



**South Hams District Council
Draft Statement of Accounts
2018/2019**



**South Hams
District Council**

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Statement of Accounts 2018/19

The Statement of Accounts 2018/19 can be made available in large print, Braille, tape format or other languages upon request.

South Hams District Council is committed to reflecting the full diversity of our community and to promoting equality of opportunity for everyone.

Section 1

Narrative Statement

Introduction to the 2018/19 Statement of Accounts by Councillor Pearce, Leader of South Hams District Council



I am very pleased to welcome you to the 2018/19 Statement of Accounts for South Hams District Council. This is the first year that the Government has reduced our core funding to zero, providing a significant challenge for the Council to continue to deliver our full range of services and still meet the needs of our communities. We are reliant only on any income we generate and retaining a small percentage of the Council Tax (9%) and Business Rates (6%) raised in the area to fund our services. We have continued our pursuit of finding more efficient ways of providing services, whilst making it easier for people to do business with us.

We continue to work closely with West Devon Borough Council and share a single workforce, generating an ongoing annual saving of £3.9m for South Hams. As the Local Planning Authority we have a key role to play in setting the local strategy for development in our area. A major success for us this year has been the adoption of the Joint Local Plan, which sets out a comprehensive 20 year development plan for the South Hams, West Devon and Plymouth.

In November 2018, the Local Government Association led a Peer Review of the Council and our joint arrangements with West Devon. The team comprising of Councillors and senior officers from other Councils reviewed our financial plans, governance, leadership and capacity to deliver services. Their report was very positive about our plans and progress to date and provided a number of recommendations for the Council to implement.

A key project this year has been the successful awarding of a new multi million pound contract for recycling, waste collection and street cleansing services. Our new partnership with FCC from April 2019 will save around £3 million during the lifetime of the contract and will also allow us to recycle a much wider range of items from September 2020. The Council has also adopted a new commercial strategy in the autumn of 2018 and has been actively pursuing opportunities to develop our assets or acquire new assets in our area, with the dual aims of providing economic benefit as well as a revenue return to the Council.

South Hams has a high proportion of holiday homes and recent statistics show the area has the third highest proportion of second homes in the UK. Councillors have been actively lobbying the Government to remove the 100% business rate relief on the letting of self-catering holiday homes and we have involved our local MPs on this Business Rates loophole. The Council is calling on the Government to introduce legislation requiring these properties to pay 100% Council Tax.

The surplus for the 2018/19 year of £49,000 (0.5% of the net budget of £8.98m) is essentially a break-even position and demonstrates the Council's prudent management of our finances. Strong financial management across the organisation has aided the financial resilience of the Council, in order to meet future challenges.

Councillor Pearce, Leader of the Council

Foreword by the Chief Executive



The Council continues to scrutinise budgets as part of our annual budget setting process to ensure that we target our spending to where it is needed most.

Local Government finances are increasingly stretched and there is a great deal of financial uncertainty for District Councils from 2020 onwards. The Government is undertaking a “fair funding review” (due to be implemented in 2020/21), which will set new baseline funding allocations for Councils, based on an assessment of needs and resources. The move towards Councils retaining 75% of business rates growth is expected to be in place by 2020/21.

The Council has responded to the consultations on these initiatives and continues to monitor proposals so that we can protect the Council’s position as far as possible and continue to provide our range of services to our communities. We were thrilled to be chosen as one of the pilot areas for business rates growth retention for 2018/19, allowing the Council to retain a higher share of business rates growth income.

This year I worked closely with the Council’s S151 Officer (Strategic Finance Lead) and Members to re-design the Council’s Medium Term Financial Strategy for the next five years, which was approved by Council in September 2018. The MTFs looks at financial planning and management over a five year strategy and sets out the strategic intention for all of the different strands of funding available to South Hams. The Council can now rely on this to inform future decisions. This also helps us to develop a sustainable budget over the medium term and will be reviewed annually.

The recent Peer Review report was complimentary about the Finance team and that they were to be congratulated on guiding the Council’s finances to this point. The report also stated that it will be important to avoid complacency and to ensure that financial self-sufficiency becomes the byword over the medium term and focus is maintained to achieve this.

Both South Hams and West Devon Councils have recently undertaken a benchmarking exercise to test the customer experience and we are committed to ensuring a stronger customer focus in the next phase of transformation.

We continue to play a significant role in our region, working with other local authorities and partners through the Heart of the South West Joint Committee, with the Local Enterprise Partnership and agencies such as Homes England to improve infrastructure, facilitate economic growth and support the building of affordable housing in our area.

I would like to take this opportunity to thank all of the Members and staff who have worked together throughout the year to balance the Council’s budget, deliver savings and new income streams and realise further efficiencies to provide value for money.

Sophie Hosking, Chief Executive

Message from the Section 151 Officer & Strategic Finance Lead - Lisa Buckle



The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Accounts is to enable members of the public, Council Members, partners, stakeholders and other interested parties to:

- Understand the financial position of the Council as at 31 March 2019 and how the Council has performed against the budget set for 2018/19
- Be assured that the financial position of the Council is secure, with a degree of resilience

This Narrative Statement provides information about South Hams District Council, including the key issues affecting the Council and its Accounts. It is very important to us to provide residents and other stakeholders with the confidence that the public money for which we are responsible has been properly accounted for. We have embedded financial management disciplines, processes and procedures.

The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending. The Council is still facing a forecast budget gap of £470,000 for 2020 onwards. The Council has had a 39.5% reduction in Government funding over the last four years, with no main Government Grant now being received.

There is currently a large amount of uncertainty in local government finances, particularly with the unknowns on the resetting of the business rate baselines for Councils and the Fairer Funding Review, all of which could have a negative impact on the Council's future finances. Significant changes will also be implemented to the New Homes Bonus (NHB) scheme, with Central Government due to consult on the current scheme. The Government has announced that New Homes Bonus will cease in the future and details of any scheme to replace it are unknown. It is possible that Councils will only be receiving a one year finance settlement for 2020/21.

These developments will fundamentally change the Local Government Finance environment, which is now characterised by an increased shift towards locally-generated resources, with an accompanying transfer of both risk and opportunity.

