income	
Housing Benefit – additional recoveries and reduction in the bad debt provision (in 12/13 £24m was paid out in Housing Benefit)	(230)
Employment Estates – rent review of a major supermarket effective from December 2011	(103)
Inflation – central provision for pay awards not required	(64)
Planning Applications – additional income	(51)
Waste Management – mainly additional income from Devon County Council for Torr Quarry	(40)
Corporate Management – reduction in External Audit fees	(38)
Community Parks & Open Spaces – rent reviews of boat kiosks	(35)
Transport – sale of vehicles	(34)
Private Sector Housing Renewal – cessation of Care and Repair contract, work now undertaken in-house	(32)
Licensing – additional income	(32)
Leisure Centres & Outdoor Recreation – mainly additional income	(27)
Homelessness – Choice based lettings – contribution to County-wide website not required	(25)
Democratic Representation – savings in training, allowances, printing etc	(14)
Council Tax Benefit – additional subsidy	(13)
TOTAL SURPLUS	(91)

Shared Services

5. The arrangements for shared services continue to be a crucial component of the Council's Financial Strategy. The total amount recharged to South Hams District Council for shared services provided by West Devon Borough Council in 2012/13 was £760,000 (2011/12 £600,000). Similarly, the total amount recharged to West Devon Borough Council for shared services provided by South Hams District Council in 2012/13 was £1.83m (2011/12 £1.6m).

Pension Liability

6. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The results of the next pension triennial valuation are due in November/December 2013. The pension fund liability at 31 March 2013 is estimated at £32m which compares with £29m at 31 March 2012. The 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 £1.7m charged to the Comprehensive Income and Expenditure Statement. The deficit is derived by calculating the pension assets and liabilities at 31 March 2013. See Note 37 for further information.

Icelandic Banks

7. At the 31 March 2013 the Council had £282,011 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.
8. 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). Both ratings were within the deposit policy approved by the Council and indicate low risk.
9. The Administrators had paid thirteen dividends at the end of 2012/13 and they have said that up to 88% 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

10. The Council spent just under £3m on capital projects. The main areas of expenditure were as follows:
- replacement ferry slipway (£1.2m)
 - house renovation grants (£0.6m)
 - replacement fish quay (£0.3m)
 - improvements to parks and open spaces (£0.2m)
 - vehicle replacements (0.2m)

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

Issue of accounts

11. The Acting Head of Finance and Audit authorised the unaudited Statement of Accounts 2012/13 for issue on the 28th June 2013.

FINANCIAL NEEDS AND RESOURCES

12. 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.
13. Revenue reserves have increased by £411,000 from the preceding year and stand at £9.5m at 31 March 2013. Revenue reserves may be used to finance capital or revenue spending plans. The General Fund Balance (un-earmarked reserve) stands at £2.5m.
14. Capital Reserves are represented on the Balance Sheet by capital receipts and capital contributions unapplied. The balance at 31 March 2013 amounts to £5.2m which compares to £5.9m at the end of the previous year.

LOOKING FORWARD TO THE FUTURE

15. Overall, the Council's finances remain strong. In order to maintain this position, the Council operates continuous monitoring of both income and expenditure. This ensures that services are delivered within approved budgets, and value for money is achieved for our residents. In addition, a planning mechanism is in place focusing not only on one year, but also on the longer term. The Council's draft Medium Term Financial Strategy will be considered by the Executive at its July 2013 meeting.

16. However, the Council continues to face significant restrictions in Central Government funding. With the financial challenges being faced in the next few years the Council has embarked on a Transformation 2018 programme. At present, work has been undertaken to assist the Council in proving the concept of a new operating model for the future delivery of its services. The programme is being designed to deliver a long term organisational vision which seeks to create financial capacity to continue to meet the Council's aspirations to deliver quality services and enhance the lives of the residents of the South Hams.

17. In the 2010 Spending Review the Government announced that from 1 April 2013 it would abolish Council Tax Benefit and localise support for council tax, whilst reducing expenditure by 10%, equivalent to £500m nationally. This is part of the Government's wider agenda, which includes a major overhaul of the welfare system. Councils have been encouraged to use local flexibilities and discretion to develop schemes that do not unfairly increase the burden to those currently on benefits. The Government has introduced new flexibilities on council tax discounts and exemptions to help manage the impact of the reduction in funding. South Hams District Council has approved a Local Council Tax Support Scheme (LCTS) to replace Council Tax Benefit. The approval was for one year only and is subject to review. Officers will shortly commence modelling work in order to identify possible options for consideration by Council Members. Depending on the type of scheme approved financial savings may be possible.

18. Another Government initiative relates to the grant funding provided by Central Government. The Local Government Finance Act 2012 introduces a Business Rates Retention Scheme (BRRS) that enables local authorities to retain a proportion of the Business Rates generated in their area. It also enables local authorities to undertake borrowing against future Business Rates growth, supported by the forecast tax increment that accrues from additional development. The new arrangements for the retention of Business Rates will come into effect on 1 April 2013. There is a risk of volatility in this system because Councils are exposed to any loss of income if businesses go into decline. However, the BRRS allows Authorities to voluntarily form a 'pool'. Pooling mitigates each Authority's exposure to Business Rate income volatility as the risks are spread over a larger pool. In order to reduce any potential risk, SHDC has agreed to be part of a Devonwide pooling arrangement. This has been further detailed in Note 3 'Events After The Balance Sheet Date'.

FURTHER INFORMATION

19. 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".

Michael Tithecott BSc, MSc, CPFA
Acting 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
Balance at 31 March 2011	1,316	7,603	6,531	220	15,670	45,239	60,909
Movement in reserves during 2011/12							
Surplus or (deficit) on the provision of services	(2,333)	-	-	-	(2,333)	-	(2,333)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(10,194)	(10,194)
Total Comprehensive Income and Expenditure	(2,333)	-	-	-	(2,333)	(10,194)	(12,527)
Adjustments between accounting basis & funding basis under regulations (Note 4)	2,485	-	(897)	1	1,589	(1,589)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	152	-	(897)	1	(744)	(11,783)	(12,527)
Transfers to/from Earmarked Reserves (Note 5)	975	(975)	-	-	-	-	-
Increase/Decrease in 2011/12	1,127*	(975)*	(897)	1	(744)	(11,783)	(12,527)

*At 1 April 2011, the Contingency and Working Balance Reserves had a combined balance of £867,000 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 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
Balance at 31 March 2012 Carried forward	2,443	6,628	5,634	221	14,926	33,456	48,382
Movement in Reserves during 2012/13							
Surplus or (deficit) on provision of Services	(853)	-	-	-	(853)	-	(853)
Other Comprehensive Income and Expenditure	-	-	-	-	-	6,892	6,892
Total Comprehensive Income and Expenditure	(853)	-	-	-	(853)	6,892	6,039
Adjustments between accounting basis & funding basis under regulations (Note 4)	1,264	-	(616)	(14)	634	(634)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	411	-	(616)	(14)	(219)	6,258	6,039
Transfers to/from Earmarked Reserves (Note 5)	(320)	320	-	-	-	-	-
Increase/Decrease in Year	91	320	(616)	(14)	(219)	6,258	6,039
Balance at 31 March 2013 Carried forward	2,534	6,948	5,018	207	14,707	39,714	54,421

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.

