

# Public Document Pack



## **SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 19TH SEPTEMBER, 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 - Grant Thornton - Review of the Council's Arrangements for Securing Financial Resilience for South Hams District Council (Pages 3 - 34)
- b)    Item 6 - Grant Thornton - The Audit Findings for South Hams District Council (Pages 35 - 66)
- c)    Item 7 - Annual Governance Statement 2012/13 Update (Pages 67 - 90)
- d)    Item 8 - Audited Annual Statement of Accounts 2012/13 (Pages 91 - 206)
- e)    Item 10 - Internal Audit - Progress Against the 2013/14 Plan (Pages 207 - 230)
- f)    Item 11 - Strategic Risk Assessment - Six Monthly Update (Pages 231 - 260)

3.    **Minutes** (Pages 261 - 270)

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# Agenda Item 1

Please reply to: Jo Doney  
Service: Corporate Services  
Direct Telephone: 01803 861466  
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.

11 September 2013

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes on **Thursday 19 September 2013 at 2.00 p.m.** when your attendance is requested.

Yours sincerely

Jo Doney  
Member Support Officer

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

1. **Minutes** – to approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 18 July 2013 (pages 1 to 4);
2. **Urgent Business** - brought forward at the discretion of the Chairman;
3. **Division of Agenda** - to consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;
4. **Declarations of Interest** - Members are invited to declare any personal or prejudicial interests, including the nature and extent of such interests, they may have in any items to be considered at this meeting;

5. **Grant Thornton – Review of the Council’s Arrangements for Securing Financial Resilience for South Hams District Council** (pages 5 to 35);
  6. **Grant Thornton – The Audit Findings for South Hams District Council** (2012-2013) (pages 36 to 66);
  7. **Annual Governance Statement 2012/13 Update** – to consider a report that provides public confirmation that the Council has a sound framework of governance and system of internal control and to include an oral update from the Head of Assets on Dartmouth Embankment (pages 67 to 89);
  8. **Audited Annual Statement of Accounts 2012/13** – to consider a report that presents a summary of net revenue and capital expenditure for Members consideration and seeks approval of the audited Statement of Accounts for 2012/13 (pages 90 to 203);
  9. **New Budget Process and Monitoring – Next Steps** – to confirm the areas that the newly formed Joint Scrutiny task and finish group be asked to investigate;
  10. **Internal Audit – Progress Against the 2013/14 Plan** – to consider a report which informs Members of the principle activities and findings of the Council’s Internal Audit Team for 2013/14 to 31 July 2013 (pages 204 to 226)
  11. **Strategic Risk Assessment – Six Monthly Update** - to consider a report that sets out the current corporate strategic risk assessment and a summary of the management and mitigation actions to address the identified risks, with **EXEMPT** appendices (pages 227 to 251);
- N.B.** Legal and financial officers will not, as a general rule, be present throughout all meetings, but will be on standby if required. Members are requested to advise Member Support Services in advance of the meeting if they require any information of a legal or financial nature.

\* \* \* \* \*

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

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

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

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

\* \* \* \* \*

# Review of the Council's Arrangements for Securing Financial Resilience for South Hams District Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

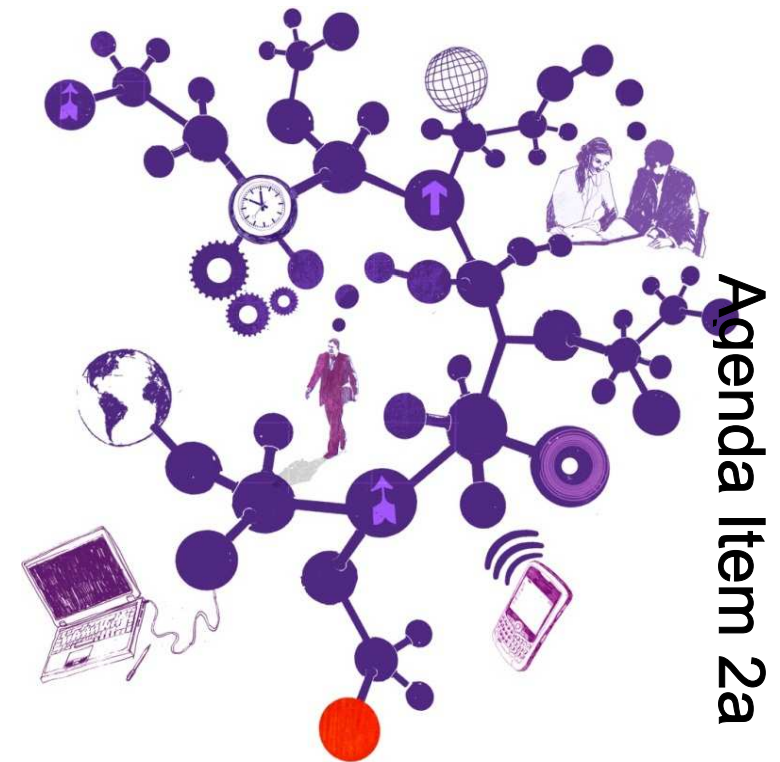
Year ended 31 March 2013

September 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive Summary

## Our approach

### Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

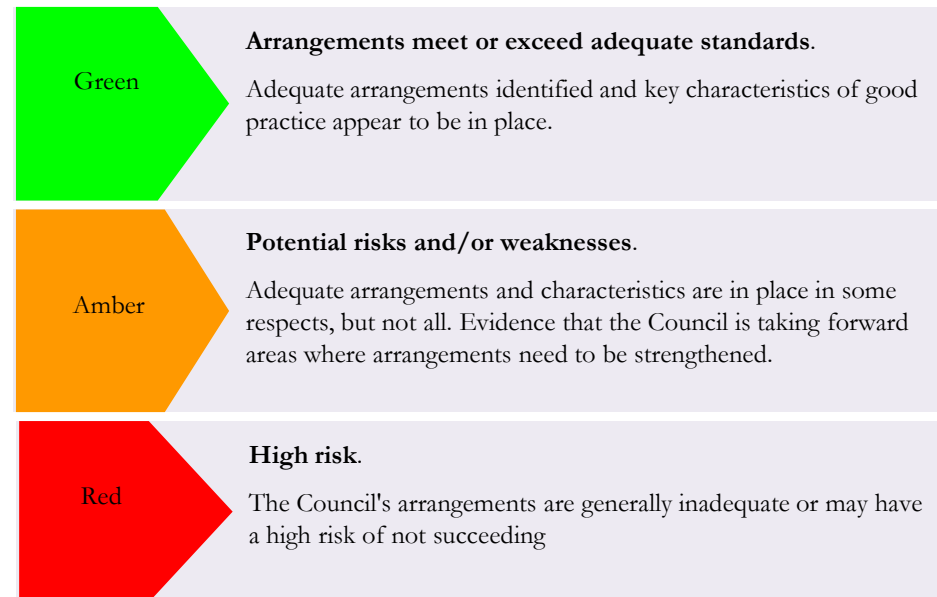
In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them. The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces a number of risks and challenges during 2013-14 and beyond, its current arrangements for achieving financial resilience are adequate.

We have used a red/amber/green (RAG) rating with the following definitions.



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# Executive Summary

## National and Local Context

### National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

### Local Context





Covering 906 square kilometres, South Hams District Council is a large geographical district in Devon with an estimated population of 83,100. It is classified as a Rural-80 authority, as over 80% of the population are based in rural settlements and market towns.

South Hams has developed a close shared service arrangement with West Devon Borough Council, initially through a shared Chief Executive but extending this to a full shared senior management team in April 2011. It has sought to deliver savings through a significant shared services agenda including a middle-management review and adoption of shared financial reporting and benefits administration structures.

Changes to national legislation regarding Council Tax benefit arrangements have lead to the introduction of a localised Council Tax Support Scheme to replace Council Tax Benefit from April 2013 placing additional financing pressures on the Council.

# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p><b>Key Indicators of Performance</b></p>	<ul style="list-style-type: none"> <li>In comparison to the Audit Commission's nearest neighbours, the Council is performing well and is generally consistent with the trends indicated by other councils. The collection rates for Council T and NNDR are in the top 10% of all English local authorities.</li> <li>However, levels of sickness absence have continued to increase and should remain an area of focus for management.</li> </ul>	 <b>Green</b>
<p><b>Strategic Financial Planning</b></p>	<ul style="list-style-type: none"> <li>The Council has a very good understanding of the financial challenges faced and is proactive in planning and taking action to address these issues. However, whilst we consider the Council is making good progress in its strategic financial planning with good arrangements in place, it is facing significant reductions in funding and is considering a number of options regarding its future operating model to ensure it continues to deliver sustainable quality services.</li> </ul>	 <b>Green</b>
<p><b>Financial Governance</b></p>	<ul style="list-style-type: none"> <li>The Council has good arrangements in place to ensure understanding of the financial environment with appropriate engagement from stakeholders and Members.</li> <li>There are appropriate financial governance and monitoring arrangements in place at Member and officer level.</li> </ul>	 <b>Green</b>
<p><b>Financial Control</b></p>	<ul style="list-style-type: none"> <li>As in previous years, the Council achieved its planned general fund budget and, for 2013-13, delivered an underspend of £91,000, despite reductions in the net budget and the need to deliver further savings.</li> <li>The Council has continued to deliver savings through its shared services arrangements whilst maintaining a good levels of service.</li> </ul>	 <b>Green</b>

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# Executive Summary

## Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
<b>Key Indicators of Performance</b>	The Council should continue to actively monitor sickness absence to identify the causes of the recent increase, implement appropriate strategies to address these and ensure potential risks in relation to service delivery are effectively managed.			
<b>Strategic Financial Planning</b>	None			
<b>Financial Governance</b>	None			
<b>Financial Control</b>	As the financial environment continues to become more challenging, the Council should consider separate monitoring and reporting of savings to Members in the format agreed when the budget was set, to further strengthen the financial control arrangements in place and to clearly identify where planned savings are not being realised.			

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# Key Indicators

## Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:






- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

- Tewkesbury Borough Council
- Hambleton District Council
- Malvern Hills District Council
- Cotswold District Council
- Derbyshire Dales District Council
- Craven District Council
- North Devon District Council
- Chichester District Council
- Lewes District Council
- Malvern Hills District Council
- Purbeck District Council
- South Lakeland District Council
- Suffolk Coastal District Council
- Teignbridge District Council
- Wealden District Council
- West Dorset District Council

# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<b>Liquidity</b>	<p>Comparative data shows that the working capital ratio for the Council over the period 2007-08 to 2011-12 has been above that for a number of similar authorities. Whilst, South Hams' ratio has fallen slightly, it stands at 4:1 at 31 March 2013, well above the 2:1 ratio that is widely viewed as an appropriate ratio to prevent liquidity issues.</p> <p>Whilst the Council Tax collection rate of 99% has fallen slightly from 99.2% in 2010-11 and 2011-12, this performance still places South Hams in the top 10% of English local authorities. In addition, the collection rate of 99.2% for business rates continues the Council's upward trend since 2007-08 and also places South Hams in the top 10% of English local authorities.</p>	 <b>Green</b>
<b>Borrowing</b>	<p>South Hams is a debt free authority.</p>	 <b>Green</b>
<b>Workforce</b>	<p>From 2009-10 to 2012-13 the level of sickness absence has increased year on year , and for 2012-13 an average of 11.52 days per FTE were lost due to sickness. The public sector average for 2011-12 was 7.9 days.</p> <p>The Council has clearly highlighted sickness levels as an area of concern through the quarterly reporting to Members through the Council's balanced scorecard and is able to demonstrate an understanding of the importance of sickness management and regularly analyses the level of sickness between short term and long term sickness.</p>	 <b>Amber</b>
<b>Performance Against Budgets: revenue &amp; capital</b>	<p>Despite the 2012-13 revenue budget requiring £1 million of savings, the Council continues to deliver an underspend against its budget. The unaudited 2012-13 financial statements highlight that the Council has delivered a budget underspend of £91,000. In 2011-12 it delivered an underspend of £260,000 and in 2010-11 an underspend of £139,000.</p>	 <b>Green</b>
<b>Reserve Balances</b>	<p>The Council's level of useable reserves is in line with the average in comparison to other similar authorities at 31 March 2012, and remains at 0.28 of gross revenue expenditure at 31 March 2013. The general fund balance at 31 March 2013 was £1 million above the minimum level set by the Council as £1.5 million.</p>	 <b>Green</b>

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# Strategic Financial Planning




## Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.



# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
<b>Focus of the MTFP</b>	<p>The Council's Medium Term Financial Strategy (MTFS) covering the four year period 2014-15 to 2017-18 was presented to the Executive in July 2013. It sets out the expected funding available to the Council, the level of income that could be generated alongside budget pressures to give an overall financial forecast for the four year period. As a result the MTFS identifies funding gaps for each financial year and seeks to be the basis on which early thought is given to bridging the funding gaps for 2014-15 in the first instance, and then future years.</p>	 Green
<b>Adequacy of planning assumptions</b>	<p>The Council's MTFS from 2014-15 has been compiled using a number of assumptions including 3% inflation on general expenditure, an increase of 1% on salaries and pension contributions, interest rates of 0.6% for 2014-15 and 1% thereafter and Council Tax increases limited to 1%.</p> <p>Following the setting of the 2013-14 budget, the Council undertook a detailed budget scouring exercise, reviewing cost centres on a line by line basis in order to analyse expenditure over the past three years and through this identified £140,000 of savings which have been incorporated into the MTFS.</p>	 Green
<b>Scope of the MTFP and links to annual planning</b>	<p>The Council has ensured a strategic approach to financial planning through a rolling MTFS which is updated on an annual basis and used as the foundation document for the budget setting process.</p> <p>The MTFS sets out the financial challenges the Council faces in setting a balanced budget for the next four year period, presenting possible options for closing the 2014-15 budget gap and provides links to the Transformation Programme for addressing the longer term gaps.</p>	 Green

# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
<b>Review processes</b>	<p>The Council started to develop the financial strategy to close the 2014-15 budget gap identified initially in the MTFS for the period 2013-14 to 2016-17, immediately following the approval of the 2013-14 budget in February 2013 and identified £140,000 of savings through a budget scouring exercise.</p> <p>The MTFS for the period 2014-15 to 2017-18 has already been presented to Executive in order to enable earlier thought than in previous years on how to close the budget gap for the upcoming financial year and it is intended that at each Executive meeting an update will be given to the MTFS.</p>	 <b>Green</b>
<b>Responsiveness of the Plan</b>	<p>Due to the government funding levels announced in June 2013, the Council now face a budget gap of £2.35 million over the next four year period, based on the following annual budget gaps:</p> <ul style="list-style-type: none"> <li>• 2014-15 £771,000</li> <li>• 2015-16 £446,000</li> <li>• 2016-17 £588,000</li> <li>• 2017-18 £545,000</li> </ul> <p>As at July 2013, £140,000 of savings had been identified through the detailed budget scouring exercise to be built into the base budget for 2014-15, and the MTFS sets out further possible savings options of £390,000. It is considered that for 2014-15, there are only two realistic options for further closing the budget gap; either to make service reductions or use the New Homes Bonus to fund part of the revenue budget due to the limited opportunities to raise additional income. The Council is aware of the risks of over-reliance on New Homes Bonus and is aware that transformational change is required over the medium to long term and are in the early stages of making decisions about the appropriate future operating model.</p>	 <b>Amber</b>

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# Financial Governance

## Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

### Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

### Engagement



- There is engagement with stakeholders including budget consultations.

### Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).




# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	Assessment
<b>Understanding the Financial Environment</b>	<p>The Senior Management Team have a good understanding of the financial environment in which they operate and there is regular communication with Members. Work to develop a strategy to close the 2014-15 budget gap started immediately after the approval of the 2013-14 budget, and medium term financial planning is not seen as an annual exercise but integrated with the future plans and direction of the Council, such as the Transformation Programme and the Strategic Asset Review.</p> <p>The MTFS 2014-15 to 2017-18 has already been prepared and it is intended that Members will be updated at each Executive meeting as the financial model is refined.</p>	 <b>Green</b>
<b>Executive and Member Engagement</b>	<p>Member engagement in the budget setting process in recent years has been mainly through the Executive producing draft budget proposals for review by the Council's three Scrutiny Panels. However, the Council has recently undertaken a review of the budget setting and monitoring processes in order to ensure that this input can be given at the right stage so that any adjustments can be considered in a timely way. It has been determined that the role of Scrutiny should be increased through the identification of a number of areas to be investigated in detail by the relevant Scrutiny Panel with the objective of identifying budget reductions and opportunities for generating further income.</p> <p>The Senior Management Team meet regularly and discuss key financial and performance issues as required, with Heads of Service responsible for monitoring of their budgets.</p> <p>Senior officers and Members have been proactive in seeking additional funding through the Government's Transformation Funding. As is this the case for other committee reports, financial reports presented to Members include a strategic risk template.</p>	 <b>Green</b>

# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	Assessment
<b>Overview for controls over key cost categories</b>	<p>The Audit Commission's Value for Money profiles show that running expenses as a proportion of total spend is significantly lower than the comparator group of authorities and reflects the significant actions already taken to deliver services through shared service arrangements. In addition, the Council's spend on management and support services has reduced and is below average.</p> <p>The Council has saved £2.15 million through shared services with West Devon Borough Council and annual savings are now approximately £700,000.</p>	 <b>Green</b>
<b>Budget reporting: revenue and capital</b>	<p>The Executive has responsibility for the budgetary framework and receives quarterly revenue and capital monitoring information, although these do not separately report progress against savings targets as set out when the budget was approved.</p> <p>The revenue budget monitoring reports received by Members include the forecast outturn position to the year end. These reports do not include actual position against phased budget but highlight the key areas of variance forecast and provide an adequate level of narrative to enable Members to understand the financial position for the year. In addition, these reports provide details of forecast income against plan for car parks, Dartmouth ferry, estates, land charges, planning applications and licensing.</p> <p>The capital budget monitoring reports received by Members set out the approved budget and spend per quarter for each capital project.</p>	 <b>Green</b>
<b>Adequacy of other Committee/Cabinet Reporting</b>	<p>Performance against target for key financial performance measures such as collection rates for Council Tax and NNDR is reported through the Council's Balanced Scorecard to the Corporate Performance and Resources Scrutiny Panel on a quarterly basis with particular attention paid to those areas which are 10% or more below target.</p> <p>In addition, the Treasury Management annual strategy, mid year review and annual report are considered by the Executive and approved by full Council.</p>	 <b>Green</b>

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# Financial Control

## Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

### Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

### Savings Plans

Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

### Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

### Finance Department


- The capacity and capability of the Finance Department is fit for purpose.

### Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.