The financial standing of the Council is secure in the short to medium term, but there is still much work to do to ensure the long term financial sustainability of the Council. The next couple of years will be challenging as the Government's Fair Funding Review and reset of the Business Rates baseline are introduced, coupled with no Government Grant (Revenue Support Grant) and the cessation of the current New Homes Bonus scheme.

Mrs Lisa Buckle BSc (Hons), ACA
Section 151 Officer & Strategic Finance Lead

NARRATIVE STATEMENT – INTRODUCTION

- Each year South Hams District Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute. The Statement of Accounting Policies summarises the framework within which the Council's accounts are prepared and published.

REVIEW OF THE YEAR – THE REVENUE BUDGET

- The 2018/19 budget for South Hams was £8.98 million. A surplus of £49,000 means that the actual spend was 0.5% less than the budget. This saving will go into the Council's Unearmarked Reserves which now stand at £1.9 million.* The main components of the General Fund budget for 2018/19 and how these compare with actual income and expenditure are set out below:

	Estimate £000	Actual £000	Difference Cost/ (Saving) £000
Cost of services (after allowing for income and reserve contributions)	6,910	7,066	156
Parish Precepts	2,196	2,196	-
Interest and Investment income	(123)	(328)	(205)
Amount to be met from Government grants and taxation including parish precepts	8,983	8,934	(49)
<i>Financed from:</i>			
Business Rates	(2,263)	(2,263)	-
Business Rates Pilot Gain for 2018/19	(575)	(575)	-
Council Tax (including parish precepts)	(6,072)	(6,072)	-
Surplus on Collection Fund	(73)	(73)	-
SURPLUS FOR 2018/19	-	(49)	(49)

Appendix A

3. This surplus is shown in the Movement In Reserves Statement in Section 2B and can be summarised as follows:

	£000
General Fund Balance (un-earmarked revenue reserve) at 1 April 2018	(1,849)
Surplus for the 2018/19 financial year	(49)
General Fund Balance (un-earmarked revenue reserve) at 31 March 2019	(1,898)*

*On including the earmarked reserves, the General Fund Balance is £15.2 million.

4. The surplus on the General Fund of £49,000 is essentially a break-even position and represents 0.1% of the Council's gross turnover in 2018/19 of £78 million.
5. The table below shows a reconciliation of the position shown on the bottom of the Comprehensive Income and Expenditure Statement and the reported surplus for the 2018/19 financial year.

	£000
Total Comprehensive Income and Expenditure Statement	(14,359)
Surplus on the revaluation of Property, Plant and Equipment	10,885
Deficit on the revaluation of Financial Instruments	(23)
Remeasurements of the net defined benefit pension liability	5,848
Transfers to earmarked reserves	13,613
The detail of the items below are shown in Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations' in the General Fund Balance column.	
Adjustments primarily involving the Capital Adjustment Account	(1,817)
Adjustments primarily involving the Capital Grants Unapplied Account	613
Adjustments primarily involving the Capital Receipts Reserve	829
Adjustments primarily involving the Pensions Reserve	(2,958)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	(7)
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	(12,663)
Adjustments primarily involving the Accumulated Absences Account	(10)
Surplus for the 2018/19 financial year	(49)

Appendix A

6. A summary of the main variances to budget in 2018/19 is provided below:

ANALYSIS OF VARIATIONS (% column shows variation against budget)	£000	% variation
Increases in expenditure/reduction in income		
Customer First		
Shortfall in Housing Benefit overpayment recoveries (See Note 1 below) (budgeted recovery of overpayments of £0.245 million – actual expenditure for Housing Benefit in 2018/19 was £19 million).	77	31.4%
Shortfall in Follaton House income (budgeted income £0.309 million).	20	6.5%
Commercial Services		
For a period and due to permitting reasons, the recycling had to be diverted to an alternative reprocessor which added significant haulage costs. This was due to there only being a limited number of reproducers within the UK, able to split the plastic sacks from the current collection system. In addition to this, haulage costs from a new haulage contract and inflationary increases reflecting national trends on haulage costs since 2015 (when the last contract was awarded) have all contributed to the variance (budgeted cost £0.324 million).	155	47.8%
Recycling services – Blue and clear bag processing (safe working practice requirement at Torr Quarry). Also additional contamination costs caused by stricter European markets and high moisture content as the sacks are now stored externally (budgeted cost £0.131 million).	115	87.8%
Shortfall in recycling income from the recycling of materials and paper due to a fall in market prices, also recycling diversion (see above) attracted gate fees as opposed to income for materials (budgeted income £0.645 million).	90	14.0%
Car Parking - payment collection expenses (budgeted £0.022 million).	32	145.5%
Staff salaries (budgeted salaries of £4.88 million).	28	0.6%
Support Services		
ICT support contracts – extra costs e.g. IEG4 software, Northgate Land Charges, Northgate Gazetteer (address database) and Clear Core (enables single customer record). The budgeted amount for ICT support contracts was £0.391 million.	64	16.4%
Strategy and Commissioning		
Corporate Management - payment collection expenses – bank and card processing fees (budgeted costs £49,000).	39	79.6%
Other small variances	19	-
Reductions in expenditure/additional income		
Customer First		
Extra planning income (budgeted income £0.849m).	(308)	(36.3%)
Commercial Services		
Car Parking income (budgeted income £3.026m).	(85)	(2.8%)

Appendix A

ANALYSIS OF VARIATIONS (% column shows variation against budget)	£000	% variation
Dartmouth Ferry income (budgeted income £0.807m).	(60)	(7.4%)
Strategy and Commissioning		
Senior Leadership Team – Interim arrangements saving.	(34)	(17.4%)
Additional investment income (budgeted income £0.123m).	(205)	(166.7%)
Electoral registration salary savings (budgeted salaries £0.138m).	(26)	(18.8%)
Sub Total:	(79)	(0.9%)
Less: Transfer of extra planning income to the Planning Policy & Major Developments Earmarked Reserve	30	-
TOTAL SURPLUS FOR 2018/19	(49)	(0.5%)

The 2018/19 budget for South Hams was £8.98 million but the actual spend was 0.5% lower, providing a surplus of £49,000 as shown above.

