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SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 31ST JULY, 2014

Agenda, Reports and Minutes for the meeting

Agenda No Item

1. **Agenda Letter** (Pages 1 - 2)

2. **Reports**

Report to Audit:

a) Item 5 - Draft Statement of Accounts 2013/14 (Pages 3 - 92)

b) Item 6 - System of Internal Control and Annual Governance Statement 2013/14
(Pages 93 - 126)

3. **Minutes** (Pages 127 - 130)

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Agenda Item 1

Please reply to: Darryl White
Service: Corporate Services
Direct Telephone: 01803 861247
E-Mail: darryl.white@southhams.gov.uk

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

Our Ref: CS/DW

cc: Cllr Tucker (lead Executive Member for Finance and Audit)
Remainder of the Council;
Usual press and officer circulation.

23 July 2014

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes, on **Thursday, 31 July 2014 at 10.00 am** when your attendance is requested.

Yours sincerely

Darryl White
Democratic Services Manager

<p>FOR ANY QUERIES ON THIS AGENDA PLEASE CONTACT DARRYL WHITE DEMOCRATIC SERVICES MANAGER ON DIRECT LINE 01803 861247</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 5 June 2014 (pages 1 to 5);
2. **Urgent Business** - brought forward at the discretion of the Chairman;
3. **Division of Agenda** - to consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;
4. **Declarations of Interest** - Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting;
5. **Draft Statement of Accounts 2013/14** – to consider a report which presents a summary of net revenue and capital expenditure for consideration and provides an opportunity for Members to comment on the Draft Statement of Accounts for 2013/14 (pages 6 to 95);

6. **System of Internal Control and Annual Governance Statement 2013/14** – to consider a report which provides Members with sufficient information to allow them to independently examine the draft Annual Governance Statement and the supporting process and assurance streams and recommend approval of the Annual Governance Statement to the Council (pages 96 to 129).

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

* * * * *

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

THIS AGENDA HAS BEEN PRINTED ON ENVIRONMENTALLY FRIENDLY PAPER

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

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AGENDA
ITEM

5

SOUTH HAMS COUNCIL

AGENDA
ITEM

5

NAME OF COMMITTEE	Audit Committee
DATE	31 July 2014
REPORT TITLE	DRAFT STATEMENT OF ACCOUNTS 2013/14
Report of	Head of Finance and Audit
WARDS AFFECTED	All

Summary of report:

This report presents a summary of net revenue and capital expenditure for Members' consideration and provides an opportunity for Members to comment on the Draft Statement of Accounts for 2013/2014 (attached).

Financial implications:

The report advises Members that a deficit of £127,000 was generated in 2013/2014 which is charged against the General Fund Balance. The level of this reserve stands at £1.7 million at 31 March 2014.

RECOMMENDATIONS:

The Draft Statement of Accounts for the financial year ended 31 March 2014 is noted.

Officer contact:

Michael Tithecott, Chief Accountant
Email: 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 particular, the requirement for Councils to approve the SOA prior to external audit is removed. In line with common practice in the commercial sector, local authorities are now required to approve the accounts following the completion of the audit.

- 1.2 The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process, since it confirms the availability of reserves and balances for future use.
- 1.3 The attached booklet contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Account, Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow. In addition, the explanatory foreword to the booklet summarises the major variations in income and expenditure from the original budget.
- 1.4 The accounts have been prepared in accordance with all relevant and appropriate accounting standards including, International Accounting Standard (IAS) 19 which deals with pension costs.

2. ISSUES FOR CONSIDERATION

2.1 IAS 19 – “Employee Benefits”

- 2.1.1 This standard ensures that the full cost of employing people is recognised systematically in the accounts and that creditors reflect the council's liability to pay money into the pension fund. A full explanation of the pension's liability is included in the Council's SOA. Members are advised that the accounting arrangements for IAS 19 are for reporting purposes only. Indeed the required entries are reversed out of the accounts and consequently, IAS 19 has no impact on the Council's surplus or deficit 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 deficit on the General Fund in 2013/2014 is £127,000 which represents only 0.2% of the Council's gross turnover of £63 million. The main differences from budget are shown in paragraph 3 of the Explanatory Forward in the SOA.

2.3 Capital Expenditure

- 2.3.1 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to around £4m in 2013/14, and is analysed in paragraph 18 of the Explanatory Foreword in the SOA.

2.4 Audit of Accounts

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

3. LEGAL IMPLICATIONS

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

4. FINANCIAL IMPLICATIONS

The financial implications to this report are that a deficit of £127,000 was generated in 2013/2014.

5. RISK MANAGEMENT

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

6. OTHER CONSIDERATIONS

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

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1 Page 6	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 2013/14</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 into account any significant issues when developing the Council's Medium Term Financial Strategy.	Head of Finance & Audit/ Executive

Direction of travel symbols ↓ ↑ ↔

South Hams District Council

Draft Statement of Accounts ***(Un-audited)***

2013/2014



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 2013/14 and how these compare with actual income and expenditure are set out below:

	Estimate	Actual	Difference
	£000	£000	Cost/(Saving)
			£000
Cost of services (after allowing for income and reserve contributions)	9,494	9,627	133
Parish precepts	1,544	1,544	-
Interest and Investment income	(190)	(169)	21
Amount to be met from Government grants and taxation	10,848	11,002	154
<i>Financed from:</i>			
Formula Grant	(4,217)	(4,244)	(27)
Council tax	(6,601)	(6,601)	-
Surplus on collection fund	(30)	(30)	-
DEFICIT	-	127	127

4. The deficit on the General Fund of £127,000 is essentially a break-even position and represents only 0.2% of the Council's gross turnover of £63 million.
5. This was achieved despite a very challenging year for the management of the Council's finances following the introduction of the scheme for

the localisation of business rates by the Government. The collection of income from business rates now has a direct impact on the Council's overall financial performance.

6. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value. The Council had some significant appeals outstanding at the year end.
7. Earlier in the year, the Council had predicted that it would achieve a surplus on business rates, but the year-end position was not as favourable as was estimated. Following external advice, the Council was obliged to increase its provision for appeals that it had included within its accounts.
8. The Council also experienced a reduction in income received from the Dartmouth Lower Ferry arising from its closure until the 20th May 2013 (due to essential slipway maintenance works). In addition, income from Car Parks did not reach its target during the second half of the year due to adverse weather conditions.
9. A summary of the main differences from budget is provided below:

ANALYSIS OF VARIATIONS	£000
Increases in expenditure/reduction in income	
Dartmouth Lower Ferry - net shortfall in income, Ferry was out of action until 20 th May 2013 for essential slipway maintenance (Minute E.15/12 refers)	288
Car parks – mainly reduction in income	195
Staff Salaries – vacancy provision and target for additional Shared Services savings not met	155
Transport Fleet – mainly overspend on R&M due to ageing fleet	92
Staff Salaries – net of saving on staff training	66
Leisure Centres – contractor claim for utilities additional inflation	64
Planning – external legal fees and other specialist advice	40
Corporate Management – provision for tax liability net of reserves	20
Emergency Procedures – flood work undertaken not covered by Bellwin Scheme	19
Employment Estates – loss of empty property relief on voids	16
Community Parks & Open Spaces – net loss of income mainly due to the cessation of DCC Highways grass cutting contract	10
Investment interest – reduced investment rates	10
Pannier Markets – reduced activity	10
Reductions in expenditure/additional income	
Housing Benefit – mainly recoveries of overpayments (in 2013/14 £22m was paid in Housing Benefit)	(222)
Business Rates – change in accounting arrangements for discretionary rate relief	(161)
Planning Applications – additional income	(111)
Government Grants – return of top sliced RSG and receipt of New Burdens Grants	(92)
Heritable Bank – reduction in impairment value following additional repayments	(80)
Private Sector Housing Renewal – care and repair scheme (saving built into 2014/15 budget)	(40)
Elections – surplus of income over expenditure	(34)
Democratic Representation – external fees re. Monitoring Officer etc	(33)
Land charges – additional income	(33)
Community Parks & Open Spaces – rent reviews for boatman kiosks	(30)
Beach & Water safety – mainly savings on contracts for equipment inspections and laying of safety buoys	(14)
Corporate Management – saving on District Magazine	(8)
TOTAL DEFICIT	127

Shared Services

10. The arrangements for shared services continue to be a crucial component of the Council's Financial Strategy. The Council continues to share staff with West Devon Borough Council, which has now yielded over £6 million in savings across the two Councils, with each Council generating ongoing savings of about £700,000 every year.
11. Both South Hams and West Devon have been bold in challenging the traditional local government model and have always been at the forefront of radical change. Indeed the Councils have recently taken their next step and abolished the role of Chief Executive, saving approximately 1% of council tax for each council per year, by moving to an Executive Director model.

Pension Liability

12. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The overall impact on the General Fund of the IAS 19 entries is neutral.
13. The actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2014 of £32.7million. This compares to £32.1million as at 31 March 2013. The deficit is derived by calculating the pension assets and liabilities at 31 March 2014. See Note 33 for further information.

Change in accounting Policies

14. The accounting framework for employee retirement benefits has been revised with remodelling of elements of the net pension liability and definitions contained therein following the Code's adoption of the amendments to IAS 19 (2011 amendments). The test for the recognition of termination benefits has been altered from being demonstrably committed to terminating the employment of employees or to providing termination benefits as a result of an offer of voluntary redundancy, to now only recognising at the earliest date at which the Authority can no longer withdraw the offer of those benefits or the Authority makes a provision for the costs of restructuring that will involve payment of termination benefits.

Icelandic Banks

15. At the 31 March 2014 the Council had £72,368 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with an address in Edinburgh. Heritable Bank Plc is authorised and regulated

by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank Landsbanki.

16. 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 indicated low risk and were within the deposit policy approved by the Council.
17. Administrators have kept the bank trading and are winding down the business over a period of years. As at the end of September 2013, the Administrators had paid fourteen dividends amounting to 94% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

Capital spending

18. The Council spent £4.0m on capital projects. The main areas of expenditure were as follows:
 - replacement fish quay (£1.5m)
 - house renovation grants (£0.5m)
 - replacement ferry slipway (£0.3m)
 - affordable housing (£0.3m)
 - capital grants (£0.3m)
 - leisure centre refurbishments (£0.3m)
 - replacement pontoons (£0.3m)

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

Issue of accounts

19. The Head of Finance and Audit authorised the unaudited Statement of Accounts 2013/14 for issue on the 30th June 2014.

FINANCIAL NEEDS AND RESOURCES

20. 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.
21. Revenue reserves have increased by £1.2m from the preceding year and stand at £10.4m at 31 March 2014. Revenue reserves may be

used to finance capital or revenue spending plans. The General Fund Balance (un-earmarked reserve) stands at £1.7m.

22. Capital Reserves are represented on the Balance Sheet by capital receipts and capital contributions unapplied. The balance at 31 March 2014 amounts to £4.6m compared to £5.5m at the end of the previous year.

LOOKING FORWARD TO THE FUTURE

23. Overall, the Council's finances remain strong. In order to maintain this position, the Council operates continuous monitoring of both income and expenditure. This ensures that services are delivered within approved budgets and value for money is achieved for our residents. In addition, a planning mechanism is in place, focusing not only on one year, but also on the longer term. The Council's Medium Term Financial Strategy will be considered by the Executive at its September 2014 meeting.

Transformation Programme (T18)

24. The Council continues to face significant reductions in Central Government funding. Because of the unprecedented scale of financial challenges being faced in the next few years, the Council has embarked on a Transformation Programme 2018 (T18).
25. T18 is viewed as the primary driver to achieve the savings required over the next few years. This is a joint transformation programme with West Devon Borough Council, with whom the Council has been sharing services with since 2007. The Council is preparing to provide its services in an entirely new way by becoming more flexible and customer focused using the latest technology.
26. Services will be redesigned around our customers and communities and as a consequence we will remove all departmental silos. This will involve re-engineering over 400 business processes and sharing all of our corporate services and information technology systems. The main phase of the programme will be delivered during the spring of 2015.
27. Self service providing 24/7 access will be extended significantly enabling customers to access service delivery not just information. Many of our on line transactions will become fully automated, improving response times whilst reducing staff input.
28. Both Councils have now made the decision to proceed with the programme (October 2013) and the major financial implication the Council has agreed to, is to "Approve an investment budget of £2.95 million for the T18 Programme (SHDC's share of the overall budget of

£4.85 million), to deliver annual recurring revenue savings of £2.5 million (SHDC's share of the savings of £3.8 million)". The payback period for the Programme is 2 years.

Localisation of Business Rates

29. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the Business Rates generated in their area, with effect from 1 April 2013.
30. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline. However, the BRRS allows Authorities to voluntarily form a 'pool'. Pooling mitigates each Authority's exposure to Business Rate income volatility as the risks are spread over a larger pool. In 2013/2014, South Hams District Council agreed to be part of a Devonwide pooling arrangement and the pooling gain achieved in the first year equated to £61,000.