# Financial Control

## Internal arrangements

Area of focus	Summary observations	Assessment
<b>Budget setting and monitoring - revenue and capital</b>	<ul style="list-style-type: none"><li>• The Medium Term Financial Strategy 2013-14 to 2016-17 was approved in September 2012 and used as the foundation document for the Council's budget setting process. The 2013-14 budget was then approved in February 2013 following a public budget consultation, identification of budget savings and income generation opportunities by the Senior Management Team and review by Scrutiny.</li><li>• Immediately following approval of the 2013-14 budget, work has begun on developing the strategy to close the 2014-15 budget gap.</li><li>• Performance against budget is monitored by Heads of Service, with additional monitoring and support provided by the Finance Team. Particular focus is given to areas where overspends are forecast, in order that action is taken to try and address these issues.</li><li>• Performance against general fund budget and the Capital Programme is reported to Members on a quarterly basis, with the Executive having responsibility for the budgetary framework. Revenue budget monitoring reports provide an overview of the forecast year end position and an analysis of the key variances from budget for both income and expenditure as well as an estimate of the level of reserves at year end.</li><li>• As part of the 2012-13 Internal Audit Plan a Main Accounting System and Budgetary Control review was undertaken. Internal Audit provided a 'good' opinion over the systems in place, concluding that budgetary controls appear to be working satisfactorily.</li></ul>	 <b>Green</b>





# Financial Control

## Internal arrangements

Area of focus	Summary observations	Assessment
<b>Performance against Savings Plans</b>	<ul style="list-style-type: none"><li>The Council has a strong track record of delivering savings through shared services; since 2007, the Council has saved £2.15 million through shared service arrangements with West Devon Borough Council. The Council is saving approximately £700,000 per year as a result of these shared services and has been commended for its efforts in achieving savings.</li><li>The 2013-14 general fund revenue budget approved by Council in February 2013 included savings and income generation schemes of £255,000 identified by the Senior Management Team and further budget saving options of £298,000. Whilst overall performance against the budget is reported on a quarterly basis, performance against the savings schemes as included within the agreed budget is not separately reported back to Members. To improve transparency and clarity over the delivery of savings plans, separate monitoring and reporting of the savings achieved would further strengthen the current arrangements in place and would readily identify where planned savings are not being realised. This will become of increasing importance due to the challenges being faced by the Council in closing the budget gap over the medium term.</li></ul>	 <b>Amber</b>
<b>Key Financial Accounting Systems</b>	<ul style="list-style-type: none"><li>The Council use the Civica financials ledger system and are working with West Devon Borough Council to review financial processes to ensure its efficient use is maximised for the benefit of both Councils.</li><li>The most recent Internal Audit report on the main accounting and budgetary control system was given a 'good' assurance opinion and did not highlight any significant areas of concern. Internal Audit also reviewed other key financial systems for 2012-13 and none of these received 'poor' assurance opinions.</li><li>In 2012-13, West Devon Borough Council changed its Revenues and Benefits system, aligning another key system with South Hams and providing further opportunity for alignment of processes and procedures to improve the efficiency of the shared revenues and benefits service across the Councils.</li></ul>	 <b>Green</b>

# Financial Control

## Internal and external assurances

Area of focus	Summary observations	Assessment
<b>Finance Department Resourcing</b>	<ul style="list-style-type: none"> <li>The Section 151 Officer is responsible for Internal Audit and the Finance Teams across South Hams and West Devon Borough Council and is a member of the shared senior management team.</li> <li>From January 2013, due to maternity leave, there has been an Acting Head of Finance and Audit in place leading the South Hams Finance Team.</li> <li>Whilst the Council is considered to have a stable and capable finance team, the structure of the Finance Teams at South Hams and West Devon is subject to review, to consider the most effective way in which the services can be delivered and maximise resilience of the teams.</li> </ul>	 <b>Green</b>
<b>Internal audit arrangements</b>	<ul style="list-style-type: none"> <li>The Council has an effective internal audit function which has fully delivered its 2012-13 Internal Audit Plan.</li> <li>Internal Audit plans have to be approved by the Audit Committee annually and their findings are reported to the Audit Committee and management regularly.</li> <li>In June 2013 the Internal Audit Manager presented his annual opinion on the effectiveness of the system of internal control. Overall the opinion is that the Council's overall control environment is adequate and effective for the purposes of the 2012-13 Annual Governance Statement, with no reports receiving 'poor' assurance opinion.</li> </ul>	 <b>Green</b>
<b>External audit arrangements</b>	<ul style="list-style-type: none"> <li>The 2011-12 Annual Audit Letter summarised the work that was performed for 2011-12 and that an unqualified audit and VFM conclusion was issued.</li> </ul>	 <b>Green</b>
<b>Assurance framework/risk management</b>	<ul style="list-style-type: none"> <li>In 2012 the Council adopted a Joint Risk Management Policy with West Devon Borough Council. This policy requires the review of Corporate Risk Tables on a monthly basis by the Senior Management Team and update reports to the Audit Committee on a six monthly basis. These reports set out the strategic risks with details of the assessed risk score and a summary of mitigating and management actions undertaken and proposed to manage the identified risks.</li> <li>In addition, risks are routinely considered for all Committee reports through the use of strategic Risk Templates to ensure risk management is embedded within the Council's processes and to ensure Members are clear about the risks associated with the information they are presented and the impact of any related decisions.</li> </ul>	 <b>Green</b>

---

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

Financial Control

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Appendix - Key indicators of financial performance

# Key Indicators of Financial Performance

## Working Capital - Benchmarked

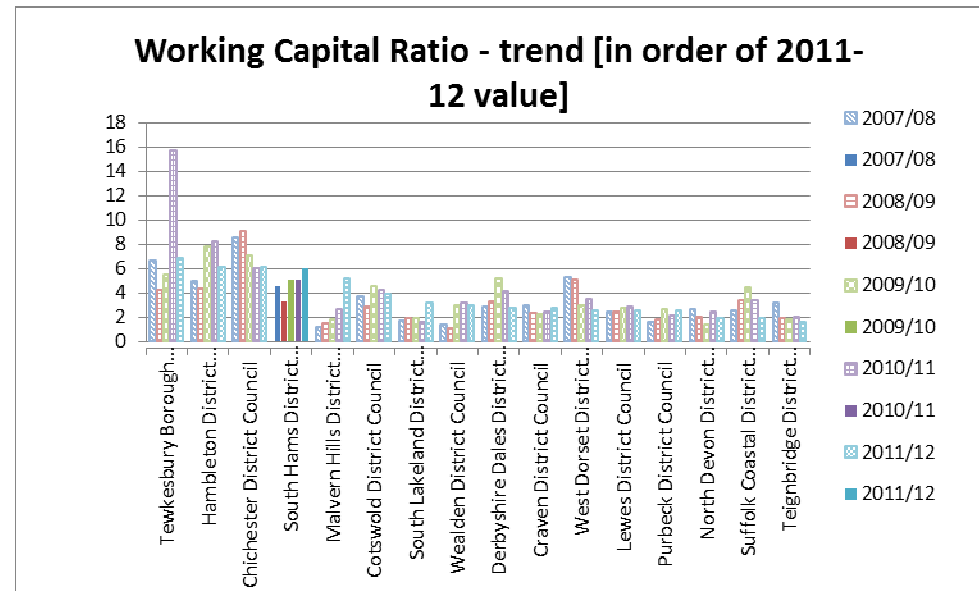
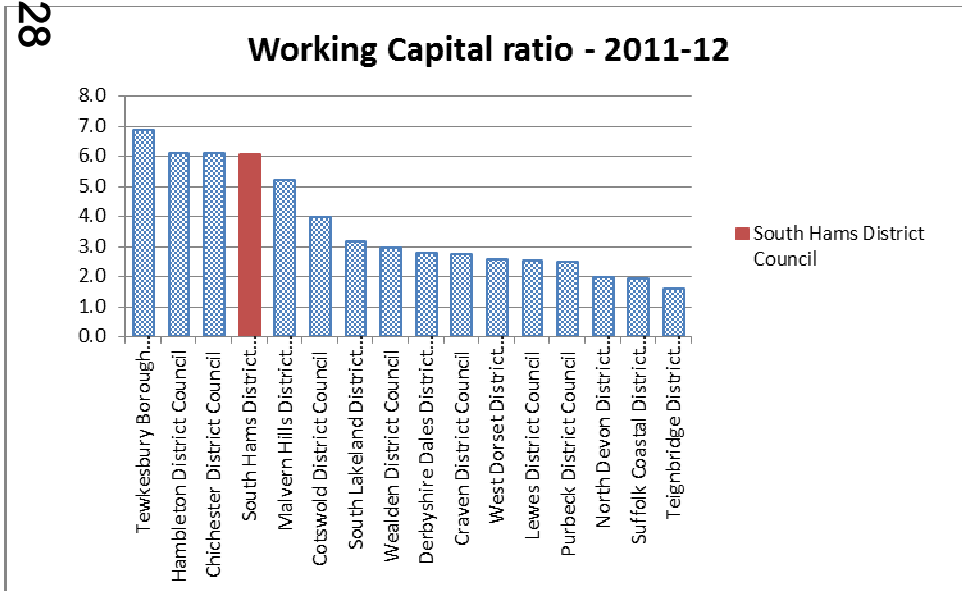
### Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

### Findings

The Council's working capital ratio at 31 March 2013 was 4.16:1. Whilst this is a fall from 6.06:1 at 31 March 2012, the Council remains well above the preferred range of 2:1 and remains above the average of the comparator group for 2011-12.

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Source: Audit Commission's Technical Directory and South Hams District Council unaudited Statement of Accounts 2012-13

# Key Indicators of Financial Performance

## Useable Reserves - Benchmarked

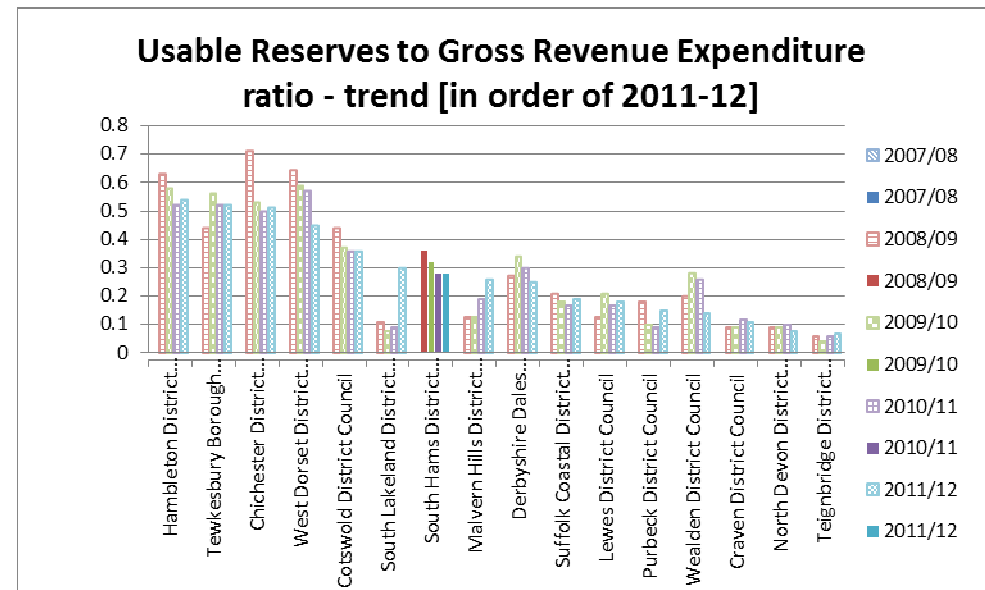
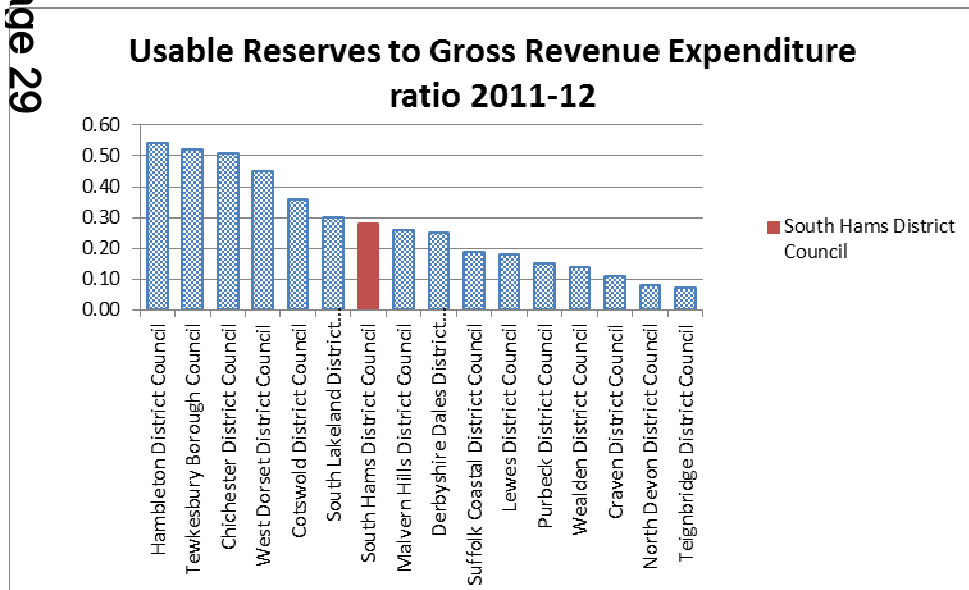
### Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

### Findings

The level of South Hams' useable reserves in proportion to gross revenue expenditure has remained unchanged from 31 March 2012 to 31 March 2013 at 0.28. This places the Council in the mid range when considered against the comparator group based on Audit Commission data shown below. The Council has determined that the minimum level of un-earmarked reserves should be set at £1.5 million. The Council's General Fund has increased for a second consecutive year and stands at £2.5 million at 31 March 2013, £1 million above the minimum level.

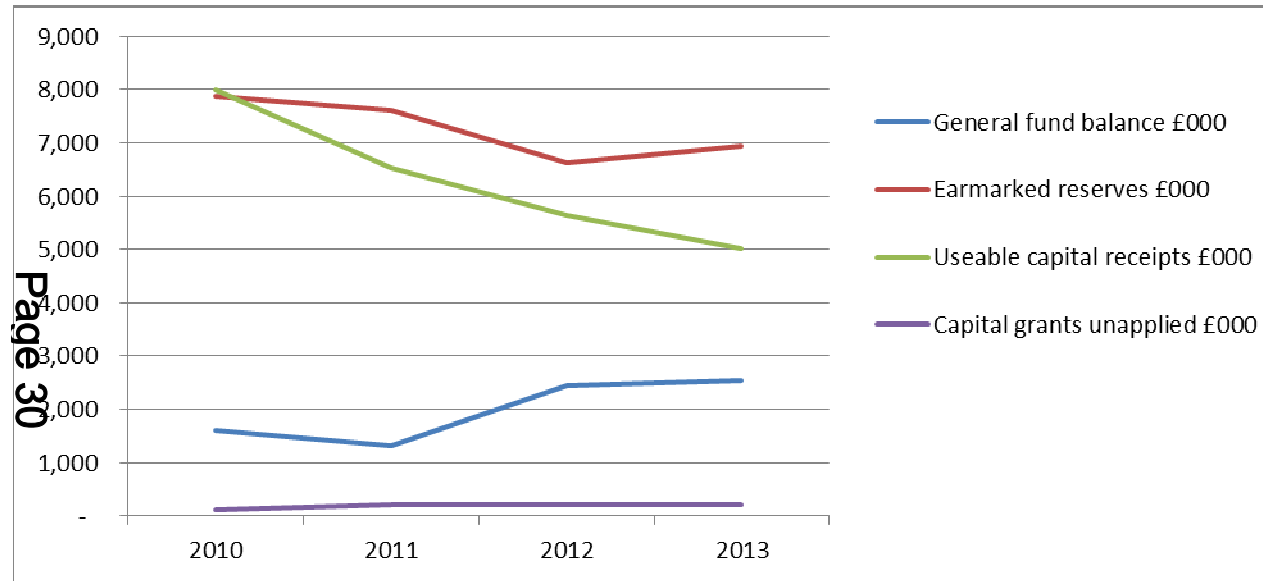
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Source: Audit Commission's Technical Directory

# Key Indicators of Financial Performance

## Useable Reserves - Trend by Type



Source: South Hams District Council unaudited Statement of Accounts 2012-13

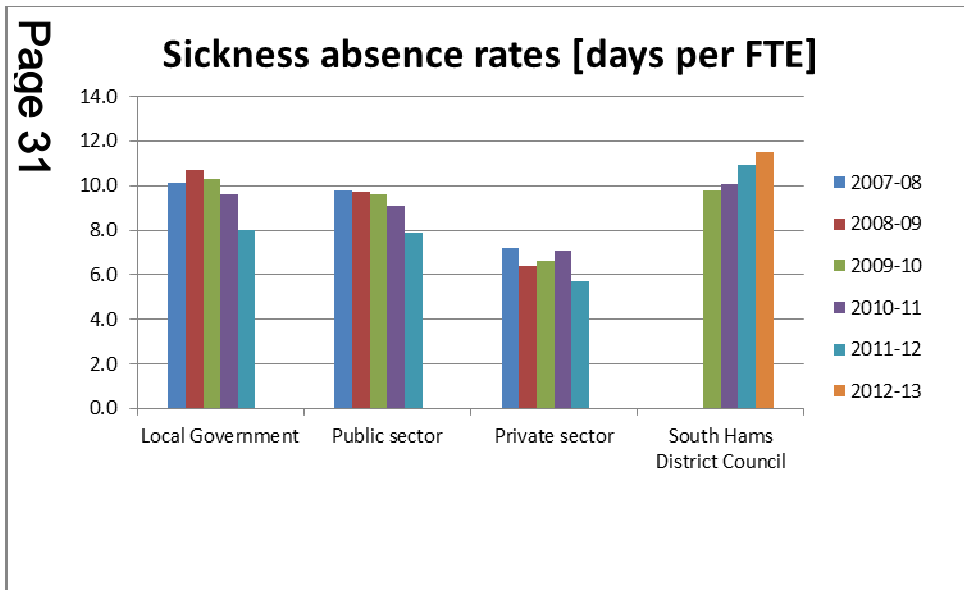


# Key Indicators of Financial Performance

## Sickness Absence Levels

### Background

The average sickness absence level for the public sector in 2011-12 was 7.9 days per FTE, whilst the private sector average was 5.7 days. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".



### Findings

The average number of days sickness per FTE is reported within the Council's balanced scorecard which is presented on a quarterly basis to the Corporate Performance and Resources Scrutiny Panel and has been reported at 'red status' for the last three quarters of the year due to being 10% or more below target.

An average of 11.52 days were lost due to sickness in 2012-13, which is a deterioration from 2011-12 when sickness levels had continued to rise.

The Council routinely provide an analysis of sickness levels between short term and long term sickness. Whilst the proportion of days lost due to long term sickness has reduced in 2012-13, the level of short term sickness has increased and the overall sickness levels continue to both increase and remain above both target and public sector averages.

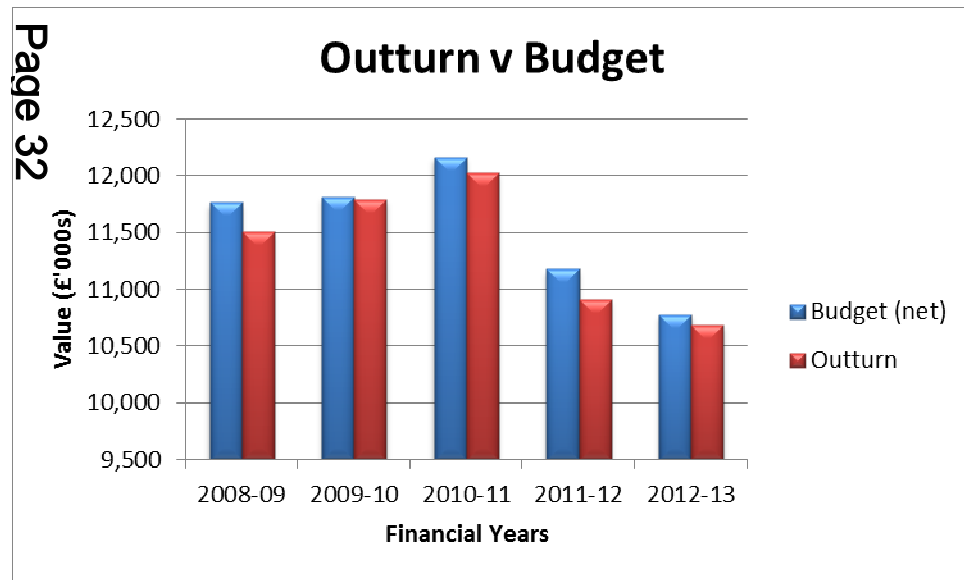
Source: South Hams District Council performance reports

# Key Indicators of Financial Performance

## Performance Against Budget: Track Record

Budget setting requires a consideration of service provision by the Council and the funding that will be available to meet this expenditure requirement. The outturn at the year end is an indication of how accurate the forecasting process was and provides evidence as to whether Councils are aware of the local economic situation and are therefore realistic in the assumptions that they have made.

It is noted that the achieved an underspend of £91,000 against the general fund budget for 2012-13, which represents 0.6% of the gross revenue budget for the year, despite further reduction in the net budget.