Note 1 – This year collection of Housing Benefits Overpayments in 2018/19 surpassed all expectations with £426,600 being recovered from debts due from the current year and from previous years. This position was reported to the Audit Committee on 21st March 2019 in the Sundry Debt report. This was due to a combination of a new post of a Debt Recovery Officer, alongside the improved use of external electronic resources, which have all contributed to this position.

Although over £426,000 has been collected in the year of Housing Benefits Overpayments, there is still a shortfall of £77,000 against the income target of £245,000 in the variations table above, due to the fact that the Accounts are prepared on the proper accounting basis of accruals accounting and not on a cash accounting basis. Therefore for some of the £426,000 collected, the Council would have already recognised the income in its Income and Expenditure Account for this in previous years' Accounts.

This annual target of £245,000 will become harder for the Council to achieve due to the fact there is an expectation that recovery will reduce year on year as collection becomes more difficult. We also expect to see fewer overpayments being created due to the introduction of DWP Real Time Information referrals. The S151 Officer will recommend to Members as part of the next Budget update report that the income target for 2020/21 is reduced from the £245,000 current target.

KEY AREAS TO NOTE FROM THE 2018/19 STATEMENT OF ACCOUNTS

Pension Liability

7. 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.
8. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2019 of £48.6 million. This compares to £51.5 million as at 31 March 2018. The deficit is derived by calculating the pension assets and liabilities at 31 March 2019. See Note 35 for further information.

Business Rates and the Earmarked Reserves position for 2017/18

9. 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 from 1 April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline or if income from business rates falls due to successful business rates appeals.
10. The Council took a decision to withdraw from the Devon-wide Business Rates Pool for 2015/16, 2016/17 and 2017/18 due to the risk of some large Business Rates appeals. If the Council had remained in the Pool, the Council would not receive a safety net payment from the Government if its Business Rate income fell by more than 7.5%. This financial burden would have fallen on all of the Devon Councils if South Hams had remained in the Pool and this financial risk was deemed too high.
11. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The 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.
12. In 2015/16 there was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals. In 2016/17 a large part of these outstanding appeals were settled and the significant appeals risk did not materialise.
13. The Local Government Accounting Regulations for Business Rates and the operation of the Collection Fund are set by the Government. These national regulations mean there is a two year timing delay between a business rates appeals provision being released back into the Collection Fund and in turn to the General Fund.

14. The Business Rates Retention Earmarked Reserve in 2017/18 showed a deficit position of £8.641 million at 31 March 2018. However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also needed to be taken into account. The aggregated Earmarked Revenue Reserves position, incorporating the Council's share of the Business Rates Collection Fund surplus was £13.157 million at 31 March 2018.
15. The funds held in the Business Rates Collection Fund have been released back into the General Fund of the Council during 2018/19. The Business Rates Retention Earmarked Reserve has been restored to a positive balance in excess of £5 million at 31 March 2019. This reserve, alongside the appeals provisions created in 2018/19, are in place to protect the Council's financial position against business rates volatility and has placed the Council in a better position in future years. At Council on 22 February 2018 Members agreed to ring-fence £3.5 million for employment for the creation of local jobs and to better support the local economy.

Business Rates Pilot Status for 2018/19

16. The move towards 75% Business Rate Retention of business rates growth is expected to be in place by 2020. Devon was selected as one of 10 areas to take part in a national pilot allowing Councils to retain a higher share of business rates growth. The Council was very pleased to be given this opportunity by Central Government. The pilot is for one year, 2018/19 and has generated an extra £575,000 of business rate income. £100,000 of this pilot gain has been used to fund the 2018/19 revenue base budget and the balance of £475,000 has been transferred into a new Economic Regeneration earmarked reserve.

Trading Company

17. South Hams District Council and West Devon Borough Council set up a trading company, Servaco Limited, on 4th September 2014. This is a company limited by shares. The company has not traded in 2018/19 and a set of statutory dormant Accounts will be filed with Companies House for the period 1 April 2018 to 31 March 2019. The future of Servaco Limited will be reviewed during 2019/20.

Borrowing

18. As at 31 March 2018 the Council had no external borrowing but had internally borrowed (i.e. used its own resources in lieu of external borrowing) £744,000 for the leisure investment. The temporary internal borrowing was replaced by a series of loans for £5.49m from the Public Works Loans Board (PWLB) in May 2018 for the Leisure contract investment. The Council is being reimbursed by the leisure contractor for the borrowing costs of the leisure investment. By borrowing from the PWLB at a fixed rate, this protected against future interest rate rises over the next 23 years and ensured that leisure is a self-financing stand alone investment project.

Commercial Property Strategy

19. In September 2018 the Council endorsed the principle of a Commercial Property Strategy, which includes multiple objectives: (a) to support regeneration and the economic activity of the Council (b) to enhance economic benefit (c) to grow business rate income (d) to assist with the financial sustainability of the Council as an ancillary benefit and (e) to help continue deliver and/or improve frontline services in keeping with its adopted strategy and objectives.
20. A Commercial Property Acquisition Strategy has been approved by the Council, which includes in-area development and investment within the South Hams, all capped within a borrowing limit of £60 million. Details of this strategy can be found in the report taken to Council on 27 September 2018:

<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=151&MId=1136&Ver=4>
21. This strategy, which is expected to be predominantly funded through prudential borrowing, has two strands. The first is development on Council-owned land, the second is commercial property acquisition in South Hams.
22. A report on the projects within the South Hams that were Commercial Development Opportunities was presented to the Executive on 13 December 2018 (Minute E.62/18):

<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=149&MId=1259&Ver=4>
23. Due diligence and risk assessment will be undertaken and a business case produced for each development or acquisition opportunity, when

identified. It will also be assessed on meeting the above objectives and on delivering one or more of the following outcomes: job creation or safeguarding; health and wellbeing; town centre regeneration; tourism/increased footfall; business rate growth; improved asset utilisation.

24. A minimum net yield return of 2% is being targeted. However, in some circumstances, e.g. where there is a community benefit, a lower return may be acceptable. The Council will put contingency plans in place should expected yields not materialise.