2011/12				2012/13		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Service Division	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
8,340	(7,223)	1,117	Central services to the public	8,136	(7,408)	728
3,094	(572)	2,522	Cultural & Related	2,734	(630)	2,104
8,120	(2,041)	6,079	Environmental	7,841	(2,072)	5,769
3,469	(5,027)	(1,558)	Highways and transport	3,032	(4,743)	(1,711)
23,873	(22,290)	1,583	Housing	25,645	(24,362)	1,283
3,839	(2,913)	926	Planning & Development	3,849	(2,699)	1,150
1,735	(12)	1,723	Corporate and democratic core	1,537	(57)	1,480
247	(21)	226	Non distributed costs	89	(7)	82
52,717	(40,099)	12,618	Cost of Services	52,863	(41,978)	10,885
1,588	-	1,588	Other operating expenditure (Note 6)	1,590	(18)	1,572
222	(431)	(209)	Financing and investment income and expenditure (Note 7)	769	(644)	125
31	(11,695)	(11,664)	Taxation and non-specific grant income (Note 8)	-	(11,729)	(11,729)
54,558	(52,225)	2,333	(Surplus) or Deficit on Provision of Services	55,222	(54,369)	853
		(3,039)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(8,578)
		13,233	Actuarial (gains)/losses on pension assets / liabilities			1,686
		10,194	Other Comprehensive Income and Expenditure			(6,892)
		12,527	Total Comprehensive Income and Expenditure			(6,039)

SECTION 2C. BALANCE SHEET

31 March 2012 £000		Notes	31 March 2013 £000
61,856	Property, Plant & Equipment	9	71,212
322	Investment Property	10	307
115	Intangible Assets	11	145
68	Long Term Investments	12	-
91	Long Term Debtors	14	49
62,452	Long Term Assets		71,713
15,156	Short Term Investments	12	13,118
41	- accrued interest on investments	12	107
138	Inventories	13	88
4,769	Short Term Debtors	14	4,601
2,192	Cash and Cash Equivalents	15	6,048
22,296	Current Assets		23,962
(3,433)	Short Term Creditors	16	(5,611)
(186)	Short Term Revenue Grants in Advance	31	(116)
(62)	Provisions	17	(18)
(3,681)	Current Liabilities		(5,745)
(94)	Long Term Creditors	16	(47)
(3,518)	Long Term Revenue Grants in Advance - Section 106 Deposits	31	(3,274)
(28,927)	Pensions Liability	37	(32,073)
(146)	Capital Grants- Receipts in Advance	31	(115)
(32,685)	Long Term Liabilities		(35,509)
48,382	Net Assets		54,421
14,926	Usable Reserves	18	14,707
33,456	Unusable Reserves	19	39,714
48,382	Total Reserves		54,421

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 28 June 2013.

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.

2011/12 £000		2012/13 £000
2,333	Net (surplus) or deficit on the provision of services	853
(1,941)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 20)	(5,318)
(4,314)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 21)	(4,480)
(345)	Interest received	(163)
(4,267)	Net cash outflows/ (inflow) from Operating Activities	(9,108)
1,782	Net increase/ (decrease) in Investing Activities (Note 22)	(648)
5,904	Net cash outflow/ (inflow) from Financing Activities (Note 23)	5,900
3,419	Net (increase) or decrease in cash and cash equivalents	(3,856)
5,611	Cash and cash equivalents at the beginning of the reporting period	2,192
2,192	Cash and cash equivalents at the end of the reporting period (Note 15)	6,048

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 2013 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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>However, the assumptions interact in complex ways. For example, in 2012/13, the Authority's actuaries advised that the pension liability had increased by £140,000 as a result of estimates being corrected as a result of experience and increased by £6.3M attributable to the updating of assumptions</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

There were no exceptional items in 2012/13 or 2011/12.

3. EVENTS AFTER THE BALANCE SHEET DATE

There is a non-adjusting event after the Balance Sheet date relating to Non Domestic Rates. When the new arrangements for the retention of Business Rates come into effect on 1 April 2013, local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

This will include amounts that were paid over (to Central Government) in respect of 2012/2013 and prior years. Previously, such amounts would not have been recognised as income by the authorities, but would have been transferred to the Department for Communities and Local Government.

For South Hams District Council the respective share of the liability as a non-adjusting post Balance Sheet event is £108,000.

The draft Statement of Accounts (SOA) for 2012/13 was certified by the Acting Head of Finance and Audit on 28 June 2013. 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 18 July 2013.

SECTION 3. NOTES TO THE ACCOUNTS

4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2012/13	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Charges for depreciation and impairment of non-current assets	1,933			(1,933)
Revaluation losses on Property Plant and Equipment	(727)			727
Movements in the market value of Investment Properties	15			(15)
Amortisation of intangible assets	72			(72)
Capital grants and contributions applied	(88)			88
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	13			(13)
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Capital expenditure charged against the General Fund	(971)			971
Adjustments primarily involving the Capital Grants Unapplied Account:				
Application of grants to capital financing transferred to the Capital Adjustment Account			(14)	14

SECTION 3. NOTES TO THE ACCOUNTS

2012/13	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	(404)	404		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,027)		1,027
Repayment of mortgage and parish loans		7		(7)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 37)	2,982			(2,982)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,522)			1,522

2012/13	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Collection Fund Adjustment Account:				
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	(52)			52
Adjustment primarily involving the Accumulated Absences Account:				
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	13			(13)
Total Adjustments	1,264	(616)	(14)	(634)

SECTION 3. NOTES TO THE ACCOUNTS

2011/12 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:				
<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 (REFCUS)	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
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(15)		15	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(14)	14

SECTION 3. NOTES TO THE ACCOUNTS

2011/12 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(300)	300		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,335)		1,335
Transfer of unattached capital receipts	(135)	135		-
Repayment of mortgage and parish loans		3		(3)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 35)	2,199			(2,199)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,366)			1,366

2011/12 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Collection Fund Adjustment Account:				
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)
Adjustment primarily involving the Accumulated Absences Account:				
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)
Total Adjustments	2,485	(897)	1	(1,589)

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 2012/13.

	Balance at 31 March 2012	Transfers Out	Transfers In	Balance at 31 March 2013
	£000	£000	£000	£000
EARMARKED RESERVES				
General Fund				
Affordable Housing	540	(127)		413
Design Office	10	(10)		-
Strategic Issues	1,325	(478)	2	849
Community Parks and Open Spaces	90	(14)	17	93
Economic Regeneration & Community Wellbeing	21	(1)	12	32
Pension Fund Strain	62	(94)	32	-
Repairs and Maintenance	424		297	721
Members Sustainable Community Locality Fund	25		9	34
Land and Development	282	(105)	36	213
Ferry Repairs and Renewals	350	(261)	25	114
Economic Initiatives	222	(58)		164
Vehicles and Plant Renewals	322	(152)	524	694
Pay and Display Equipment	39	(43)	21	17
On-Street Parking	44			44
Print Equipment	69		4	73
ICT Development	542	(103)	10	449
Sustainable Waste Management	151	(51)		100
Community Grants	2	(2)		-
District Elections	30		10	40
Beach Safety	17			17
Planning Policy & Major Developments	1,003	(192)	121	932
Building Control	99		39	138
Section 106 agreements	49		9	58
Revenue Grants	387	(175)	108	320
Capital Programme	198	(11)	737	924
New Homes Bonus	-	(726)	726	-
Sub Total	6,303	(2,603)	2,739	6,439
Specific Reserves – Salcombe Harbour				
Pontoons	41		91	132
Harbour Renewals	95	(14)	53	134
General Reserve	184	(49)	103	238
Sub Total	320	(63)	247	504
Trust & Bequest	5			5
TOTAL EARMARKED REVENUE RESERVES	6,628	(2,666)	2,986	6,948

SECTION 3. NOTES TO THE ACCOUNTS

6. OTHER OPERATING EXPENDITURE

2011/12 £000		2012/13 £000
1,537	Parish council precepts	1,590
51	(Gains)/losses on the disposal of non-current assets	(18)
1,588	Total	1,572

7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2011/12 £000		2012/13 £000
2	Interest payable and similar charges	-
(229)	Interest receivable and similar income	(229)
(142)	Other investment income	(404)
(60)	Investment (gains)/ losses	(11)
209	Pensions interest cost and expected return on pensions assets	753
11	Investment properties	16
(209)	Total	125

8. TAXATION AND NON SPECIFIC GRANT INCOME

2011/12 £000		2012/13 £000
(6,663)	Council tax income	(6,860)
31	Collection Fund adjustment	(52)
(80)	Collection Fund - distribution of surplus	(40)
(3,211)	Non domestic rates	(3,705)
	Non ring- fenced Government grants :	
(992)	• Revenue Support Grant	(72)
(128)	• Council Tax Freeze Grant	-
(298)	• New Homes Bonus	(826)
(85)	• Local Services Support Grant	(86)
(238)	Capital grants and contributions	(88)
(11,664)	Total	(11,729)