Source: South Hams District Council Statement of Accounts

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# The Audit Findings for South Hams District Council

Year ended 31 March 2013

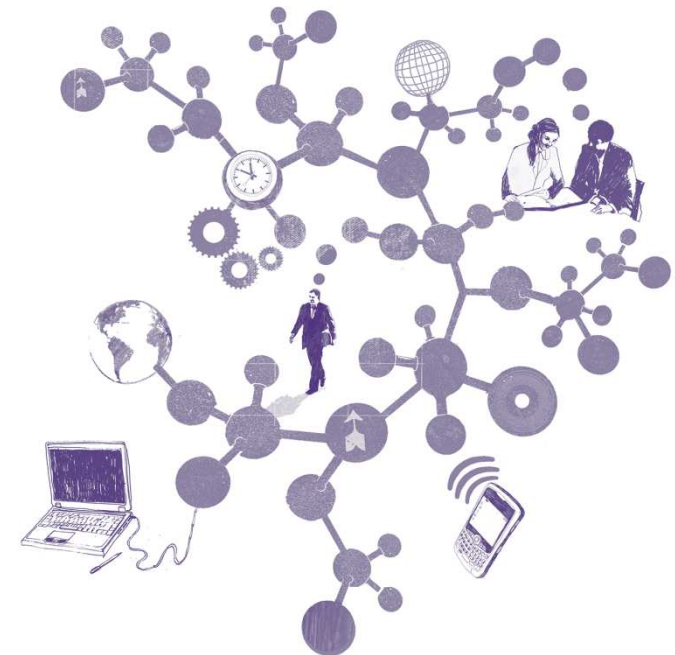
September 2013

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Agenda Item 2b

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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2. Audit findings	7
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4. Fees, non audit services and independence	19
5. Communication of audit matters	21

## **Appendices**

- A Action plan
- B Audit opinion

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## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of South Ham District Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have made one change to our planned audit approach, which was originally communicated to you in our Audit Plan and presented to the Audit Committee 11 April 2013. This change relates to the risk identified in relation to valuation of property, plant and equipment.

Our audit is substantially complete although we are finalising our work in the following areas:

- receipt of letter of assurance from the auditors of the Local Government Pension scheme;
- review of the final version of the financial statements;

- obtaining and reviewing the final management letter of representation;
- review of final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- review of the Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

One adjustment of £293,000 affecting the Council's net expenditure reported in the Comprehensive Income & Expenditure Statement has been made as detailed in section 2 of this report. The draft financial statements recorded net expenditure of £10,885,000; the audited financial statements show net expenditure of £11,178,000. This change relates to errors in capitalising expenditure on property, plant and equipment. We have also made a number of adjustments to improve the disclosures within the financial statements.

Further details are set out in section 2 of this report.

### **Value for money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Control weaknesses were identified in relation to the systems in place for capitalisation of expenditure in the Property Services Repairs and Maintenance System. As noted on page 5, this led to expenditure of £293,000 being incorrectly capitalised. Our work has not identified any further control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Head of Finance & Audit and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2013**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 11 April 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have made one change to our Audit Plan as previously communicated to you on 11 April 2013. This is in relation to the risk of valuation movements being misstated.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our proposed audit opinion is set out in Appendix B.

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

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	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has identified one adjustment to fully recognise grants and contributions applied to capital expenditure in the year, rather than account for these on a net basis.</p> <p>No other issues in respect of revenue recognition identified.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journals entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We previously highlighted to the Audit Committee the weakness in arrangements that separate authorisation is not required for journals to be posted to the ledger system and that the S151 officer has the ability to post journal entries. No significant issues were noted from the testing of journal entries and we confirmed that no journal entries had been made by the Acting Head of Finance &amp; Audit.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p><b>Revaluation movements not correct</b></p> <p>The Statement of Accounts recognise very significant revaluation increases on land and buildings.</p>	<ul style="list-style-type: none"> <li>• agreement of revaluation movements to the fixed asset register and valuation statements.</li> <li>• review of the method and assumptions adopted by the valuer</li> <li>• consider the adequacy of related disclosures</li> </ul>	<p>Our audit work has identified a disclosure adjustment in respect of the split of revaluation increases disclosed in Note 9 in order to correctly analyse amounts between those recognised in the Revaluation Reserve and those recognised in the surplus / deficit on the provision of services. No adjustments were required to the Comprehensive Income &amp; Expenditure Statement or the Balance Sheet.</p> <p>In addition, we recommended that the disclosures relating to the change in valuation of car parks were enhanced to provide further details of the significant valuation increases.</p>

## Audit findings against other risks




In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Operating expenses and creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls relating to operating expenses and creditors</li> <li>undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>substantive testing of operating expenses and significant creditor balances</li> <li>review of after date payments to ensure all liabilities are identified.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified. However, other adjustments were made impacting on the expenditure recorded in the net cost of services. These related to property, plant and equipment additions and grants and contributions applied to capital expenditure.</p>
<b>Employee remuneration</b>	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls relating to employee remuneration</li> <li>undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>testing of employee remuneration expenditure including apportionment of shared costs.</li> </ul>	<p>Our audit work has identified one minor adjustment to the disclosure of exit packages.</p> <p>Our audit work has not identified any significant issues affecting the Comprehensive Income and Expenditure Statement.</p>
<b>Welfare expenditure</b>	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls relating to housing and council tax benefits</li> <li>undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>undertaken elements of the housing and council tax benefits subsidy certification to ensure the correct parameters have been applied to the software systems, movements in expenditure between years are understood and that the software suppliers' instructions have been followed in compiling the subsidy claim</li> <li>testing a sample of 25 benefit expenditure transactions in year to ensure entitlement correctly calculated.</li> </ul>	<p>Our work identified one adjustment of £1.1 million to housing expenditure and associated subsidy income. This was as a consequence of the cut off issue identified in the audit of the 2011-12 accounts.</p> <p>Our audit work has not identified any other significant issues in relation to the risk identified.</p>



# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

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Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential will flow to the Council.</li> <li>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential will flow to the Council.</li> </ul>	<ul style="list-style-type: none"> <li>Revenue recognition policies have been reviewed and were determined to be in accordance with the requirements set out in the CIPFA Code.</li> <li>Disclosure requirements have been assessed in accordance with CIPFA disclosure checklist and are deemed to be appropriate.</li> </ul>	
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>The Council has disclosed that the key estimates and judgements in applying accounting policies are in relation to pension liabilities only.</li> </ul>	<ul style="list-style-type: none"> <li>Note 1 discusses estimation uncertainty in relation to the pensions liability but we recommended that these long-standing disclosures be enhanced to include estimates and judgements in relation to property, plant and equipment.</li> </ul>	
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</li> </ul>	

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

## Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account	Balance Sheet	Impact on general fund
1 <b>Housing benefit subsidy</b> Gross housing income and expenditure have been adjusted as a consequence of the cut off issue identified in the audit of the 2011-12 accounts.	Reduction in gross income and expenditure of £1,114,000	Nil	Nil
2 <b>Property, plant and equipment additions</b> £293,000 of capital expenditure has been capitalised twice leading to overstatement of property, plant and equipment additions.	Increase in maintenance costs of £293,000	Reduction in PPE balance of £293,000 and corresponding reduction in earmarked reserves	Nil
3 <b>Grants and contributions applied</b> Full amounts should be recognised rather than accounted for on a net basis.	Increase in gross income and expenditure of £452,000	Nil	Nil
<b>Overall impact</b>	<b>Increase in net expenditure of £293,000</b>	<b>Reduction of £293,000</b>	<b>Nil</b>



## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value	Account balance	Impact on the financial statements
1 Misclassification	£1,172,000	Property, plant and equipment	Reclassification of an addition from infrastructure assets to assets under construction in respect of a scheme which became operational in May 2013.
2 Disclosure	£293,000	Property, plant and equipment	Updated disclosures in notes 9 and 33 in respect of adjustment to property, plant and equipment additions.
3 Disclosure	£263,000	Property, plant and equipment	Updated disclosures in note 9 to correctly analyse revaluation increases between those recognised in the revaluation reserve and those recognised in the surplus /deficit on provision of services. In addition, further disclosure was added to provide further details in respect of the significant valuation increases and the basis of valuation.
4 Disclosure	£7,000	External Audit Costs	Updated disclosure in note 30 to clarify the level to separately disclose the rebates received on the 2011-12 and 2012-13 audit fees, and to ensure the fees for other services correctly disclosed.
5 Disclosure	-	Grant Income	Disclosure updated in note 31 to provide details of revenue grants and contributions recognised in the net cost of services.
6 Disclosure	-	Exit packages	Updated disclosure in note 36 to correctly disclose the number of compulsory redundancies under £20,000 as four.
7 Disclosure	-	Pensions liability	Note 37 updated to separately disclose the value of the opening and closing funded and unfunded obligation.

## Unadjusted misstatements

We have not identified any adjustments during the course of our audit which are not planned to be made with the final set of financial statements. If following this report, further adjustments are identified we will provide an update to the Audit Committee. The Audit Committee is required to approve management's proposed treatment of any such unadjusted items.

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

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	Assessment	Issue and risk	Recommendations
1.	●	<ul style="list-style-type: none"> <li>Revenue expenditure incurred by the Property Services Repairs and Maintenance Team was calculated as the balance of amounts on the building maintenance control account that were not capitalised, this led to an understatement of costs charged as maintenance to the Comprehensive Income and Expenditure Statement as well as overstatement of capital expenditure by £293,000.</li> </ul>	<ul style="list-style-type: none"> <li>The process for identifying capital expenditure from the Property Services Repairs and Maintenance systems should be reviewed to minimise the possibility of expenditure being capitalised incorrectly.</li> </ul>

## Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Chair of the Audit Committee and have not been made aware of any material concerns. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. A number of minor disclosure and presentation adjustments have been made to the financial statements as set out on page 13.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted that the Council faces significant financial challenges due to further reductions in government funding leading to a budget gap of £2.35 million over the next four year period from 2014-15 to 2017-18. However, the Council has good arrangements in place for financial planning and is able to demonstrate a sound understanding of the financial environment and associated risks. Our detailed findings, along with a small number of recommendations are set out in our separate Financial Resilience report.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and concluded that adequate arrangements are in place.

### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

## Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

### Fees

	2012-13 fees per Audit Plan	2012-13 Actual fees	2011-12 Actual fees
Council audit	£51,628	£51,628	£86,046
Grant certification	£10,250	£10,250	£15,619
<b>Total audit fees</b>	<b>£61,878</b>	<b>£61,878</b>	<b>£101,665</b>

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### Fees for other services

Service	Fees
VAT and Employment Tax advice*	£8,000
Review of client response to HMRC	£2,500
<b>Total</b>	<b>£10,500</b>

\* Please note that we were engaged to undertake the VAT and Employment Tax advice before our formal appointment as the Council's external auditors.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



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## Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters**

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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# Appendices

# Appendix A: Action plan

**Priority**

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

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Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The process for identifying capital expenditure from the Property Services Repairs and Maintenance systems should be reviewed to minimise the possibility of expenditure being capitalised incorrectly.	High	Agreed.	Chief Accountant / Capital Accountant  31 October 2013

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH HAMS DISTRICT COUNCIL

### Opinion on the Authority financial statements

We have audited the financial statements of South Hams District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of South Hams District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Head of Finance and Audit and auditor

As explained more fully in the Statement of the Responsibilities of the Head of Finance and Audit, the Head of Finance and Audit is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Hams District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### Opinion on other matters

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

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

#### *Respective responsibilities of the Authority and the auditor*

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

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

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

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

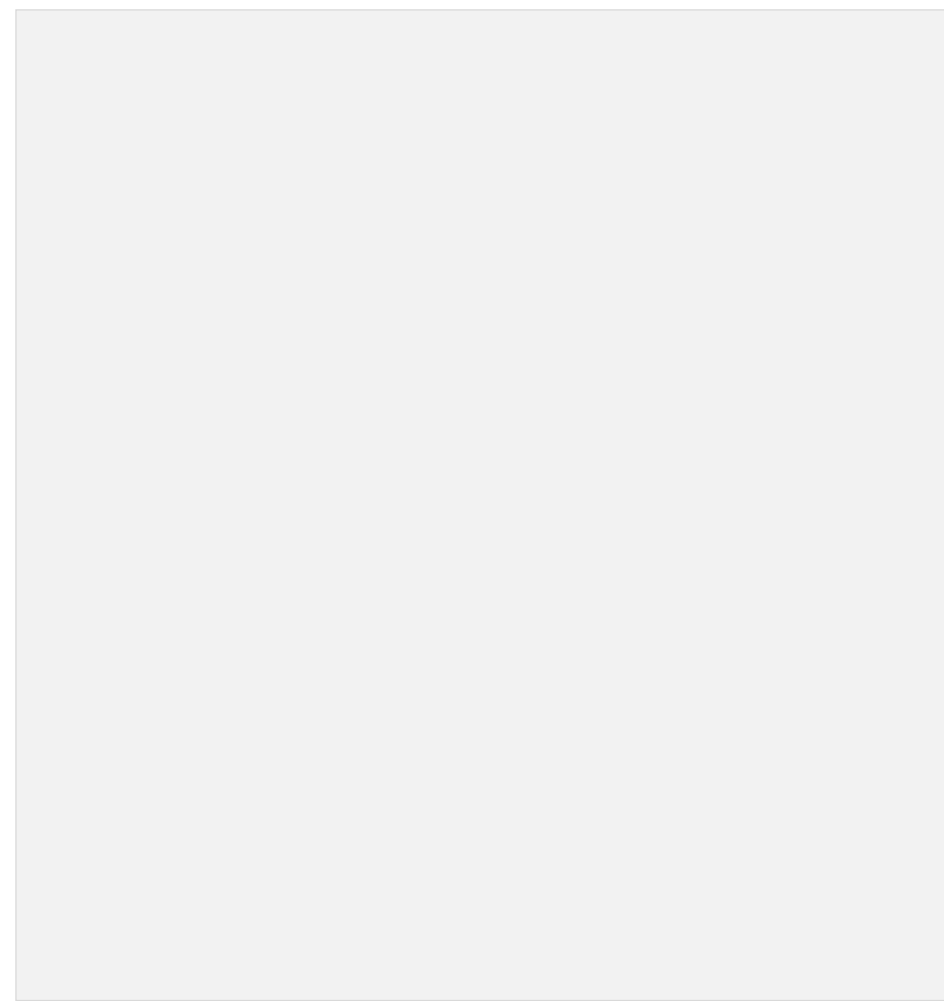
We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness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

***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, South Hams District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

***Certificate***

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



## Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have made one change to our Audit Plan as previously communicated to you on 11 April 2013. This is in relation to the risk of valuation movements being misstated.

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Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated or not recorded in correct period	No	Adjustments due to incorrect capitalisation leading to overstatement of PPE additions and an increase in maintenance costs.
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	No issues were identified in relation to remuneration expenses being incorrectly calculated. A minor disclosure adjustment was made to correctly disclose the number of compulsory redundancies.
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	We did not identify any issues with the calculation of welfare benefits, however an adjustment of £1.1 million to gross housing income and expenditure has been made relating to 2011-12 cut off.
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from Council Tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Other government grants	Grant Income	None		No	Disclosure adjustment to enhance the disclosures in respect of grant income.
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None



Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Significant	Revaluation measurements not correct	Yes	Adjustments due to incorrect capitalisation leading to overstatement of PPE additions and updated disclosures to correctly analyse revaluation increases between those recognised in the revaluation reserve and those recognised in the surplus/deficit on provision of services.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None
Cash and cash equivalents	Bank & cash	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	Adjustments due to adjustments noted under PPE.



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<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>19<sup>th</sup> September 2013</b>
<b>REPORT TITLE</b>	<b>ANNUAL GOVERNANCE STATEMENT 2012/13 - Update</b>
<b>Report of</b>	<b>Head of Finance and Audit (S.151 Officer) Monitoring Officer Chief Internal Auditor</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

**Summary of report:**

Members were provided with information at the July 2013 Audit Committee meeting to allow them to independently examine the draft Annual Governance Statement for 2012/13, the supporting process and assurance streams; and recommend approval of the Annual Governance Statement (AGS) to the following Council.

The AGS provides 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.

The Accounts and Audit (Amendment) (England) Regulations 2011 require the Council to publish the Annual Governance Statement by the end of September with the audited Statement of Accounts. However, the AGS must be reviewed and updated to take account of any significant changes in the governance or control frameworks between the date of production and the publication date. No significant changes were identified and only minor amendments made to the AGS.

**Financial implications:**

Within existing budgets.

**RECOMMENDATION:**

**It is RECOMMENDED that Members consider and note the minor updates to the Annual Governance Statement (AGS) 2012/13 approved by the Council.**

**Officer contact:**

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

## 1 BACKGROUND

### The 2012/13 Annual Governance Statement (AGS)

- 1.1 The Accounts and Audit Regulations 2003 states 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.
- 1.2 In 2006, the Accounts and Audit Regulations were amended to replace the Statement of Internal Control with the 'Annual Governance Statement'.
- 1.3 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.
- 1.4 The extract from the CIPFA Finance Advisory Network guidance (Appendix A) sets out a suggested framework for the System of Internal Control part of the AGS and the assurance gathering process.
- 1.5 This also formed part of the report to the July 2013 Audit Committee meeting which allowed members to independently examine the draft Annual Governance Statement for 2012/13, and the supporting process and assurance streams, and recommend approval to the following Council.
- 1.6 However, the AGS must be reviewed and updated to take account of any significant changes in the governance or control frameworks between the date of production and the publication date.
- 1.7 The following paragraph set out the required amendments.

## 2. UPDATING THE 2012/13 ANNUAL GOVERNANCE STATEMENT

- 2.1 The assurance streams for the draft Annual Governance Statement presented to the July 2013 Audit Committee were revisited to ensure that, up to the date of publication, the AGS included any relevant issues coming to light since its production.
- 2.2 No new significant issues were identified for inclusion in the AGS, **so the majority of the text throughout the document at Appendix B remains unaltered except for the minor amendments below.**
- 2.3 The draft Statement also included an action plan to address any significant governance and internal control issues, which were identified through the assurance process.

2.4 Minor amendments have been made to this as per the following table:

<b>Draft AGS Issue</b>	<b>Update</b>
<p><b>Data Quality Strategy</b> Work commenced but final version unlikely to be available until shortly after the original 30<sup>th</sup> September deadline.</p>	<p>Revised date of 31st October 2013,</p>
<p><b>Shared Services – Overarching Agreement</b> The Monitoring Officer needs an extension to the deadline date due to additional work required on issues such as the review of legal services and T18 Transformation Programme.</p>	<p>Revised date of 31st December 2013.</p>
<p><b>Delegation to Middle Managers</b> The Monitoring Officer needs an extension to the deadline date due to additional work required on issues such as the review of legal services and T18 Transformation Programme.</p>	<p>Revised date of 31st December 2013.</p>
<p><b>Land Charges</b> A case management conference planned for July 2013 at the High Court was adjourned with the agreement of both parties as the process to reconcile fees paid to Local Authorities was not yet complete.</p>	<p>Revised date for case management conference, now September 2013.</p>
<p><b>Dartmouth Embankment</b> Text on this issue is to remain unchanged.</p>	<p>An oral update on the progress being made on this issue will be provided to members at the September Audit Committee meeting.</p>

2.5 The updated Annual Governance Statement for 2012/13 appears at Appendix B to this report and must be signed by the Leader and Chief Executive, as leading member and leading officer.