Capital spending

25. The Council spent £8.2m on capital projects in 2018/19. The main areas of expenditure were as follows:
 - investment in leisure facilities (£5.8m) – the Council is being reimbursed by the leisure contractor for the borrowing costs of the leisure investment, as detailed in paragraph 18 above.
 - residential renovation grants including disabled facilities grants (£0.6m)
 - scheduled replacement of plant, vehicles and marine infrastructure (£0.5m)
 - coastal defence schemes (£0.5m)
 - affordable housing and investments in the community (£0.3m)
 - new industrial units (£0.3m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 32).

Investment in the South West Mutual Bank

26. In 2018/19 the Council approved making a £49,995 investment in the South West Mutual Bank which takes the form of shareholding in the Bank. As the investment is supporting the local economy it was financed from the business rates pilot gain.
27. In addition to supporting the local economy, the new Mutual will promote inclusive growth. In particular, it will help make banking more local, provide branch facilities in rural locations, recycle the savings of local people and businesses back into the regional economy, promote financial inclusion and improve access to credit for small and medium

sized businesses. The ethos behind the new Mutual is consistent with the Council's corporate strategy themes of communities and enterprise.

28. The investment does not have the primary purpose of deriving a financial return and the Council recognises that the funds utilised may not necessarily be returned to the Council. Therefore the investment has been written down to Nil during 2018/19.

Financial Instruments – IFRS9 Election to treat Equity Instruments as Fair Value through Other Comprehensive Income

29. On 29 March 2018, the Council made the decision to invest £500,000 in the CCLA Local Authority Property Fund and £1 million in the CCLA Diversified Income Fund in 2018/19.
30. Upon transition to IFRS 9 – Financial Instruments on 1 April 2018, and in accordance with paragraphs 5.7.5 and 7.2.8 (b) of IFRS9, South Hams District Council makes an irrevocable election to present in other comprehensive income, changes in the fair values of its equity instruments. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds these investments as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash. A summary of the position of these equity instruments as at 31 March 2019 is shown below:

	Purchase cost	Fair Value at 31 March 2019	Balance in Financial Instruments Revaluation Reserve
	£000	£000	£000
Equity Instrument			
CCLA Local Authorities	500	468	32
CCLA Diversified Income	1,000	1,009	(9)
TOTAL	1,500	1,477	23

FINANCIAL NEEDS AND RESOURCES

31. 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.
32. General Fund reserves (which include earmarked reserves) have increased by £13.7 million from the preceding year and stand at £15.2 million at 31 March 2019. This reflects the release of the funds in the Business Rates Collection Fund back into the General Fund of the Council during 2018/19.
33. The General Fund Balance (un-earmarked reserve) has increased by £49,000 in 2018/19 and totals £1.898 million. Revenue reserves may be used to finance capital or revenue spending plans. The level of Reserves are assessed as adequate for the Council's operations.
34. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2019 amounts to £4.4 million compared to £3.4 million at the end of the previous year.
35. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance capital or revenue expenditure. In addition the Financial Instruments Revaluation Unusable Reserve has been created in 2018/19 following the implementation of IFRS9 Financial Instruments on 1 April 2018.
36. When reviewing the amount of overall reserves held, consideration should be given to the possible implications of the Pension Fund deficiency disclosed within the notes to the balance sheet. The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £48.6 million at 31 March 2019. This disclosure follows the implementation of the International Accounting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.
37. It is important to gain an understanding of the accounts to appreciate the nature of this reported deficiency, which is based on a "snapshot" of pension assets and liabilities at the year end. This is quite different from the valuation basis used for the purposes of establishing the employer's contribution rate and fund shortfall, which are calculated using actuarial assumptions spread over a number of years.

Senior Leadership Team interim arrangements

38. Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements. A report was presented to Council on 21 February 2019 (Council Minute 55/18) that outlined a review of the Staffing Establishment.
39. The Review Panel, consisting of the Leaders of each Council and senior Members recommended that the previous structure incorporating two Executive Directors was replaced with a Chief Executive Officer. The Panel also recommended that once in post, the Chief Executive brings forward a proposed new senior leadership structure that builds upon the recommendations of the Peer Review and will be along the lines of:
 - Director of Customer Service and Delivery
 - Director of Place and Enterprise
 - Director of Governance
 - Director of Strategic Finance
40. It was resolved that with effect from 21 February, the Executive Director for Service Delivery and Head of Paid Service be appointed to the role of Chief Executive and that agreement be given to extending the interim senior management arrangements with a report being brought to Council recommending a new structure within six months of the 2019 Council elections, with the objective of finding cost reductions.

Annual Governance Statement (AGS)

41. The Council's Annual Governance Statement sets out the arrangements for governance which the Council has in place. The AGS is published alongside the Accounts for 2018/19.

Peer Challenge

42. In 2018, the Council requested that the Local Government Association ("LGA") undertake a Peer Challenge of South Hams District Council, jointly with West Devon Borough Council in order to identify their strengths and any areas for improvement. The team comprising of Councillors and senior officers from other Councils reviewed our financial plans, governance, leadership and capacity to deliver services. Their report was very positive about our plans and progress to date and provided a number of recommendations for the Council to implement.
43. A copy of the Peer Review report is available on the link below:
<https://www.southhams.gov.uk/article/5049/Peer-Review-Report-2018-19>

44. On 14th March 2019, the Executive considered the Peer Challenge Action Plan. The full report is available on the following link:-
<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=149&MId=1148&Ver=4>

LOOKING FORWARD TO THE FUTURE AND NEXT STEPS

45. The Council has a proud tradition of innovation, we will continue to strive to achieve this whilst implementing the Peer Review recommendations, the customer satisfaction improvement plan and of course working with local communities to deliver against the Council's key corporate themes.

Newly elected Council

46. Following the local elections in May 2019, the Council will embark on a thorough induction programme for newly elected Councillors. Induction will cover in detail the services offered by the Council, the Corporate Strategy and the financial and legislative challenges to be faced in 2019/20 and beyond. A key task for Councillors will be to align services to the Council's corporate themes and more importantly explain and consult with our residents and communities. This will be key in enabling the Council to deliver on its aspiration to 'make a positive impact on the lives of local people by providing valued and easy to use services'.