FURTHER INFORMATION

31. 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 2013/14	Total Authority Reserves £000 2012/13 Restated*
Balance at 31 March carried forward	2,534	6,655	5,302	207	14,698	39,430	54,128	48,382
Movement in Reserves during Year								
Surplus or (deficit) on provision of Services	(1,799)	-	-	-	(1,799)	-	(1,799)	(1,724)
Other Comprehensive Income and Expenditure	-	-	-	-	-	2,105	2,105	7,470
Total Comprehensive Income and Expenditure	(1,799)	-	-	-	(1,799)	2,105	306	5,746
Adjustments between accounting basis & funding basis under regulations (Note 4)	2,979	-	(805)	(89)	2,085	(2,085)	-	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	1,180	-	(805)	(89)	286	20	306	5,746
Transfers to/from Earmarked Reserves (Note 5)	(2,007)	2,007	-	-	-	-	-	-
Increase/ (Decrease) in Year	(827)	2,007	(805)	(89)	286	20	306	5,746
Balance at 31 March carried forward	1,707	8,662	4,497	118	14,984	39,450	54,434	54,128

*See explanatory foreword – revisions to IAS19.

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.

2012/13 – restated*				2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Service Division	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
8,152	(7,408)	744	Central services to the public	2,128	(1,354)	774
2,889	(690)	2,199	Cultural & Related	2,701	(736)	1,965
7,898	(2,072)	5,826	Environmental	8,419	(2,264)	6,155
3,077	(4,743)	(1,666)	Highways and transport	3,435	(4,839)	(1,404)
24,986	(23,639)	1,347	Housing	25,100	(23,592)	1,508
3,849	(2,699)	1,150	Planning & Development	4,085	(2,897)	1,188
1,553	(57)	1,496	Corporate and democratic core	1,799	(163)	1,636
89	(7)	82	Non distributed costs	436	(6)	430
52,493	(41,315)	11,178	Cost of Services	48,103	(35,851)	12,252
1,623	(18)	1,605	Other operating expenditure (Note 6)	1,585	(78)	1,507
1,314	(644)	670	Financing and investment income and expenditure (Note 7)	1,346	(646)	700
-	(11,729)	(11,729)	Taxation and non-specific grant income (Note 8)	12,069	(24,729)	(12,660)
55,430	(53,706)	1,724	(Surplus) or Deficit on Provision of Services	63,103	(61,304)	1,799
		(8,578)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(632)
		1,108	Remeasurements of the net defined benefit liability			(1,473)
		(7,470)	Other Comprehensive Income and Expenditure			(2,105)
		(5,746)	Total Comprehensive Income and Expenditure			(306)

*See explanatory foreword – revisions to IAS19.

SECTION 2C. BALANCE SHEET

31 March 2013 £000		Notes	31 March 2014 £000
70,928	Property, Plant & Equipment	9	72,645
307	Investment Property		337
145	Intangible Assets	10	93
49	Long Term Debtors	13	9
71,429	Long Term Assets		73,084
13,118	Short Term Investments	11	15,000
98	- accrued interest	11	36
88	Inventories	12	93
4,601	Short Term Debtors	13	5,606
6,048	Cash and Cash Equivalents	14	2,665
9	- accrued interest		3
23,962	Current Assets		23,403
(5,620)	Short Term Creditors	15	(5,547)
(116)	Short Term Revenue Grants in Advance	27	(211)
(18)	Provisions		(50)
(5,754)	Current Liabilities		(5,808)
(47)	Long Term Creditors	15	-
(3,274)	Long Term Revenue Grants in Advance - Section 106 Deposits	27	(3,405)
(32,073)	Pensions Liability	33	(32,704)
(115)	Capital Grants - Receipts in Advance	27	(136)
(35,509)	Long Term Liabilities		(36,245)
54,128	Net Assets		54,434
14,698	Usable Reserves	16	14,984
39,430	Unusable Reserves	17	39,450
54,128	Total Reserves		54,434

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

The unaudited accounts were issued on 30 June 2014.

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.

2012/13* £000		2013/14 £000
1,724	Net (surplus) or deficit on the provision of services	1,799
(5,905)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 18)	(2,044)
(4,480)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 19)	335
(163)	Interest received	(237)
(8,824)	Net cash outflows/ (inflow) from Operating Activities	(147)
(932)	Net increase/ (decrease) in Investing Activities (Note 20)	3,302
5,900	Net cash outflow/ (inflow) from Financing Activities (Note 21)	228
(3,856)	Net (increase) or decrease in cash and cash equivalents	3,383
2,192	Cash and cash equivalents at the beginning of the reporting period	6,048
6,048	Cash and cash equivalents at the end of the reporting period (Note 14)	2,665

*See explanatory foreword – revisions to IAS19.

Section 3

Notes to the

Financial Statements

SECTION 3. NOTES TO THE ACCOUNTS

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33. Defined Benefit Pension Schemes
34. Contingent Liabilities
35. Nature and Extent of Risks Arising from Financial Instruments
36. Accounting Policies
37. Accounting Standards that have been Issued but not yet Adopted
38. Critical Judgements in Applying Accounting Policies

SECTION 3. NOTES TO THE ACCOUNTS

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

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

The items in the Authority's Balance Sheet at 31 March 2014 for which there are significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives which are estimated annually.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls.
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 £2.1 million.</p> <p>However, the assumptions interact in complex ways. For example, in 2013/14, the Authority's actuaries advised that the pension liability had decreased by £4.4million as a result of estimates being corrected as a result of experience and increased by £2.1million attributable to the updating of assumptions.</p> <p>Please refer to Note 33 for further information about the assumptions used by the actuaries.</p>
Arrears	The Authority makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. For example at 31 March 2014, the Authority had a balance of Sundry Debtors of £1.08 million. A review of significant balances suggested that an impairment for doubtful debts of 4.7% (£51,000) was appropriate.	The impairment for doubtful debts is reviewed annually in order to respond to changes in collection rates.

2. MATERIAL ITEMS OF INCOME AND EXPENSE / PRIOR PERIOD ADJUSTMENTS

Exceptional items - there were no such items in 2013/14 or 2012/13.

SECTION 3. NOTES TO THE ACCOUNTS

Prior period adjustments - the Code includes the revisions as a result of the June 2011 amendments to IAS 19 Employee Benefits. There are no prior period adjustments in relation to the change in recognition point for termination benefits however the accounting framework for retirement benefits has been revised to reflect amended definitions, updated terminology, classification, recognition, measurement and disclosure requirements. There is no impact on the pension liability in the Balance Sheet.

3. EVENTS AFTER THE BALANCE SHEET DATE

The draft Statement of Accounts (SOA) for 2013/14 was certified by the Head of Finance and Audit on 30 June 2014. This is also the date up to which events after the Balance Sheet date have been considered. There are no events which took place after 31 March 2014 which require disclosure.

4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2013/14	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	2,017			(2,017)
Revaluation losses/(gains) on Property Plant and Equipment	(462)			462
Movements in the market value of Investment Properties	(31)			31
Amortisation of intangible assets	58			(58)
Capital grants and contributions applied	(853)			853
Revenue expenditure funded from capital under statute	90			(90)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	190			(190)
Insertion of items not debited or credited to the CIES:				
Capital expenditure charged against the General Fund	(528)			528
Adjustments primarily involving the Capital Grants Unapplied Account:				
Application of grants to capital financing transferred to the CAA			(89)	89

SECTION 3. NOTES TO THE ACCOUNTS

2013/14	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES.	(260)	260		-
Transfer of unattached capital receipts	(386)	386		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,455)		1,455
Repayment of mortgage and parish loans		4		(4)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 33)	3,751			(3,751)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,647)			1,647
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	(62)			62
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	1,090			(1,090)
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	12			(12)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2013/14	2,979	(805)	(89)	(2,085)

2012/13 – restated *				
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2012/13	1,842	(332)	(14)	(1,496)

* See explanatory foreword – revisions to IAS19.

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 2013/14.

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

SECTION 3. NOTES TO THE ACCOUNTS

6. OTHER OPERATING EXPENDITURE

2012/13* £000		2013/14 £000
1,590	Parish council precepts	1,544
(18)	(Gains)/losses on the disposal of non-current assets	(78)
33	Pension administration expenses	41
1,605	Total	1,507

7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2012/13* £000		2013/14 £000
-	Interest payable and similar charges	2
(229)	Interest receivable and similar income	(169)
(404)	Other investment income	(386)
(11)	Investment (gains)/ losses	(91)
1,298	Net interest on the net defined benefit liability	1,344
16	Investment properties	-
670	Total	700

* 2012/13 restated. See explanatory foreword – revisions to IAS19.

8. TAXATION AND NON SPECIFIC GRANT INCOME

2012/13 £000		2013/14 £000
	Council Tax	
(6,860)	• Income	(6,601)
(52)	• Collection Fund adjustment	(62)
(40)	• Collection Fund - distribution of surplus	(30)
-	• Support grant to parishes	145
	Business Rates	
(3,705)	• Income	(12,628)
-	• Tariff	10,834
-	• Pooling administration costs	1
-	• Pooling gain	(61)
-	• Safety net payment	(142)
-	• Transfer of Collection Fund deficit	1,090
	Non ring - fenced Government grants :	
-	• Small Business Rate Relief Grant	(713)
(72)	• Revenue Support Grant	(2,560)
(826)	• New Homes Grant	(1,026)
(86)	• Local Services Support Grant	-
-	• Council Tax Support Transition Grant	(17)
-	• Rural Services Support Grant	(37)
(88)	Capital grants and contributions	(853)
(11,729)	Total	(12,660)

SECTION 3. NOTES TO THE ACCOUNTS

9. PROPERTY, PLANT AND EQUIPMENT

Movements in 2013/14:

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

SECTION 3. NOTES TO THE ACCOUNTS

Comparative Movements in 2012/13:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2012	54,327	8,586	3,874	722	1,445	68,954
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)	-
At 31 March 2013	63,534	8,885	4,677	759	1,483	79,338
Accumulated Depreciation and Impairment at 1 April 2012	1,604	4,079	1,415	-	-	7,098
charge for 2012/13	870	864	199			1,933
depreciation written out to the Revaluation Reserve	(243)					(243)
depreciation written out to the Surplus/Deficit on the Provision of Services	(23)		(2)			(25)
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services			16		3	19
derecognition-disposals		(372)				(372)
At 31 March 2013	2,208	4,571	1,628	-	3	8,410
Balance Sheet amount at 31 March 2013	61,326	4,314	3,049	759	1,480	70,928
Balance Sheet amount at 31 March 2012	52,723	4,507	2,459	722	1,445	61,856

SECTION 3. NOTES TO THE ACCOUNTS

Depreciation

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

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

Capital Commitments

There were no significant contracts for future capital expenditure at 31 March 2014.

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 36.

	Land and buildings	Vehicles, plant furniture & equipment	Total
	£000	£000	£000
Valued at historical cost	-	-	-
2013/2014	23,184		23,184
2012/2013	24,049		24,049
2011/2012	9,660		9,660
2010/2011	3,172		3,172
2009/2010	1,809		1,809
Total	61,874	-	61,874

SECTION 3. NOTES TO THE ACCOUNTS

10. INTANGIBLE ASSETS

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £58,000 charged to revenue in 2013/14 was charged to the cost centres holding the assets.

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

	2012/13 £000	2013/14 £000
Gross carrying amount	330	432
Accumulated amortisation	(215)	(287)
Net carrying amount at start of year	115	145
Purchases	102	6
Amortisation for the period	(72)	(58)
Net carrying amount at end of year	145	93

Comprising:

Gross carrying amount	432	438
Accumulated amortisation	(287)	(345)
Net carrying amount at end of year	145	93

11. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

Liabilities

- trade payables and other payables
- borrowings
- financial guarantees

SECTION 3. NOTES TO THE ACCOUNTS

Assets

- bank deposits
- trade receivables
- loans receivables
- investments

Derivatives

- swaps
- forwards
- options

The carrying amount and fair values for investments at 31 March 2014 are shown in the following table:

Investment Type	Carrying Amount (net of interest)	Interest due at year end	Gross carrying Amount	Fair Value
	£000	£000	£000	£000
Short term	15,000	36	15,036	15,047

Heritable Bank

At the 31 March 2014 the Council had £72,368 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank Landsbanki.

The Council placed a deposit of £1,250,000 on 25th September 2008. 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.

Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators had paid fourteen dividends at the end of September 2013 amounting to 94% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

In view of the ongoing legal dispute and uncertainty surrounding the Council's ability to recover the remaining deposit of £72,368, it is considered appropriate to impair the Balance Sheet by the same amount.