SECTION 3. NOTES TO THE ACCOUNTS

9. PROPERTY, PLANT AND EQUIPMENT

Movements in 2012/13:

	Land and Buildings	Vehicles, Plant, Furniture & Equipm't	Infra-structure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2012	54,327	8,586	3,874	722	1,445	68,954
Additions	115	332	1,201	37	313	1,998
revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,578					8,578
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	458					458
derecognition – disposals		(386)				(386)
other movements in cost or valuation	36	353	774		(1,163)	-
At 31 March 2013	63,514	8,885	5,849	759	595	79,602
Accumulated Depreciation and Impairment at 1 April 2012	1,604	4,079	1,415	-	-	7,098
charge for 2012/13	870	864	199			1,933
depreciation written out to the Revaluation Reserve	(243)					(243)
depreciation written out to the Surplus/Deficit on the Provision of Services	(43)					(43)
impairment losses/(reversals) recognised in the Revaluation Reserve			(2)			(2)
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services			16		3	19
derecognition-disposals		(372)				(372)
At 31 March 2013	2,188	4,571	1,628	-	3	8,390
Balance Sheet amount at 31 March 2013	61,326	4,314	4,221	759	592	71,212*
Balance Sheet amount at 31 March 2012	52,723	4,507	2,459	722	1,445	61,856*

* Car parks were re-valued as at 1st April 2012 as part of the wider rolling programme of re-valuations. This is the major cause of the variation year on year.

SECTION 3. NOTES TO THE ACCOUNTS

Comparative Movements in 2011/12:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipm't £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construct ion £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2011	52,661	7,535	3,566	671	1,266	65,699
additions	345	734	190	51	776	2,096
revaluation increases/ (decreases) recognised in the Revaluation Reserve	2,512					2,512
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(994)					(994)
derecognition – disposals	(160)	(162)				(322)
other movements in cost or valuation	(37)	479	118		(597)	(37)
At 31 March 2012	54,327	8,586	3,874	722	1,445	68,954
Accumulated Depreciation and Impairment at 1 April 2011	1,669	3,413	1,273			6,355
charge for 2011/12	843	824	142			1,809
depreciation written out to the Revaluation Reserve	(575)					(575)
depreciation written out to the Surplus/Deficit on the Provision of Services	(473)					(473)
impairment losses/(reversals) recognised in the Revaluation Reserve	48					48
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	72					72
derecognition- disposals	(6)	(158)				(164)
other movements in depreciation and impairment (reclassifications)	26					26
At 31 March 2012	1,604	4,079	1,415	-	-	7,098
Balance Sheet amount at 31 March 2012	52,723	4,507	2,459	722	1,445	61,856
Balance Sheet amount at 31 March 2011	50,992	4,122	2,293	671	1,266	59,344

SECTION 3. NOTES TO THE ACCOUNTS

Depreciation

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

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

Capital Commitments

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

- Dartmouth Ford Leat – re-route underground £300,000
- Dartmouth Ferry – replacement slipway, walls etc £1,580,000
- Salcombe Fish Quay – replacement £1,540,000

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 in Note 40.

	Land and buildings	Vehicles, plant furniture & equipment	Total
	£000	£000	£000
Valued at historical cost	19	4,314	4,333
New certified valuation included in Balance Sheet			
2012/2013	24,176		24,176
2011/2012	13,545		13,545
2010/2011	21,146		21,146
2009/2010	2,028		2,028
2008/2009	412		412
Total	61,326	4,314	65,640

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:

	2011/12 £000	2012/13 £000
Rental income from investment property	(57)	(56)
Direct operating expenses arising from investment property	50	72
Net (gain)/ loss	(7)	16

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:

	2011/12 £000	2012/13 £000
Balance at start of the year	459	322
Additions	-	-
Disposals	(200)	-
Net gains/losses from fair value adjustments	-	(15)
Transfers (to) / from Property, Plant and Equipment	63	-
Balance at end of the year	322	307

SECTION 3. NOTES TO THE ACCOUNTS

11. INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets comprise purchased licenses only (the Council does not currently have any internally generated software on its Balance Sheet).

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful life assigned to the major software suites used by the Authority is 3 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £72,000 charged to revenue in 2012/13 was charged to the cost centres holding the assets.

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

	2011/12	2012/13
	£000	£000
Gross carrying amount	285	330
Accumulated amortisation	(120)	(215)
Net carrying amount at start of year	165	115
Purchases	45	102
Amortisation for the period	(95)	(72)
Net carrying amount at end of year	115	145

Comprising:

Gross carrying amount	330	432
Accumulated amortisation	(215)	(287)
Net carrying amount at end of year	115	145

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; and
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

SECTION 3. NOTES TO THE ACCOUNTS

Recognition and measurement of financial instruments

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

Financial Instrument	Basis of Measurement	Note
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates.
Investments – Other	Held at carrying value on basis of materiality.	See also accounting policy on cash equivalents.
Operational debtors	Held at invoiced or billed amount less an estimate for non-collection of debts.	Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate.
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 2013 are shown in the following table:

Investment Type	Carrying Amount (net of interest)	Interest due at year end	Gross carrying Amount	Fair Value*
	£000	£000	£000	£000
Short term – Heritable Bank	118	11	129	N/A
Short term – other	13,000	87	13,087	13,140
TOTAL	13,118	98	13,216	

* 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.

Heritable Bank

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

SECTION 3. NOTES TO THE ACCOUNTS

At the time that Local Authority Accounting Panel (LAAP) Bulletin 82 Update 6 was issued, the total amount to be received was estimated to be between 86% and 90% of the claim. Since then the twelfth interim payment was made in July 2012 and was for 2.85% of the claim and the thirteenth interim payment was made in January 2013 and was for 2.72% of the claim. Total recoveries to date therefore total 77.2% of the claim. The Administrators latest estimate of total recoveries remains 86% to 90% of the claim. However it is understood that Heritable's residential mortgage book, which constituted the largest asset remaining in the Administration, was sold to a third party on 15 May 2013. This is likely to impact the amount and profile of future recoveries and authorities may need to make further adjustments to the profile of repayments after the Administrators have been able to provide a more detailed update.

In view of the above information, LAAP currently 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 as follows:

Date	Repayment	Date	Repayment
July 2013	2.00%	January 2014	8.80%

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 Comprehensive Income and Expenditure Statement 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.

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	968,000	118,000	164,000

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.

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 2012 £000	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000
Investments				
Loans and receivables (principal)	68		15,156	13,118
Loans and receivables (accrued interest)			34	98
Total investments	68	-	15,190	13,216
Debtors				
Loans and receivables	91	49		
Financial assets carried at contract amounts			1,348	1,347
Total Debtors	91	49	1,348	1,347
Creditors				
Financial liabilities at amortised cost	(94)	(47)		
Financial liabilities carried at contract amount			(1,449)	(2,364)
Total creditors	(94)	(47)	(1,449)	(2,364)

SECTION 3. NOTES TO THE ACCOUNTS

Income, Expense, Gains & Losses

	Financial Assets 2011/12			Financial Assets 2012/13		
	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		2	2			-
Total expense in Surplus or deficit on the provision of Services	-	2	2	-	-	-
Interest income	(194)	(47)	(241)	(235)		(235)
Interest income accrued on impaired financial assets	14		14	7		7
Increases in fair value	(62)		(62)	(11)		(11)
Total expense in Surplus or deficit on the provision of Services	(242)	(47)	(289)	(239)	-	(239)
Net (gain)/loss for the year	(242)	(45)	(287)	(239)	-	(239)

SECTION 3. NOTES TO THE ACCOUNTS

13. INVENTORIES

TOTAL 2011/12 £000		Depot 2012/13 £000	Printing Materials 2012/13 £000	TOTAL 2012/13 £000
106	Balance at 1 April	126	12	138
673	Purchases	584	16	600
(641)	Recognised as an expense in the year	(634)	(16)	(650)
138	Balance at 31 March	76	12	88