Acting on the Peer Review

47. As a result of the Peer Review report, we will be reviewing the Council's Senior Management structure to ensure that there is strategic capacity and direction to enable the Council to effectively plan for and deliver its aspirations into the medium term whilst at the same time generating longer term savings. Staff will be working with newly elected Councillors to strengthen the Council's political governance arrangements and build on the success of the joint procurement for waste services to continue joint working with West Devon Borough Council.
48. The Council will continue to ensure there is an organisational focus on achieving financial sustainability and develop new income streams to support the Council's budget. We will continue to develop our existing partnerships and create new ones, to improve our support to individuals and communities, ensuring that we offer joined up, cost effective services so that, our customers and communities have a clear understanding of where they can get guidance and support.

Customer Satisfaction

49. There will be a relentless focus on improving customer satisfaction ahead of a follow-up satisfaction survey in 2019. We have set clear targets and aim to improve the Council's score in 3 key measures;
- The overall benchmarking score
 - Getting it 'right first time'
 - And 'keeping customers informed'
50. We will do this by implementing service standards across the majority of our services. When customers contact us they will be advised of what they can expect to receive and by when. We will capture customers' feedback and use this to drive service improvements. For major services we will look to provide on our website, how we are doing in meeting these standards, alongside feedback from our customers. When we look at service changes or new services, we will involve customers to ensure that we understand the 'customer experience' from their first contact with us through to delivery.

Working with communities

51. We will continue our work with Town and Parish Councils and Neighbourhood Planning Groups to prepare Town Centre Strategies. These will identify priorities and provide the basis for co-ordinated action to ensure the role town centres play in meeting the needs of communities and their hinterland are maintained and enhanced.

Our financial future

52. The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending. The Council is still facing a forecast budget gap of £470,000 for 2020 onwards. The Council has had a 39.5% reduction in Government funding over the last four years, with no main Government Grant now being received (Revenue Support Grant has been reduced to Nil).
53. This means that the Council needs to generate additional income to be able to carry on delivering our current range of services. The Council will continue to implement proposals to meet this financial challenge; these will include progressing investment opportunities and income generating services as well as identifying further efficiencies to reduce costs for the benefit of our community, finding smarter ways of doing things and making our assets work better for us in order to balance the budget next year.

Summary

54. Overall, the Council's finances remain secure in the short to medium term, but there is still much work to do to ensure the long-term financial sustainability of the Council. The next few years will be challenging as the Government's Fair Funding Review and reset of the Business Rates baseline are introduced, coupled with no Government Grant and the cessation of the current New Homes Bonus scheme. There are many uncertainties inherent within all these fundamental changes to the Local Government Finance environment.

Issue of the Accounts

55. The Section 151 Officer & Strategic Finance Lead authorised the unaudited Statement of Accounts 2018/19 for issue on 29 May 2019.

ACHIEVEMENTS FOR 2018/19

The following pages set out the achievements of the Council for 2018/19 by each of the Themes within its Corporate Strategy:

COUNCIL - Delivering efficient and effective services

Action	18/19 Progress
Customer Service	Joined the renowned Institute of Customer Service to benchmark Council service against market leaders. Stopped accepting cash and cheque payments, enabling more staff to be deployed on phone answering, which in turn has helped significantly reduce call-waiting times for customers. We have continued to focus on 'getting it right first time' and proactively keeping customers informed, both of which have helped to reduce call volumes. We have piloted web chat and will be looking at how we can expand this in 2019/20.
Value for Money	Deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. Approved a net budget for 2019/20 which includes proposals for savings and additional income of £1.07 million, including significant annual savings from April 2019 from the procurement of the Council's waste collection, recycling and cleansing services. As part of the budget setting process for 2019/20, the Council has agreed to reduce funding or seek efficiencies to ensure statutory delivery outcomes are prioritised.
Lobbying	Participated in a number of consultations during the year, including business rate retention reform, the Fair Funding Review, the 2019/20 Local Government Finance Settlement and the Local Authority Financial Resilience Index. The Council was accepted as one of only 10 new business rate retention pilots in England for 2018/19. The Council has also been working with the Rural Services Network to lobby central government on the higher cost of delivering rural services.
Investment	The Council has taken a commercial approach and has been pro-active in addressing economic regeneration in times of financial austerity. A commercial property acquisition strategy has been approved by the Council, which includes in-area development and investment within the South Hams, all capped within a borrowing limit of £60 million.

COMMUNITIES - Council and residents working together to create strong empowered communities

Action	18/19 Progress
Sustainable Community Locality Fund	Councillors awarded £109,377 to 160+ projects in their communities - including life saving and safety equipment, sporting equipment and community events.
Communities Together Funding	£74,929 given to over 25 projects including village hall improvements, lifesaving equipment, cycle paths, play equipment, community workshops and classes.
Pocket Park Scheme	Working with the local communities, secured £69,000 of Pocket Park Scheme funding, for open space improvement and refurbishment of three play parks, one gardening for health project and a footpath improvement project.
Seamoor Community Lotto	Council led lottery in partnership with West Devon Borough Council and Gatherwell Ltd. Over 90 local, good causes signed up to receive funds.
Community Asset Transfers	Completion of a number of freehold transfers including a large area of open space and public toilet assets transferring to Dartmouth Town Council in July. Other transfers include Stoke Gabriel, with good progress being made on the transfer of a number of public conveniences across the District, which should complete in 2019.
Neighbourhood Plans	Launched a dedicated website www.neighbourhoodplanning.swdevon.gov.uk providing detailed information on plans that are already in progress and guidance for community groups thinking of starting a plan. 5 plans made in 2018/19.

HOMES - Enabling homes that meet the needs of all

Action	18/19 Progress
Affordable housing	69 homes completed in the following locations Dartington, Sparkwell, Ivybridge, Blackawton and Modbury. Funding in place for Transition Homes Totnes to help with the construction of 23 affordable homes. Construction underway on sites to provide affordable 15 homes in Stoke Gabriel, 32 homes at Great Court Farm Totnes, 44 homes in Ivybridge, 4 in Diptford, 17 in Marlborough. Equating to a further 112 affordable homes in the District.