### 3. LEGAL IMPLICATIONS

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

### 4. FINANCIAL IMPLICATIONS

4.1 Within existing budgets.

### 5. RISK MANAGEMENT

5.1 The risk management implications follow these considerations:

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Considerations of equality and human rights:</b>	There are no specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	There are no specific crime and disorder issues arising from this report.
<b>Background papers:</b>	<ul style="list-style-type: none"> <li>• Grant Thornton: Improving Council Governance 2013;</li> <li>• Code of Corporate Governance for South Hams District Council 2011</li> <li>• CIPFA/SOLACE (2007, 2010, 2012): Delivering Good Governance in Local Government – incl. Guidance Note for English Authorities</li> <li>• Independent Commission on Good Governance in Public Services (2005): The Good Governance for Public Services</li> <li>• CIPFA/SOLACE document: Corporate Governance in Local Government: A Keystone for Community Governance: CIPFA (2001)</li> </ul>
<b>Appendices attached:</b>	<p><b>Appendix A</b> – Framework for the System of Internal Control and Annual Governance Statement</p> <p><b>Appendix B</b> – Updated Annual Governance Statement for 2012/13</p>

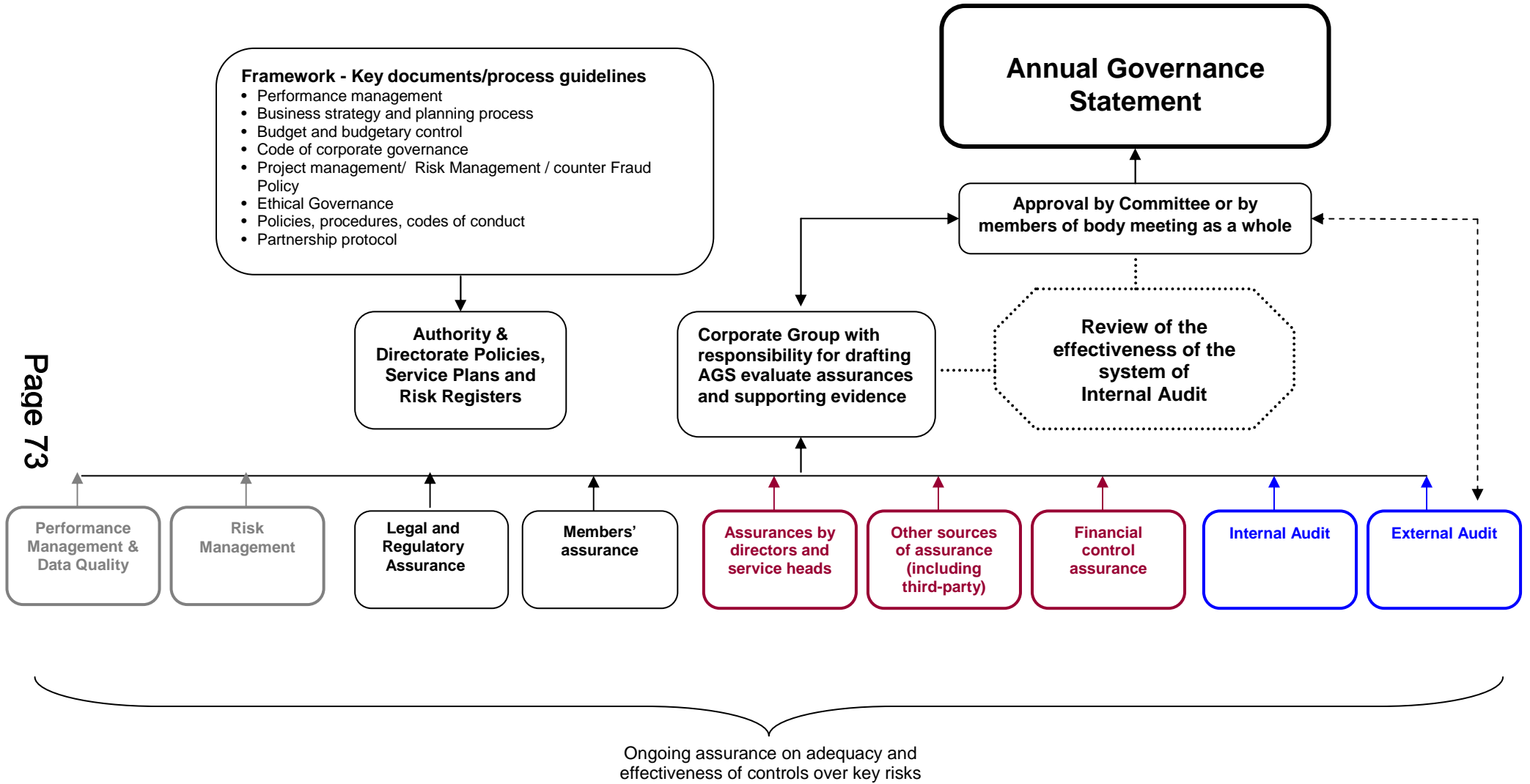


## STRATEGIC RISKS TEMPLATE

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"> <li>Facilitate effective and efficient operation by enabling an appropriate response to significant business, operational, financial, compliance and other risks to achieving the Council's objectives (including the safeguarding of assets from inappropriate use, loss or fraud, and ensuring that liabilities are identified and managed);</li> <li>Help ensure the quality of internal and external reporting.</li> <li>Help ensure compliance with applicable laws and regulations, and internal policies with respect to the conduct of business.</li> </ul>	-	-	-	-	Monitoring compliance of the Code of Corporate Governance and the System of Internal Control will feed the Annual Governance Statement (AGS) process and provide assurance to the community that a good governance framework is in place.	The Council Audit Committee Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
2	System of Internal Control - Formal Identification of objectives, risks and related controls.	Senior managers may be unable to demonstrate that they have set their service objectives linked to those of the Council, identified the risks to achieving these service objectives and assessed the controls in place to mitigate the risks.	2	2	4	↔	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 published with 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](http://www.southhams.gov.uk) or can be obtained from the Chief Internal Auditor, South Hams District Council, Follaton House, Plymouth Road, Totnes TQ9 5NE.

This statement explains how South Hams District Council has complied with the code and also meets the requirements of 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 (13<sup>th</sup> 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 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 brings 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 (13<sup>th</sup> 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 (Projects 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"> <li>• To adopt and approve the Constitution and governance arrangements including the form of the Executive.</li> <li>• Oversee the effective management of risk by officers of the Council.</li> <li>• Maintain a system of internal control.</li> <li>• Approve the Annual Governance Statement.</li> </ul>	<p style="text-align: center;">‘The Relevant Body’ - South Hams District Council</p>
<ul style="list-style-type: none"> <li>• Propose the budget and policy framework to the Council, including the Code of Corporate Governance etc.</li> </ul>	<p style="text-align: center;">The Executive</p>
<ul style="list-style-type: none"> <li>• Review and scrutinise decisions made or actions taken in connection with the discharge of any of the Council’s functions.</li> </ul>	<p style="text-align: center;">Scrutiny Panels</p>
<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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).</li> </ul>	<p style="text-align: center;">Corporate Performance and Resources Scrutiny Panel</p>

Responsibility (Continued)	Responsible Party
<ul style="list-style-type: none"> <li>Monitor the effective development and operation of risk management and corporate governance in the Council.</li> </ul> <p>Consider:</p> <ul style="list-style-type: none"> <li>The annual review of the Constitution and recommend approval to the Council;</li> <li>The Council's arrangements for corporate governance and to ensure compliance with best practice;</li> <li>The effectiveness of the 'system of internal audit'. Including an annual self assessment of the effectiveness of the Committee;</li> <li>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</li> <li>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.</li> </ul>	<p>Audit Committee (Delegated Member Body)</p>
<ul style="list-style-type: none"> <li>Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks.</li> <li>Provide assurance through routine monitoring of internal controls as an integral part of the risk management process.</li> <li>Regularly report on risk and internal controls through the management team.</li> </ul>	<p>Heads of Service</p>
<ul style="list-style-type: none"> <li>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.</li> <li>These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective.</li> </ul>	<p>S.151 and Monitoring Officers</p>
<ul style="list-style-type: none"> <li>Review the effectiveness of the system of internal audit annually and report results to the Audit Committee.</li> <li>Subject to complying with the Code of Practice for Internal Audit in Local Government, provide independent and objective assurance across the whole range of the Council's activities.</li> <li>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.</li> </ul>	<p>Chief Internal Auditor (as head of internal audit)</p>
<ul style="list-style-type: none"> <li>Provide explicit assurance on the control environment and governance arrangements in relation to their area of responsibilities.</li> </ul>	<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 13<sup>th</sup> 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><b>Data Quality Strategy</b> 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 31st October 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><b>Shared Services – Overarching Agreement</b></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 31st December 2013</p>
<p><b>Delegation to Middle Managers</b></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 31st December 2013</p>
<p><b>Partnership Framework</b></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><b>Pay and Grading</b></p> <p>In July 2009, Executive decided that no further progress towards single status could be made at that time. It is now the Council's intention to work toward convergence of terms and conditions of employment for all staff across the two Authorities which includes Pay.</p> <p>It is not possible to estimate the cost of such convergence and it is difficult to foresee to what extent the Council will be subject to equal pay claims.</p>	<p>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 31<sup>st</sup> March 2014</p>	<p>Head of Paid Service Head of Corporate Services 31 March 2014</p>

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Dartmouth Embankment</b></p> <p>A previous formal management agreement between the Council and Dart Harbour Navigation Authority (DHNA) for the latter to manage the Embankment was terminated by the Council in 2003 in exchange for retaining all harbour dues.</p> <p>Further negotiations have taken place with DHNA since, with some disagreement over the interpretation of Section 54 and related parts of the Dart Harbour Navigation Act 1975. The legislation says that 75% of the net harbour dues should be paid to the Council.</p> <p>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 as a matter of principle.</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><b>Land Charges</b></p> <p>In common with 370 other English district and unitary councils, South Hams District Council may be the subject of a claim by a group of companies whose business is the making of personal searches of our land charges records.</p> <p>No claim has been served upon the Council and the issue is whether the charges were lawfully imposed. The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those regulations were unlawfully made, the Government should compensate.</p>	<p>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 in September 2013 at the High Court.</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><b>Contracts Database</b></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><b>Internal and External Audit Reports</b></p> <p>Some issues have been identified in audit reports by the Council's external auditor and the shared in-house internal audit team.</p> <p>Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed.</p> <p>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><b>Financial Uncertainty</b></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"> <li>• T18 Transformation Programme. The programme will deliver new and very different ways of working;</li> <li>• Strategic Asset Review; and</li> <li>• Strategic Waste Review.</li> </ul>	<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:**

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

**30<sup>th</sup> September 2013**

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AGENDA  
ITEM

**8**

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

**8**

<b>NAME OF COMMITTEE</b>	Audit Committee
<b>DATE</b>	19 September 2013
<b>REPORT TITLE</b>	<b>ANNUAL STATEMENT OF ACCOUNTS 2012/13</b>
<b>Report of</b>	Head of Finance and Audit
<b>WARDS AFFECTED</b>	All

### Summary of report:

This report presents a summary of net revenue and capital expenditure for Members consideration and seeks approval of the audited Statement of Accounts for 2012/13. **Following approval of the accounts, the Chairman of the Audit Committee is required to sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. **Following approval of its wording, the Chairman of the Audit Committee and the Head of Finance are required to sign the Letter of Representation.**

### Financial implications:

The Council's Statement of Accounts set out the financial position of the Authority as at 31 March 2013. The report advises Members that a surplus of £91,000 was generated in 2012/13.

### RECOMMENDATIONS:

It is recommended that Members approve:

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

### Officer contact:

Michael Tithecott, Chief Accountant  
Email: [michael.tithecott@swdevon.gov.uk](mailto:michael.tithecott@swdevon.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 line with common practice in the commercial sector, local authorities are now required to approve the accounts following the completion of the external audit.
- 1.2 The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process, since it confirms the availability of reserves and balances for future use.
- 1.3 The attached booklet (Appendix B) contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Account, Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow. In addition, the explanatory foreword to the booklet summarises the major variations in income and expenditure from the original budget.
- 1.4 The accounts have been prepared in accordance with all relevant and appropriate accounting standards including International Accounting Standard (IAS)19 which deals with pension costs.

## **2. ISSUES FOR CONSIDERATION**

### **2.1 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 2012/13 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 to 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 around £2.6m in 2012/13 and is analysed in the Explanatory Foreword to the SOA.

## **3. AUDIT OF ACCOUNTS**

- 3.1 The draft Statement of Accounts was considered by the Audit Committee on 18 July 2013. The Draft Statement of Accounts is required to be audited by the Council's external auditors, who give their opinion on the Draft Accounts. The annual audit was undertaken in August 2013 by the Council's external auditors, Grant Thornton UK LLP. Post audit changes have been incorporated within the SOA in line with the recommendations contained within their "Audit Findings Report".
- 3.2 The Council Constitution delegates approval of the Accounts to the Audit Committee. The Council is also required to sign a Letter of Representation every year, which gives representations to the Council's external auditors. The Chairman of the Audit Committee and the Head of Finance are required to sign the Letter of Representation. The letter is attached at Appendix A. It is recommended that Members approve the wording of the Letter of Representation.

## **4. LEGAL IMPLICATIONS**

- 4.1 The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 (SI 2011 No 817).

## **5. FINANCIAL IMPLICATIONS**

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

## **6. RISK MANAGEMENT**

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

## 7. OTHER CONSIDERATIONS

<b>Corporate priorities engaged:</b>	Effective financial management underpins the achievement of all priorities
<b>Statutory powers:</b>	Section 151 Local Government Act 1972 Section 21 (12) Local Government Act 2003 Accounts and Audit (England) Regulations 2011 SI 2011 No 817
<b>Considerations of equality and human rights:</b>	None directly arising from this report
<b>Biodiversity considerations:</b>	None directly arising from this report
<b>Sustainability considerations:</b>	None directly arising from this report
<b>Crime and disorder implications:</b>	None directly arising from this report
<b>Background papers:</b>	Corporate Finance working papers
<b>Appendices attached:</b>	Appendix A – Letter of Representation Appendix B – 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	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 takes in account any significant issues when developing the Council's Medium Term Financial Strategy.	Head of Finance & Audit/ Executive

Direction of travel symbols ↓ ↑ ↔

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**LETTER OF REPRESENTATION**

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
BRISTOL  
BS1 6FT

19 September 2013

Dear Sirs

**South Hams District Council**

**Financial Statements for the year ended 31 March 2013**

This representation letter is provided in connection with the audit of the financial statements of South Hams District Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately

disclosed in the financial statements. There are no further material judgements that need to be disclosed.

- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- ix The financial statements are free of material misstatements, including omissions.
- x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

### **Information Provided**

- xii We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xiii We have communicated to you all deficiencies in internal control of which management is aware.
- xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xv We have disclosed to you the results of our assessment of the risk that the financial

statements may be materially misstated as a result of fraud.

- xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

**Annual Governance Statement**

- xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

**Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 19 September 2013.

**Signed on behalf of the Council**

**Name**...Councillor J T Pennington.....

**Position**...Chairman of the Audit Committee.....

**Date**.....19 September 2013.....

Name...Mrs. Lisa Buckle.....

Position...Head of Finance & Audit (Section 151 Officer).....

Date.....19 September 2013.....

# South Hams District Council

## Statement of Accounts

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
<b>Cost of services (after allowing for income and reserve contributions)</b>	9,417	9,332	(85)
Parish precepts	1,590	1,590	-
Interest and Investment income	(230)	(236)	(6)
<b>Amount to be met from Government grants and taxation</b>	<b>10,777</b>	<b>10,686</b>	<b>(91)</b>
<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)	-
<b>SURPLUS</b>	<b>-</b>	<b>(91)</b>	<b>(91)</b>

## Appendix B

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:

<b>ANALYSIS OF VARIATIONS</b>	<b>£000</b>
<b>Increases in expenditure/reduction in income</b>	
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
<b>Reductions in expenditure/additional income</b>	
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)
<b>TOTAL SURPLUS</b>	<b>(91)</b>

### 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 £2.6m on capital projects. The main areas of expenditure were as follows:
- replacement ferry slipway (£0.9m)
  - 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 Head of Finance and Audit authorised the Statement of Accounts 2012/13 for issue on the 19<sup>th</sup> September 2013. Events taking place after this date are not reflected in the financial statements or notes.

## 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".

Lisa Buckle BSc, ACA  
Head of Finance and Audit

***Section 2***

***Core Financial Statements***



## SECTION 2A. MOVEMENT IN RESERVES STATEMENT

### Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2011</b>	<b>1,316</b>	<b>7,603</b>	<b>6,531</b>	<b>220</b>	<b>15,670</b>	<b>45,239</b>	<b>60,909</b>
<b>Movement in reserves during 2011/12</b>							
Surplus or (deficit) on the provision of services	(2,333)	-	-	-	(2,333)	-	(2,333)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(10,194)	(10,194)
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,333)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,333)</b>	<b>(10,194)</b>	<b>(12,527)</b>
Adjustments between accounting basis & funding basis under regulations (Note 4)	2,485	-	(897)	1	1,589	(1,589)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>152</b>	<b>-</b>	<b>(897)</b>	<b>1</b>	<b>(744)</b>	<b>(11,783)</b>	<b>(12,527)</b>
Transfers to/from Earmarked Reserves (Note 5)	975	(975)	-	-	-	-	-
<b>Increase/Decrease in 2011/12</b>	<b>1,127*</b>	<b>(975)*</b>	<b>(897)</b>	<b>1</b>	<b>(744)</b>	<b>(11,783)</b>	<b>(12,527)</b>

\*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
<b>Balance at 31 March 2012 Carried forward</b>	<b>2,443</b>	<b>6,628</b>	<b>5,634</b>	<b>221</b>	<b>14,926</b>	<b>33,456</b>	<b>48,382</b>
<b>Movement in Reserves during 2012/13</b>							
Surplus or (deficit) on provision of Services	(1,146)	-	-	-	(1,146)	-	(1,146)
Other Comprehensive Income and Expenditure	-	-	-	-	-	6,892	6,892
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,146)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,146)</b>	<b>6,892</b>	<b>5,746</b>
Adjustments between accounting basis & funding basis under regulations (Note 4)	1,264	-	(332)	(14)	918	(918)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>118</b>	<b>-</b>	<b>(332)</b>	<b>(14)</b>	<b>(228)</b>	<b>5,974</b>	<b>5,746</b>
Transfers to/from Earmarked Reserves (Note 5)	(27)	27	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>91</b>	<b>27</b>	<b>(332)</b>	<b>(14)</b>	<b>(228)</b>	<b>5,974</b>	<b>5,746</b>
<b>Balance at 31 March 2013 Carried forward</b>	<b>2,534</b>	<b>6,655</b>	<b>5,302</b>	<b>207</b>	<b>14,698</b>	<b>39,430</b>	<b>54,128</b>

## SECTION 2B. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

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	8,152	(7,408)	744
3,094	(572)	2,522	Cultural & Related	2,889	(690)	2,199
8,120	(2,041)	6,079	Environmental	7,898	(2,072)	5,826
3,469	(5,027)	(1,558)	Highways and transport	3,077	(4,743)	(1,666)
23,873	(22,290)	1,583	Housing	24,986	(23,639)	1,347
3,839	(2,913)	926	Planning & Development	3,849	(2,699)	1,150
1,735	(12)	1,723	Corporate and democratic core	1,553	(57)	1,496
247	(21)	226	Non distributed costs	89	(7)	82
<b>52,717</b>	<b>(40,099)</b>	<b>12,618</b>	<b>Cost of Services</b>	<b>52,493</b>	<b>(41,315)</b>	<b>11,178</b>
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)
<b>54,558</b>	<b>(52,225)</b>	<b>2,333</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>54,852</b>	<b>(53,706)</b>	<b>1,146</b>
		(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
		<b>10,194</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(6,892)</b>
		<b>12,527</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(5,746)</b>

## SECTION 2C. BALANCE SHEET

31 March 2012 £000		Notes	31 March 2013 £000
61,856	Property, Plant & Equipment	9	70,928
322	Investment Property	10	307
115	Intangible Assets	11	145
68	Long Term Investments	12	-
91	Long Term Debtors	14	49
<b>62,452</b>	<b>Long Term Assets</b>		<b>71,429</b>
15,156	Short Term Investments	12	13,118
41	- accrued interest	12	107
138	Inventories	13	88
4,769	Short Term Debtors	14	4,601
2,192	Cash and Cash Equivalents	15	6,048
<b>22,296</b>	<b>Current Assets</b>		<b>23,962</b>
(3,433)	Short Term Creditors	16	(5,620)
(186)	Short Term Revenue Grants in Advance	31	(116)
(62)	Provisions	17	(18)
<b>(3,681)</b>	<b>Current Liabilities</b>		<b>(5,754)</b>
(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)
<b>(32,685)</b>	<b>Long Term Liabilities</b>		<b>(35,509)</b>
<b>48,382</b>	<b>Net Assets</b>		<b>54,128</b>
14,926	Usable Reserves	18	14,698
33,456	Unusable Reserves	19	39,430
<b>48,382</b>	<b>Total Reserves</b>		<b>54,128</b>

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

*The unaudited accounts were issued on 28 June 2013. The audited accounts were issued on 19 September 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.