14. DEBTORS

Short term

31.3.2012 £000		31.3.2013 £000
130	HMRC	23
732	Other Government departments	352
733	Local authorities	572
790	NNDR Debtor (Government)	1,770
48	Council tax payers	89
2,336	Other entities & individuals	1,795
4,769	Total	4,601

Long term

31.3.2012 £000		31.3.2013 £000
71	Strain payments payable from West Devon Borough Council	36
20	Parish loans	13
91	Total	49

SECTION 3. NOTES TO THE ACCOUNTS

15. CASH AND CASH EQUIVALENTS

31.3.2012 £000		31.3.2013 £000
(1,223)	Cash held by the Authority	58
3,415	Bank current accounts	5,000
-	Money Market Funds	990
2,192	Total Cash and Cash Equivalents	6,048

16. CREDITORS

Short term

31.3.2012 £000		31.3.2013 £000
(233)	HMRC	(217)
(133)	Other Government departments	(1,537)
(405)	Other local authorities	(503)
(1,745)	Sundry creditors	(2,320)
(126)	Employee benefits	(139)
(47)	Council taxpayers	(53)
(744)	Council taxpayers – preceptors a/c	(842)
(3,433)	Total	(5,611)

Long term

31.3.2012 £000		31.3.2013 £000
(94)	Strain payments payable to West Devon Borough Council	(47)
(94)	Total	(47)

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. No long term provisions were created in 2012/13 or 2011/12. The breakdown of the provision is shown in the following table:

	Municipal Mutual Insurance £000	Redundancies £000	Total £000
Balance at 1 April 2012	-	62	62
Provisions made in year	18		18
Amounts used in year		(62)	(62)
Balance at 31 March 2013	18	-	18

Municipal Mutual Insurance (MMI) – South Hams District Council is a scheme creditor of MMI's Scheme of Arrangement. On 13 November 2012, the directors of MMI triggered this Arrangement. The Scheme Administrator has advised that if the Levy Notice had been issued on the 31 March 2013 the Council's liability for Levy would have been in the order of £18,000. This initial Levy rate is calculated as 15% of the value of 'total claims payments carried forward at 31 March 2013' exceeding £50,000. No Levy is raised on the first £50,000 of claims payments. For further details, including more background information, see Note 38 'Contingent Liabilities'.

Redundancies - A decision to make a member of staff redundant was made in 2011-12, but the employee in question did not leave the employment of the Council until the 2012-13 financial year. A short term provision of £62,000 was made in 2011-12 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 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 assets are held in this reserve to be made available for future capital expenditure.

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

19. UNUSABLE RESERVES

31.3.2012 £000		31.3.2013 £000
14,710	Revaluation Reserve	23,099
47,700	Capital Adjustment Account	48,676
(28,927)	Pensions Reserve	(32,073)
99	Collection Fund Adjustment Account	151
(126)	Accumulated Absences Account	(139)
33,456	Total Unusable Reserves	39,714

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.

31.3.2012 £000		31.3.2013 £000	31.3.2013 £000
11,875	Balance at 1 April		14,710
3,807	Upward revaluation of assets	9,962	
(768)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,384)	
3,039	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		8,578
(182)	Difference between fair value depreciation and historical cost depreciation	(189)	
(22)	Accumulated gains on assets sold or scrapped	-	
(204)	Amount written off to the Capital Adjustment Account		(189)
14,710	Balance at 31 March		23,099

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.

2011/12 £000		2012/13 £000	2012/13 £000
48,214	Balance at 1 April		47,700
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(1,809)	▪ Charges for depreciation of non-current assets	(1,933)	
(577)	▪ Revaluation losses on Property, Plant and Equipment	727	
(17)	▪ Revaluation gains/(losses) on Investment Properties	(15)	
(95)	▪ Amortisation of intangible assets	(72)	
(159)	▪ Revenue expenditure funded from capital under statute (REFCUS) - funded from capital receipts	-	
(358)	▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(13)	
(3,015)	Total		(1,306)
22	Amounts of Revaluation Reserve balance written off on disposal or sale of Property, Plant & Equipment		-
182	Adjusting amounts written out of the Revaluation Reserve		189
(2,811)	Net written out amount of the cost of non-current assets consumed in the year		(1,117)
	Capital financing applied in the year:		
1,335	Use of the Capital Receipts Reserve to finance new capital expenditure	1,027	
223	Capital grants and contributions credited to the CIES that have been applied to capital financing	88	
14	Application of grants to capital financing from the Capital Grants Unapplied Account	14	
728	Capital expenditure charged against the General Fund	971	
(3)	Repayment of parish loans	(7)	
2,297	Total		2,093
47,700	Balance at 31 March		48,676

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.

31.3.2012		31.3.2013
£000		£000
(14,861)	Balance at 1 April	(28,927)
(13,233)	Actuarial gains or losses on pensions assets and liabilities	(1,686)
(2,440)	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	(3,034)
1,366	Employer's pensions contributions and direct payments to pensioners payable in the year	1,522
(52)	Accrued strain payments*	-
293	Reversal of accrued strain payments	52
(28,927)	Balance at 31 March	(32,073)

* The 2011/12 accrual of £52,000 relates to a redundancy decision made in 2011/12 where the employee left in 2012/13. Therefore this accrual has been reversed 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.

31.3.2012		31.3.2013
£000		£000
130	Balance at 1 April	99
	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)		52
99	Balance at 31 March	151

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.

31.3.2012 £000		31.3.2013 £000	31.3.2013 £000
(119)	Balance at 1 April		(126)
119	Settlement or cancellation of accrual made at the end of the preceding year	126	
(126)	Amounts accrued at the end of the current year	(139)	
(7)	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		(13)
(126)	Balance at 31 March		(139)

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

2011/12 £000		2012/13 £000
(1,809)	Depreciation	(1,933)
(594)	Impairment & downward valuations	712
(95)	Amortisation	(72)
627	Increase/(decrease) in Debtors	(1,445)
910	Increase/(decrease) in Creditors	(1,251)
32	Increase/(decrease) in Inventories	(50)
(833)	Movement in pension liability	(1,460)
(358)	Carrying amount of non-current assets held for sale, sold or derecognised	(13)
179	Other non-cash items charged to the net surplus or deficit on the provision of services	194
(1,941)	Total	(5,318)

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

2011/12 £000		2012/13 £000
435	Proceeds from the sale of Property, Plant & Equipment & Investment Properties	-
(4,749)	Other non-cash items charged to the net surplus or deficit on the provision of services	(4,480)
(4,314)	Total	(4,480)

22. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2011/12 £000		2012/13 £000
2,092	Purchase of property, plant and equipment, investment property and intangible assets	1,601
277	Net (increase)/decrease in investments	(2,117)
(304)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(31)
(283)	Other receipts from investing activities (capital grants & contributions)	(101)
1,782	Net cash flows from investing activities	(648)

SECTION 3. NOTES TO THE ACCOUNTS

23. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2011/12 £000		2012/13 £000
583	Net NNDR receipts paid to/ (received) from Central Government	917
5,321	Net Council Tax receipts paid to / (received) from major preceptors	4,983
5,904	Total	5,900

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 *Service Reporting Code of Practice for Local Authorities (SeRCOP)*. The Council budgets and prepares reports to Management on this basis. The following table depicts the cost of services within the CIES on a subjective basis.