HOMES - Enabling homes that meet the needs of all

Action	18/19 Progress
Disabled facility grants	Awarded over £540,600 to 107 projects to facilitate independent living through adaptation of homes including level shower access, stair lifts and ramps.
Community Housing Initiative	£1.88m Community Housing Fund targeting homes for those with local connection where the cost of market housing is beyond their reach. Planning applications have been lodged at two sites (17 and 13 homes respectively). Construction planned to start during Summer 2019 with completion mid 2020. Further 3 projects identified for construction during 2020 and a pipeline of other prospects under review.
Sherford	During the year 400+ homes had been commenced across the site, and 227 residents had moved in to the development. The primary school opened in September, and there are now 89 pupils enrolled with the school.
SeaMoor Lettings	Continued growth of the Council's in house letting agency, managing 37 homes for private landlords to local people at affordable rents.

ENVIRONMENT - Protecting, conserving and enhancing our built and natural environment

Action	18/19 Progress
Joint Local Plan	On 26 March 2019 the Plymouth and South West Devon Joint Local Plan was formally adopted. The Plan has been subject to examination by two independent Inspectors appointed by the Secretary of State. The Joint Local Plan is only the third joint plan in the country to include strategic and local policies, the first to include a major English city and its neighbouring Councils, and has been prepared in the shortest time of any joint plan in the country.
Waste and Recycling	Successfully awarded a new multi million pound contract for recycling, waste and street cleansing services. Achieving savings of around £3 million during the lifetime of the contract and improving our environmental impact. This is a brave new step for the Council which has provided these services through the Council's own workforce for many years. The decision was made following a very intensive and thorough tendering process lasting almost two years. This included robust market testing giving full consideration to every single element of the current services to ensure best value and best quality for residents. The Council listened to what residents wanted i.e. more items being recycled and a continued focus on keeping the beautiful district clean.

ENVIRONMENT - Protecting, conserving and enhancing our built and natural environment

Action	18/19 Progress
Coastal Repair Programme	Completion of Kingsbridge Estuary Wall rebuilt on time and on budget, protecting the car park, public realm and marine environment.
South Hams Beaches	All twelve of the South Hams Council owned beaches have achieved excellent or good ratings from DEFRA.

ENTERPRISE - Creating places for enterprise to thrive and business to grow

Action	18/19 Progress
South Devon Coastal Local Action Group	£588,693 funding awarded in the past 12 months to 20 projects which are expected to generate 37.0 FTE jobs. Projects include new manufacturing units, premises expansion, farm modernisation and equipment investment and business expansion. To date, 16.0 FTE jobs have been created in the South Hams through this fund, employing local people. In recognition of the good management of this fund and the volume of high quality projects in the South Devon Coastal area, additional funding of £212,000 was awarded by Defra to extend the programme during 2018/19.
Greater Dartmoor Local Action Group	£64,467 awarded in the past 12 months to 3 projects which are expected to generate 1.7 FTE jobs. Projects include farm modernisation and new business start up. To date, 13.7 FTE jobs have been created in the South Hams through this fund, employing local people. In recognition of the good management of this fund and the volume of high quality projects in the Greater Dartmoor LEAF area, additional funding of £264,000 was awarded by Defra to extend the programme during 2018/19.
Business Support	Funded a business support package which has delivered advice to 88 local businesses, hosted 26 workshops and assisted businesses to recruit 89 employees.
New business units	Construction of 4 new units at Ermington underway, creating approximately 400m ² of employment space.
Council owned premises	Achieved an average of 89% occupancy rate for all Council owned employment premises.
Sherford Training & Skills	Contract awarded for the continuation of a Skills Coordinator at Sherford to increase apprenticeships, training and employment opportunities for local people.

WELLBEING - Supporting positive, safe and healthy lifestyles and helping those most in need

Action	18/19 Progress
Community Safety Partnership	Facilitated training on safeguarding to 94% taxi drivers. Continued to work with local secondary schools through workshops and theatre performances to address and raise awareness of community safety including drugs, prevent and missing episodes linked to exploitation. Responded to youth gang activity and used Public Space Protection Orders to decrease anti-social behaviour.
Junior Life Skills	Worked with 5 partners including the Police, RNLI, Fire Service and Western Power Distribution to present workshops to nearly 800 year 6 students on safety, wellbeing and responsible citizenship.
Refugees	Continued to support families housed as part of the Syrian Resettlement scheme. Families have settled well and are continuing to thrive including two families who felt confident enough to seek and move to alternate, larger accommodation, independently.
Leisure Centres	Capital improvements completed at Dartmouth, Kingsbridge and a first phase at Totnes. In Ivybridge the dryside works have been completed and the new indoor swimming pool will be completed later in 2019. In addition phase 2 works at Totnes will start at the end of 2019. Total investment when all works are complete will be in the region of £8 million. Although overall usage slightly decreased to 456,505 visits, total memberships increased to 3,854, plus 1,914 swim school memberships.

PERFORMANCE INDICATORS FOR 2018/19

Performance has continued the multi-year trend and been maintained at a high, and generally improving, level. Increased online uptake has delivered further improvements in efficiency and enabled better results from the contact centre to be realised. Other improvements in productivity are planned so the level of performance should be maintained or improved going forward.