<b>2011/12 £000</b>		<b>2012/13 £000</b>
<b>2,333</b>	<b>Net (surplus) or deficit on the provision of services</b>	<b>1,146</b>
(1,941)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 20 )	(5,327)
(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)
<b>(4,267)</b>	<b>Net cash outflows/ (inflow) from Operating Activities</b>	<b>(8,824)</b>
1,782	Net increase/ ( decrease) in Investing Activities (Note 22)	(932)
5,904	Net cash outflow/ (inflow) from Financing Activities (Note 23)	5,900
<b>3,419</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>(3,856)</b>
5,611	Cash and cash equivalents at the beginning of the reporting period	2,192
<b>2,192</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 15)</b>	<b>6,048</b>

***Section 3***

***Notes to the***

***Financial Statements***

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

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### SECTION 3. NOTES TO THE ACCOUNTS

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

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

The item in the Authority's Balance Sheet at 31 March 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
Property, Plant and Equipment	Assets are depreciated over useful lives which are estimated annually.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls.
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 draft SOA were 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	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Charges for depreciation and impairment of non-current assets	1,933			(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
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
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	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of unattached capital receipts	(404)	404		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(743)		743
Repayment of mortgage and parish loans		7		(7)
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 37)	2,982			(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	
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(52)			52
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	13			(13)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations</b>	<b>1,264</b>	<b>(332)</b>	<b>(14)</b>	<b>(918)</b>

### 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	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Charges for depreciation and impairment of non-current assets	1,809			(1,809)
Revaluation losses on Property Plant and Equipment	577			(577)
Movements in the market value of Investment Properties	17			(17)
Amortisation of intangible assets	95			(95)
Capital grants and contributions applied	(223)			223
Revenue expenditure funded from capital under statute (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
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(15)		15	-
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	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(300)	300		-
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)
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 35)	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	
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	31			(31)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	7			(7)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations</b>	<b>2,485</b>	<b>(897)</b>	<b>1</b>	<b>(1,589)</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 5. TRANSFERS TO/ FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13.

	Balance at 31 March 2012	Transfers Out	Transfers In	Balance at 31 March 2013
	£000	£000	£000	£000
<b>EARMARKED RESERVES</b>				
<b>General Fund</b>				
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		4	428
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	-
<b>Sub Total</b>	<b>6,303</b>	<b>(2,603)</b>	<b>2,446</b>	<b>6,146</b>
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	41		91	132
Harbour Renewals	95	(14)	53	134
General Reserve	184	(49)	103	238
<b>Sub Total</b>	<b>320</b>	<b>(63)</b>	<b>247</b>	<b>504</b>
<b>Trust &amp; Bequest</b>	<b>5</b>			<b>5</b>
<b>TOTAL EARMARKED REVENUE RESERVES</b>	<b>6,628</b>	<b>(2,666)</b>	<b>2,693</b>	<b>6,655</b>

### 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)
<b>1,588</b>	<b>Total</b>	<b>1,572</b>

#### 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
<b>(209)</b>	<b>Total</b>	<b>125</b>

#### 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)
<b>(11,664)</b>	<b>Total</b>	<b>(11,729)</b>

## 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
<b>Cost or Valuation</b>						
<b>At 1 April 2012</b>	<b>54,327</b>	<b>8,586</b>	<b>3,874</b>	<b>722</b>	<b>1,445</b>	<b>68,954</b>
Additions	115	332	29	37	1,201	1,714
revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,335					8,335
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	721					721
derecognition – disposals		(386)				(386)
other movements in cost or valuation	36	353	774		(1,163)	-
<b>At 31 March 2013</b>	<b>63,534</b>	<b>8,885</b>	<b>4,677</b>	<b>759</b>	<b>1,483</b>	<b>79,338</b>
<b>Accumulated Depreciation and Impairment at 1 April 2012</b>	<b>1,604</b>	<b>4,079</b>	<b>1,415</b>	<b>-</b>	<b>-</b>	<b>7,098</b>
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	(23)		(2)			(25)
impairment losses/(reversals) recognised in the Revaluation Reserve						
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services			16		3	19
derecognition-disposals		(372)				(372)
<b>At 31 March 2013</b>	<b>2,208</b>	<b>4,571</b>	<b>1,628</b>	<b>-</b>	<b>3</b>	<b>8,410</b>
<b>Balance Sheet amount at 31 March 2013</b>	<b>61,326</b>	<b>4,314</b>	<b>3,049</b>	<b>759</b>	<b>1,480</b>	<b>70,928*</b>
<b>Balance Sheet amount at 31 March 2012</b>	<b>52,723</b>	<b>4,507</b>	<b>2,459</b>	<b>722</b>	<b>1,445</b>	<b>61,856*</b>

\* The year on year variation is mainly due to the revaluation of car parks as at 1<sup>st</sup> April 2012. Please see Revaluation section on page 29 for further explanation.



## 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
<b>Cost or Valuation</b>						
<b>At 1 April 2011</b>	<b>52,661</b>	<b>7,535</b>	<b>3,566</b>	<b>671</b>	<b>1,266</b>	<b>65,699</b>
additions	345	734	190	51	776	2,096
revaluation increases/ (decreases) recognised in the Revaluation Reserve	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)
<b>At 31 March 2012</b>	<b>54,327</b>	<b>8,586</b>	<b>3,874</b>	<b>722</b>	<b>1,445</b>	<b>68,954</b>
<b>Accumulated Depreciation and Impairment at 1 April 2011</b>	<b>1,669</b>	<b>3,413</b>	<b>1,273</b>			<b>6,355</b>
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
<b>At 31 March 2012</b>	<b>1,604</b>	<b>4,079</b>	<b>1,415</b>	<b>-</b>	<b>-</b>	<b>7,098</b>
<b>Balance Sheet amount at 31 March 2012</b>	<b>52,723</b>	<b>4,507</b>	<b>2,459</b>	<b>722</b>	<b>1,445</b>	<b>61,856</b>
<b>Balance Sheet amount at 31 March 2011</b>	<b>50,992</b>	<b>4,122</b>	<b>2,293</b>	<b>671</b>	<b>1,266</b>	<b>59,344</b>

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

### **Depreciation**

The Council provides depreciation on all 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.

	<b>Land and buildings</b>	<b>Vehicles, plant furniture &amp; equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Valued at historical cost</b>	<b>19</b>	<b>4,314</b>	<b>4,333</b>
<b>New certified valuation included in Balance Sheet</b>			
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
<b>Total</b>	<b>61,326</b>	<b>4,314</b>	<b>65,640</b>

*N.B. Car parks were revalued as at 1<sup>st</sup> April 2012 as part of the wider rolling programme of revaluations. A change in valuation approach is largely responsible for an increase in value of car parks of approximately £7.6m. This is the major cause of the overall variation year on year in the Balance Sheet.*

*Car parks have been revalued to Fair Value (Existing Use Value) which is the same basis used in the past. However, in previous revaluations, a deduction was made to the gross income received by each car park, to reflect the share of income apportioned between a hypothetical landlord and tenant. Had the previous approach been used the 2012-13 valuation of car parks would have been reduced by £10m.*

### SECTION 3. NOTES TO THE ACCOUNTS

#### 10. INVESTMENT PROPERTIES

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

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

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

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

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

### SECTION 3. NOTES TO THE ACCOUNTS

#### 11. INTANGIBLE ASSETS

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £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
<b>Gross carrying amount</b>	<b>285</b>	<b>330</b>
Accumulated amortisation	(120)	(215)
<b>Net carrying amount at start of year</b>	<b>165</b>	<b>115</b>
Purchases	45	102
Amortisation for the period	(95)	(72)
<b>Net carrying amount at end of year</b>	<b>115</b>	<b>145</b>

#### Comprising:

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

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

### **12. FINANCIAL INSTRUMENTS**

#### **Categories of Financial Instruments**

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

##### Liabilities

- trade payables and other payables
- borrowings
- financial guarantees

##### Assets

- bank deposits
- trade receivables
- loans receivables
- investments

##### Derivatives

- swaps
- forwards
- options

#### **Fair Values of Assets and Liabilities**

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

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

- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; 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:

<b>Financial Instrument</b>	<b>Basis of Measurement</b>	<b>Note</b>
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates.
Investments – Other	Held at carrying value on basis of materiality.	See also accounting policy on cash equivalents.
Operational debtors	Held at invoiced or billed amount less an estimate for non-collection of debts.	Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate. The carrying amount has been adjusted for an assessment of bad debts. See Note 39 within 'credit risk' for further information.
Operational creditors	Held at invoiced or billed amount.	Carrying amount is a reasonable approximation of fair value for these short term liabilities.

### 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
<b>TOTAL</b>	<b>13,118</b>	<b>98</b>	<b>13,216</b>	

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

#### Icelandic Banks

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

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

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

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

### 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			-
<b>Total expense in Surplus or deficit on the provision of Services</b>	-	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)
<b>Total expense in Surplus or deficit on the provision of Services</b>	(242)	(47)	(289)	(239)	-	(239)
<b>Net (gain)/loss for the year</b>	(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
<b>106</b>	<b>Balance at 1 April</b>	<b>126</b>	<b>12</b>	<b>138</b>
<b>673</b>	Purchases	584	16	<b>600</b>
<b>(641)</b>	Recognised as an expense in the year	(634)	(16)	<b>(650)</b>
<b>138</b>	<b>Balance at 31 March</b>	<b>76</b>	<b>12</b>	<b>88</b>

### 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
<b>4,769</b>	<b>Total</b>	<b>4,601</b>

#### Long term

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

## 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
<b>2,192</b>	<b>Total Cash and Cash Equivalents</b>	<b>6,048</b>

### 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	(2,329)
(126)	Employee benefits	(139)
(47)	Council taxpayers	(53)
(744)	Council taxpayers – preceptors a/c	(842)
<b>(3,433)</b>	<b>Total</b>	<b>(5,620)</b>

#### Long term

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

### SECTION 3. NOTES TO THE ACCOUNTS

#### 17. PROVISIONS

Provisions payable within twelve months of the Balance Sheet date are classified as current liabilities; provisions payable more than twelve months from the Balance Sheet date are classified as long term liabilities. No long term provisions were created in 2012/13 or 2011/12. The breakdown of the provision is shown in the following table:

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

**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	48,392
(28,927)	Pensions Reserve	(32,073)
99	Collection Fund Adjustment Account	151
(126)	Accumulated Absences Account	(139)
<b>33,456</b>	<b>Total Unusable Reserves</b>	<b>39,430</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### Revaluation Reserve

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

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

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

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



## SECTION 3. NOTES TO THE ACCOUNTS

### Capital Adjustment Account

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

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

2011/12 £000		2012/13 £000	2012/13 £000
<b>48,214</b>	<b>Balance at 1 April</b>		<b>47,700</b>
	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)	
<b>(3,015)</b>	<b>Total</b>		<b>(1,306)</b>
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
<b>(2,811)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>(1,117)</b>
	Capital financing applied in the year:		
1,335	Use of the Capital Receipts Reserve to finance new capital expenditure	743	
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)	
<b>2,297</b>	<b>Total</b>		<b>1,809</b>
<b>47,700</b>	<b>Balance at 31 March</b>		<b>48,392</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### Pensions Reserve

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

<b>31.3.2012</b>		<b>31.3.2013</b>
<b>£000</b>		<b>£000</b>
<b>(14,861)</b>	<b>Balance at 1 April</b>	<b>(28,927)</b>
(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
<b>(28,927)</b>	<b>Balance at 31 March</b>	<b>(32,073)</b>

\* 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.

<b>31.3.2012</b>		<b>31.3.2013</b>
<b>£000</b>		<b>£000</b>
<b>130</b>	<b>Balance at 1 April</b>	<b>99</b>
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	
(31)		52
<b>99</b>	<b>Balance at 31 March</b>	<b>151</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### Accumulated Absences Account

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

31.3.2012 £000		31.3.2013 £000	31.3.2013 £000
(119)	<b>Balance at 1 April</b>		(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)	<b>Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements</b>		(13)
(126)	<b>Balance at 31 March</b>		(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	(1,260)
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
<b>(1,941)</b>	<b>Total</b>	<b>(5,327)</b>

### SECTION 3. NOTES TO THE ACCOUNTS

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

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)
<b>(4,314)</b>	<b>Total</b>	<b>(4,480)</b>

#### 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	1,317
277	(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)
<b>1,782</b>	<b>Net cash flows from investing activities</b>	<b>(932)</b>

**SECTION 3. NOTES TO THE ACCOUNTS**

**23. CASH FLOW STATEMENT – FINANCING ACTIVITIES**

<b>2011/12</b>		<b>2012/13</b>
<b>£000</b>		<b>£000</b>
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
<b>5,904</b>	<b>Total</b>	<b>5,900</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 24. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement (CIES) is that specified by the *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)	(1,206)	(4,705)	(780)	(2,645)	(45)	(10,423)
Government grants & contributions	(6,611)	(445)	(866)	(38)	(22,859)	(54)	(19)	(30,892)
<b>Total Income</b>	<b>(7,408)</b>	<b>(690)</b>	<b>(2,072)</b>	<b>(4,743)</b>	<b>(23,639)</b>	<b>(2,699)</b>	<b>(64)</b>	<b>(41,315)</b>
Employee expenses	984	243	3,665	1,296	1,053	2,257	406	9,904
Other service expenses	6,393	1,848	3,355	1,643	22,946	833	561	37,579
Depreciation / amortisation	10	691	305	(33)	730	199	-	1,902
Support service recharges	765	107	573	171	257	560	675	3,108
<b>Total Expenditure</b>	<b>8,152</b>	<b>2,889</b>	<b>7,898</b>	<b>3,077</b>	<b>24,986</b>	<b>3,849</b>	<b>1,642</b>	<b>52,493</b>
<b>Net Expenditure</b>	<b>744</b>	<b>2,199</b>	<b>5,826</b>	<b>(1,666)</b>	<b>1,347</b>	<b>1,150</b>	<b>1,578</b>	<b>11,178</b>



### 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)	(1,194)	(4,991)	(595)	(2,514)	(32)	(10,350)
Government grants & contributions	(6,570)	(220)	(847)	(36)	(22,297)	(400)	-	(30,370)
<b>Total Income</b>	<b>(7,223)</b>	<b>(591)</b>	<b>(2,041)</b>	<b>(5,027)</b>	<b>(22,892)</b>	<b>(2,914)</b>	<b>(32)</b>	<b>(40,720)</b>
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	900	411	362	1,127	237	-	3,047
Support service recharges	801	162	728	237	355	663	971	3,917
<b>Total Expenditure</b>	<b>8,340</b>	<b>3,113</b>	<b>8,120</b>	<b>3,469</b>	<b>24,475</b>	<b>3,840</b>	<b>1,981</b>	<b>53,338</b>
<b>Net Expenditure</b>	<b>1,117</b>	<b>2,522</b>	<b>6,079</b>	<b>(1,558)</b>	<b>1,583</b>	<b>926</b>	<b>1,949</b>	<b>12,618</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 25. TRADING OPERATIONS - GENERAL

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

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 Waste	(684)	621	(63)
<b>(2,422)</b>	<b>Net surplus on trading units</b>	<b>(6,687)</b>	<b>3,869</b>	<b>(2,818)</b>

#### 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 Waste

The Council operates a trade waste collection service.

### SECTION 3. NOTES TO THE ACCOUNTS

#### 26. TRADING OPERATIONS – BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the Building Control function – ‘details of the scheme for setting charges’. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

<b>Total Building Control 2011/2012 £000</b>		<b>Chargeable £000</b>	<b>Non – Chargeable £000</b>	<b>Total Building Control 2012/2013 £000</b>
	<b>Expenditure</b>			
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
<b>492</b>	<b>Total Expenditure</b>	<b>298</b>	<b>179</b>	<b>477</b>
	<b>Income</b>			
	Building Regulations			
(363)	Charges	(337)	(9)	(346)
(7)	Other Income	-	(4)	(4)
<b>(370)</b>	<b>Total Income</b>	<b>(337)</b>	<b>(13)</b>	<b>(350)</b>
<b>122</b>	<b>(Surplus)/Deficit for Year</b>	<b>(39)</b>	<b>166</b>	<b>127</b>

### 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)
<b>Net surplus arising on the agency arrangement</b>	-	-

- (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. Members allowances are published on the Council's website at:

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

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

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

*Note 1: The total cost of senior employees employed by WDBC have been included in the equivalent note of WDBC's Accounts in accordance with the accounting requirements and is therefore excluded from the table above. In 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		

### 30. PAYMENTS TO EXTERNAL AUDITORS

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

	2011/12 £000	2012/13 £000
External audit services	95	57
Rebate of fees*	(8)	(5)
Certification of grant claims and returns	22	19
Other services	-	11
<b>TOTAL</b>	<b>109</b>	<b>82</b>

\* Rebate from Audit Commission in respect of audit fees

## 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
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Capital grants &amp; contributions:</b>		
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)
<b>Non ring- fenced Government grants &amp; contributions:</b>		
Non Domestic Rates	(3,211)	(3,705)
Revenue Support Grant	(992)	(72)
Council Tax Freeze Grant	(128)	-
New Homes Bonus	(298)	(826)
Local Services Support Grant	(85)	(86)
<b>Total</b>	<b>(4,952)</b>	<b>(4,777)</b>
<b>Credited to Services</b>		
Rent Allowance subsidy	(21,165)	(22,019)
Housing Benefit administration subsidy	(233)	(224)
Rent rebate subsidy	(121)	(113)
Council Tax benefit grant	(5,966)	(5,907)
Council Tax benefit administration subsidy	(322)	(309)
NNDR cost of collection allowance	(204)	(205)
REFCUS grants applied		
Disabled facilities grant	(385)	(365)
Regional housing pot	(216)	-
Section 106 deposits	(19)	(60)
Second homes funding	-	(27)
Recycling credits	(467)	(488)
Devon County Council – Torr Quarry Transfer Station	(243)	(254)
Natural England – Area of Outstanding Natural Beauty	(139)	-
Section 106 deposits	(137)	(292)
Home Office – Police & Crime Commissioners Elections 2012	-	(109)
Other grants	(753)	(520)
<b>Total</b>	<b>(30,370)</b>	<b>(30,892)</b>



### SECTION 3. NOTES TO THE ACCOUNTS

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

The balances at the year-end are as follows:

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

<b>Short Term Revenue Grants Receipts in Advance</b>	<b>31 March 2012 £000</b>	<b>31 March 2013 £000</b>
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)
<b>Total</b>	<b>(186)</b>	<b>(116)</b>

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

## SECTION 3. NOTES TO THE ACCOUNTS

### 32. RELATED PARTIES

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

#### Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are detailed in Note 31.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 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
<b>Capital Investment</b>		
Property, plant & equipment	2,096	1,714
Intangible assets	45	102
Revenue expenditure funded from capital under statute (REFCUS)	1,216	753
<b>Total expenditure</b>	<b>3,357</b>	<b>2,569</b>
<b>Sources of Finance</b>		
Capital receipts	1,335	743
Government grants and other contributions	904	554
Direct revenue contributions (earmarked reserves)	1,118	1,272
<b>Total funding</b>	<b>3,357</b>	<b>2,569</b>

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

## SECTION 3. NOTES TO THE ACCOUNTS

### 34. LEASES

#### *Operating Leases*

#### **Authority as Lessee**

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

<b>Detail of lease</b>	<b>Term</b>	<b>Expiry date</b>	<b>Service group</b>
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:

	<b>31 March 2013 £000's</b>	<b>31 March 2012 £000's</b>
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
	<b>1,984</b>	<b>2,099</b>

The expenditure charged to the Highways, Roads and Transport Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	<b>2012/13 £000's</b>	<b>2011/12 £000's</b>
Minimum lease payments	183	172
Contingent rents	-	-
Sublease payments receivable	-	-
	<b>183</b>	<b>172</b>

### 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
	<b>40,310</b>	<b>34,447</b>

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

### 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	4		1	1	5	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								
<b>TOTAL</b>	<b>6</b>	<b>8</b>	<b>-</b>	<b>1</b>	<b>6</b>	<b>9</b>	<b>339,400</b>	<b>178,800</b>

*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
<b>Comprehensive Income and Expenditure Statement (CIES)</b>		
<b>Cost of Services:</b>		
▪ 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)
<b>Financing and Investment Income and Expenditure</b>		
▪ interest on obligation	4,327	4,407
▪ expected return on scheme assets	(3,574)	(4,198)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>2,982</b>	<b>2,199</b>
<b>Other Post Employment Benefit Charged to the CIES</b>		
▪ actuarial (gains) and losses**	<b>1,686</b>	<b>13,233</b>
<b>Total Post Employment Benefit Charged to the CIES</b>	<b>1,686</b>	<b>13,233</b>
<b>Movement in Reserves Statement</b>		
▪ reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	<b>2,982</b>	<b>2,199</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
▪ 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

<b>Reconciliation of present value of the scheme liabilities (defined benefit obligation)</b>	<b>2012/13 £000</b>	<b>2011/12 £000</b>	<b>2010/11 £000</b>
<b>Opening balance at 1 April</b>	<b>95,147</b>	<b>80,682</b>	<b>102,650</b>
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)
<b>Closing balance at 31 March</b>	<b>105,848</b>	<b>95,147</b>	<b>80,682</b>

<b>Reconciliation of fair value of the scheme (plan) assets:</b>	<b>2012/13 £000</b>	<b>2011/12 £000</b>	<b>2010/11 £000</b>
<b>Opening balance at 1 April</b>	<b>66,220</b>	<b>65,821</b>	<b>65,616</b>
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)
<b>Closing balance at 31 March</b>	<b>73,775</b>	<b>66,220</b>	<b>65,821</b>



### SECTION 3. NOTES TO THE ACCOUNTS

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

	31/03/13 £000	31/03/12 £000	31/03/11 £000
<b>Net pension assets as at:</b>			
Present value of funded obligation	102,921	92,298	77,647
Fair value of scheme assets (bid value)	73,775	66,220	65,821
<b>Net liability</b>	<b>29,146</b>	<b>26,078</b>	<b>11,826</b>
Present value of unfunded obligation	2,927	2,797	2,742
<b>Net liability in Balance Sheet</b>	<b>32,073</b>	<b>28,875</b>	<b>14,568</b>

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.