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 2013 £000	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000
Investments				
Loans and receivables (principal)	-	-	13,118	15,000
Loans and receivables (accrued interest)	-	-	98	36
Total Investments	-	-	13,216	15,036
Debtors				
Loans and receivables	49	9	-	-
Financial assets carried at contract amount	-	-	1,347	2,535
Total Debtors	49	9	1,347	2,535
Creditors				
Financial liabilities at amortised cost	(47)	-	-	-
Financial liabilities carried at contract amount			(2,364)	(2,795)
Total Creditors	(47)	-	(2,364)	(2,795)

Income, Expense, Gains & Losses

	Financial Assets 2012/13			Financial Assets 2013/14		
	Investments £000	Investments at Fair Value through I&E £000	Total £000	Investments £000	Investments at Fair Value through I&E £000	Total £000
Interest income	(235)	-	(235)	(178)		(178)
Interest income accrued on impaired financial assets	7		7	11		11
Increases in fair value	(11)		(11)	(91)		(91)
Total income in Surplus or deficit on the provision of Services	(239)	-	(239)	(258)	-	(258)
Net (gain)/loss for the year	(239)	-	(239)	(258)	-	(258)

SECTION 3. NOTES TO THE ACCOUNTS

12. INVENTORIES

TOTAL 2012/13 £000		Depot 2013/14 £000	Printing Materials 2013/14 £000	TOTAL 2013/14 £000
138	Balance at 1 April	76	12	88
600	Purchases	648	17	665
(650)	Recognised as an expense in the year	(642)	(18)	(660)
88	Balance at 31 March	82	11	93

13. DEBTORS

31.3.2013 £000		31.3.2014 £000
	Short Term	
23	HMRC	133
352	Other Government departments	195
572	Local authorities	865
1,770	Business Rates Debtor	531
89	Council tax payers	161
1,795	Other entities & individuals	3,721
4,601	Total	5,606
	Long Term	
	Strain payments payable from West Devon Borough Council	-
36		
13	Parish loans	9
49	Total	9

14. CASH AND CASH EQUIVALENTS

31.3.2013 £000		31.3.2014 £000
58	Cash held by the Authority	(285)
5,000	Bank current accounts	-
990	Money Market Funds	2,950
6,048	Total Cash and Cash Equivalents	2,665

SECTION 3. NOTES TO THE ACCOUNTS

15. CREDITORS

31.3.2013 £000		31.3.2014 £000
	Short Term	
(217)	HMRC	(204)
(1,537)	Other Government departments	(768)
(503)	Other local authorities	(535)
(2,329)	Sundry creditors	(3,046)
(139)	Employee benefits	(151)
(53)	Council taxpayers	(56)
(842)	Council taxpayers – Preceptors a/c	(787)
(5,620)	Total	(5,547)
	Long Term	
(47)	Strain payments payable to West Devon Borough Council	-

16. USABLE RESERVES

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

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

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

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

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

17. UNUSABLE RESERVES

31.3.2013 £000		31.3.2014 £000
23,099	Revaluation Reserve	23,526
48,392	Capital Adjustment Account	49,656
(32,073)	Pensions Reserve	(32,704)
151	Council Tax Collection Fund Adjustment Account	213
-	Business Rates Collection Fund Adjustment Account	(1,090)
(139)	Accumulated Absences Account	(151)
39,430	Total Unusable Reserves	39,450

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.

31.3.2013		31.3.2014	31.3.2014
£000		£000	£000
14,710	Balance at 1 April		23,099
9,962	Upward revaluation of assets	1,460	
(1,384)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(828)	
8,578	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		632
(189)	Difference between fair value depreciation and historical cost depreciation	(205)	
(189)	Amount written off to the Capital Adjustment Account		(205)
23,099	Balance at 31 March		23,526

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.

2012/13 £000		2013/14 £000	2013/14 £000
47,700	Balance at 1 April		48,392
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(1,933)	▪ Charges for depreciation of non-current assets	(2,017)	
727	▪ Revaluation losses on Property, Plant and Equipment	462	
(15)	▪ Revaluation gains/(losses) on Investment Properties	31	
(72)	▪ Amortisation of intangible assets	(58)	
-	▪ Revenue expenditure funded from capital under statute (REFCUS) - funded from capital receipts	(90)	
(13)	▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(190)	
(1,306)	Total		(1,862)
189	Adjusting amounts written out of the Revaluation Reserve		205
(1,117)	Net written out amount of the cost of non-current assets consumed in the year		(1,657)
	Capital financing applied in the year:		
743	Use of the Capital Receipts Reserve to finance new capital expenditure	1,455	
88	Capital grants and contributions credited to the CIES that have been applied to capital financing	853	
14	Application of grants to capital financing from the Capital Grants Unapplied Account	89	
971	Capital expenditure charged against the General Fund	528	
(7)	Repayment of parish loans	(4)	
1,809	Total		2,921
48,392	Balance at 31 March		49,656

SECTION 3. NOTES TO THE ACCOUNTS

Pensions Reserve

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

31.3.2013		31.3.2014
£000		£000
Restated*		
(28,927)	Balance at 1 April	(32,073)
(1,108)	Actuarial gains or losses on pensions assets and liabilities	1,473
(3,612)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(3,751)
1,522	Employer's pensions contributions and direct payments to pensioners payable in the year	1,647
52	Reversal of accrued strain payments	-
(32,073)	Balance at 31 March	(32,704)

*See explanatory foreword – revisions to IAS19.

Council Tax Collection Fund Adjustment Account

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

31.3.2013		31.3.2014
£000		£000
99	Balance at 1 April	151
52	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	62
151	Balance at 31 March	213

SECTION 3. NOTES TO THE ACCOUNTS

Business Rates Collection Fund Adjustment Account

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

31.3.2013 £000		31.3.2014 £000
-	Balance at 1 April	-
	Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	
-		(1,090)
-	Balance at 31 March	(1,090)

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.

31.3.2013 £000		31.3.2014 £000	31.3.2014 £000
(126)	Balance at 1 April		(139)
126	Settlement or cancellation of accrual made at the end of the preceding year	139	
(139)	Amounts accrued at the end of the current year	(151)	
(13)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(12)
(139)	Balance at 31 March		(151)

SECTION 3. NOTES TO THE ACCOUNTS

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

2012/13*		2013/14
£000		£000
(1,933)	Depreciation	(2,017)
712	Impairment & downward valuations	493
(72)	Amortisation	(58)
(1,445)	Increase/(decrease) in Debtors	2,182
-	Increase/(decrease) in accrued interest on Investments	(68)
(1,260)	Increase/(decrease) in Creditors	(444)
(50)	Increase/(decrease) in Inventories	5
(2,038)	Movement in pension liability	(2,104)
(13)	Carrying amount of non-current assets held for sale, sold or derecognised	(190)
194	Other non-cash items charged to the net surplus or deficit on the provision of services	157
(5,905)	Total	(2,044)

* 2012/13 restated. See explanatory foreword – revisions to IAS19.

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

2012/13		2013/14
£000		£000
-	Proceeds from the sale of Property, Plant & Equipment & Investment Properties	646
(4,480)	Other non-cash items charged to the net surplus or deficit on the provision of services	(311)
(4,480)	Total	335

20. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2012/13		2013/14
£000		£000
1,317	Purchase of property, plant and equipment, investment property and intangible assets	2,867
(2,117)	(Increase)/decrease in investments	1,791
(31)	Proceeds from the sale of property, plant and equipment, investment property & intangible assets	(268)
(101)	Other receipts from investing activities (capital grants & contributions)	(1,088)
(932)	Net cash flows from investing activities	3,302

SECTION 3. NOTES TO THE ACCOUNTS

21. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2012/13 £000		2013/14 £000
917	Net Business Rates receipts paid to/ (received) from Central Government	262
4,983	Net Council Tax receipts paid to / (received) from major preceptors	(34)
5,900	Total	228

22. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

Service Income & Expenditure 2013-14

	Central Services	Cultural & Related	Environmental	Highways	Housing	Planning	CDC & NDC	TOTAL 2013/14	TOTAL 2012/13
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(574)	(266)	(1,342)	(4,801)	(1,034)	(2,734)	(139)	(10,890)	(10,423)
Government grants & contributions	(780)	(470)	(922)	(38)	(22,558)	(163)	(30)	(24,961)	(30,892)
Total Income	(1,354)	(736)	(2,264)	(4,839)	(23,592)	(2,897)	(169)	(35,851)	(41,315)
Employee expenses	853	215	3,626	1,305	1,088	2,199	673	9,959	9,904
Other service expenses	376	1,789	3,767	1,760	22,701	919	753	32,065	37,579
Depreciation/ amortisation	9	537	343	115	895	273	10	2,182	1,902
Support service recharges	890	160	683	255	416	694	799	3,897	3,108
Total Expenditure	2,128	2,701	8,419	3,435	25,100	4,085	2,235	48,103	52,493
Net Expenditure	774	1,965	6,155	(1,404)	1,508	1,188	2,066	12,252	11,178

SECTION 3. NOTES TO THE ACCOUNTS

23. TRADING OPERATIONS – BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the Building Control function. Building Regulations Control Services operate as a separate trading unit and the Summary Accounts for the year will be detailed in the Devon Building Control Partnership Accounts, which can be found at the following website:

<http://www.teignbridge.gov.uk/index.aspx?articleid=16096>

24. MEMBERS' ALLOWANCES

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

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

2012/13		2013/14
£000		£000
249	Allowances	251
24	Expenses	22
273	Total	273

25. OFFICERS' REMUNERATION

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

A senior employee (England & Wales) is defined as an employee whose salary is more than £150,000 per year, or alternatively one whose salary is at least £50,000 (England) per year (to be calculated pro rata for a part-time employee) and who is:

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

SECTION 3. NOTES TO THE ACCOUNTS

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

Post	Year	Salary, Fees and Allowances £	Expenses Allowances £	Pension Contribution £	Compensation £	Total £
Legal Services Manager / Monitoring Officer --- left 30.06.12	2013/14	-	-	-	-	-
	2012/13	22,800	600	4,200	10,000	37,600
Director – Shared Services	2013/14	76,200	2,800	13,900		92,900
	2012/13	73,600	4,800	13,500		91,900
Director – Shared Services	2013/14	75,200	2,500	13,800		91,500
	2012/13	72,000	4,600	13,200		89,800
Head of Corporate Services	2013/14	62,600	2,900	11,500		77,000
	2012/13	62,000	4,400	11,300		77,700
Head of Environmental Health & Housing	2013/14	62,600	2,900	11,500		77,000
	2012/13	62,000	3,600	11,300		76,900
Head of Assets	2013/14	62,600	1,900	11,500		76,000
	2012/13	62,000	4,100	11,300		77,400
Acting Head of Finance & Audit - wef 1.1.13 to 30.9.13 (not shared)	2013/14	27,700	1,000	5,100		33,800
	2012/13	14,500	400	2,700		17,600

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 2013/14 SHDC reimbursed costs amounting to £262,700 (2012/13 £254,800) in respect of the Chief Executive, four Heads of Services and Monitoring Officer employed by WDBC. SHDC received a reimbursement in 2013/14 from WDBC of £203,300 (2012/13 £229,800) in respect of the above shared senior employees.

Note 2: The Chief Executive retired on 31 March 2014 and the Council has abolished this traditional role. From 1 January 2014 the Council has operated an Executive Director model, saving the equivalent of 1% of council tax per year.

Other officers earning over £50,000

Remuneration band	2012/2013 Number of employees		2013/2014 Number of employees	
	Total	Left during year	Total	Left during year
£50,000 - £54,999	1	0	1	0

SECTION 3. NOTES TO THE ACCOUNTS

26. PAYMENTS TO EXTERNAL AUDITORS

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

	2012/13	2013/14
	£000	£000
External audit services	57	57
Rebate in respect of audit fees	(5)	(8)
Certification of grant claims and returns	19	24
Other services	11	8
TOTAL	82	81

SECTION 3. NOTES TO THE ACCOUNTS

27. GRANT INCOME

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

	2012/13 £000	2013/14 £000
Credited to Taxation and Non Specific Grant Income		
Capital grants & contributions:		
Waste & Resources Action Programme–Commercial Waste	(38)	-
European Fisheries Fund – Salcombe Fish Quay	-	(772)
Devon County Council – North Sands	-	(50)
Other capital grants & contributions	(50)	(31)
Non ring- fenced Government grants & contributions:		
Business Rates	(3,705)	-
Revenue Support Grant	(72)	(2,560)
New Homes Grant	(826)	(1,026)
Local Services Support Grant	(86)	-
Council Tax Transition Grant	-	(17)
Small Business Rate Relief	-	(713)
Rural Services Support Grant	-	(37)
Total	(4,777)	(5,206)
Credited to Services		
Rent Allowance subsidy	(22,019)	(21,688)
Housing Benefit administration subsidy	(224)	(202)
Rent rebate subsidy	(113)	(96)
Discretionary housing payments	(90)	(149)
Council Tax benefit grant	(5,907)	-
Council Tax benefit administration subsidy	(309)	(279)
Business Rates cost of collection allowance	(205)	(206)
REFCUS grants applied		
Disabled facilities grant	(365)	(271)
Section 106 deposits	(60)	(222)
Second homes funding	(27)	(99)
Other grants	-	(15)
Recycling credits	(488)	(468)
Devon County Council – Torr Quarry Transfer Station	(254)	(263)
Section 106 deposits	(292)	(167)
Home Office–Police & Crime Commissioners Elections 2012	(109)	(9)
Devon County Council – County Council Elections	-	(124)
Dept. for Communities & Local Govt. – Bellwin Scheme	-	(101)
Dept. for Communities & Local Govt. – Sherford Resource Funding	-	(66)
Other grants	(430)	(536)
Total	(30,892)	(24,961)

SECTION 3. NOTES TO THE ACCOUNTS

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

The balances at the year-end are as follows:

Capital Grants Receipts in Advance	31 March 2013 £000	31 March 2014 £000
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(31)	(52)
Total	(115)	(136)

Short Term Revenue Grants Receipts in Advance	31 March 2013 £000	31 March 2014 £000
Devon County Council – Cycling & Working Works	(29)	(13)
Plymouth City Council – AONB Plym to Yealm Enhancement Project	(26)	-
Devon Local Authorities – Member Development Role	(24)	(14)
Devon County Council – Public Health Grant	-	(20)
DCLG – Sherford Resource Funding	-	(117)
Other grants	(37)	(47)
Total	(116)	(211)

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	31 March 2013 £000	31 March 2014 £000
Langage Energy Centre	(2,654)	(2,469)
Dartmouth Supermarkets	(281)	(249)
Various other sites	(339)	(687)
Total	(3,274)	(3,405)

28. RELATED PARTIES

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

SECTION 3. NOTES TO THE ACCOUNTS

Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are detailed in Note 27.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 24.

iESE Transformation Ltd

South Hams District and West Devon Borough Councils have a relationship with iESE Transformation Ltd. (iESE) which sees the latter providing consultancy support services to the Councils as part of their T18 Transformation programme. The nature of this relationship is similar to an in-house arrangement on the basis that the Councils have become Public Body Members of the Company meaning that the arrangements are not subject to the EU Directives concerning procurement (the Teckal Exemption). There is no requirement for Public Body Members to provide any funding or support for the Company other than as set in contracts for services entered into with the Company.

29. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2012/13	2013/14
	£000	£000
Capital Investment		
Property, plant & equipment	1,714	2,829
Intangible assets	102	6
Revenue expenditure funded from capital under statute (REFCUS)	753	1,205
Total expenditure	2,569	4,040
Sources of Finance		
Capital receipts	743	1,455
Government grants and other contributions	554	1,549
Direct revenue contributions (earmarked reserves)	1,272	1,036
Total funding	2,569	4,040

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

SECTION 3. NOTES TO THE ACCOUNTS

30. LEASES

Operating Leases

Authority as Lessee

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

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

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

	31 March 2013 £000	31 March 2014 £000
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	184	185
Later than one year & not later than five years	668	589
Later than five years	1,132	1,020
	1,984	1,794
The expenditure charged to the Highways, Roads and Transport Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:		
	2012/13 £000	2013/14 £000
Minimum lease payments	183	184
	183	184

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	31 March 2014 £000
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	742	746
Later than one year & not later than five years	2,969	2,984
Later than five years	36,599	35,863
	40,310	39,593

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.

31. 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.

SECTION 3. NOTES TO THE ACCOUNTS

32. 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 (£)	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
£0 - £20,000	4	1	1	-	5	1	58,600	7,500
£20,001 - £40,000	4	-	-	-	4	-	120,200	-
TOTAL	8	1	1	0	9	1	178,800	7,500

West Devon Borough Council did not contribute towards the above exit packages in 2013/14 although in 2012/13 a contribution of £24,700 was received. South Hams District Council did not contribute to West Devon Borough Council's exit package costs in 2013/14 or 2012/13.

33. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Authority participates in the Local Government Pension Scheme (LGPS), 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.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding

SECTION 3. NOTES TO THE ACCOUNTS

requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Indeed the County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 27 years. Funding levels are monitored on an annual basis. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2015 is £1.3m.

In addition, there are arrangements for the award of discretionary post retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2015 are £200,000.

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.

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 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). The new standard is effective for accounting periods beginning on or after 1 January 2013, so did not affect the original published disclosures for 2012/13

The main changes that affect the CIES 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;

SECTION 3. NOTES TO THE ACCOUNTS

- 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 CIES charge; previously a deduction was made to the actual and expected returns on assets.

The movement in the pension scheme assets and liabilities together with the treatment of the corresponding transactions in the CIES is summarised in the following tables. The 2012/13 figures have been restated due to the application of the revised IAS 19 Standard. However, this change has had no overall effect on the level of the Council's pension liability.

SECTION 3. NOTES TO THE ACCOUNTS

2013/14:	Scheme Assets £000s	Pension Obligations £000s	Net Pension Liability £000s	Notes on Accounting Treatment
Opening balance at 1 April 2013	73,775	(105,848)	(32,073)	
Current service cost		(2,366)	(2,366)	CIES – absorbed into the total cost of services
Interest income and expenses	3,152	(4,496)	(1,344)	CIES - charged to Financing and Investment Income and Expenditure
Administration expenses	(41)		(41)	Charged to Other Operating Expenditure
Re-measurements:				
• Return on plan assets	265		265	CIES – Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Actuarial gains and losses arising from changes in demographic assumptions		(923)	(923)	CIES – Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Actuarial gains and losses arising from changes in financial assumptions		(2,063)	(2,063)	CIES Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Other actuarial gains and losses	(195)	4,389	4,194	CIES - Re-measurements of the Net Defined Liability in Other Comprehensive Income and Expenditure
Contributions:				
• Council employer's contributions	1,647		1,647	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the adjustments between Accounting and Funding basis.
• Employee contributions	529	(529)	-	Total cost of services in the CIES – netted off Current Service Cost
Retirement grants and pensions	(3,142)	3,142	-	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the Adjustments between Accounting and Funding basis
Closing balance 31/03/14	75,990	(108,694)	(32,704)	

SECTION 3. NOTES TO THE ACCOUNTS

2012/13 (had the revised IAS 19 standard applied):	Scheme Assets £000s	Pension Obligations £000s	Net Pension Liability £000s	Notes on Accounting Treatment
Opening balance at 1 April 2012	66,220	(95,095)	(28,875)	
Current service cost		(2,167)	(2,167)	CIES – absorbed into the total cost of services
Past service cost and gains/losses on settlements		(114)	(114)	CIES - Non Distributed Costs
Interest income and expenses	3,029	(4,327)	(1,298)	CIES - charged to Financing and Investment Income and Expenditure
Administration expenses	(33)		(33)	Charged to Other Operating Expenditure
Re-measurements:				
• Return on plan assets	5,292		5,292	CIES – Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Actuarial gains and losses arising from changes in financial assumptions		(6,260)	(6,260)	CIES Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Other actuarial gains and losses		(140)	(140)	CIES - Re-measurements of the Net Defined Liability in Other Comprehensive Income and Expenditure
Contributions:				
• Council employer's contributions	1,522		1,522	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the adjustments between Accounting and Funding basis.
• Employee contributions	540	(540)	-	Total cost of services in the CIES – netted off Current Service Cost
Retirement grants and pensions	(2,795)	2,795	-	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the Adjustments between Accounting and Funding basis
Closing balance 31/03/13	73,775	(105,848)	(32,073)	

SECTION 3. NOTES TO THE ACCOUNTS

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

Net pension assets as at:	31/03/14 £000	31/03/13 £000	31/03/12 £000
Present value of funded obligation	105,644	102,921	92,298
Fair value of scheme assets (bid value)	75,990	73,775	66,220
Net liability	29,654	29,146	26,078
Present value of unfunded obligation	3,050	2,927	2,797
Net liability in Balance Sheet	32,704	32,073	28,875

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £32.7m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

Basis for estimating assets and liabilities

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

To assess the value of the Employer's liabilities at 31 March 2014, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

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

For the year ended 31 March 2014, the expected return and the interest cost has been replaced with a single net interest cost which effectively sets the expected return equal to the discount rate. Other assumptions are summarised in the following table:

SECTION 3. NOTES TO THE ACCOUNTS

	31/03/14	31/03/13
Mortality assumptions:		
Retiring today		
➤ Men	22.7	20.6
➤ Women	26.0	24.6
Retiring in 20 years		
➤ Men	24.9	22.6
➤ Women	28.3	26.5
Financial Assumptions		
RPI increases	3.6%	3.3%
CPI increases	2.8%	2.5%
Rate of increase in salaries	4.6%	4.7%
Rate of increase in pensions	2.8%	2.5%
Rate for discounting scheme liabilities	4.4%	4.3%

The estimated asset allocation for South Hams District Council as at 31 March 2014 is as follows:

Employer Asset Share – Bid Value	31/03/14 £000	31/03/14 %	31/03/13 £000	31/03/13 %
Gilts (Government bonds)	5,319	7%	9,591	13%
Equities	45,594	60%	45,003	61%
Property	6,838	9%	5,902	8%
Infrastructure	1,520	2%	n/a	n/a
Target Return Portfolio	11,399	15%	11,066	15%
Cash	1,520	2%	2,213	3%
Other bonds	3,800	5%	n/a	n/a
Total	75,990	100%	73,775	100%

Based on the above, the Employer's share of the assets of the Fund is approximately 2%. The return on the Fund (on a bid value basis) for the year ended 31 March 2014 is estimated to be 5%.

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34. CONTINGENT LIABILITIES

- a) The transfer of the Council's housing stock in March 1999 resulted in a capital receipt of some £42m. As the stock transfer had to take place over a very short timescale, wide warranties were given to South Hams Housing (now Tor Homes) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). The purpose of these warranties is to safeguard the housing company if any of the main assumptions on which the transfer price was calculated, turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Unfortunately, owing to the uncertainties surrounding any potential claim, it is not practicable to make an estimate of the total value of liabilities (if any).
- b) In common with 370 other English district and unitary councils, SHDC are subject of a claim by a group of companies whose business is the making of personal searches of our local land charges records. Multiple Claims have been submitted. The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those Regulations were unlawfully made, the Government should compensate. The Local Government Association have instructed external solicitors to deal with the matter on behalf of the member Local Authorities. The Council is currently considering a framework for settlement and legal advice received to determine whether this matter can be concluded, the costs are currently estimated to be £87,400 (plus interest and costs) which is substantially lower than the original estimates. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.
- c) The Council received an HMRC inspection during the 2012/13 financial year. We have accepted a liability of approximately £44,000 plus any penalty charges relating to tax and national insurance contribution for a worker who was incorrectly considered to be self-employed. A provision of £50,000 has been made in the accounts for this liability. HMRC are still considering whether we have a liability relating to the personal use of Council vans or payment for home broadband. 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

35. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures regarding the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.

SECTION 3. NOTES TO THE ACCOUNTS

- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

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

The annual treasury management strategy which incorporates the prudential indicators was approved by the Executive on 21 March 2013 and is available on the Council's website.

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

Credit risk

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

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 2013/14 was approved by the Executive on 21 March 2013 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 2014 and is reflected in the current figure of £494,000. This compares to £489,000 in 2012/13. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 13 to the accounts.

Liquidity risk

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

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

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

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

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 £245,000 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

36. ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. 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 2013/14 and the *Service Reporting Code of Practice for Local Authorities (SeRCOP)*, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

2. Accruals of Income and Expenditure

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

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

SECTION 3. NOTES TO THE ACCOUNTS

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

3. Cash and Cash Equivalents

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

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

Key: T = trade date

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

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

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.

SECTION 3. NOTES TO THE ACCOUNTS

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.

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

SECTION 3. NOTES TO THE ACCOUNTS

in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement to terminate at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

Post Employment Benefits

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

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,

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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 33

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

- **Service cost comprising:**
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the Devon County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

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.

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

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Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair Values of Assets and Liabilities

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

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

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

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

Recognition and measurement of financial instruments

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

Financial Instrument	Basis of Measurement	Note
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates.
Investments – Other	Held at carrying value on basis of materiality.	See also accounting policy on cash equivalents.
Operational debtors	Held at invoiced or billed amount less an estimate for non-collection of debts.	Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate. The carrying amount has been adjusted for an assessment of bad debts. See Note 35 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.

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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.

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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.

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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 2013/14* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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

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

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 the Valuer. The Valuer will be responsible for providing valuations apportioned in accordance with the assets property type.

Impairment

SECTION 3. NOTES TO THE ACCOUNTS

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 has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost,

SECTION 3. NOTES TO THE ACCOUNTS

being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

19. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

SECTION 3. NOTES TO THE ACCOUNTS

20. Reserves

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

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

21. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

22. Section 106 deposits

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

23. Shared Services

Since 1st October 2011, all services operated by West Devon Borough Council and South Hams District Council have been shared at senior management level and middle management level.

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.

25. Business Rates Retention

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013.

General Fund – the Comprehensive Income and Expenditure statement accrues the Authority's share of the 2013/14 rates bills. The movement in Reserves Statement features an adjustment reconciling accrued rates income for the year to the entitlement to transfer from the Collection Fund (with a balancing entry in the Collection Fund Adjustment Account).

Appeals – Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this list an assessment was made about the likely success rate of appeals and their value.

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) introduces changes in accounting policies that will have to be adopted fully by the authority in the 2014/15 financial statements i.e. from 1 April 2014.

The authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new / amended standard that has been issued, but is not yet required to be adopted by the Authority. For 2014/15 there are no standards issued not adopted that are expected to have a material impact on the 2014/15 statement of accounts.