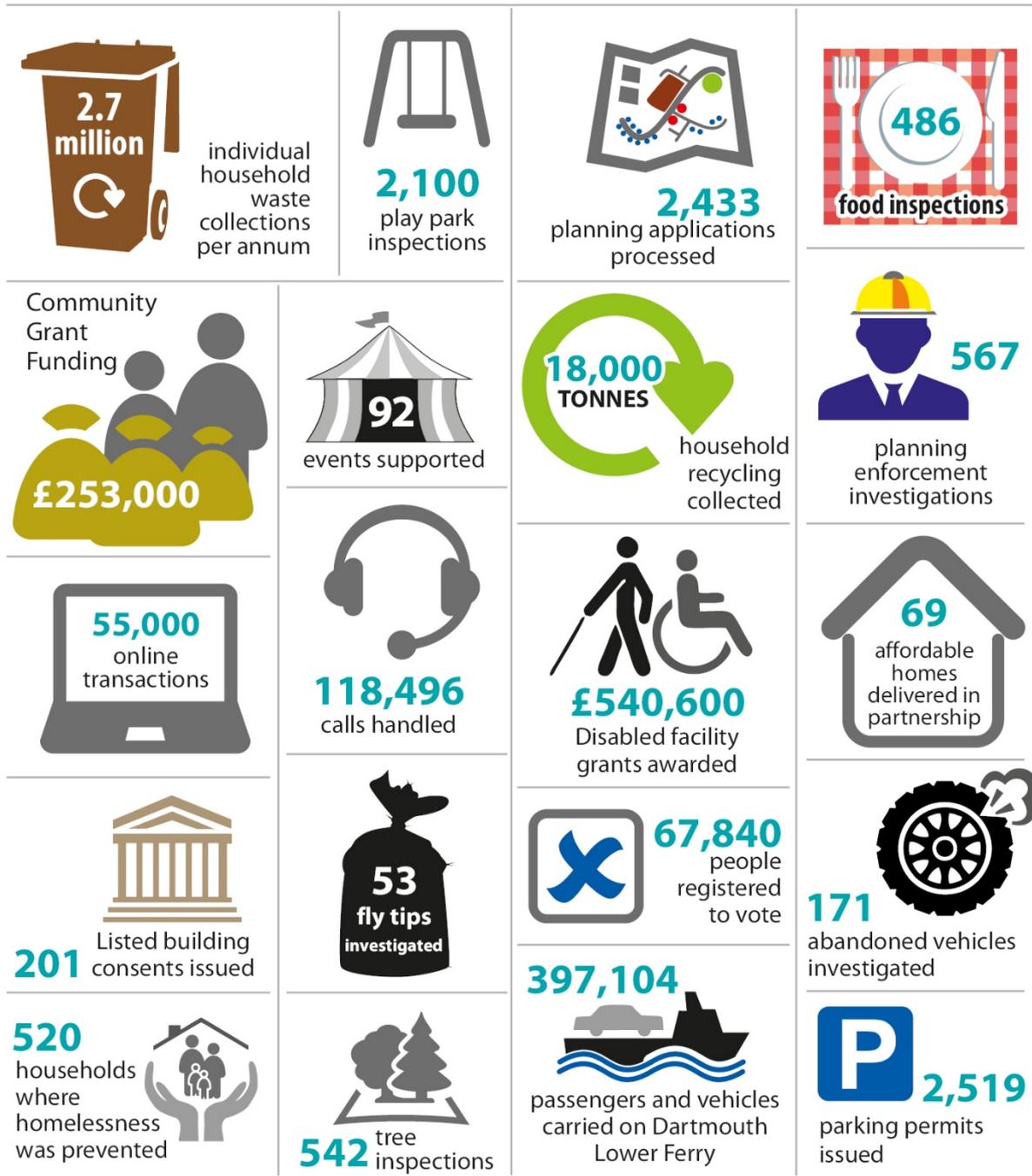
Corporate Balanced Scorecard



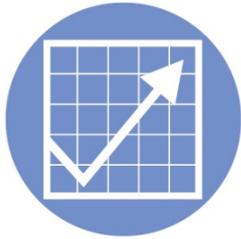
Online Uptake

The new measure for online uptake for benefits change of circumstances was set at a stretching level to encourage channel shift for customers who were used to interacting with us in more traditional ways. The online uptake for new claims started high and increased regularly, but changes of circumstances remained low. The form was updated towards the end of the year to make it display better on smaller screen devices (phones, tablets, etc.) where we were seeing increased usage and we should see a slow improvement for this measure in the coming year.

A few things we spent your money on in 2018/19



Performance for the year 2018/19



Housing benefit claims processing times 8.5 days faster than the national target



Online transactions increased by 10,000 to 55,000 transactions



Missed waste collections equate to 177 in every 100,000



Non major planning determinations delivered on time 87%



Call volume decreased by 27,000 calls

PRINCIPAL RISKS AND UNCERTAINTIES

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. A Statutory Officers' Panel was set up in 2015/16 and a key role of this Panel is strategic risk management. This Panel consists of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer.

A risk report is presented to the Council's Audit Committee every six months. Below is an extract from the Risk report to the Audit Committee in March 2019.

Risk	Uncertainties	Mitigation
<p>Political commitment for change</p>	<p>Considerable external change with Devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.</p>	<p>Regular Leader & Deputy Leader meetings. Regular surgery and informal sessions for wider membership.</p> <p>Jan 2019: Preparation for post-May 2019 through induction and ongoing training for all Members. Introduction of some of the suggested actions from the LGA peer review.</p>
<p>Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government policy and/or income streams</p>	<p>Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. Business rates pilot 2018/19 – 100% local business rate retention of growth above baseline is confirmed for one year only.</p>	<p>Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council is not intending to rely heavily on sources of income which may not be sustainable.</p> <p>SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT engaged in the development of the MTFS. Latest MTFS approved by Council September 2018 with Member Workshops in both Councils conducted in October 2018.</p> <p>Budget for 2019-20 was approved by Council in February 2019. Waste contract procurement has delivered significant financial savings. Grounds maintenance business review and ICT review to be carried out to deliver either growth opportunity or efficiencies in working methods. Commercial property development projects approved and will deliver income in future years, subject to planning approval.</p>

Appendix A

Risk	Uncertainties	Mitigation
Service Performance	Process implementation is now complete. Uncertainties could be due to a lack of appropriate resources. In the past, a lack of appropriate resource and the T18 transformation and change in processes combined to affect our ability to deliver appropriately on occasion. This pressure was increased due to county and general elections in 2017.	A Customer Survey was carried out in Autumn 2018 and staff Customer Away days were held in September 2018. Getting it right the first time, getting back to people appropriately and more timely. Better channel recognition to clear responses. Keep better records. Appropriate resources in the right places. Plan to re-measure customer satisfaction during 18/19. Increased customer engagement; new complaints policy in place. Ongoing review of internal and external policies.
Business Continuity	Following the event, how quickly will certain systems and processes be able to be back on-line	Key officers have now attended a training exercise. Officers are updating plans as a result. Business Impact assessments have been completed for most areas and were tested in the above exercise. A recent internal audit has been completed and identified some weaknesses but acknowledged a positive direction of travel.
Emergency response, e.g. coastal erosion/storm damage/flooding	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each other's responsibilities and capacity
Inadequate Staffing Resources	Performance being reviewed to understand whether resourcing levels are correct; difficult to assess accurately as organisation continues to experience change effects and processes being embedded/roll-out of new technology and working practices	Customer Satisfaction Survey has been undertaken and staff away days have also been undertaken to update staff and embed solutions to tackle issues raised. Mechanism in place for ELT to appoint within budget where appropriate without recourse to SLT. Apprenticeship scheme developed by HR.