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
<b>Surplus/(deficit) in the scheme</b>	<b>(21,320)</b>	<b>(37,034)</b>	<b>(14,861)</b>	<b>(28,927)</b>	<b>(32,073)</b>

### SECTION 3. NOTES TO THE ACCOUNTS

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.

#### 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
<b>Long-term expected rate of return on assets in the scheme:</b>		
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%
<b>Total</b>	<b>5.1%</b>	<b>5.4%</b>

### SECTION 3. NOTES TO THE ACCOUNTS

	31/03/13	31/03/12
<b>Mortality assumptions:</b>		
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
<b>Financial Assumptions</b>		
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%

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:

<b>Employer Asset Share – Bid Value</b>	<b>31/03/13 £000</b>	<b>31/03/13 %</b>	<b>31/03/12 £000</b>	<b>31/03/12 %</b>
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%
<b>Total</b>	<b>73,775</b>	<b>100%</b>	<b>66,220</b>	<b>100%</b>

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 ongoing 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. It is not clear what the value of any such claim would be against the Council.

- 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. Until this issue is resolved the financial impact is not known.

## **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 an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2013 and is reflected in the current figure of £489,000. This compares to £583,000 in 2011/12. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 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

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

indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Finance team will monitor markets and forecast interest rates within the year to adjust exposures appropriately.

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

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

**Key: T = trade date**

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

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

### **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:

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

#### **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 1<sup>st</sup> 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
<b>Income</b>		
(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
<b>(83,610)</b>		<b>(86,246)</b>
<b>Expenditure</b>		
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>		26,623
- <i>2012/13 deferral scheme</i>		106
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)
<b>83,902</b>		<b>85,832</b>
<b>292</b>	<b>MOVEMENT ON FUND BALANCE</b>	<b>(414)</b>

## 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
<b>Total</b>	<b>42,507.00</b>	<b>(4,551.55)</b>	<b>37,955.45</b>		<b>38,931.70</b>
					Less allowance for non collection (778.63)
					Plus adjustment for armed forces dwellings 68.60
<b>Tax base</b>					<b>38,221.67</b>



## 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

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

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

<b>2011/2012</b>		<b>2012/2013</b>
<b>£000</b>	<b>Preceptor</b>	<b>£000</b>
(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)
<b>(845)</b>	<b>Fund balance as at 31 March – (surplus)/deficit</b>	<b>(1,259)</b>

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

***The Authority's responsibilities***

The Authority is required to:

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

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

The Head of Finance and Audit is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Head of Finance and Audit has:

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

The Head of Finance and Audit has also:

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

The Statement of Accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2013.

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

**19 September 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 at its meeting held on 19 September 2013.

Signed on behalf of South Hams District Council

.....

**Councillor JT Pennington**

Chairman of the Audit Committee  
19 September 2013

**SECTION 6. AUDITORS' REPORT**

**The Auditor's report will be received following approval of the Accounts.**

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

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

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

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

### **DEMAND**

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

### **FEES & CHARGES**

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

### **FINANCIAL INSTRUMENTS**

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

### **GOVERNMENT GRANTS**

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

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

Provisions against income to prudently allow for non collectable amounts.

### **INTEREST COST**

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

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

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

### **LIBID**

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

### **PAST SERVICE COST**

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

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

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

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<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>19 September 2013</b>
<b>REPORT TITLE</b>	<b>INTERNAL AUDIT - PROGRESS AGAINST THE 2013/14 PLAN</b>
<b>Report of</b>	<b>Chief Internal Auditor</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

**Summary of report:**

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2013/14 to the 31<sup>st</sup> July 2013, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by the section against the 2013/14 annual audit plan, reviewed by this Committee in April 2013.

**Financial implications:**

None, within existing budgets.

**RECOMMENDATIONS:**

**That the Audit Committee considers the progress made against the 2013/14 Internal Audit Plan and comment on the summary of issues arising.**

**Officer contact:**

Allan Goodman, Chief Internal Auditor - 01803 861375

Email: [allan.goodman@swdevon.gov.uk](mailto:allan.goodman@swdevon.gov.uk)

**1. BACKGROUND**

1.1 The Terms of Reference (Charter) for Internal Audit was presented to the Audit Committee in April 2013 (Minute reference A.28/12) and covers:

Purpose, Authority and Responsibility;

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

- 1.2 The Audit Strategy was updated for 2013/14 and was approved by the Audit Committee in April 2013 (Minute reference A.28/12 refers). It covers:

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

### **Public Sector Internal Audit Standards (PSIAS)**

- 1.3 At the April 2013 meeting of the Audit Committee, members were advised that the CIPFA guidance for the new internal audit standards was not then available. The document has subsequently been published and it suggests comparison of the Terms of Reference against the requirements for a 'Charter'.

This has been undertaken including the completion of the 35 page detailed questionnaire. The results indicate that our 2013/14 Terms of Reference (ToR) and Strategy remain fit for purpose but next year's equivalent should include:

- The mandatory nature of the PSIAS;
- Defining of the 'Board' – *for South Hams District Council the Board will be the Audit Committee;*
- The role of the Monitoring Officer and Head of Paid Service in Internal Audit – *the current ToR are clear in terms of anti fraud corruption and bribery, and, access by the Chief Internal Auditor if required;*
- Requirement for the Chief Audit Executive (for South Hams the Chief Internal Auditor) to hold a professional qualification;
- Use of Computer Assisted Audit Techniques (CAATs) – *to be part of the planned Counter Fraud work for 2013/14;* and
- Quality assurance programme to include an external assessment. Only when this is completed can reports carry the phrase '*conducted in conformance with PSIAS*'. *The Chief Internal Auditor will discuss ideas with Devon colleagues for a cost effective method of delivery of an external assessment and report the results to the next Audit Committee. The Committee will be asked to consider any proposals.*

## **2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2013/14**

### Audit Plan 2013/14

- 2.1 The 2013/14 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2013 (A.29/12 refers).

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

2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated either through the contingency days or by changes to the plan, depending on the significance.

2.3 There is one proposed amendment to the Plan:

<b>Audit</b>	<b>Plan Days 2013/14</b>	<b>Plan Days Update</b>	<b>Reason for Change</b>
Leisure Contract (Management of)	0	9	The Chief Internal Auditor has accepted the Corporate Risk Management Group's request to revisit this high profile contract. Last audited in 2011/12.
Allocation of HQ Costs	4	0	Low priority audit: in part covered by shared services recharge audit, and lesser coverage in the Main Accounting System.
Council Tax Collection	5	0	Low priority audit: can receive lesser coverage in the Council Tax audit if time allows.

2.4 Overspends on the estimated time for individual audits occur as the time in the audit plan is an estimate based on risk and generally not the amount of time needed to do the work required. All efforts are made to 'cut our cloth according to our means', but in some circumstances where control issues are identified, a risk based assessment is carried out. This constitutes consideration, depending on the significance, of whether additional time should be spent and if so where the work is to be charged, either contingency or by change to the audit plan.

2.5 The following table sets out the significant overspends on time budgets (3.5 days or more) on individual audits as totalled in Appendix A, and the reasons for the overrun:

<b>Audit</b>	<b>Planned Days</b>	<b>Days Used</b>	<b>Reason for Overspend</b>
-	-	-	None over 3.5 days
-	-	0	As para 2.4 - Culmination of overspends below 3.5 days for finalised audits
<b>Total</b>	-	<b>0</b>	<b>Overspends to date – 0 days</b>

### Resources and Skills

2.6 Sickness to the 31st July 2013 is 0 days (2012/13 equivalent 1 day).

2.7 In 2013/14 to date, training has been or is being provided to the audit team as follows:

Chief Internal Auditor

- Smartsheet (Overview)

Senior Auditor:

- Information Security and Cybercrime (IIA Exeter)

### Progress against the Plan

- 2.8 The 2013/14 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.
- 2.9 The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.
- 2.10 **Appendix C** provides a summary of the main issues raised for all of the audits where a final audit report has been issued. In addition, the Appendix shows the results of our follow up of previous audit work and tasks that have not produced an audit report.
- 2.11 **Appendix D** provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

### Non Compliance with Contract or Financial Procedure Rules

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

### Fraud, Corruption, Bribery and Whistle Blowing

- 2.13 No actual, suspected or allegations of fraud, corruption or bribery have been identified so far this year, and there are no known whistle blowing reports.

### Performance Indicators

- 2.14 Internal Audit's performance indicators are mainly collected annually and will be reported to the Audit Committee in full in the year-end report. The full list of those recorded is set out in the Audit Strategy 2013/14.
- 2.15 At this stage in the year, the key indicator 'Completion of 2013/14 Audit Plan' is as follows:

Indicator	Target %	Actual %	Comments
Audits completed from 2012/13 combined audit plan.	90	96	As reported to the Audit Committee June 2012.

*Continued overleaf*

<b>Audits at the 31st July 2013 at various stages of completion from 2013/14 audit plan and their 2012/13 equivalents.</b>			
SHDC	-	35%	(29% at July 2012).
WDBC	-	27%	(27% at July 2012).
Combined plan	90	33%	(29% at July 2012). Target to 31st July 2013: 29%

### Internal Audit – Shared Services

2.16 The following has been achieved so far this financial year:

Shared service with West Devon

- Progress on the 2013/14 audit plan reported to the West Devon Audit Committee. A growing number of audits are being completed across the two sites at the same time e.g. recharging shared service costs.

Teignbridge

- Exchange of audit programmes, advice, official guidance and best practice; and
- Liaison over various corporate documents.

### **3. ISSUES from APRIL, JUNE and JULY 2013 AUDIT COMMITTEES**

3.1 The Committee requested further information on several topics, namely:

#### April 2013 Committee

#### 3.2 *Counter Fraud Plan*

The Audit Plan approved by the Committee included 10 days for dedicated Counter Fraud Work and a promise to bring a 'Counter Fraud Plan' to a later meeting.

The following table represents the plan for 2013/14 and at present will also form the basis of the plan for 2014/15 and 2015/16.

<b>Work to be carried out</b>	<b>Resource for 2013/14</b>
Planning of Counter Fraud Activity	Planning Budget
TIS online (under 'Risk Management and Counter Fraud' and includes CIPFA guidelines)/NAFN guidance etc.	0.5 day
Fraud Checklists to Audit Committee (April 2014)	Contingency
Promotion of Anti Fraud, Corruption and Bribery Policy	0.5 day
CAATs/Data Analytics.(computer enquiries)	2 days
NFI - Review NFI data matching.	1 day
Undertake proactive counter fraud testing based on a developing list of areas to cover	5 days

*Continued overleaf*

<b>Work to be carried out</b>	<b>Resource for 2013/14</b>
Counter fraud considered in planned audits	Audit plan
Benefit/Council Tax Support Fraud	Dedicated Team
Anti Money Laundering - test of receipts	1 day
<b>Total Days</b>	<b>10 days</b>

### June 2013 Committee

#### 3.3 *Cases of Benefit Fraud 2012/13*

Members asked for information on the £ amount involved. There were 29 cases (not 24 cases as reported to the Committee in June in error) with a total value of £93.5k in overpaid benefits. Of these 6 were prosecuted based on a total value of £32.7k, with a further case of aiding and abetting (nil value).

#### 3.4 *National Fraud Initiative (NFI) - Update*

The Counter Fraud Plan above includes some time for assessing the position of the latest NFI reviews. The Audit Commission expect investigation of matches to be underway by the end of May 2013, and all work to have been completed by 31<sup>st</sup> March 2014 except for the more complex follow up investigations.

#### 3.5 *Officer Guidance to Report Writing*

A review of the guidance is being undertaken and members have been invited to input to the process. Their feedback has been received, and updated guidance will therefore be published and promoted throughout the Council.

### July 2013 Committee

#### 3.6 *Agency Staff*

The planned audit for Agency Staff was completed and a draft report issued on 24<sup>th</sup> July 2013. The work took into consideration members concerns over the value for money and the results are reported in Appendix B without managers' comments (the draft nature of the report means that it may be subject to change).

#### 3.7 *Connect Strategy*

The Executive minutes E.17/13 CONNECT STRATEGY AND PRIORITY ACTION PLAN UPDATE 2013-14 of 18<sup>th</sup> July 2013, the morning of the Audit Committee, reflected that:

Members were asked to consider a report that ultimately sought Council approval for an updated Connect Strategy document for 2013-14 which incorporated updated action plans for Community Life, Environment and Homes.

During discussion, the following points were made:

(a) Whilst work had been undertaken to sharpen up and provide added focus to the action plans, some Members felt that there remained scope to eradicate some of the targets which were felt to be intangible and difficult to measure. Furthermore, a Member specifically queried the value of the Community Life Corporate Priority and felt that its retention should be seriously re-considered when Members revisited their priorities. In reply, the Chief Executive informed that within the next year, it was intended that the corporate priorities would be reviewed and the action plans further streamlined;

(b) A Member highlighted the costings contained within the agenda papers and felt that there was the potential for vast savings to be made within this area. The Leader responded that the overwhelming majority of the costs contained within the action plans would be incurred regardless of the Connect Strategy, which in fact combined them all within one document.

The Executive recommended to the Council of 26<sup>th</sup> September 2013 that the Connect Strategy annual update for 2013-14, incorporating updated action plans for Community Life, Environment and Homes, be approved and adopted.

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

4.1 Statutory Powers: **Accounts and Audit Regulations 2011**

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

5.1 None, within existing budgets.

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

6.1 The risk management implications follow this table:

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Accounts and Audit Regulations 2011
<b>Considerations of equality and human rights:</b>	No specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	No specific crime and disorder issues arising from this report.

<b>Background papers:</b>	CIPFA Local Government Application Note for the united Kingdom Public Sector internal Audit Standards 2013; CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2015/16.
<b>Appendices attached:</b>	<b>Appendix A:</b> Audit Plan 2013/14 – Progress to 31st July 2013 <b>Appendix B:</b> Planned Audit 2013/14 – Final Reports: Detailed Items <b>Appendix C:</b> Planned Audit 2013/14 – Summary of Results <b>Appendix D:</b> Unplanned Audit 2013/14 – Summary of Results



### 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 to Make the Best Use of Scarce Audit Resource	Audit work completed in line with the audit plan and to the required quality standards will ensure that the external auditor gains assurance from the work of internal audit. The result is no additional charges being requested to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	-	-	-	↔	A risk based audit plan directs scarce audit resources towards areas of high risk to the Council.	Chief Internal Auditor
2	Inappropriate Use of Scarce Audit Resource	The directing of scarce audit resources away from areas of high risk may undermine the opinion provided to the Council by the Chief Internal Auditor on the System of Internal Control.	2	2	4	↔	Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.	Chief Internal Auditor

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			
3	Links with External Audit	The external auditor may gain no assurance from the work of internal audit, potentially resulting in requests for additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	2	2	4	↔	Regular liaison with the external auditor.  Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.  Regular monitoring of progress by the S.151 Officer and the Audit Committee.	Chief Internal Auditor
4	Assurance for the Annual Governance Statement	The Council's Annual Governance Statement cannot be signed if Internal Audit fails to complete the work set out in the approved risk based audit plan due to unforeseen circumstances.	3	2	6	↔	Regular monitoring of performance by the S.151 Officer and the Audit Committee.  Audit approach adheres to the appropriate professional standards.  Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year without fail, should significant resource issue arise.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

Progress Against the 2013/14 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
MAS & Budgetary Control	13									
Creditor Payments	11									
Payroll	10									
Council Tax	14									
Business Rates (NDR)	12									
Benefits	15									
Benefits Debtors	5									
Debtors	10									
Treasury Management	7									
Capital Expenditure	10									
<b>Fundamental Systems</b>	<b>107</b>									
Salcombe Harbour	10									
Dartmouth Lower Ferry	9									
Street Scene - Car and Boat Parking	9									
Private Sector Housing Renewal	8	■								10% completed.
Data Quality & Performance Indicators	5									
Use of Email & Internet	10	■	■							Draft reported issued 01.08.2013
Computer Audit	26									
Grants - RDPE Rural Community LAGs – Accountable Body	50	20 days used	-	-	-	-	-	-	-	28 - Project claims audited; plus 4 - Management & Admin invoices.