Service Income & Expenditure 2012-13

	Central Services	Cultural & Related	Environmental	Highways	Housing	Planning	CDC & NDC	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(797)	(245)	(1,205)	(4,705)	(763)	(2,642)	(46)	(10,403)
Government grants & contributions	(6,611)	(385)	(867)	(38)	(23,599)	(57)	(18)	(31,575)
Total Income	(7,408)	(630)	(2,072)	(4,743)	(24,362)	(2,699)	(64)	(41,978)
Employee expenses	984	244	3,665	1,296	1,053	2,257	405	9,904
Other service expenses	6,393	1,752	3,298	1,598	23,996	833	561	38,431
Depreciation / amortisation	10	631	305	(33)	339	199	-	1,451
Support service recharges	749	108	573	171	257	560	659	3,077
Total Expenditure	8,136	2,735	7,841	3,032	25,645	3,849	1,625	52,863
Net Expenditure	728	2,105	5,769	(1,711)	1,283	1,150	1,561	10,885

SECTION 3. NOTES TO THE ACCOUNTS

Service Income & Expenditure 2011-12

	Central Services	Cultural & Related	Environmental	Highways	Housing	Planning	CDC & NDC	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(653)	(371)	(1,193)	(4,991)	(579)	(2,510)	(32)	(10,329)
Government grants & contributions	(6,570)	(201)	(849)	(37)	(21,711)	(403)	-	(29,771)
Total Income	(7,223)	(572)	(2,042)	(5,028)	(22,290)	(2,913)	(32)	(40,100)
Employee expenses	1,155	284	3,532	1,260	937	2,168	453	9,789
Other service expenses	6,374	1,767	3,449	1,610	22,056	772	557	36,585
Depreciation / amortisation	10	881	411	362	526	237	-	2,427
Support service recharges	801	162	728	237	355	663	971	3,917
Total Expenditure	8,340	3,094	8,120	3,469	23,874	3,840	1,981	52,718
Net Expenditure	1,117	2,522	6,078	(1,559)	1,584	927	1,949	12,618

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:

2011/12 (Surplus)/ Deficit £000	Service	Turnover £000	Expenditure £000	2012/13 (Surplus)/ Deficit £000
(1,459)	Car & Boat Parking	(2,867)	1,116	(1,751)
(12)	Dartmouth Ferry	(682)	767	85
(793)	Employment Estates	(1,395)	477	(918)
(87)	Pannier Markets	(110)	43	(67)
(96)	Salcombe Harbour	(949)	845	(104)
25	Trade Refuse	(684)	621	(63)
(2,422)	Net surplus on trading units	(6,687)	3,869	(2,818)

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.

Total Building Control 2011/2012 £000		Chargeable £000	Non – Chargeable £000	Total Building Control 2012/2013 £000
	Expenditure			
366	Employee expenses	248	107	355
16	Premises	-	24	24
26	Supplies and Services	11	5	16
36	Transport	26	11	37
48	Support Services	13	32	45
492	Total Expenditure	298	179	477
	Income			
	Building Regulations			
(363)	Charges	(337)	(9)	(346)
(7)	Other Income	-	(4)	(4)
(370)	Total Income	(337)	(13)	(350)
122	(Surplus)/Deficit for Year	(39)	166	127

SECTION 3. NOTES TO THE ACCOUNTS

27. AGENCY SERVICES

Certain statutory powers allow the Council to undertake work on behalf of other public bodies. Such arrangements under these powers include the following:

- (a) The Authority carries out the civil parking enforcement service on behalf of Devon County Council. The staffing and other costs incurred are reimbursed by Devon County Council.

	2011/12 £000	2012/13 £000
Expenditure incurred in carrying out the civil parking enforcement service	259	237
Management fee payable by Devon County Council (including the standard charges)	(259)	(237)
Net surplus arising on the agency arrangement	-	-

- (b) The Authority collects 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 2012/2013 (£25,000 in 2011/2012).

- (c) The Authority acts as agent for Devon County Council, Devon and Cornwall Police Authority and Devon & Somerset Fire & Authority in the collection of council tax, and for Central Government for the collection of Non Domestic Business Rates. Details can be found in the Collection Fund in Section 4.

28. MEMBERS' ALLOWANCES

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

2011/12 £000		2012/13 £000
249	Allowances	249
23	Expenses	24
272	Total	273

SECTION 3. NOTES TO THE ACCOUNTS

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 alternatively one whose salary is at least £50,000 (England) per year (to be calculated pro rata for a part-time employee) and who is:

- the designated head of paid service, a statutory chief officer or a non-statutory chief officer of a relevant body, as defined under the Local Government and Housing Act 1989
- the head of staff for a relevant body which does not have a designated head of paid service; or
- any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

In March 2011, a new management team, shared with West Devon Borough Council (WDBC) was appointed. From 1 April 2011, two Corporate Directors and seven Heads of Service now work across both Councils.

SECTION 3. NOTES TO THE ACCOUNTS

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

Post	Year	Salary, Fees and Allowances £	Expenses Allowances £	Pension Contribution £	Compensation £	Total £
Strategic Director (Resources) – left 11.7.11	2012/13					Nil
	2011/12	22,300	100	4,100		26,500
Legal Services Manager / Monitoring Officer – left 30.06.12	2012/13	22,800	600	4,200	10,000	37,600
	2011/12	60, 200	2,100	11,000		73,300
Director – Shared Services (wef 1.4.11)	2012/13	73,600	4,800	13,500		91,900
	2011/12	75,800	3,700	13,900		93,400
Director – Shared Services (wef 1.4.11)	2012/13	72,000	4,600	13,200		89,800
	2011/12	71,900	3,300	13,100		88,300
Head of Corporate Services (wef 1.4.11)	2012/13	62,000	4,400	11,300		77,700
	2011/12	62,000	4,400	11,300		77,700
Head of Environmental Health & Housing (wef 1.4.11)	2012/13	62,000	3,600	11,300		76,900
	2011/12	62,000	3,900	11,300		77,200
Head of Assets (wef 6.6.11)	2012/13	62,000	4,100	11,300		77,400
	2011/12	50,800	3,000	9,300		63,100
Acting Head of Finance & Audit (wef 1.1.13 – not shared)	2012/13	14,500	400	2,700		17,600
	2011/12	N/A	N/A	N/A		N/A

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 2012/13 SHDC reimbursed costs amounting to £254,800 (2011/12 £240,700) in respect of the Chief Executive and four Heads of Services employed by WDBC. SHDC received a reimbursement in 2012/13 from WDBC of £229,800 (2011/12 £229,400) in respect of the above shared senior employees.

SECTION 3. NOTES TO THE ACCOUNTS

Other officers earning over £50,000

Remuneration band	2011/2012 Number of employees		2012/2013 Number of employees	
	Total	Left during year	Total	Left during year
£50,000 - £54,999	2	2	1	
£55,000 - £59,999		2		
£60,000 - £64,999		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 to non-audit services provided by the Authority's external auditors:

	2011/12 £000	2012/13 £000
External audit services	87	52
Certification of grant claims and returns	22	19
Other services	-	4
TOTAL	109	75

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.

	2011/12 £000	2012/13 £000
Credited to Taxation and Non Specific Grant Income		
Taxation:		
Council Tax income	(6,663)	(6,860)
Adjustment re Collection Fund in respect of previous year	(80)	(40)
Adjustment re Collection Fund in respect of current year	31	(52)
Non domestic rates	(3,211)	(3,705)
Capital grants & contributions:		
Waste & Resources Action Programme – Commercial Waste	-	(38)
Devon County Council – Torr Quarry	(102)	-
Devon County Council – Playbuilder Project	(45)	-
Other capital grants & contributions	(91)	(50)
Non ring- fenced Government grants:		
Revenue Support Grant	(992)	(72)
Council Tax Freeze Grant	(128)	-
New Homes Bonus	(298)	(826)
Local Services Support Grant	(85)	(86)
Total	(11,664)	(11,729)
Credited to Services		
Devon County Council – Torr Quarry Transfer Station	(243)	(254)
Natural England – Area of Outstanding Natural Beauty	(139)	-
Section 106 Deposit – Landscaping Projects, Llangage	(53)	(128)
Home Office – Police & Crime Commissioners Elections 2012	-	(109)
Other grants	(587)	(510)
Total	(1,022)	(1,001)

SECTION 3. NOTES TO THE ACCOUNTS

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

The balances at the year-end are as follows:

Capital Grants Receipts in Advance	31 March 2012 £000	31 March 2013 £000
Department for Communities & Local Government – Implementing E Govt.	(31)	-
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(31)	(31)
Total	(146)	(115)

Short Term Revenue Grants Receipts in Advance	31 March 2012 £000	31 March 2013 £000
Devon County Council – Cycling & Working Works	(18)	(29)
Plymouth City Council – AONB – Plym to Yealm Enhancement Project	-	(26)
Department for Communities & Local Government – New Homes Bonus 2012/13	(67)	-
Devon County Council – Walking for Health	(10)	-
Various Devon Local Authorities – Member Development Role	(28)	(24)
Rural Development Agency – Slapton Adaption Plan	(32)	-
Other grants	(31)	(37)
Total	(186)	(116)

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	31 March 2012 £000	31 March 2013 £000
Langage Energy Centre	(2,804)	(2,654)
Dartmouth Supermarkets	(329)	(281)
Various other sites	(385)	(339)
Total	(3,518)	(3,274)

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 2012/13 is shown in Note 28.