SECTION 3. NOTES TO THE ACCOUNTS

38. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 36, 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 cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads.
- The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this information an assessment was made about the likely success rate of appeals and their value.

SECTION 4. COLLECTION FUND

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

2012/13 Business Rates £000	2012/13 Council Tax £000		2013/14 Business Rates £000	2013/14 Council Tax £000
		INCOME		
-	(53,363)	Income from Council Tax	-	(55,556)
(30,445)	-	Business Rates Receivable	(28,698)	-
-	(5,858)	Transfers from General Fund – Council Tax benefits	-	-
3,420	-	Less: Transitional Relief	(2,432)	-
(27,025)	(59,221)		(31,130)	(55,556)
		EXPENDITURE		
		Precepts, Demands & Shares:		
-	-	Central Government	15,785	-
-	42,669	Devon County Council	2,841	39,557
-	6,105	Devon & Cornwall Police Authority	-	5,773
-	2,825	Devon & Somerset Fire & Rescue Authority	316	2,671
-	6,860	South Hams District Council (net including Towns/Parishes)	12,628	6,601
-	-	Business Rates – write off of uncollectible debt	123	-
139	-	Change in allowance for non collection of doubtful debts	99	-
-	112	Council Tax written off and change in impairment allowance	-	141
-	(109)	Council Tax increase/(decrease) in provision for appeals	-	41
(48)	-	Rates increase/(decrease) in provision for appeals	1,856	-
26,623	-	Business Rate–Payment to National Pool	-	-
106	-	2012/13 deferral scheme	-	-
205	-	Business Rates – Costs of collection	206	-
		Distribution of previous year's estimated surplus		
-	253	Devon County Council	-	190
-	36	Devon and Cornwall Police	-	27
-	16	Devon and Somerset Fire Authority	-	13
-	40	South Hams District Council	-	30
27,025	58,807		33,854	55,044
-	(414)	MOVEMENT ON BALANCE	2,724	(512)

SECTION 4. COLLECTION FUND

1. Council tax and council tax base

In 2013/14, the Council's average Band D Council Tax was £1,540.97 (£1,529.50 in 2012/13). The charge for each band is a ratio of band D. The 2013/14 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	856.09
A	6/9	1,027.31
B	7/9	1,198.53
C	8/9	1,369.75
D	1	1,540.97
E	11/9	1,883.41
F	13/9	2,225.85
G	15/9	2,568.28
H	18/9	3,081.94

These charges are before any appropriate discounts. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2013/14 was 35,434.09 as calculated below (38,221.67 in 2012/13).

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A	0	7.00	7.00	5/9	3.89
A	4,864.00	(921.50)	3,942.50	6/9	2,628.33
B	8,510.00	(1,029.25)	7,480.75	7/9	5,818.36
C	8,347.00	(845.25)	7,501.75	8/9	6,668.22
D	7,870.00	(4,112.92)	3,757.08	1	3,757.08
E	6,393.00	(491.25)	5,901.75	11/9	7,213.25
F	3,527.00	(196.50)	3,330.50	13/9	4,810.72
G	2,906.00	(224.50)	2,681.50	15/9	4,469.17
H	289.00	(22.50)	266.50	18/9	533.00
Total	42,706.00	(7,836.67)	34,869.33		35,902.02
Less allowance for non collection					(538.53)
Plus adjustment for armed forces dwellings					70.60
Tax base					35,434.09

SECTION 4. COLLECTION FUND

2. Rateable value

The total Business Rates rateable value at 31 March 2014 was £82,168,779. This compares to £81,828,083 at 31 March 2013. The standard Business Rates multiplier was 47.1p in 2013/14 (2012/13: 45.8p). Without reliefs this would generate a total income of £38,701,494.91 (2012/13 £37,477,262.01). These figures are a snapshot only and differ from the value of Business Rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

3. Collection fund balance

2012/13 Business Rates £000	2012/13 Council Tax £000		2013/14 Business Rates £000	2013/14 Council Tax £000
-	(845)	Fund balance at 1 April	-	(1,259)
-	(414)	(Surplus) / Deficit for year	2,724	(512)
-	(1,259)	Fund balance as at 31 March - (surplus)/deficit	2,724	(1,771)

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

2012/13 Business Rates £000	2012/13 Council Tax £000		2013/14 Business Rates £000	2013/14 Council Tax £000
-	-	Central Government	1,362	-
-	(913)	Devon County Council	245	(1,284)
-	(133)	Devon and Cornwall Police	-	(188)
-	(62)	Devon and Somerset Fire Authority	27	(86)
-	(1,108)	Total (surplus)/deficit due to Preceptors	1,634	(1,558)
-	(151)	South Hams District Council	1,090	(213)
-	(1,259)	Fund balance as at 31 March - (surplus)/deficit	2,724	(1,771)

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 2014.

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

30 June 2014

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

Approval of the Statement of Accounts

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

Signed on behalf of South Hams District Council

TBA

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Councillor JT Pennington

Chairman of the Audit Committee

SECTION 6. AUDITORS' REPORT

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

SECTION 7. GLOSSARY OF TERMS

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

SECTION 7. GLOSSARY OF TERMS

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

DEMAND

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

FEES & CHARGES

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

FINANCIAL INSTRUMENTS

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

GOVERNMENT GRANTS

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

IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)

Provisions against income to prudently allow for non collectable amounts.

INTEREST COST

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

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

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

LIBID

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

PAST SERVICE COST

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

SECTION 7. GLOSSARY OF TERMS

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

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	31 July 2014
REPORT TITLE	SYSTEM OF INTERNAL CONTROL and ANNUAL GOVERNANCE STATEMENT - 2013/14
Report of	Head of Finance and Audit (S.151 Officer); Monitoring Officer; and Chief Internal Auditor
WARDS AFFECTED	All/Corporate

Summary of report:

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

The Accounts and Audit (Amendment) (England) Regulations 2011 require the Council to publish an Annual Governance Statement. It will provide a public confirmation that this Council has a sound framework of governance and system of internal control, which facilitates the effective exercise of the Council's functions and includes arrangements for the management of risk.

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

Financial implications:

Within existing budgets.

It is RECOMMENDED that:

- 1) Members consider the draft Annual Governance Statement (AGS) for 2013/14 and supporting evidence provided by this report and approve the AGS as part of the process of approval for the Statement of Accounts; and**
- 2) The Committee recommend to Council that the Constitution be amended in accordance with the proposals outlined in paragraphs 3.36 to 3.38 of the presented agenda report.**

Officer contact:

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1 BACKGROUND

Introduction to the Annual Governance Statement (AGS)

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

Guidance Relating to Corporate Governance and Internal Control

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

Corporate Governance Framework for the Council

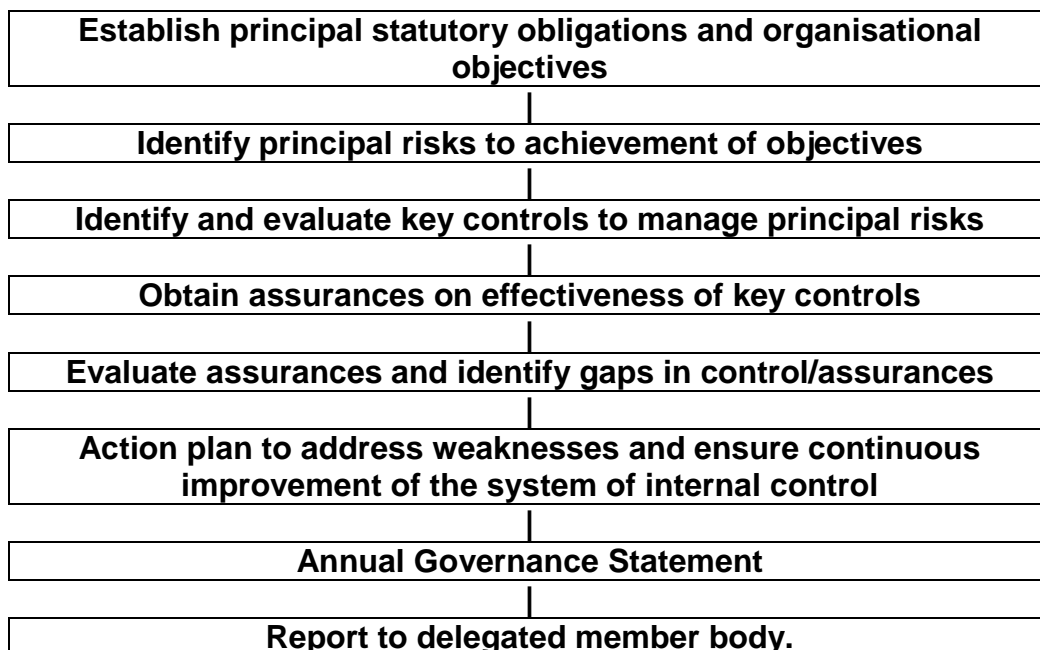
- 1.8 A revised Code of Corporate Governance was approved on behalf of the Council by the Executive at their March 2011 meeting (minute E.92/10).

It reflects reflect the CIPFA *Statement on the Role of the Chief Financial Officer in Public Service Organisations* – June 2009.

- 1.9 CIPFA's 2012 updated guidance suggests that there is a need for the Code to be updated to reflect the role of the head of internal audit. However, the template Code provided does not reflect the suggested changes, and as a consequence, the Council's Code of Corporate Governance has remained unchanged while the requirements are clarified. This is considered to be low risk as the role of the head of internal audit is overseen by the Audit Committee.
- 1.10 The Code of Corporate Governance sets out the requirement for it to be monitored and tested for compliance on an annual basis.
- 1.11 It states that the subsequent report with an action plan for significant governance issues will be presented to the **Audit Committee** whose Terms of Reference include 'to monitor the Code of Corporate Governance' and 'make any necessary recommendations to the Council'.
- 1.12 The results of the 'Compliance Review of the Code of Corporate Governance' for 2013/14 appeared on the agenda of the Audit Committee meeting of 5th June 2014.

System of Internal Control (SIC) - Process

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



2. RESPONSIBILITIES FOR CORPORATE GOVERNANCE AND SIC

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

2.2 It includes the responsibilities of the:

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

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

3. ASSURANCES TO BE CONSIDERED BY THE AUDIT COMMITTEE

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

Compliance Review of the Code of Corporate Governance

3.2 Overall responsibility for Governance rests with the Council, but monitoring of compliance with the Code is carried out on its behalf by the S.151 Officer, Monitoring Officer and Chief Internal Auditor reporting annually to the Audit Committee (5th June 2014).

3.3 The result of the 2013/14 compliance review is generally satisfactory with issues raised only for

- Principle 1: Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area: and,
- Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Principle 3: Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour: and
- Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

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

Effectiveness of the System of Internal Audit

3.5 An annual report has been presented to the Audit Committee (5th June 2014) summarising the activities and key findings of Internal Audit (IA).

3.6 In this report the **Chief Internal Auditor** (as head of internal audit) gave his '**Opinion on the Adequacy of Internal Control**'. *He concluded that the Council's overall control environment is adequate and effective for*

the purposes of the AGS. This opinion is based on the work done on the risk based annual audit plan for 2013/14, which was approved by the Audit Committee.

3.7 The Chief Internal Auditor also reviewed the **effectiveness of the system of internal audit**, which was the subject of a separate report to the 13th June 2013 Audit Committee, covering:

- Compliance with the standards set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government and the Public Sector Internal Audit Standards (PSIAS) which supersedes the Code;
- Effectiveness of the Audit Committee (including annual workshop);
- Assurance gained by external audit from Internal Audit (IA);
- Client and management opinion; and
- Extent to which IA adds value and helps delivery of corporate objectives.

3.8 The results are considered to be satisfactory and provide assurance for the System of Internal Control and the AGS. However, an independent external Quality Assurance assessment is due. Only when this is satisfactorily completed can internal audit reports carry the phrase 'conducted in conformance with PSIAS'.

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

Statutory Officers

S.151 Officer

3.10 As required by the guidance, the S.151 Officer has provided signed assurance that the systems and procedures of internal control were in operation and effective in 2013/14.

3.11 The S.151 Officer raised the following significant issues:

- Matters identified in the Review of the Code of Corporate Governance as reported to the Audit and Committee;
- Future financial uncertainties;
- T18 Transformation Programme including the related risk register; and
- Business Rate Retention (including provision for business rate appeals).

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

Monitoring Officer

3.13 As required by the guidance, the Monitoring Officer has provided signed assurance that the systems and procedures of internal control were in operation and effective in 2013/14.

3.14 The Monitoring Officer has raised issues that have been identified from other assurance sources, such as governance issues in the Review of the Code of Corporate Governance as reported to the Audit and Committee, and the charging of fees relating to Land Charges, and these findings have been taken to the AGS at Appendix B.

Heads of Service (Managers)

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

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

3.17 An element of this service planning requires managers to carry out an assessment of the controls in place to mitigate the risks, and provide assurance to the management group drafting the AGS that controls were in place and operating satisfactorily. Heads of Service are also required to make available evidence to demonstrate this.