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Progress Against the 2013/14 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Coastal Communities Fund – Accountable Body	-	1.6 days used	-	-	-	-	-	-	-	Minute reference E.28/12 refers
Follow Up of Previous Year's Audits	6	2.8 days used								
Contingency (Unplanned)	55	18 days used								
Corporate Governance	8									
Exemptions to Contract or Financial Procedure Rules	5	1 day used								5 Exemption applications received and processed April to July 2013, of which 4 accepted.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	6	■	■	■	■	-	-	-	-	Report to the July 2013 Audit Committee for recommendation to Council of Annual Governance Statement (AGS). Update of the AGS to the September Audit Committee.
Risk Management / Business Continuity	5	■								50% completed.
West Devon Borough Council	105	Attached	-	-	-	-	-	-	-	Separate report to WDBC Audit Committee.
<b>Other Essential</b>	<b>317</b>									
Beach and Water Safety	4	■	■	■	■		■			Summary to Audit Committee - September 2013
Countryside Recreation and Management	5	■	■							Draft report issued: 30.07.2013
Outdoor Sports and Recreation	8	■	■							Draft report issued: 30.07.2013
Emergency Planning	8	■	■							Draft report issued: 01.07.2013
Food Safety	8	■	■							Draft report issued: 21.06.2013
Licensing	8	■	■				■			Summary to Audit Committee - September 2013
Pollution Reduction	8	■	■				■			Summary to Audit Committee - September 2013
Allocation of HQ Costs	4 - 4	X	X	X	X	X	X	X	X	Suspended in favour of Leisure Management.
Council Tax Collection	5 - 5	X	X	X	X	X	X	X	X	Suspended in favour of Leisure Management.
Leisure Contract (Management of)	9									

Progress Against the 2013/14 Internal Audit Plan

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Planning Policy including S.106 Agreements	8	■	■							Draft report issued: 31.07.2013
Community Development including Grants and Loans	8	■	■	■	■		■			Summary to Audit Committee - September 2013
Advice to RM/ Information Compliance/Other Groups	3	0.81 days used								
Contract Management	6	■	■					■		Summary to Audit Committee - September 2013
Freedom of Information and Data Protection	8	■								60% completed.
Partnership Management	8	■	■	■	■			■		Summary to Audit Committee - September 2013
Safeguarding Children	5									
Shared Services	5	■	■	■	■		■			Summary to Audit Committee - September 2013
Use of Agency Staff	5	■	■							Draft report issued: 24 .07.2013
Counter Fraud Work	10	■								15% completed.
<b>Other</b>	<b>124</b>									
Audit Administration	20	7.4 days used	-	-	-	-	-	-	-	
Audit Management, including Audit Planning	20	7.6 days used	-	-	-	-	-	-	-	
Audit Monitoring against the Plan, including Reports to Management and Audit Committee.	15	7 days used	-	-	-	-	-	-	-	
Training	15	1.5 days used	-	-	-	-	-	-	-	
Miscellaneous e.g. Financial Regulations etc.	5	0 days used	-	-	-	-	-	-	-	
<b>Other</b>	<b>75</b>									
<b>Overall Total</b>	<b>620</b>									

## Planned Audit 2013/14 – Use of Agency Staff Draft Audit Report

Extract from Draft Audit Report	Report Conclusion																					
<p data-bbox="123 304 772 336"><i>Cost of Agency Staff versus Permanent Staff</i></p> <p data-bbox="123 376 1211 448">For unskilled staff it is often cheaper to engage someone through an agency than to recruit a permanent employee.</p> <p data-bbox="123 488 1189 595">For semi-skilled staff the costs become more equitable, whilst for skilled or professional staff it becomes more expensive to engage workforce through an agency rather than by direct employment.</p> <p data-bbox="123 635 1171 707">The table shows some sample hourly rates in 2012/13 for agency staff (including agency fees) compared to permanent staff (including on costs).</p> <p data-bbox="203 727 898 759"><i>Hourly Rates – Agency Staff versus Permanent Staff</i></p> <table border="1" data-bbox="170 762 1207 1203"> <thead> <tr> <th data-bbox="170 762 568 858">Post</th> <th data-bbox="568 762 887 858">Hourly Rate - Agency</th> <th data-bbox="887 762 1207 858">Hourly Rate - Direct Employment</th> </tr> </thead> <tbody> <tr> <td data-bbox="170 858 568 914">A Refuse Loader</td> <td data-bbox="568 858 887 914">£8.31</td> <td data-bbox="887 858 1207 914">£10.38</td> </tr> <tr> <td data-bbox="170 914 568 970">A LGV Driver</td> <td data-bbox="568 914 887 970">£9.67</td> <td data-bbox="887 914 1207 970">£11.12</td> </tr> <tr> <td data-bbox="170 970 568 1026">A Customer Service Officer</td> <td data-bbox="568 970 887 1026">£10.85</td> <td data-bbox="887 970 1207 1026">£12.09</td> </tr> <tr> <td data-bbox="170 1026 568 1082">A Benefits Assessor</td> <td data-bbox="568 1026 887 1082">£20.54</td> <td data-bbox="887 1026 1207 1082">£12.77</td> </tr> <tr> <td data-bbox="170 1082 568 1137">A Planning Officer</td> <td data-bbox="568 1082 887 1137">£28.00</td> <td data-bbox="887 1082 1207 1137">£16.61</td> </tr> <tr> <td data-bbox="170 1137 568 1203">A Housing Options Officer</td> <td data-bbox="568 1137 887 1203">£18.00</td> <td data-bbox="887 1137 1207 1203">£17.79</td> </tr> </tbody> </table> <p data-bbox="170 1230 696 1262"><i>Source: SHDC CP&amp;R.17/12; WDBC O&amp;S29</i></p> <p data-bbox="123 1302 1196 1406">However, if properly managed, the cost of using skilled agency staff can be offset by the flexibility that is retained by the organisation, as they can be used for relatively short periods without accruing employment rights.</p>	Post	Hourly Rate - Agency	Hourly Rate - Direct Employment	A Refuse Loader	£8.31	£10.38	A LGV Driver	£9.67	£11.12	A Customer Service Officer	£10.85	£12.09	A Benefits Assessor	£20.54	£12.77	A Planning Officer	£28.00	£16.61	A Housing Options Officer	£18.00	£17.79	<p data-bbox="1236 376 2085 632">Members at both SHDC and WDBC requested information on the costs of using agency staff during 2012/13. In response reports were taken to the Corporate Performance &amp; Resources Committee on 4th October 2012 (SHDC) and the Overview &amp; Scrutiny Committee on 15th January 2013 (WDBC). The Committees resolved that an annual update on the use of agency workers be presented.</p> <p data-bbox="1236 671 2098 967">The reasons for the increase in the number of agency staff currently being engaged appear to be justified in the short to medium term, but do not necessarily provide the most effective solution in the long term for some services such as Development Management where skilled or professional staff are required. On 18<sup>th</sup> July 2013, the Executive approved the appointment of three additional full time posts within the Development Management Team.</p> <p data-bbox="1236 1007 2040 1110">However for other services, such as Waste Collection, it continues to provide a cost effective means of covering short-term absences.</p> <p data-bbox="1236 1150 2085 1366">Controls are in place to manage the engagement of agency staff, but we noted that on a small number of occasions these are not being followed. A number of issues were identified to strengthen the effectiveness of the process, as well as a need for on-going monitoring of the use of agency staff, particularly to fill professional posts.</p>
Post	Hourly Rate - Agency	Hourly Rate - Direct Employment																				
A Refuse Loader	£8.31	£10.38																				
A LGV Driver	£9.67	£11.12																				
A Customer Service Officer	£10.85	£12.09																				
A Benefits Assessor	£20.54	£12.77																				
A Planning Officer	£28.00	£16.61																				
A Housing Options Officer	£18.00	£17.79																				

## Planned Audit 2013/14 – Final Reports Issued

The following tables provide a summary of the **audit opinion** and main issues raised in the reports issued to managers. **In all cases (unless stated) an action plan has been agreed to address these issues.**

### Opinion Definitions

#### **Excellent**

The areas reviewed were found to be well controlled; internal controls are in place and operating effectively. Risks against the achievement of objectives are well managed.

#### **Good**

The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.

#### **Fair**

There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.

#### **Poor**

Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

## Planned Audit 2013/14 – Final Reports Issued

### September 2013 Audit Committee

Subject	Audit Findings	Management Response
<p><b>Beach and Water Safety</b> Issued 30<sup>th</sup> May 2013</p>	<p><b>Good</b> Controls are in place and operating over income and expenditure relating to the provision of beach and water safety. But there is a need for strategic guidance as to what beach and water safety services the Council wishes to continue to provide, particularly where it is bearing the cost of provision on privately owned beaches, with no contribution from the owners. When considering the future level of service there will be a need to take into account the Council's duty of care for users of beaches and the publicity which may be generated, as well as the financial implications. The Beach Management Policy, approved by members in December 2010, included a number of future actions, including a risk assessment of those beaches where lifeguard service and / or public rescue equipment is provided, to enable a review of future service provision, but this has not been done due to a lack of resources.</p>	<p>The Beach Management Group, including representatives from all relevant services, is to be re-established with Terms of Reference. Part of the group's remit will be to co-ordinate consideration of the issues raised in the audit report. A Task &amp; Finish Group will also be set up to consider this issue with the Beach Management Group, allowing members to make an informed decision as to whether they wish to continue subsidising the service at all current locations. The current lifeguarding contract ends in 2017 and therefore it is intended to have made a decision by 2016.</p>
<p><b>Building Control (Follow Up of 2012/13)</b> Issued 16<sup>th</sup> July 2013</p>	<p><b>Unchanged at Good.</b> The Partnership Agreement dated 5 May 2011, signed by each of the three authorities, gives an overview of the financial arrangements. However, with effect from 1 April 2012, there have been amendments to these arrangements, such as pooled budgets and accounts, and allocating of income and expenditure. To date the Councils and the Partnership have agreed to the consolidation of the accounts and it is anticipated that each authority will be able to confirm their proportion of income and expenditure in the relevant Council's accounts.</p>	<p>The original audit and follow up were completed with our internal audit colleagues at Teignbridge District Council.</p> <p>We have now confirmed the year end accounts (2012/13) for the authorities, in partnership with Teignbridge District Council (Chief Accountants for South Hams and West Devon).</p>



## Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p><b>Partnership Management</b> Issued 6<sup>th</sup> June 2013</p>	<p><b>Fair</b></p> <p>There has been some individual reporting to members of the progress made by some specific partnerships, which is one of the reasons that the audit opinion was close to Good. There are relatively straight forward areas where controls could be improved to further reduce the potential risks of partnership working and bring the opinion rating up:</p> <ul style="list-style-type: none"> <li>• Identification of a corporate resource to take responsibility for managing the Partnership Framework and moving it forward to include:</li> <li>• Updating the Partnership Policy and aligning it with the West Devon equivalent;</li> <li>• Identifying and recording the Council's partnerships generally and specifically the 'Significant Partnerships'; and</li> <li>• Reinstating the overview monitoring reports to one of the Scrutiny Panels.</li> </ul>	<p>The Council's Corporate Director (TW) will consider which officer will be made responsible for the Council's Partnership Framework and instruct him or her accordingly. Once the responsible officer has been identified and instructed, he/she will be asked to:</p> <ul style="list-style-type: none"> <li>• Update the Partnership Policy and aligning it with the West Devon equivalent;</li> <li>• To produce a list of those partnerships that are significant to the Council as defined in the updated Policy and Guidance; and</li> <li>• Co-ordinate the production and presentation to a Scrutiny Panel of an annual Partnership Monitoring Report.</li> </ul>
<p><b>Shared Service Recharges</b> Issued 17<sup>th</sup> July 2013</p>	<p><b>Good</b></p> <p>The recharging of salary and travel costs between the two authorities seems to be accurately completed. Some minor errors were identified and reported to the finance officers at both authorities but these were not material and would not have a significant impact on the overall value of recharged costs:</p> <ul style="list-style-type: none"> <li>• Finalising the sharing of costs related to training and continuing professional development (CPD); and</li> <li>• Identifying agency staff that may work in a shared capacity and dividing their costs between the Councils.</li> </ul>	<p>Middle managers are to be reminded to notify the finance officers where training and other costs should be proportioned across both authorities. A new staff request form can include a reminder to management to indicate if the agency worker is to be employed in a shared role and finance informed.</p>

## Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p><b>Pollution Reduction</b> Issued 17<sup>th</sup> July 2013</p>	<p><b>Good</b> Based on the work completed the Council is meeting its statutory duties in relation to Pollution Reduction and there are no major issues to report. A number of minor issues were identified where controls could be improved, including:</p> <ul style="list-style-type: none"> <li>• Reviewing procedures for ensuring that customers are invoiced accurately, yet on timely basis for testing of private water supplies;</li> <li>• Considering charging customers for the re-testing of private water supplies which have failed to meet the required standards, particularly where the failure is due to a fault with the customers sterilisation equipment; and</li> <li>• Ensuring that both the Contaminated Land Strategy and the Air Quality Strategy reflect the most current guidance which is expected from government in the coming year.</li> </ul>	<p>A new system of charging will be introduced in the next two months. Charges will be based on the tests undertaken using the results received from South West Water.</p> <p>This will be considered as part of the review of charges at the end of the five year cycle of scheduled assessments (31<sup>st</sup> March 2014).</p> <p>The strategy is under review but further guidance on planning issues is expected and awaited.</p>
<p><b>Community Grants and Loans</b> Issued 18<sup>th</sup> July 2013</p>	<p><b>Good</b> Each community grant fund has member approval to operate, with eligibility criteria in place. For each fund a specific application process is in place, with guidance for applicants, and there are procedures to draw down funding. The <b>community grants</b> we reviewed had been awarded in line with policy and the relevant approval obtained. We are confident that the responsible officer takes appropriate steps to ensure that applications for funding are from eligible organisations and that the proposed projects meet the required criteria. Based on our testing the <b>loans scheme</b> appears to be operating satisfactorily. There are currently only three loans in place. Minor issues only were raised relating to the application procedure for loans, and evidencing for grants.</p>	<p>Action plan agreed.</p>

## Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p><b>Sherford (Follow Up of 2012/13)</b> Issued 25<sup>th</sup> July 2013</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 225</p>	<p><b>Unchanged at Good.</b> The Sherford Team continue to progress the planning permission subject to completion of the joint authority Section 106 Agreement. The key risk remains that there is a need to finalise the draft Section 106 legal agreement, although this has been mitigated by ongoing related factors. Non formalisation of the obligation could result in:</p> <ul style="list-style-type: none"> <li>• Further delays in providing the development;</li> <li>• Additional delays and costs following the introduction of the Community Infrastructure Levy (CIL) at PCC;</li> <li>• Potential loss or reduction in funding from Government; and</li> <li>• A public inquiry, which could mean significant costs and delays.</li> </ul> <p>The project is nearing the end of this phase and additional resources are planned for the future development. We have again reminded management of the need to ensure that records relating to the project are held centrally in a format that is easily accessible, organised and auditable.</p>	<p>We are currently working as hard as we can to finalise the scheme with the applicants and related partners and cannot do any more. It is now less likely an appeal will be made. We are awaiting finalisation of the multi-million pound package from Government which is expected shortly.</p> <p>We have started the process of rationalising the various files and documents and are aiming to have a finalised pack that can go forward when the scheme undertakes the next stage.</p>
<p><b>Purchase Cards (Unplanned)</b> Issued 25<sup>th</sup> July 2013</p>	<p>Purchase cards are charge cards which work in a similar way to credit cards and can be used to purchase goods or services. They are only issued where there is a demonstrable business need, with currently twelve in use across the Council in services where they are felt to be most beneficial. Where payments are not able to be made by purchase card, the supplier is contacted to encourage payment by electronic means rather than cheque. The use of purchase cards has contributed to the reduction in the production of more costly payments by cheque. The number of cheques used has steadily declined in the last few years, from 3,487 in 2010/11 to 3,158 in 2011/12 and in 2012/13 to 2,286.</p>	<p>One minor recommendation made and action agreed.</p>

## Planned Audit 2013/14 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<b>Licensing</b> Issued 31 <sup>st</sup> July 2013	<b>Good</b> A small number of recommendations were made, the most significant of which related to enforcement.	There is a balance to be drawn between required enforcement with limited finances and using valuable resources meaningfully. Enforcement as a shared responsibility with other Statutory Bodies, the low crime rate, and using the Hampton Principles are all factors. The time spent on enforcement, together with other ad-hoc enforcement plus compliance checks by staff, is probably about right.
<b>Contract Management</b> Issued 8 <sup>th</sup> August 2013  Page 226	<b>Fair</b> The Corporate Risk Management Group (CRMG) had identified a lack of a central contracts database as an issue. In response, work was carried out by Legal and Internal Audit to identify the contracts that the Council has in place and where they are located. A large number are held by service managers, in both an electronic or paper format, even though recent changes to Contract Procedure Rules require officers to send them to the Legal team. However, some of these are of relatively small value. Following the work of the CRMG, Legal and this audit there is now a more definitive list, but this must now be kept up to date. There is also a role for the Procurement Officer to review the list for any future procurement opportunities. The Legal team have started work on improving their records of the contracts that they actually hold, but further improvement can be made especially in simplifying the filing system in the Deeds Room and considering whether it is necessary to keep some of the older contracts currently held.	The Contract Procedure Rules will be reinforced as part of their next update, including clarifying when an electronic copy can be retained.  A meeting has been held with the Procurement Officer and the new contracts database supplied for her review. A timetable has been agreed to review and improve the filing system for the Deeds Room and ensure only those documents that are needed are actually retained e.g. contracts must be kept for between 6 and 12 years after completion, depending on the what it is.

## Planned Audit 2013/14 – Work Complete (No Audit Report)

Subject	Comments
Exemptions to Financial Procedure Rules	See table at Appendix A.
RDPE Rural Communities – LAGs and Coastal Communities Fund	See table at Appendix A, SHDC is the 'accountable body'. Auditing in line with the approach required by the funding body.
System of Internal Control (SIC), and Annual Governance Statement (AGS)	A report setting out the work done to enable the AGS to be completed in line with the CIPFA/SOLACE guidance was presented to the July 2013 Audit Committee. The Committee recommended approval of the AGS to the Council. The AGS is required to be updated to the date of publishing in September 2013.

## Planned Audit 2013/14 – Follow Up with 2013/14 Audits

### September 2012 Audit Committee

Subject	Comments
Beach and Water Safety – 2008/09	Mainly implemented. 3/7 recommendations repeated relating to the need for strategic guidance as to what beach and water safety services the Council wishes to continue to provide, including for privately owned beaches.
Partnership Management – 2011/12 and 2007/08	Implemented.
Shared Services Recharges – 2012/13	Mainly implemented. 2/12 recommendations repeated relating to sharing of costs for training and agency staff.
Pollution Reduction – 2008/09	Implemented.
Community Grants and Loans – 2008/09	Mainly implemented. One issue raised again relating to a minor example of documents not retained.
Licensing – 2009/10	Implemented.

## Planned Audit 2013/14 – Follow Up of 2012/13 Audits

Subject	Comments
Salcombe Harbour	Reminder only sent. To be followed up with annual audit October 2013.
Capital Receipts	No recommendations made. Cleared.
Non Domestic Rates	Memo sent 29/07/2013. Awaiting reply.
Insurance	Memo sent 19/06/2013. Awaiting reply. Meeting to be arranged.
Data Quality and Performance Indicators	Cleared ahead of annual audit.
Dartmouth Lower Ferry	Discussions 01/05/2013. Recommendations implemented other than the known issues with the ticketing system which cannot be addressed in the short term. Annual audit due September 2013.
Private Sector Housing Renewal	Memo sent 22/04/2013. One item outstanding to be addressed with the annual audit in August/September 2013.

## Planned Audit 2013/14 – Follow Up of 2012/13 Audits (continued)

Subject	Comments
Leisure Client (Follow Up)	Memo sent 22/04/2013. No reply received but audit brought into the 2013/14 plan in this report.
Building Maintenance	Recommendations implemented other than the known issues relating to the software which cannot be addressed in the short term.
Major Developments - Sherford	Updated and new report issued.
Building Control	Follow up with Teignbridge Internal Audit. New report issued with 3 revised implementation dates.
Travel and Subsistence (Follow Up)	All but 2 recommendations cleared; these to be followed up with the 2013/14 Payroll audit.
Use of Internet and Email	Followed up with annual audit.
Corporate Management Costs	Cleared.

## Unplanned Audit – 2013/14

### General

Description	Main Issues
<p>Minor enquiries and issues investigated, including some planned work, which by its nature does not require a report. Resourced from the <b>contingency</b> line of the audit plan.</p>	<ul style="list-style-type: none"> <li>• General procurement and disposal rules advice;</li> <li>• General ICT issues;</li> <li>• General Finance issues;</li> <li>• Document retention enquiries;</li> <li>• Additional individual internet and e-mail monitoring as requested by managers;</li> <li>• Assistance to the external auditors on specific tests for the audit of the accounts;</li> <li>• Salcombe Harbour – advice and assistance;</li> <li>• Audit Commission fraud survey;</li> <li>• Assistance re HMRC inspection;</li> <li>• Contribution to update of report writing guidance;</li> <li>• Numerous minor control issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies &amp; strategies.</li> </ul>

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AGENDA  
ITEM

**11**

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

**11**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>19 September 2013</b>
<b>REPORT TITLE</b>	<b>Strategic Risk Assessment - 6 monthly update</b>
<b>Report of</b>	<b>Corporate Director (Alan Robinson)</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**Summary of report:**

In accordance with the Joint Risk Management Policy adopted by South Hams District Council on 10 May 2012 and by West Devon Borough Council on 17 May 2012, this report provides the required 6 monthly update to Members. The report includes the current corporate strategic risk assessment and a summary of the management and mitigation actions to address the identified risks.

**Financial implications:**

There are no direct financial implications arising from the report, although effective corporate risk management may help protect the Councils from future losses.

**RECOMMENDATIONS:**

That the Audit Committee reviews the strategic risks and makes recommendations to Council on any further action the Committee concludes should be considered.

**Officer contact:** Alan Robinson - [alan.robinson@swdevon.gov.uk](mailto:alan.robinson@swdevon.gov.uk) or by 'phone on 01822 813629

**1. BACKGROUND**

- 1.1 Following the recommendation of SHDC Audit Committee on 5 April 2012, the Council at its meeting on 10 May 2012 also resolved to adopt the Joint Risk Management Policy.
- 1.2 The Joint Risk Management Policy requires the Senior Management Team to undertake reviews of the Corporate Risk Tables on a monthly 'light touch' basis and more comprehensively on a quarterly basis. It also stipulates that a Corporate Director will provide update reports to both Audit Committees on a six monthly basis.

## **2. STRATEGIC RISK REGISTER**

2.1 The risks currently monitored by SMT are set out in five tables (Confidential Appendix 1) as follows:

- Table 1 - Strategic Political Risks
- Table 2 - Strategic Management Risks
- Table 3 - Strategic Staffing Risks
- Table 4 - Strategic Financial and Asset Risks
- Table 5 - Corporate Issues Risks.