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.

	2011/12 £000	2012/13 £000
Capital Investment		
Property, plant & equipment	2,096	1,998
Intangible assets	45	102
Revenue expenditure funded from capital under statute (REFCUS)	1,216	753
Total expenditure	3,357	2,853
Sources of Finance		
Capital receipts	1,335	1,027
Government grants and other contributions	904	554
Direct revenue contributions (earmarked reserves)	1,118	1,272
Total funding	3,357	2,853

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 2013 £000's	31 March 2012 £000's
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	184	173
Later than one year and not later than five years	668	702
Later than five years	1,132	1,224
	1,984	2,099
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:		
	2012/13 £000's	2011/12 £000's
Minimum lease payments	183	172
Contingent rents	-	-
Sublease payments receivable	-	-
	183	172

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 rental of office accommodation	20 years	24.07.2032	Corporate

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

	31 March 2013 £000's	31 March 2012 £000's
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	742	594
Later than one year and not later than five years	2,969	2,375
Later than five years	36,599	31,478
	40,310	34,447

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 (£)	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
£0 - £20,000	1	3		1	1	4	17,300	58,600
£20,001 - £40,000	1	4			1	4	23,100	120,200
£40,001 - £60,000	2				2		85,300	
£60,001 - £80,000								
£80,001 - £100,000	1				1		99,700	
£100,001 - £150,000	1				1		114,000	
£150,001 - £200,000								
TOTAL	6	7	-	1	6	8	339,400	178,800

In 2012/13 a contribution of £24,700 (2011/12 £60,700) was received from West Devon Borough Council towards the above exit packages. South Hams District Council did not contribute to West Devon Borough Council for exit package costs for the 2012/13 period (2011/12 £24,700).

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 continues to face relate to the impact of previous early retirement decisions.

Further information can be found in Devon County Council Pension Fund's Annual Report which is available upon request from 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:

	2012/13	2011/12
	£000	£000
Comprehensive Income and Expenditure Statement (CIES)		
Cost of Services:		
▪ current service cost	2,167	1,764
▪ past service costs/ (gains)		
▪ losses (gains) on curtailments and settlements	114	467
▪ settlements and curtailments (reversal of 2011/12 accrual)	(52)*	52*
▪ settlements and curtailments (reversal of 2010/11 accrual)	-	(293)
Financing and Investment Income and Expenditure		
▪ interest on obligation	4,327	4,407
▪ expected return on scheme assets	(3,574)	(4,198)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	2,982	2,199
Other Post Employment Benefit Charged to the CIES		
▪ actuarial (gains) and losses**	1,686	13,233
Total Post Employment Benefit Charged to the CIES	1,686	13,233
Movement in Reserves Statement		
▪ reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	2,982	2,199
Actual amount charged against the General Fund Balance for pensions in the year:		
▪ employer's contributions payable to scheme	1,321	1,167
▪ retirement benefits payable to pensioners	201	199

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

** The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £27m. This is since the introduction of FRS17 and is adjusted each year.

SECTION 3. NOTES TO THE ACCOUNTS

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation)	2012/13 £000	2011/12 £000	2010/11 £000
Opening balance at 1 April	95,147	80,682	102,650
Current service cost	2,167	1,764	2,169
Interest on obligation	4,327	4,407	4,902
Actuarial (gains) and losses	6,400	11,109	(19,042)
Losses (gains) on Curtailments	114	467	-
Curtailments (reversal of 2010/11 accrual)	-	(293)	293
Curtailments (reversal of 2011/12 accrual)	(52)	52	-
Estimated benefits paid net of transfers in	(2,594)	(3,424)	(2,888)
Past service costs	-	-	(7,805)
Contributions by scheme participants	540	582	598
Unfunded pension payments	(201)	(199)	(195)
Closing balance at 31 March	105,848	95,147	80,682

Reconciliation of fair value of the scheme (plan) assets:	2012/13 £000	2011/12 £000	2010/11 £000
Opening balance at 1 April	66,220	65,821	65,616
Expected return on scheme assets	3,574	4,198	4,075
Actuarial gains (losses)	4,714	(2,124)	(2,754)
Employer contributions including unfunded	1,522	1,366	1,369
Contributions by scheme participants	540	582	598
Estimated benefits paid net of transfers in and including unfunded	(2,795)	(3,623)	(3,083)
Closing balance at 31 March	73,775	66,220	65,821

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate.

SECTION 3. NOTES TO THE ACCOUNTS

Therefore we are not required to disclose an expected return assumption for the year to 31 March 2014.

For the year to 31 March 2013, the expected return was 5.4% per annum, which has been used to determine the profit and loss charge for the year ended 31 March 2013.

The actual return on scheme assets in the year was £8,288,000 (2011/12: £2,074,000).

Scheme History

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Present value of liabilities	71,460	102,650	80,389	95,095	105,848
Accrual for future strain payments	-	-	293	52	-
Fair value of assets in the Local Government Pension Scheme (bid value)	50,140	65,616	65,821	66,220	73,775
Surplus/(deficit) in the scheme	(21,320)	(37,034)	(14,861)	(28,927)	(32,073)

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £32m 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 2014 is £1.3m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £205,000.

SECTION 3. NOTES TO THE ACCOUNTS

Basis for estimating assets and liabilities

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

To assess the value of the Employer's liabilities as at 31 March 2013, the actuaries have rolled forward the value of the Employer's liabilities calculated for the 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 2012.

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.

	31/03/13	31/03/12
Long-term expected rate of return on assets in the scheme:		
Equity Investments	6.0%	6.3%
Gilts	3.0%	3.3%
Other Bonds	4.1%	4.6%
Property	4.0%	4.3%
Cash	0.5%	3.0%
Target Return Portfolio	4.5%	4.7%
Total	5.1%	5.4%
Mortality assumptions:		
Retiring today		
➤ Men	20.6	20.5
➤ Women	24.6	24.5
Retiring in 20 years		
➤ Men	22.6	22.5
➤ Women	26.5	26.4
Financial Assumptions		
RPI increases	3.3%	3.3%
CPI increases	2.5%	2.5%
Rate of increase in salaries	4.7%	4.7%
Rate of increase in pensions	2.5%	2.5%
Rate for discounting scheme liabilities	4.3%	4.6%

SECTION 3. NOTES TO THE ACCOUNTS

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2013 is estimated to be 13%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. The actual return on Fund assets over the year may be different.

The estimated asset allocation for South Hams District Council as at 31 March 2013 is as follows:

Employer Asset Share – Bid Value	31/03/13 £000	31/03/13 %	31/03/12 £000	31/03/12 %
Equities	45,003	61%	45,692	69%
Gilts (Government bonds)	9,591	13%	11,920	18%
Property	5,902	8%	3,973	6%
Cash	2,213	3%	3,973	6%
Target Return Portfolio	11,066	15%	662	1%
Total	73,775	100%	66,220	100%

The full breakdown of the asset allocation is not available as at 31 March 2013, so other bonds and gilts have been allocated to Gilts.