3.18 Where Heads of Service have identified significant weaknesses or issues, these have been included in the AGS, the most significant being the T18 Transformation Programme, which has been included in the AGS at Appendix B..

Performance Management

3.19 Mechanisms are in place to establish corporate objectives:

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

3.20 Performance management arrangements are in place:

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

3.21 For 2013/14 no significant weaknesses or risks have been identified for inclusion in the AGS.

Risk Management Group

- 3.22 The Council's risk management process is in place and is monitored by the Senior Management Team, Risk Management Group and the Audit Committee.
- 3.23 For 2013/14 one significant weakness or risk has been highlighted for inclusion in the AGS: being the separate risk register for the T18 Transformation Programme.
- 3.24 This has been taken to the AGS at Appendix B.

External Audit and other Inspections

External Auditor

- 3.25 The External Auditor also contributes to the assurance for the Annual Governance Statement through their suite of reports to management and the Audit Committee.
- 3.26 The reports did not raise any significant issues for the AGS for 2013/14 other than those already raised by the Council's assurance streams.

Grant Thornton – Review of Outline Business Plan for Transformation

- 3.27 Grant Thornton assessed the outline business plan for the T18 Transformation Programme to determine its fitness for purpose dated October 2013. Their report provided conclusions for 'meeting the financial challenges' use of reserves, staff costs including ratios, and governance (see 3.29 below).

Transformation Programme 2018 (T18) – External Quality Assurance Review

- 3.28 The review by two senior officers of independent Councils, with Grant Thornton, were asked to provide an objective opinion to Members whether or not T18 should deliver the estimated savings via the reconfiguration of services and the more joined up use of ICT including computer software. In addition to comment on the risk management aspects of the project risk.
- 3.29 The above reports were formally presented to the Audit Committee in December 2013, after having been circulated to all Members. The covering report reiterated the view that the Programme 'has strong advantages over short term approaches and provides a clear vision for all stakeholders' (Grant Thornton), and, 'is a well founded approach to delivering modern services at a substantially reduced cost' (External Review Team).
- 3.30 An action plan for the relevant findings from the assurance reports and how the Council will address them was also included.

Last Year's Annual Governance Statement (2012/13)

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

From the 2012/13 Compliance Review of the Code of Corporate Governance

3.32 The progress made on the issues raised in the 2012/13 AGS taken from the Compliance Review of the Code of Corporate Governance was discussed in the 2013/14 Compliance Review of the Code of Corporate Governance report to the Audit Committee meeting of 5th June 2013.

From the 2012/13 System of Internal Control:

Issue Raised - Published 2012/13 AGS	Progress on Action Plan to Date
<p>Pay and Grading</p> <p>It is now the Council's intention to work toward convergence of terms and conditions of employment for all staff across the two Authorities (South Hams and West Devon) which includes Pay.</p> <p>The pay and grading review programme commenced in June 2012 on a service by service basis and is continuing as per the timetable with a planned completion date of 31st March 2014</p>	<p>Completed.</p> <p>Head of Corporate Services</p>
<p>Land Charges</p> <p>In common with 370 other English district and unitary councils, South Hams District Council may be the subject of a claim by a group of companies whose business is the making of personal searches of our land charges records.</p> <p>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. A public services law firm is advising the majority of Councils including ours, in conjunction with the Local Government Association (LGA).</p> <p>A case management conference is due to be held on 1 July 2013 at the High Court but this may be adjourned as the process to reconcile fees paid to LA's is not yet complete.</p>	<p>The updated position has been detailed in the 2013/14 AGS at Appendix B.</p>
<p>Contracts Database</p> <p>A corporate need has been identified to improve the management and monitoring of contracts.</p> <p>The Corporate Risk Management Group is reviewing the current approach to managing contracts including a proposed internal audit during 2013/14 of individual service arrangements, and possible future procurement of a contract management software system.</p> <p>Corporate Risk Management Group 2013/14</p>	<p>Internal audit carried out an audit and a summary of the results were reported to the Audit Committee.</p> <p>The agreed actions to the recommendations have been completed, including strengthening the Contract Procedure Rules in relation to contract storage etc.</p> <p>Contract management software will be considered with the implementation of the T18 related software.</p>

From the 2012/13 System of Internal Control (Continued):

Issue Raised - Published 2012/13 AGS	Progress on Action Plan to Date
<p>Dartmouth Embankment</p> <p>A previous formal management agreement between the Council and Dart Harbour Navigation Authority (DHNA) for the latter to manage the Embankment was terminated by the Council in 2003 in exchange for retaining all harbour dues.</p> <p>Further negotiations have taken place with DHNA since, with some disagreement over the interpretation of Section 54 and related parts of the Dart Harbour Navigation Act 1975.</p> <p>The legislation says that 75% of the net harbour dues should be paid to the Council.</p> <p>The current Head of Assets, with the support of the Executive Portfolio holder, is making progress on the issues surrounding the Embankment with the current DHNA Chief Executive, by addressing each area in its own right.</p> <p>Previously when attempts were made to address the Act on a much wider basis, the interpretation of the Act by legal representatives of both sides (Counsel for SHDC) failed to come to a single conclusion.</p> <p>Various meetings have been held with DHNA, who appear to accept that there is some breach of the Act.</p> <p>Dialogue is continuing with the Dart Harbour Authority with a view to reaching agreement for some annual contribution to a sinking fund for maintaining the Embankment, and clarifying the management responsibilities for individual areas on the Embankment.</p>	<p>The updated position has been detailed in the 2013/14 AGS at Appendix B.</p>
<p>Financial Uncertainty</p> <p>As Local Authorities experience reductions in funding, although South Hams District Council currently has a balanced budget, we must continue to review spending and monitor financial plans in order to balance future budgets in the face of the further government funding reductions that are expected.</p> <p>The Council has commenced several initiatives that aim to help us to reduce our costs and meet the enormous challenge of a significant funding gap.</p> <p>These include:</p> <ul style="list-style-type: none"> • T18 Transformation Programme. The programme will deliver new and very different ways of working; • Strategic Asset Review; and • Strategic Waste Review. 	<p>The updated position has been detailed in the 2013/14 AGS at Appendix B.</p>

From the 2012/13 System of Internal Control (Continued):

Issue Raised - Published 2012/13 AGS	Progress on Action Plan to Date
<p>Internal and External Audit Reports</p> <p>Some issues have been identified in audit reports by the Council's external auditor and the shared in-house internal audit team. Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed.</p>	<p>Repeated for 2013/14 audits. Internal and external audit plans and their outcomes are reported to the Audit Committee on a regular basis.</p>

The Annual Governance Statement (AGS) 2013/14 - (Appendix B)

- 3.33 The Statement is a corporate document and is owned by all Members and senior officers of the Council.
- 3.34 A draft AGS for 2013/14 appears at Appendix B to this report, based on the pro-forma statement supplied in the original and updated CIPFA guidance.
- 3.35 The Statement concludes that 'Overall the Council's governance arrangements are satisfactory for 2013/14'. It includes an action plan to address any significant governance and internal control issues, which have been identified through the assurance processes described above.

Delegation of Approval to Audit Committee

- 3.36 The Accounts and Audit Regulations 2011 have resulted in it no longer being a statutory requirement for the Annual Governance Statement (AGS) to be approved by full Council. It is therefore suggested that it would be more appropriate (and remove a tier from the decision making process in this regard) for the Audit Committee to assume responsibility for approval of the AGS on behalf of the Council.
- 3.37 In respect of the AGS, the Council's Constitution currently states that:-

Part 3: Delegation Scheme

'Audit Committee – to oversee the System of Internal Control and Annual Governance Statement.'

Part 4: Financial Procedure Rules

Section 22:

Para 22.15 The Council will also be responsible for conducting a review at least once a year of the effectiveness of internal control and shall prepare a statement (the Annual Governance Statement), in accordance with proper practices, for publication with the Council's published annual accounts.

Para 22.16 The Audit Committee will act as the nominated Member body to examine the draft statement and supporting evidence and recommend approval.

3.38 It is proposed that the Council's Constitution be amended to read as follows:-

Part 3: Delegation Scheme

'Audit Committee – to oversee the System of Internal Control and the process for producing the Annual Governance Statement (AGS) and approve the AGS on behalf of the Council with the annual Statement of Accounts.'

Part 4: Financial Procedure Rules

Section 22:

Para 22.15 The Council will also be responsible for conducting a review at least once a year of the effectiveness of internal control and shall prepare a statement (the Annual Governance Statement), in accordance with proper practices, for publication with the Council's published annual accounts.

Para 22.16 The Audit Committee will act as the nominated Member body to examine the draft statement and supporting evidence and approve the Annual Governance Statement on behalf of the Council, with the Statement of Accounts.

4. LEGAL IMPLICATIONS

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

5. FINANCIAL IMPLICATIONS

5.1 Within existing budgets.

6. RISK MANAGEMENT

6.1 The risk management implications follow these considerations:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Section 111, Local Government Act 1972; and Accounts and Audit Regulations 2011 (Statutory Instrument No. 817).
Considerations of equality and human rights:	There are no specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.

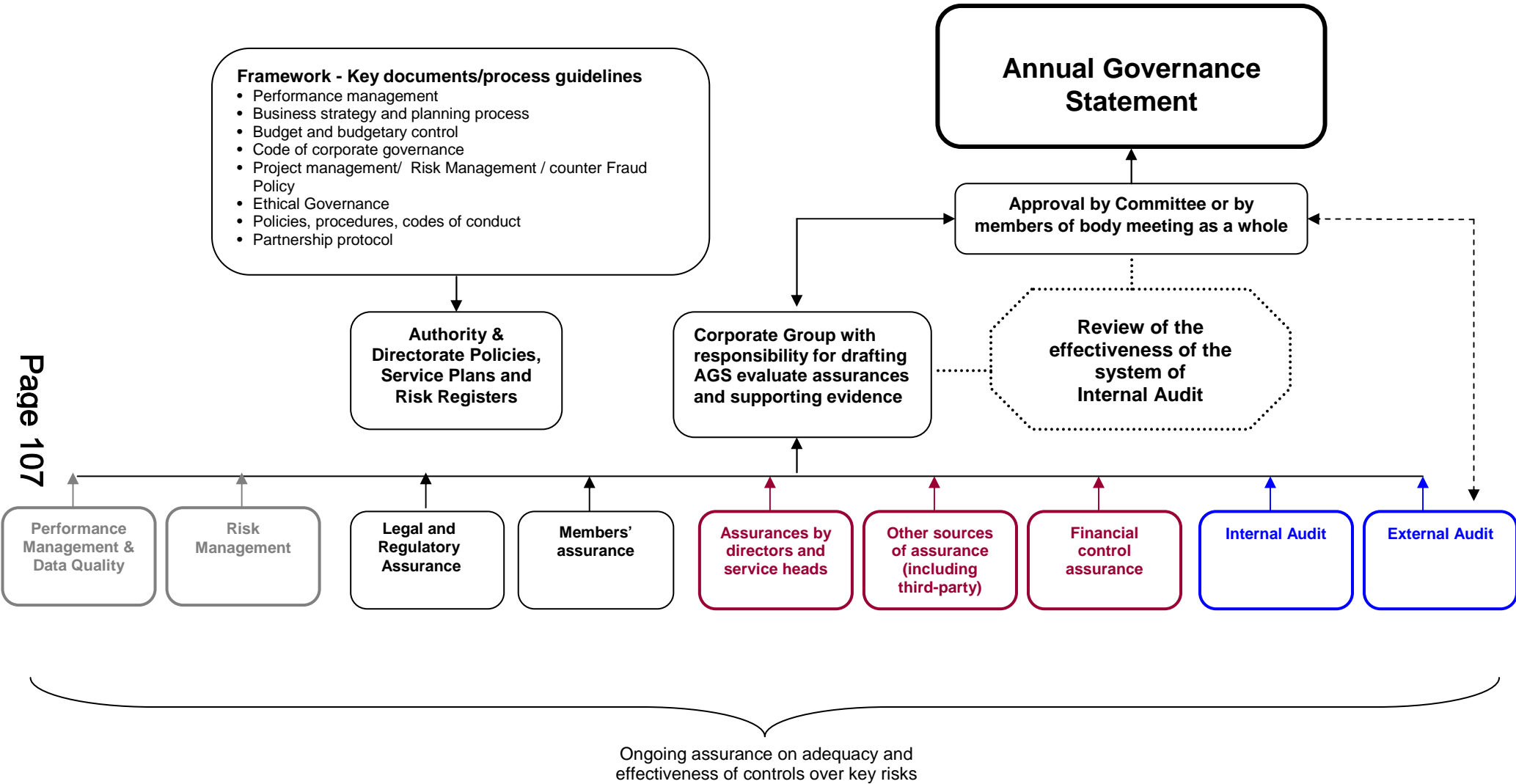
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	There are no specific crime and disorder issues arising from this report.
Background papers:	<ul style="list-style-type: none"> • Code of Corporate Governance for South Hams District Council 2011 • CIPFA/SOLACE (2007, 2010, 2012) Delivering Good Governance in Local Government – incl. Guidance Note for English Authorities • Independent Commission on Good Governance in Public Services (2005): The Good Governance for Public Services • CIPFA/SOLACE document: Corporate Governance in Local Government: A Keystone for Community Governance: CIPFA (2001)
Appendices attached:	<p>Appendix A – Framework for the System of Internal Control and Annual Governance Statement</p> <p>Appendix B – Annual Governance Statement for 2013/14</p>

STRATEGIC RISKS TEMPLATE

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

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
2	System of Internal Control - Formal Identification of objectives, risks and related controls.	Senior managers may be unable to demonstrate that they have set their service objectives linked to those of the Council, identified the risks to achieving these service objectives and assessed the controls in place to mitigate the risks.	2	2	4	↔	Senior managers are aware that the service planning process is the basis for the System of Internal Control supported by a formal assessment of controls, with evidence of their satisfactory operation.	Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor
3	Assurance streams for the Annual Governance Statement (AGS)	Risk that the Council does not have the system in place to produce a meaningful AGS to be included in the accounts; or that the process does not satisfy the requirements under the Accounts and Audit Regulations 2011.	3	2	6	↔	The AGS is completed through the annual reviews of the Code of Corporate Governance and System of Internal Control, in line with all the relevant national guidance, and subject to review by the external auditor.	The Council Audit Committee Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor
4	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 Head of Paid Service 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



1. Scope of Responsibility

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

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

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

This statement explains how South Hams District Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. The Purpose of the Governance Framework

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

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

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

The governance framework has been in place at South Hams District Council for the year ended 31 March 2014 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 2014/15.