2.2 The tables include a summary of mitigating and management actions undertaken or proposed, to manage the identified risks. Monitoring requires both a proactive approach to assessing potential risk, as well as carrying out retrospective reviews to improve learning from risk and embedding it across the two Councils. The risk tables refer to both shared risks as well as risks affecting only one Council, on the basis that there is a benefit in understanding risks faced across the two organisations and an opportunity to share learning from managing those risks. Appended to the risk tables is a Risk Scoring Matrix which has been used to identify risk status. A risk rating is developed by assessing risk impact/severity and multiplying it by the likelihood/probability of the risk occurring. The risk score identified is the assessment based on the mitigation being successful.

2.3 The final attachment within Appendix 1 summarises the strategic risks, identifying the key risks at the point of the review. The tables are living documents and will regularly change in response to issues arising. Members should note that while risk is assessed collectively within SMT, the judgments in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.

2.4 It is suggested that the Committees' attention is focussed on those risks with the highest score i.e. the risks with a score above 16. While members are invited to focus on the key risks, members are welcome to review any of the risks identified, including questioning whether the risk is appropriately scored, or whether further mitigating actions are required.

## **3. HIGH RISK ISSUES IDENTIFIED BY SMT**

3.1 Based on SMT's review of the attached risk tables, the high level risks are as follows (i.e. those with a risk score of 16 and above. For more detail please refer to the confidential risk tables attached):

### Strategic Financial and Asset Risks

FA04 (16) – The robustness of the medium term financial strategy and related service blue-prints;

FA06 (16) – Funding of the future capital programme.

#### Strategic Management Risks

MT07 (16) - Management capacity to respond to the level of external demand which is generated by a combination of national policy changes as well as customer/community requirements. This risk also relates to the capacity of staff as identified in ST01 (see below).

#### Strategic Staffing Risks

ST01 (20) - Officer capacity to implement the Connect Strategy/associated delivery plans and the Transformation Programme, in tandem with service-based policy development, ongoing project implementation and day-to-day delivery.

ST02 (16) – The potential loss of staff morale, including key staff leaving, coupled with the risk of inadequate provision of resources for training and re-skilling during an ongoing period of significant change.

#### Corporate Issues Risks

CI07 (16) - Meeting community expectations in relation to Localism, particularly within the planning process.

CI17 (16) – Recycling of leaf sweepings and potential waste reclassification resulting in an adverse impact on recycling performance and costs.

CI23 (16) – Compost Protocol changes and the potential impact on recycling performance and costs.

CI24 (16) – Anticipated supermarket applications in West Devon and the potential impact on the viability of town centres.

#### Resolved Risks

- 3.2 At both Councils' Audit Committees meetings in the spring of 2013, the external auditors suggested that it would be helpful if the Councils kept a register of all the risks that had been judged to have been resolved. Previously the Councils deleted the risk from the register once the risk had been addressed. The report now includes a 'Resolved Risks' table (Table 6) where the risk has either been significantly reduced but is difficult to completely overcome (risk score of 6 or below), or the risk has been addressed, since the last report to the Committees.
- 3.3 Members may also wish to note that the strategic political risks associated with major organisational change to embed shared services are now judged by SMT to have largely been mitigated. Therefore the risks in this part of the register are deemed to be low or resolved.

#### New Emerging Risks

- 3.4 The emerging new Transformation Programme potentially addresses many of the strategic risks facing both the Councils; however a large scale change programme also generates significant risks for the Councils. The potential risks and actions that could be taken within the programme are still being developed but can be summarised as follows:

Finance and Asset Risks

- 3.5 Funding availability for initial investment to implement the programme; higher than anticipated costs and/or lower than anticipated savings arising from the programme; and unexpected external cost pressures which diverts funding from T18.
- 3.6 An integrated ICT solution proves less successful than anticipated.

Management Risks

- 3.7 Management capacity to deliver the programme in tandem with other key corporate projects; maintaining a shared vision for T18 during a period of significant change; managing organisational transition to the new operating model; and establishing an effective and robust programme management arrangement given the complexity of T18.

Political Risks

- 3.8 Ongoing political commitment to ensure that the programme is delivered despite the inevitable challenges that will emerge during such a major organisational change; potential change in corporate direction arising from national/local elections in 2015; and securing joint agreement for the most cost effective accommodation strategy.

Staffing Risks

- 3.9 Ensuring sufficient officer capacity and retaining morale during significant corporate change; and securing successful implementation of major cultural change in relation to new skills and work styles within the new operating model.
- 3.10 Further work on identifying and managing the risks in relation to the Transformation Programme is currently being undertaken.

**4. LEGAL IMPLICATIONS**

- 4.1 The Audit Committees have a role in keeping under review and recommending to their respective Councils improvements in relation to effective risk management.
- 4.2 There are no direct legal implications arising from the report although a strategic focus on risk management is good practice.

4.3 An assessment has been carried out as to whether the public interest in withholding the information in Appendix 1 outweighs the public interest in disclosing it. For most parts of the Risk Register, the public interest lies in non-disclosure due to the potential commercial/financial/legal nature of some of the risks identified.

## 5. FINANCIAL IMPLICATIONS

5.1 There are no direct financial implications of the report, although effective corporate risk management may help protect the Councils from future losses.

## 6. OTHER CONSIDERATIONS

<b>Corporate priorities engaged:</b>	All
<b>Statutory powers:</b>	None specifically identified.
<b>Considerations of equality and human rights:</b>	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.
<b>Biodiversity considerations:</b>	Factored into individual risk assessments where appropriate.
<b>Sustainability considerations:</b>	Factored into individual risk assessments where appropriate.
<b>Crime and disorder implications:</b>	Factored into individual risk assessments where appropriate.
<b>Background papers:</b>	Joint Risk Management Policy.
<b>Appendices attached:</b>	<p>APPENDIX 1 - NOT FOR PUBLICATION</p> <ul style="list-style-type: none"> <li>• Table 1 - Strategic Political Risk</li> <li>• Table 2 - Strategic Management Risks</li> <li>• Table 3 - Strategic Staffing Risk</li> <li>• Table 4 - Strategic Financial and Asset Risks</li> <li>• Table 5 - Corporate Issues Risks</li> <li>• Table 6 – Resolved Risks</li> <li>• Summary of Corporate Risk Matrix</li> </ul>

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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 19 SEPTEMBER 2013**

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

<b>Other Members in attendance and participating</b>
Cllrs H D Bastone and S A E Wright

<b>Other Members in attendance and not participating</b>
Cllr L A H Ward

<b>Item No</b>	<b>Minute Ref No below refers</b>	<b>Officers and Visitors in attendance</b>
All Items		Head of Finance and Audit, Chief Accountant, Principal Accountant, Chief Internal Auditor and Member Services Officer.
Items 1 to 8, & 10	A.10/13 to A.15/13, and A.17/13	Audit Manager - Grant Thornton Engagement Lead - Grant Thornton
Item 9 & 11	A.16/13 & A.18/13	Corporate Director (AR)

**A.10/13      MINUTES**

The minutes of the meeting held on 18 July 2013 were confirmed as a correct record and signed by the Chairman.

**A.11/13      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.12/13

## **GRANT THORNTON – REVIEW OF THE COUNCIL’S ARRANGEMENTS FOR SECURING FINANCIAL RESILIENCE FOR SOUTH HAMS DISTRICT COUNCIL**

The Audit Manager (Grant Thornton) presented a report that set out the findings of the review of the Council’s arrangements for securing financial resilience, which supported the Value for Money (VfM) conclusion as part of the statutory external audit. She highlighted that in the current economic climate, and with the cuts imposed on local government funding, that financial resilience was a key risk for local government bodies.

The review considered the Council’s financial resilience for the next twelve months and considered the Authority’s key indicators for performance, approach to strategic financial planning, financial governance and financial control. Overall in each category, the Authority had been rated as ‘arrangements meeting or exceeding adequate standards’.

More specifically, in relation to key indicators performance, the level of sickness performance had increased year on year, and for 2012-13 an average of 11.52 days per FTE had been lost to sickness which was above the public sector average of 7.9 days. In response, the Council’s Human Resources Department had stated that *‘The Council continually monitors the causes of sickness absence and work closely with Occupational Health providers. The Council has recently progressed four cases of early retirement on health grounds and along with greater emphasis on short term absence, the recent performance indicators show an improvement in both long term and short term statistics’*

In relation to Financial Control, it was recommended that the Council consider separately monitoring and reporting savings to Members and to clearly identify where planned savings were not achieved.

Whilst the Council was facing a significant budget gap, overall it was considered that it was responding to that gap with appropriate actions.

It was then:

### **RESOLVED**

That the Committee notes and welcomes the report.

A.13/13

## **GRANT THORNTON – THE AUDIT FINDINGS FOR SOUTH HAMS DISTRICT COUNCIL (2012-13)**

The Audit Manager (Grant Thornton) presented a report which highlighted the key matters arising from the audit of the Council’s financial statements for the year ended 31 March 2013. The auditors had found them to be a quality set of accounts with very few errors or inconsistencies with only one adjustment of £293,000 affecting the Council’s net expenditure reported in the Comprehensive Income and Expenditure Statement.

There was a recommendation in relation to internal controls, as a weakness had been found in the systems in place for capitalisation of expenditure in the Property Services Repairs and Maintenance System. The Chief Accountant responded that the Building Maintenance software used for costing jobs was not designed as an accounting system and it did not link into the general ledger software. Transfers between the two systems were now undertaken manually.

The report also recommended that in relation to pension liabilities, which was an area of uncertainty, that the long standing disclosures be enhanced to include estimates and judgements in relation to property, plant and equipment. The Chairman requested that a seminar for Members on the Council's Pension Fund be organised. The Head of Finance and Audit responded that this had been discussed at a Senior Management Team meeting and the Council would soon get the results of the Tri-Annual revaluation. It was noted that January 2014 might be an appropriate time to invite colleagues from Devon County Council to make a presentation to Members.

During the discussion, the following points were raised:

- It was asked if there was a regular review of the asset mix of the invested pension fund to compensate for the low gilt yields. Members were informed that this was reviewed. The Chief Internal Auditor added that the external auditors also audited the pension fund and he had received assurances on it.
- The 40% reduction in external audit fees (as set out on page 55 of the published agenda) was commented upon and Members wished for this huge saving to be noted.
- Members also noted the conclusion (page 61 of the published agenda) that the Auditors were satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

It was then

### **RESOLVED**

That the satisfactory report and the 40% reduction in external audit fees be noted; and

That Finance Officers be congratulated for their sterling work on the production of the quality set of accounts.

A.14/13

**ANNUAL GOVERNANCE STATEMENT 2012/13 UPDATE**

The Chief Internal Auditor presented an update to the Annual Governance Statement and informed Members that there were a few minor amendments to the draft that had been presented to the Committee at its meeting in July 2013, these being:

- Data Quality Strategy – this would now be completed by 31 October 2013;
- Shared Services – Overarching Agreement – this would now be completed by 31 December 2013;
- Delegation to Middle Managers – this would now be completed by 31 December 2013; and
- Dartmouth Embankments – the Head of Assets would provide an oral update on the progress being made to the Audit Committee at its meeting in September 2013.

**Dartmouth Embankment – Oral Update from the Head of Assets:**

The officer informed that a deadline had been given to complete the signing of Heads of Agreement in the areas under discussion and she had given the Dart Harbour Authority until the end of September to respond to specific points that had been raised.

During the discussion, the following points were raised:

- Members were informed that the Audit Commission had published a document entitled ‘Council Accounts – A Guide to Your Rights’ and systems had been put in place to enable the public to have access to the accounts and it was advertised both on the website and in local press when the accounts were available for inspection.
- Referring to ‘Financial Uncertainty’, a Member highlighted that as well as the review of spending, new income streams should also be reviewed and feature in the annual governance statements. The Member accepted that the list of mitigating actions was not exclusive and it was agreed that the income point be minuted rather than an amendment be made to the Statement.

It was then

**RESOLVED**

That the Committee:

Notes the minor amendments to the Annual Governance Statement 2012/13 which was recommended to Council in the minutes of the Audit Committee held on 18 July 2013 (minute A.08/13 refers).

Be kept informed on the progress made in updating the Data Quality Strategy.



**A.15/13 AUDITED ANNUAL STATEMENT OF ACCOUNTS 2012/13**

The Head of Finance and Audit presented the report which presented a summary of net revenue and capital expenditure and which sought approval for the audited statement of accounts 2012/13.

During the discussion, the following points were raised:

- Members were informed that to date, the Council had received 94% of its original deposit in the Heritable Bank (a UK registered subsidiary of Landsbanki, an Icelandic Bank);
- It was noted that there was one non-adjusting event after the balance sheet date relating to Non Domestic Rates. Local Authorities now had to assume liability for refunding non domestic rate payers who successfully appealed the rateable value of their properties. The Head of Finance and Audit explained that this was a difficult liability to estimate as some appeals were seven years old and it was hard to predict which ones would ultimately be successful, but this was being monitored on a monthly basis.
- Members were informed that the £355,000 incurred for employee expenses in the Building Control Unit was a combination of salary costs, national insurance contributions, pension costs, employees liability insurance and training and professional subscriptions, for a total of eight employees.
- Members were informed that a short term provision of £18,000 had been created for Municipal Mutual Insurance (MMI), but the Council's maximum exposure to loss remained at £118,608

It was then:

**RESOLVED**

That the Letter of Representation and the Audited Statement of Accounts be approved.

**A.16/13 NEW BUDGET PROCESS AND MONITORING – NEXT STEPS**

Members discussed the notes of the informal meeting of the Audit Committee which had met to identify areas for further investigation by the Joint Task and Finish Group as part of the budget preparation exercise.

During the discussion, the following points were raised.

- With regard to the request for detailed accounts, Members were informed that quarterly budget monitoring reports were presented to the Executive and formed part of the agenda papers that were distributed to all Members. The next quarterly report was due to be presented in November 2013.

- A Member requested that participatory budgeting be considered by the Joint Task and Finish Group as there were likely to be experts in the community who could be approached for expertise in relation to new opportunities for income generation. The Chief Internal Auditor added that a specific methodology might be needed to guide the future work on sourcing new income streams. The Head of Financial Services and Audit added a cautionary note, highlighting that a few years ago an event was held for the public to give their views on the budget, but attendance had been low despite the resources that had been incurred on preparing for and holding the event. The Member noted that this topic might well present a marketing and public relations challenge.
- Another Member highlighted the role of Tone Leisure that was selling some car parking permits on behalf of the Council and perhaps Tourist Information Centres could be also be approached to carry out similar types of income generating roles.
- A Member expressed that it was a myth that the commercial environment always had better knowhow as there were many common features across the public and private sector and he felt there was a lot of expertise within the Council that was being overlooked.
- Noting that the Locality Funds often had a multiplier effect, a Member suggested that the Authority could provide match funding for community projects, to encourage communities to support projects they were interested in. The Corporate Director (AR) also added a cautionary note, highlighting that this approach had been very successful in the past but the issue now was the reduced financial capacity of the Authority to support match funding. For significant sums there would be a requirement for high level business plans to demonstrate the value for money returns of any proposed initiative or project. It was acknowledged that significant injections of Council funding had attracted large external grants in the past, but this had been in a different economic climate and the focus of future capital programmes in the short to medium term was likely to shift from supporting community projects to meeting operational requirements.
- A Member noted that Crowd Funding was becoming a much bigger phenomenon and questioned whether the Council could follow this lead and become a facilitator and receiver for funds.
- A Member suggested that initiatives to generate income that required large upfront costs should be discounted because of the uncertainty of outcomes.
- In addition to the three areas of investigation discussed at the informal meeting, it was proposed and seconded that Outdoor Sport and Recreation be considered as an area to both reduce costs and increase income.

- It was discussed that re-locating costs in relation to cemeteries and burials to Town and Parish Councils be considered. The Chief Internal Auditor agreed to consider this from a statutory perspective.
- The costs in relation to community safety was raised. However, the Committee was informed that the Authority had a statutory duty to work with other bodies to reduce anti social behaviour and the Authority was already contributing at the minimum level. However, the Chief Internal Auditor agreed to consider this area.
- It was noted that a Beach Management Working Group was considering what income could be generated from beach cleaning private beaches.
- It was requested that a breakdown of the costs in relation to the Wembury Marine Partnership be provided by Finance officers. It was noted that this partnership had been set up many years ago and that there might possibly be contractual obligations in relation to this.
- Members were informed that the Authority provided the stalls for the pannier market participants to rent and therefore was responsible for the manual setting up and closing down of the stall hardware. The Chief Internal Auditor agreed to confirm the position for the next meeting of the Committee.

It was then

### **RESOLVED**

That the Joint Task and Finish Group be tasked to investigate the following:

- Opportunities for advertising and sponsorship;
- Utilisation of Follaton House and Grounds and other Council Assets;
- Opportunities for capitalising on in house skills, expertise and experience;
- Potential savings and income generation in outdoor sport and recreation;
- Opportunities to gain additional external expertise through participatory budgeting; and
- That the Chief Internal Audit Manager and Head of Financial Services and Audit provide details to the next Audit Committee on the costs associated with:
  - Cemeteries and Burials;
  - Community Safety;
  - Pannier Markets; and
  - Wembury Marine Centre

**A.17/13 INTERNAL AUDIT – PROGRESS AGAINST THE 2013/14 PLAN**

The Chief Internal Auditor presented a report that informed Members of the principal activities and findings of the Council's Internal Audit team for 2013/14 to the 31 July 2013.

The officer advised that the CIPFA Guidance for the new internal audit standards had now been published and the terms of reference for Internal Audit and the Internal Audit Strategy had been reviewed against the new guidance and the 35 page detailed questionnaire had also been completed. Both the strategy and the Terms of Reference were deemed fit for purpose and a list of the items which should be included in them for the following year was set out paragraph 1.3 (page 205 of the published agenda).

With regard to the Internal Audit Plan 2013/14 there was only one proposed amendment at the current time. This was in relation to the management of contracts. The Risk Management Group had requested that the Leisure Contract be reviewed in order to determine lessons to be learned.

The officer added that with regard to the key performance indicator, 'Completion of 2013/14 Plan' he was confident that the service would attain the same level of performance as for 2012/13.

The Committee had been informed at the previous meeting that a Counter Fraud Plan would be presented and this was set out at paragraph 3.2 (page 208 of the published agenda).

During the discussion, the following points were raised:

- It was asked that details for the costs of the prosecutions of benefit fraud be brought to the next meeting.
- Members highlighted their concerns about the costs associated with the Connect Partnership and related Strategies, and noted that there was an opportunity for them to comment on this when the item was presented to Council on 26 September 2013.
- The Chairman raised his concerns about the value for money aspect of the costs incurred for hiring agency staff rather than employing staff for various posts and noted that the hourly rate for employing more senior and professional staff was considerably less than paying agency rates. It was noted that the a report on the Use of Agency Staff was to be presented to the Corporate Performance and Resources Scrutiny Panel at its next meeting on 3 October 2013.

- Members were informed that the procedure rules in relation to Contract Management were to be reviewed and that all original contracts should be presented to and stored by the Legal Service.
- Members were informed that there was still no update on the HMRC Inspection.

It was then

### **RESOLVED**

That the Audit Committee notes the progress made against the 2013/14 Audit Plan and has commented on it.

A.18/13

### **STRATEGIC RISK ASSESSMENT – SIX MONTHLY UPDATE**

The Corporate Director (AR) presented a report that summarised the key risks identified at the time of the six monthly review and also included a summary of the management and mitigation actions to address the identified risks in the following categories:

- Strategic Political Risks;
- Strategic Management Risks;
- Strategic Staffing Risks;
- Strategic Financial and Asset Risks; and
- Corporate Issues Risks

The officer referred to some notable risks in relation to the robustness of the Medium Term Financial Strategy and officer capacity to deliver the Connect Strategy and T 18 programme, as well as day to day service delivery.

In light of the Committee wishing to discuss elements of the exempt appendices,

It was then:

### **RESOLVED**

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

Members then discussed the exempt appendices, and officers responded to a number of queries that were raised.

It was then:-

**RESOLVED**

That the public and press be readmitted.

It was then:-

**RESOLVED**

That the Audit Committee notes the content of the Strategic Risk Assessment – six monthly update and has commented on it.

At the end of the meeting the Chairman thanked the Chief Internal Audit Manager and the Finance Officers for all the hard work they undertook and wished for Members appreciation of this to be noted.

(Meeting commenced at 2.00 pm and finished at 4.30 pm)

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Chairman