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

SECTION 3. NOTES TO THE ACCOUNTS

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	2012/13 £000	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000
Differences between expected level of liabilities and actual experience	(140)	46	5,079	146	(350)
<i>Percentage of liabilities</i>	<i>(0.1)%</i>	<i>0.0%</i>	<i>6.3%</i>	<i>0.1%</i>	<i>(0.5)%</i>
Differences between the expected and actual return on assets	4,714	(2,124)	(2,754)	13,395	(16,940)
<i>Percentage of assets</i>	<i>6.4%</i>	<i>(3.2)%</i>	<i>(4.2)%</i>	<i>20.4%</i>	<i>(33.8)%</i>

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).

SECTION 3. NOTES TO THE ACCOUNTS

- 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. This allowed for a clawback from scheme creditors to be introduced, in the event that MMI did not have sufficient funds available to pay remaining claims. Most of MMI's insured public sector members elected to participate in the SOA, effectively becoming scheme creditors. This means that they may have to pay back part of all claims for which they have received settlements since 1993 following the SOA being triggered, and meet a percentage of future claims. Claims are still being reported to MMI relating to policy years pre-1993 (there were 2,379 reported claims outstanding as at 30 June 2012) comprising principally, by number of claims, employers' liability claims for deafness and vibration white finger, although asbestos related and abuse related claims are by value the most significant claims.

On 13 November 2012, the directors of MMI concluded that the terms of the SOA should be triggered and served notice on the Scheme Administrator and the company to that effect. As a result, the SOA was triggered and the Scheme Administrator has taken over the management of the business of the company. A Levy is chargeable to the scheme creditors. After the imposition of the Levy, scheme creditors are also liable to contribute to each and every subsequent claim paid by MMI on the creditor's behalf, thereby creating an on-going financial obligation. The Scheme Administrator has advised that if the Levy Notice had been issued on the 31 March 2013 the Council's liability for Levy would have been in the order of £18,000. This initial Levy rate is calculated as 15% of the value of 'total claims payments carried forward at 31 March 2013' exceeding £50,000. No Levy is raised on the first £50,000 of claims payments. Therefore a short term provision of £18,000 has been created, but the Council's maximum exposure to loss remains at £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

SECTION 3. NOTES TO THE ACCOUNTS

Government should compensate. The Authorities have instructed external solicitors to deal with the matter on their behalf with the support of the Local Government Association.

- d) There is a low risk of significant costs associated with progressing the proposal for the new community at Sherford. Positive negotiations have taken place 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 the completion of a legal agreement. At this stage, the level of financial risk appears to have reduced as the likelihood of an appeal for non determination is low. However if a detailed Section 106 cannot be agreed or a subsequent judicial review is lodged, the scale of the contingent liability outlined in the 2011/2012 Statement of Accounts remains a risk i.e. appeal costs could range from £250,000 to £500,000.

- e) The Council has been through a HMRC inspection during the year and there may be the possibility of a tax liability. However, the Council has taken advice and put forward a robust defence which is currently under consideration by HMRC.

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 8 March 2012 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 2012/13 was approved by the Executive on 8 March 2012 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 2013. 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.

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

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

If all interest rates had been 1% higher, with all other variables held constant, the financial effect would be that an additional £240,000 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

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. 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 2012/13 and the *Service Reporting Code of Practice for Local Authorities (SeRCOP)*, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

2. 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.

The Council operates a de-minimis policy for accruals which is currently £1,000 for revenue expenditure and £5,000 for capital expenditure. Accruals are not made for transactions below these limits.

3. Cash and Cash Equivalents

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

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

Key: T = trade date

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

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

SECTION 3. NOTES TO THE ACCOUNTS

4. 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.

5. 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.

6. Charges to Revenue for Non-Current Assets

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

7. 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.

8. 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

9. 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.

10. 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.

11. Heritage Assets

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

SECTION 3. NOTES TO THE ACCOUNTS

12. 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.

13. Inventories

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

14. Investment Property

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital

SECTION 3. NOTES TO THE ACCOUNTS

Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. 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.

16. Leases

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

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

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

The Authority as Lessee

Finance Leases

The Council does not hold any finance leases as a lessee

Operating Leases

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

The Authority as Lessor

Finance Leases

The Council does not hold any finance leases as a lessor

SECTION 3. NOTES TO THE ACCOUNTS

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.

17. 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 2012/13* (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:

Cost	Basis of allocation
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

18. 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.

SECTION 3. NOTES TO THE ACCOUNTS

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.

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

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the

SECTION 3. NOTES TO THE ACCOUNTS

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

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

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

1. Operational Buildings
2. Assets Held for Sale

SECTION 3. NOTES TO THE ACCOUNTS

The following will be considered outside the scope for componentisation:

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

The criteria for components to be separately valued are that:

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

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

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

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

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

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

- Plant and equipment and engineering services
- Structure

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

Impairment

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

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

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

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

Depreciation

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

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

19. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

SECTION 3. NOTES TO THE ACCOUNTS

20. 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.

21. 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.

22. 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.

23. Shared Services

Since 1st October 2011, all services operated by West Devon Borough Council and South Hams District Council have been shared at senior management level and middle management level, with the exception of the Finance team at both Councils, which have remained separate.

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.

SECTION 3. NOTES TO THE ACCOUNTS

The work carried out includes establishing from the Head of Service the relevant recharge requirements for every member of staff

24. 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

The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) has introduced some changes in accounting policies which may need to be adopted fully by the Authority in the 2013/14 financial statements i.e. from 1 April 2013.

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

- a) **IAS 1 Presentation of Financial Statements** – a presentational change that requires items of 'Other Comprehensive Income and Expenditure to be grouped into those that may in future years be reclassified into the 'Surplus/Deficit on the Provision of Services,' and those that will never be reclassified. As these changes are presentational there is no impact on the reported amounts.
- b) **IFRS 7 Financial Instruments Disclosures** – this standard clarifies the rules for offsetting financial assets and liabilities, and requires new disclosures. The new standard will have no effect for 2013/14 as the Authority does not currently have any such offsetting of financial assets and liabilities.
- c) **IAS 12 Deferred Tax : Recovery of Underlying Assets** – this standard relates to Group Accounts and is therefore not currently relevant to SHDC.

The International Accounting Standards Board (IASB) published a revised **IAS 19 Employee Benefits** standard in June 2011 which is intended to simplify and improve the quality of disclosures made about employee benefits plans (pensions). It will also have a real impact on the disclosed profits of companies with defined benefit plans. The new standard is effective for accounting periods beginning on or after 1 January 2013, so does not affect the disclosures for 2012/13 (although early adoption is permitted).

SECTION 3. NOTES TO THE ACCOUNTS

The main changes that affect the Profit and Loss Charge are:

- Removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate;
- Some labelling changes to the Profit and Loss charge e.g. 'Service cost now includes what was previously described as the "Current Service Cost' plus the 'Past Service Cost' plus any 'Curtailments' plus any 'Settlements'.

Administrative expenses are now accounted for within the Profit and Loss charge; previously a deduction was made to the actual and expected returns on assets.

The Actuaries have advised that the total cost charged to the Comprehensive Income and Expenditure Statement in 2012/13 under the revised IAS19 standard would have been £3.6m, an increase of £0.6m. As this expense is notional and is reversed out via the Movement in Reserves Statement it would have no effect on the Balance Sheet. The actual return on scheme assets in the year under the revised standard would have remained at around £8.3m.

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.