The **Priorities are confirmed in Article 6 of the Constitution** and are published on the Council's website, and link to the Connect Strategy.

The **Strategic direction is communicated to the citizens and service users** through the **Council's web-site**; a magazine 'South Hams Living' which also contains contributions from Devon County Council and the National Health Service and is available via **Twitter and Facebook**; and, a leaflet which is also sent annually with all Council Tax and Business Rates bills.

The Leader of the Council presents an **annual report** to the Council of the **achievements made against each of the Priorities** in the public session of the meeting. The Leader fields questions from Members with technical assistance by officers.

The **Connect Strategy** (further details at section 3 below) is produced by the **South Hams and West Devon Connect Partnership** brings together key stakeholders from the community, voluntary, business and public sectors.

In the future, 'Our Plan' will be one strategic plan setting out a vision, long term priorities and planning policies that are in line with the National Planning Policy Framework. To support this plan there will be an annual action plan to achieve the longer terms priorities and objectives, supported and informed by partner and community plans. This process will also help to commission services in a more effective way. We are currently working with Council Members to agree the scope of the plan and we will then shape and develop it throughout 2014 with a view to implementing it on the 1st April 2015. The Local Plan element, setting out planning policies and broad locations and sites for development, will also then be submitted to the Secretary of State and have to undergo an Examination in Public to ensure it is sound.

The implication for the **governance arrangements is considered by an annual compliance review of the Code of Corporate Governance** with the results reported to a meeting of the Audit Committee (13th June 2013). The report and minutes are available on the Council's web-site and any issues identified included in this Annual Governance Statement.

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

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

It has four detailed **Delivery Plans (Community Life, Economy, Environment and Homes)**. Wherever possible the delivery plans seek to maximise opportunities from shared services to deliver efficiencies, be more cost-effective and improve outcomes for local people.

The targets set within these plans will be achievable and realistic delivering outcomes for local communities. Progress against targets will be reported regularly to the Connect Partnership Board and the Council. A **Connect Strategy 'Annual Update'** was published in 2013/14 and is available on the Council's website.

A **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.

Performance measures were reviewed in 2012/13 with new or revised indicators linked to drivers, goals and the service/Council priorities and these have continued through 2013/14. 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 has a service plan setting out 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 (MTFS)** each year, which covers a four year period. That for the period 2014/15–2017/18 was approved by the **Executive** in July 2013 and has regard to the Priorities, business planning – pressures and savings, government grant settlements, council tax, and reserves. It also reflects the revenue implications of the capital programme. The MTFS for 2015/16 – 2018/19 will be presented to the Executive in October 2014.

Any inspectorate reports received are acted upon.

The Council's **external auditor's 'Audit Findings Report'** for 2012/13 was presented to the September 2013 Audit Committee. This report says that 'An unqualified Value for Money conclusion was issued in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013', and this was reiterated in the **Annual Audit Letter** sent to Members separately in October 2013. The letters and reports are made available on the Council's website.

A report to a Special Council meeting in October 2013 detailed the financial challenge faced by the Council over the next four financial years. It proposed the adoption of the **T18**

Transformation Programme which aims to deliver a new model in partnership with West Devon Borough Council which will ensure quality services for customers and communities.

The Council carried the motion and the model comprising the commissioning/delivery model, transformed shared business process and ICT was adopted. Governance of the Programme is separate with a **Steering Group comprising senior members** from both Councils who, at a meeting in January 2014, agreed **Terms of Reference** for itself and a **Programme Board**. The Programme Board for T18 met in June 2014 to monitor progress on the programme. *Monitoring of the governance of the programme has been reflected in Part 5 of this Statement.*

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:

The Council's **Constitution, which is available on the Council's web-site** and Intranet, defines and documents the roles and responsibilities of the Committee, Member and Officer functions, and **contains the delegation arrangements**.

The **Council's Constitution also defines the roles of Members and officers**. 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.

Members of the Executive, Scrutiny and the Leader and Chairman of the Council also have 'job descriptions' that describe their roles.

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

At the December meeting the Council resolved to move towards an **Executive Director model as an interim measure** from 01.01.2014 until 31.12.2014 (at the latest), with a Corporate Director being assigned the role Head of Paid Service. The Constitution has been amended accordingly. At June 2014 Council, Members agreed a Senior Management Team Structure which included adopting an Executive Director model to take both Councils forward into the future. The abolition of the traditional Chief Executive role is saving the equivalent of 1% per annum in Council Tax. Recruitment to the senior management structure commences in September 2014.

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;

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.

Members

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. It is formally issued to each member individually following an election.

An **updated version of the Member's Code** was presented to the Corporate Performance & Resources Scrutiny Committee in March 2014 and approval recommended to the Executive/Council. This version was subsequently agreed for **adoption at the annual Council meeting of May 2014**. In addition a review of the procedures for 'Dealing with Standards complaints' was presented to the same Committee.

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 also 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. Contract Procedure Rules were updated in June 2014.

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. *A separate risk register is maintained for the T18 Transformation Programme and is commented upon in Section 5 of this Statement.*

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 10)

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 until 31st December 2013, and Executive Director thereafter, 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 7 of the Constitution and the Delegation Scheme in Part 3 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 upon. There is a process to ensure that any new legislation is identified and acted upon, which includes letters to the Chief Executive (Head of Paid Service) from the relevant government departments, the Monitoring Officer alerted by professional bodies and information received from managers' own professional bodies.

Monitoring Officer

Reports and recommendations are made to the decision makers by the relevant professional officers. A system of consultation of other professionals in advance of presentation to Members is in place, particularly where a recommendation requires the input of more than one profession e.g. legal advice, financial advice etc. The Monitoring Officer reviews the reports to Members for legality.

Article 10 of the Constitution requires the Monitoring Officer to ensure lawfulness and fairness of decision making and contribute to corporate management. These responsibilities are reflected in the related job description and specification and also include responsibility for maintaining the **Constitution**, supporting the Standards Committee, provide advice etc.

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

There is the **potential for a conflict of interest as the Council's Monitoring Officer** is employed by West Devon but also the Monitoring Officer at South Hams District Council. This risk is **mitigated by a formally appointed Deputy Monitoring Officer** who is also shared, but is an employee of the South Hams.

Chief Financial Officer's (CFO) Influence

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

Article 10 of the Constitution states that the CFO will report to the full Council and the external auditor if he/she considers any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully.

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. The results are considered to be satisfactory for the purposes of the System of Internal Control and the AGS. However, an independent external Quality Assurance assessment is due. Only when this is satisfactorily completed can internal audit reports carry the phrase 'conducted in conformance with PSIA's'.

Internal audit's **annual report and Opinion on Internal Control**, 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 **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 2014, was based on the checklist from the Audit Commission document: 'Protecting the Public Purse 2013 (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, with specific counter fraud testing carried out.

Complaints

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

As well as the normal 'Contact Us' information, **the Council's website includes a Comments and Complaints page** which outlines the procedure for making a complaint, suggestions, and how to contact the Local Government Ombudsman.

A procedure for dealing with complaints is included within the Complaints Policy, which was updated in December 2011 linked to the introduction of new internal complaint management software. **A report is provided to the Senior Management Team on the number of complaints by service and category, with the lessons learned.** The number of complaints also features in the 'Balanced Scorecard' described in the paragraph 3 above.

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.

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:

- All Members are expected to attend planning training refresher sessions as and when they are provided;
- Newly elected Members will have to attend appropriate induction Planning training before they can take part in the planning decision-making process;
- 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;
- If they so wish, re-elected Members would be welcome to attend the induction sessions.

A 360 degree Appraisal process was 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 training is also provided as required, and is recorded on the web-site. Members receive a **weekly Members Bulletin** which **provides an update on current issues, background information on training events and a range of other topics**.

Senior Officers

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

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

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

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

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

In addition, the 360 Assessment has been developed and rolled out to all relevant staff. An assessment was completed for all new/changed policies, strategies and relevant projects including new service delivery, but this was amended during the year to cover only significant changes that affect the community or staff. The assessment covers Equality, Human Rights, Data Protection, Crime and Disorder, Child Protection, Biodiversity and Sustainability.

Connect Strategy

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

The Council has developed the 'Voice': **Business Voice, Town and Parish Voice, Voluntary Voice and Young People 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.

Our Plan, see paragraph 1 above, also includes the Local Plan element, setting out planning policies and broad locations and sites for development, will also then be submitted to the Secretary of State and have to undergo an Examination in Public to ensure that it is sound.

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 South Hams Living, and daily messages on Twitter and Facebook 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 (5th June 2014). 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.*

Article 9 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 an updated **Partnership Policy and Guidance** document in December 2013, which contains guidance to 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.

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 (5th June 2014).

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework, including the system of internal control for 2013/14, is as follows:

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

Responsibility	Responsible Party
<ul style="list-style-type: none"> • Monitor the effective development and operation of risk management and corporate governance in the Council; and consider: • The annual review of the Constitution and recommend approval to the Council; • The Council's arrangements for corporate governance and to ensure compliance with best practice; • The effectiveness of the 'system of internal audit'. Including an annual self assessment of the effectiveness of the Committee; • Internal audit's annual report and opinion, and summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements; and • Oversee the production of the Council's Annual Governance Statement and recommend its adoption to the Council. Evaluate assurance provided and conclude as to the independence and objectivity of the various sources of assurance before coming to an overall conclusion. 	<p style="text-align: center;">Audit Committee (Delegated Member Body)</p>
<ul style="list-style-type: none"> • Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks. • Provide assurance through routine monitoring of internal controls as an integral part of the risk management process. • Regularly report on risk and internal controls through the management team. 	<p style="text-align: center;">Heads of Service</p>
<ul style="list-style-type: none"> • With the Chief Internal Auditor complete a compliance review of the Code of Corporate Governance and the System of Internal Control and produce the Annual Governance Statement. • These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective. 	<p style="text-align: center;">S.151 and Monitoring Officers</p>
<ul style="list-style-type: none"> • Review the effectiveness of the system of internal audit annually and report results to the Audit Committee. • Subject to complying with the Code of Practice for Internal Audit in Local Government, provide independent and objective assurance across the whole range of the Council's activities. • Present an annual internal audit report to the Council (Audit Committee) to include an opinion on the overall adequacy and effectiveness of the internal control environment, providing details of any weaknesses that qualify this opinion and issues relevant to the preparation of the Annual Governance Statement. 	<p style="text-align: center;">Chief Internal Auditor (as head of internal audit)</p>
<ul style="list-style-type: none"> • Provide explicit assurance on the control environment and governance arrangements in relation to their area of responsibilities. 	<p style="text-align: center;">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; and
- External Audit and other Inspections and formal reviews.

Conclusion

Overall the Council's governance arrangements are satisfactory for 2013/14. However, the following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

Issues and action plan from the Compliance Review of the Code of Corporate Governance (Meeting of Audit Committee 5th June 2014) issues for:

Continued overleaf

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>T18 Transformation Programme</p> <p>South Hams District and West Devon Borough Councils are forging ahead with innovative plans to transform the way they carry out their work.</p> <p>They plan to introduce a new working model within the next two years, which ensures the way they deliver their services to residents and communities remains at the very heart of everything they do.</p> <p>Internally this is known as the T18 Transformation Programme.</p> <p>The changes will cast aside the traditional ways of local government, and long-established Council departments will be replaced by customer-focussed teams of officers who will work out of the office and more within the community.</p> <p>The Councils will invest in the latest technology to enable residents and businesses to conduct their business online 24 hours a day, seven days a week. Those who prefer will still be able to contact the councils in the conventional way, such as by phone or through visiting the council's offices.</p> <p>The Councils' workforce will be smaller, reducing the need for office accommodation, and all staff roles will change.</p> <p>Grant Thornton assessed the outline business plan for the T18 Transformation Programme to determine its fitness for purpose. Their report dated October 2013 provided conclusions for 'meeting the financial challenges' use of reserves, staff costs including ratios, and governance.</p> <p>In addition, two senior officers of independent Councils, with Grant Thornton, were asked to provide an objective opinion to Members whether or not T18 should deliver the estimated savings and to comment on the risk management aspects of the project risk.</p> <p>The above reports were formally presented to the Audit Committee in December 2013, after having been circulated to all Members. An action plan for the relevant findings from the assurance reports and how the Council will address them was also included.</p> <p>A separate T18 Risk Register is maintained by the Head of Finance and Audit and describes the risks, their impact and likelihood, and the mitigating actions being taken.</p>	<p>The Head of Paid Service, S.151 Officer, Monitoring Officer and Chief Internal Auditor will monitor the governance of the T18 Transformation Programme and its impact on the Constitution including the related Procedure Rules.</p> <p>Progress on the action plan for the relevant findings from the assurance reports will be presented to a future Audit Committee</p> <p>The T18 risk register is reviewed monthly as a minimum by the Senior Management Team (SMT) and Programme Board, and is presented to the Steering Group meetings and to the Audit Committee every six months. This will continue for the duration of the programme.</p>	<p>Head of Paid Service S.151 Officer Monitoring Officer Chief Internal Auditor Timescale in line with the Programme.</p> <p>S.151 Officer 2014/15</p> <p>Senior Management Team Programme Board Steering Group Audit Committee Duration of the programme.</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>Collaboration Agreement Last year it was reported that the Monitoring Officer was in the process of reviewing an Overarching Agreement between the two Councils, which will also include responsibilities relating to contract liabilities e.g. costs incurred in relation to disputes by one of the two Councils only under a shared contract. A 'Collaboration Agreement' has been drafted and passed to the Leader and Deputy Leader, Director, S.151 Officer and the Council's insurers for comment. The Agreement will be presented to full Council later in the year.</p>	<p>As planned, the Monitoring Officer should complete the production of a Collaboration Agreement, which should also include responsibilities relating to potential contract liabilities, and present the document to full Council.</p>	<p>Monitoring Officer 31st December 2014</p>
<p>Onward Delegation The Monitoring Officer was putting in place Onward Delegation documents, setting out those areas delegated by the Heads of Service to the relevant Middle Manager. However, a decision has been taken to delay implementation of these Delegation documents until the roles and responsibilities of officers are clarified post T18 Transformation Programme.</p>	<p>The Monitoring Officer should ensure that post T18 Transformation Programme, Onward Delegation documents, setting out those areas delegated by the Heads of Service to the relevant managers.</p>	<p>Monitoring Officer 31st December 2014</p>

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Update of Information Access Policy The Council's Information Access Policy was written in 2007 and would benefit from an update.</p>	<p>The Information Access Policy should be reviewed and updated as an aligned policy with West Devon Borough Council, having regard to any impact on it brought about by the T18 Transformation Programme.</p>	<p>Deputy Monitoring Officer 31st December 2014</p>

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Anti-Fraud Publicity Leaflet A linked Anti-Fraud/Confidential Reporting leaflet has been put on notice boards around the Council and sent to Town/Parish Councils and Libraries but would benefit from an update as reported to the Audit Committee at the April 2014 meeting in the Audit Commission checklist 'Protecting the Public Purse.</p>	<p>The linked Anti-Fraud/Confidential Reporting leaflet should be reviewed and updated and published and distributed appropriately.</p>	<p>Chief Internal Auditor Monitoring Officer S.151 Officer <i>Implemented</i></p>

Issues and action plan from the System of Internal Control:

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Financial Uncertainty As Local Authorities experience reductions in funding, although South Hams District Council currently has a balanced budget, we must continue to review spending and monitor financial plans in order to balance future budgets in the face of the further government funding reductions and Council Tax freeze initiatives that are expected. A Medium Term Financial Strategy (MTFS) is to be presented to the Executive in October 2014 setting out the current position.</p>	<p>The Council has commenced several initiatives that aim to help us to reduce our costs and meet the enormous challenge of a significant funding gap. These include:</p> <ul style="list-style-type: none"> • T18 Transformation Programme. The programme will deliver new and very different ways of working (see above); • Strategic Asset Review; • Strategic Waste Review; and • Income generation initiatives including a proposal to set up a trading company (report to Council – June 2014) 	<p>Senior Management Team S.151 Officer Ongoing</p>
<p>Land Charges In common with 370 other English district and unitary councils, SHDC are subject of a claim by a group of companies whose business is the making of personal searches of our local land charges records. Multiple Claims have been submitted. The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those Regulations were unlawfully made, the Government should compensate. The costs are currently estimated to be £87,400 (plus interest and costs) which is substantially lower than the original estimates. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.</p>	<p>The Local Government Association has instructed external solicitors to deal with the matter on behalf of the member Local Authorities. The Council is currently considering a framework for settlement and legal advice received to determine whether this matter can be concluded.</p>	<p>Monitoring Officer Head of Planning, Economy and Community</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Public Sector Internal Audit Standards</p> <p>The Chief Internal Auditor carried out a self assessment of the Council's internal audit service against the Public Sector Internal Audit Standards (PSIAS).</p> <p>The results are considered to be satisfactory for the purposes of the System of Internal Control and the AGS, and were reported to the Audit Committee.</p> <p>However, for the Council's internal audit team to be fully compliant, an independent external Quality Assurance assessment is required.</p> <p>Only when this is satisfactorily completed can internal audit reports carry the phrase 'conducted in conformance with PSIAS'.</p>	<p>An independent external Quality Assurance assessment should be arranged to enable internal audit reports to carry the phrase 'conducted in conformance with PSIAS' and for the Council's internal audit team to be fully compliant with the PSIAS.</p>	<p>Chief Internal Auditor 2014/15</p>
<p>Internal and External Audit Reports</p> <p>Some issues have been identified in audit reports by the Council's external auditor, Grant Thornton, and the shared in-house internal audit team.</p> <p>Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed.</p>	<p>All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors' 'follow up' procedures.</p>	<p>Heads of Service S.151 Officer Chief Internal Auditor In line with agreed timescales</p>
<p>Dartmouth Embankment</p> <p>A previous formal management agreement between the Council and Dart Harbour Navigation Authority (DHNA) for the latter to manage the Embankment was terminated by the Council in 2003 in exchange for retaining all harbour dues.</p> <p>Further negotiations have taken place with DHNA since, with some disagreement over the interpretation of Section 54 and related parts of the Dart Harbour Navigation Act 1975.</p> <p>The legislation says that 75% of the net harbour dues should be paid to the Council.</p> <p>The current Head of Assets, with the support of the Executive Portfolio holder, is making progress on the issues surrounding the Embankment with the current DHNA Chief Executive, by addressing each area in its own right.</p> <p>Previously when attempts were made to address the Act on a much wider basis, the interpretation of the Act by legal representatives of both sides (Counsel for SHDC) failed to come to a single conclusion.</p> <p>Various meetings have been held with DHNA, who appear to accept that there is some breach of the Act.</p>	<p>Dialogue continues 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>However, external legal advice is now being sought to interpret the Dart Harbour Navigation Act 1975 Section 54 and bring this matter to a final conclusion.</p>	<p>Head of Assets 31st December 2014</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Business Rate Retention</p> <p>The way that Councils receive income from Business Rates changed from 1 April 2013. Business Rates retention was introduced to enable authorities to be able to retain a share of any growth that is generated in Business Rates revenue in their areas.</p> <p>The business rate retention scheme allows authorities to voluntarily form a business rates retention pool. The membership of the Devon pool consists of the eight District Councils in Devon and Devon County Council, Torbay Unitary and Plymouth Unitary, with Plymouth acting as the Lead Authority for the pool.</p> <p>There is no entitlement to safety net funding should a high degree of negative growth be experienced by the pool.</p> <p>As a result there are risks to the Business Rates Pool membership if there is a significant valuation change to a large liability business property in the District.</p> <p>The Valuation Office has provided a list of outstanding appeals for the Council, and these have been taken account of when completing the government return NDR1 for 2014/15 (section relating to back dated appeals).</p> <p>The Governance arrangements within the Pooling agreement state that the Governing Board will meet by no later than 30 September to consider the continuation or dissolution of the pool.</p> <p>The meeting of the Board is undertaken as part of the agenda of the Devon Local Government Steering Group meeting, with two of the meetings each year including pool business.</p> <p>Pool members should give notice no later than 30 September to pooling partners of their intention to leave the pool.</p>	<p>The Council meeting of December 2014 resolved that the Section 151 Officer (the Head of Finance and Audit), in consultation with the Leader, Deputy Leader and Senior Management Team, to make a decision for the Council on remaining in the Devonwide Business Rates Pool for the financial year 2014/15, in the light of the announcements due at the end of December 2013 regarding the finance settlement.</p> <p>The Council's S.151 Officer is making the following recommendations to the July Steering Group :-</p> <ul style="list-style-type: none"> • For South Hams District Council to withdraw from the Pool for 2015-16 and; • For the Devon Business Rates Pool to be re-constituted for 2015-16 with all of the current pooling partners including West Devon, but not South Hams. The remaining pool members will re-apply by 31st October 2014 to DCLG to become a new pool for 2015-16 in their own right. 	<p>S.151 Officer 2014/15</p> <p>S.151 Officer 2015/16</p>

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

Signed:

**Cllr R. J. Tucker
Leading Member,
On behalf of South Hams District Council**

Signed:

**Alan Robinson
Executive Director and Head of Paid Service,
On behalf of South Hams District Council**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 31 JULY 2014**

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

Members in attendance and participating
Cllrs J M Hodgson and R J Tucker

Members in attendance and not participating
Cllrs B F Cane, T R Holway, L A H Ward and S A E Wright

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Head of Finance and Audit, Chief Internal Auditor, Principal Accountant, Democratic Services Manager and Grant Thornton Audit Manager
Item 5	A.12/14	Solicitor

A.10/14 MINUTES

The minutes of the meeting held on 5 June 2014 were confirmed as a correct record and signed by the Chairman.

A.11/14 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.12/14 DRAFT STATEMENT OF ACCOUNTS 2013/14

The Committee was presented with a report that presented a summary of net revenue and capital expenditure for consideration and provided an opportunity for Members to comment on the draft Statement of Accounts.

During the discussion, the following points were raised:

- (a) With regard to the increased environmental expenditure, it was noted that this was attributed to the expenditure resulting from the winter storms and floods;

- (b) In respect of the increased costs arising from the planning and development service, the Committee was advised that this was as a consequence of increased external legal fees and other specialist advice. However, Members acknowledged that these increased costs were offset by the additional income (£111,000) which had been generated by the service;
- (c) With regard to the reduced balance within the Strategic Issues Reserve, officers informed that Members had previously agreed to reallocate £300,000 from this Reserve into the T18 Investment Reserve;
- (d) The Committee noted that, as part of the Budget Setting process, Members had decided to no longer make annual contributions to the Community Wellbeing Reserve;
- (e) A debate ensued regarding the rapidly increasing pensions liability. In highlighting this as a cause for concern, the Committee stated the importance of this trend being monitored closely;
- (f) A Member highlighted the comments in the presented agenda report in respect of the transfer of the Council's housing stock in March 1999 which had resulted in a capital receipt of some £42 million. Having been informed that the decision was made for the right reasons at that time and the monies being partly used to both pay off the Council's debt and generate a healthy interest return, a Member felt it would be beneficial for the Community Life and Housing Scrutiny Panel to review the process followed to see if any lessons could be learned;
- (g) Having been invited to attend by the Committee Chairman, the Solicitor responded to some specific questions regarding Section 106 deposits. Following a detailed discussion, Members concluded that a future Development Management Member Workshop should be focused upon the subject of Section 106 Agreements;
- (h) As a general point, Members wished to put on record their praise for the comprehensive glossary of terms and accompanying notes which had supplemented the presented agenda report. In so doing, the Committee felt that these had helped to ensure that the report was more reader friendly and understandable.

It was then:

RESOLVED

That the Draft Statement of Accounts for the financial year ended 31 March 2014 be noted and have been commented upon (as outlined above).

A.13/14 **SYSTEM OF INTERNAL CONTROL AND ANNUAL GOVERNANCE
STATEMENT 2013/14**

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

It was then:

RESOLVED

1. That the draft Annual Governance Statement (AGS) 2013/14 and supporting evidence provided by the presented agenda report have been considered and the AGS should be approved as part of the process of approval for the Statement of Accounts; and
2. That Council be **RECOMMENDED** to amend the Constitution in accordance with the proposals outlined in paragraphs 3.36 and 3.38 of the presented agenda report.

(Meeting commenced at 10.00 am and finished at 11.05 am)

Chairman

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