2011/2012 £000	Notes	2012/2013 £000
Income		
(52,554) Council Tax	1	(53,363)
(5,932) Council Tax Benefits		(5,858)
(29,338) Business Rates	2	(30,445)
4,214 Less: Transitional Relief / (Surcharge)		3,420
(83,610)		(86,246)
Expenditure		
Precepts and Demands		
42,534 <i>Devon County Council</i>		42,669
5,967 <i>Devon and Cornwall Police</i>		6,105
2,734 <i>Devon and Somerset Fire Authority</i>		2,825
6,662 <i>South Hams District Council</i>		6,860
Business Rates		
24,835 <i>Payment to national pool</i>		26,729
204 <i>Costs of collection allowance</i>		205
Distribution of previous year's estimated surplus		
515 <i>Devon County Council</i>		253
72 <i>Devon and Cornwall Police</i>		36
33 <i>Devon and Somerset Fire Authority</i>		16
80 <i>South Hams District Council</i>		40
Bad and doubtful debts		
Write Offs		
126 <i>Council Tax</i>		112
75 <i>Business Rates</i>		139
Provisions		
54 <i>Council Tax</i>		(109)
11 <i>Business Rates</i>		(48)
83,902		85,832
292	MOVEMENT ON FUND BALANCE	(414)

SECTION 4. COLLECTION FUND

1. Council tax and council tax base

In 2012/13, the Council's average Band D Council Tax was £1,529.50 (£1,519.60 in 2011/12). The charge for each band is a ratio of band D. The 2012/13 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	849.72
A	6/9	1,019.67
B	7/9	1,189.61
C	8/9	1,359.56
D	1	1,529.50
E	11/9	1,869.39
F	13/9	2,209.28
G	15/9	2,549.17
H	18/9	3,059.00

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 2012/13 was 38,221.67 as calculated below (38,100.80 in 2011/12).

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	8.00	8.00	5/9	4.44
A	4,842.00	(952.75)	3,889.25	6/9	2,592.83
B	8,470.00	(1,078.05)	7,391.95	7/9	5,749.29
C	8,320.00	(926.30)	7,393.70	8/9	6,572.18
D	7,828.00	(495.20)	7,332.80	1	7,332.80
E	6,359.00	(558.30)	5,800.70	11/9	7,089.74
F	3,509.00	(248.65)	3,260.35	13/9	4,709.39
G	2,894.00	(264.90)	2,629.10	15/9	4,381.83
H	285.00	(35.40)	249.60	18/9	499.20
Total	42,507.00	(4,551.55)	37,955.45		38,931.70
					(778.63)
					68.60
Tax base					38,221.67

SECTION 4. COLLECTION FUND

2. Rateable value

The total non-domestic rateable value at 31 March 2013 was £81,828,083. This compares to £82,155,154 at 31 March 2012. The standard non-domestic rate multiplier was 45.8p in 2012/13 (2011/12: 43.3p). Without reliefs this would generate a total income of £37,477,262.01 (2011/12 £35,573,181.68). 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

2011/2012		2012/2013
£000		£000
(1,137)	Fund balance at 1 April	(845)
292	(Surplus) / Deficit for year	(414)
(845)	Fund balance as at 31 March	(1,259)

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

2011/2012		2012/2013
£000	Preceptor	£000
(618)	Devon County Council	(913)
(88)	Devon and Cornwall Police	(133)
(40)	Devon and Somerset Fire Authority	(62)
(746)	Total surplus due to Preceptors	(1,108)
(99)	South Hams District Council	(151)
(845)	Fund balance as at 31 March – (surplus)/deficit	(1,259)

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 2013.

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**Michael Tithecott BSc, MSc, CPFA
– Acting Head of Finance and Audit**

28 June 2013

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

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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

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

SECTION 7. GLOSSARY OF TERMS

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

DEMAND

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

FEES & CHARGES

In addition to the income from charge payers and the 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

PRECEPT	The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.
PROJECTED UNIT METHOD	<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">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, andb) the accrued benefits for members in service on the valuation date. <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>
RATEABLE VALUE	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
REVENUE EXPENDITURE	Recurring items of day to day expenditure consisting principally of Salaries and Wages, Debt Charges and general running expenses etc.
SETTLEMENTS	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability.
STRAIN ON FUND CONTRIBUTIONS	Additional employers pension contributions as a result of an employee's early retirement.
SUNDRY CREDITORS	Amounts owed by the Council at 31 March.
SUNDRY DEBTORS	Amounts owed to the Council at 31 March.

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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 18 JULY 2013**

Members in attendance			
* Denotes attendance			
*	Cllr I Bramble	*	Cllr L P Jones
*	Cllr C G Bruce-Spencer (Vice Chairman)	*	Cllr J T Pennington (Chairman)
*	Cllr A S Gorman		

Other Members in attendance and participating
Cllrs S A E Wright

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Acting Head of Finance, Acting Chief Accountant, Chief Internal Auditor and Member Services Officer. Audit Manager - Grant Thornton

A.06/13 MINUTES

The minutes of the meeting held on 13 June 2013 were confirmed as a correct record and signed by the Chairman.

A.07/13 DECLARATIONS OF INTEREST

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

A.08/13 SYSTEM OF INTERNAL CONTROL AND ANNUAL GOVERNANCE STATEMENT 2012/13

The Chief Internal Auditor presented the report which provided Members with information to enable them to independently examine the draft annual governance statement and the supporting process and assurance streams.

During the discussion, the following points were raised:

- Members were informed that discussions about improving the processes supporting Contract Management had already begun with colleagues in the legal service and with the Monitoring Officer. The work would be completed shortly and an update would be presented to the Audit Committee at its meeting in September 2013;
- Members were also informed that the HMRC inspection was still progressing and HMRC had been provided with all the information that had been requested. The Authority had conceded on two matters which were the use of a car for commuting journeys, and payment of landline and broadband costs prior to September 2012 for a small number of officers. £7.5K had been paid on account to HMRC;
- With regard to the issue of the Dartmouth Embankment, the Committee requested that the Head of Assets be asked to attend its meeting in September 2013 to provide an update on the latest position;
- It was requested that the value for money aspect of the recruitment of temporary agency staff across all departments be considered at the next meeting of the Committee in September 2013;
- With regard to the Connect Strategy Action Plans, Members commented that precise details of the financial costs and resources incurred to implement the action plans were severely lacking and that the value for money aspects did not seem to feature in them. The Chairman vigorously stated that Members needed a proper understanding of the resource costs and should therefore be getting appropriately detailed information in order to fully investigate the value for money aspects. A Member went on to say that he was sceptical about these plans, as the outcomes were often not quantified or quantifiable and that he instinctively felt that the outcomes might not justify the input of resources. It was requested that the Connect plans be further considered at the meeting in September 2013.
- With regard to the Guidance to Officers on Report Writing, the Chief Internal Auditor informed that a review of the guidance was being undertaken and Members had been invited to input to the process. Their feedback had been received, and the updated guidance would therefore be published and promoted throughout the Council.
- The Chief Internal Auditor informed that he would provide the Committee with an update at its meeting in September on the complex issue of the subject of a claim by a group of companies whose business was making personal searches of the Authority's land charges records.

It was then:

RECOMMENDED

That the Audit Committee has considered the draft Annual Governance Statement 2012/13 and supporting evidence provided by the report and **RECOMMENDS** the **COUNCIL** approves it.

It was then:

RESOLVED

That the Head of Assets be asked to attend the meeting of the Committee in September 2013 to update it on the latest position on the Dartmouth Embankment.

A.09/13 DRAFT STATEMENT OF ACCOUNTS 2012/13

The Acting Head of Finance presented the draft statement of accounts for consideration by the Committee.

During the discussion, the following points were raised:

- The issue of income generation was referred to and the possibilities e.g. for advertising in car parks, on car park tickets, in public conveniences and so on were highlighted. The Chairman added that an example of a candidate for income generation was the Dartmouth Lower Ferry.
- Members expressed their concern about the amount of debt that was written off. The Acting Head of Finance stated that the Council continued to enjoy very high collection rates. For example, the Authority still had one of the highest collection rates in the South West as a result of investment in systems and processes to support this. The Authority took debt recovery very seriously and pursued it vigorously when appropriate.
- Members extended their gratitude to officers in the Finance and Internal Audit Section, stating that they very much appreciated all the work they undertook and that their services were vital to the efficient and effective running of the Council and to the provision of services to residents, and this was acknowledged by both the Audit Committee and the Executive Members. The Executive Member for Finance added that the Council, whilst facing its own challenges, was still financially in an enviable position compared to many other authorities up and down the Country.

It was then

RESOLVED

That the Draft Statement of Accounts for the financial year ended 31 March 2013 is noted and has been commented upon.

(Meeting commenced at 2.00 p.m. and finished at 4.15 p.m.)

Chairman