Section 2

Core Financial Statements

SECTION 2A 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 both the Expenditure and Funding Analysis (Note 4) and the Movement in Reserves Statement (Section 2B).

2017/18				2018/19		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Segment	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
34,702	(28,192)	6,510	Customer First	32,292	(26,568)	5,724
11,860	(7,283)	4,577	Commercial Services	11,715	(7,132)	4,583
2,273	(536)	1,737	Strategy and Commissioning	1,382	(248)	1,134
3,619	(1,323)	2,296	Support Services	3,762	(1,304)	2,458
1,055	(23)	1,032	Centrally Held Costs	907	(32)	875
530	-	530	Material Items (Note 2)	336	-	336
54,039	(37,357)	16,682	Cost of Services*	50,394	(35,284)	15,110
2,165	-	2,165	Other operating expenditure (Note 9)	3,301	-	3,301
1,518	(798)	720	Financing and investment income and expenditure (Note 10)	(55)	(1,202)	(1,257)
23,726	(36,726)	(13,000)	Taxation and non-specific grant income (Note 11)	24,241	(39,044)	(14,803)
81,448	(74,881)	6,567	(Surplus) or Deficit on Provision of Services	77,881	(75,530)	2,351
		(95)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(10,885)
		(6,995)	Remeasurements of the net defined benefit liability			(5,848)
		-	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income			23
		(7,090)	Other Comprehensive Income and Expenditure			(16,710)
		(523)	Total Comprehensive Income and Expenditure			(14,359)

* The reduction in the Cost of Services is mainly due to a decrease in the accounting adjustment for pensions (IAS19) of £1.9m. This is shown in Note 4A - Note to the Expenditure and Funding Analysis.

SECTION 2B MOVEMENT IN RESERVES

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end 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 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Increase/Decrease in Year line shows the statutory General Fund Balance movements in the year following these adjustments.

2018/19	General Fund Balance £000	Earmarked General Fund Reserves* £000	Total General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2018/19 £000
Balance at 31 March 2018 carried forward	1,849	(320)	1,529	2,967	413	4,909	37,453	42,362
Movement in Reserves during 2018/19								
Total Comprehensive Income and Expenditure	(2,351)	-	(2,351)	-	-	(2,351)	16,710	14,359
Adjustments between accounting basis and funding basis under regulations (Note 7)	16,013	-	16,013	570	415	16,998	(16,998)	-
Transfers to/from Earmarked Reserves (Note 8)	(13,613)	13,613	-	-	-	-	-	-
Increase/ (Decrease) in Year	49	13,613	13,662	570	415	14,647	(288)	14,359
Balance at 31 March 2019 carried forward	1,898	13,293	15,191	3,537	828	19,556	37,165	56,721

SECTION 2B MOVEMENT IN RESERVES

2017/18 Comparatives	General Fund Balance £000	Earmarked General Fund Reserves* £000	Total General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2017/18 £00
Balance at 31 March 2017 carried forward	1,765	13,074	14,839	3,683	344	18,866	22,973	41,839
Movement in Reserves during 2017/18								
Total Comprehensive Income and Expenditure	(6,567)	-	(6,567)	-	-	(6,567)	7,090	523
Adjustments between accounting basis and funding basis under regulations (Note 7)	(6,743)	-	(6,743)	(716)	69	(7,390)	7,390	-
Transfers to/from Earmarked Reserves (Note 8)	13,394	(13,394)	-	-	-	-	-	-
Increase/ (Decrease) in Year	84	(13,394)	(13,310)	(716)	69	(13,957)	14,480	523
Balance at 31 March 2018 carried forward	1,849	(320)	1,529	2,967	413	4,909	37,453	42,362

* Earmarked General Fund Reserves Position for 2017/18

The Business Rates Retention Earmarked Reserve showed a deficit position of £8.641 million at 31 March 2018 leading to an overall deficit in Earmarked Reserves of £320,000 as shown above. However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also had to be taken into account. A full explanation can be found in Note 8 – Transfers to/from Earmarked Reserves.

SECTION 2C BALANCE SHEET

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'.

31 March 2018 £000		Notes	31 March 2019 £000
63,021	Property, Plant and Equipment	12	76,968
12,675	Investment Properties	13	14,150
164	Intangible Assets		134
-	Long Term Investments	14	1,477
19	Long Term Debtors	15	1
75,879	Long Term Assets		92,730
22,600	Short Term Investments	14	14,500
220	Assets Held for Sale		-
63	Inventories		75
7,763	Short Term Debtors	15	6,454
20,669	Cash and Cash Equivalents	17	11,929
51,315	Current Assets		32,958
(27,155)	Short Term Creditors	18	(8,222)
(1,796)	Provisions	19	(1,436)
(28,951)	Current Liabilities		(9,658)
(26)	Long Term Creditors	18	(51)
(4,296)	Long Term Revenue Grants in Advance - Section 106 Deposits	30	(5,099)
-	Long Term Borrowing	14	(5,490)
(51,459)	Pensions Liability	35	(48,569)
(100)	Capital Grants - Receipts in Advance	30	(100)
(55,881)	Long Term Liabilities		(59,309)
42,362	Net Assets		56,721
4,909	Usable Reserves	20	19,556
37,453	Unusable Reserves	21	37,165
42,362	Total Reserves		56,721

The notes on pages 37 to 117 form part of these financial statements.

The unaudited accounts were issued on 29 May 2019.

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.

2017/18 £000		2018/19 £000
6,567	Net (surplus) or deficit on the provision of services	2,351
(7,122)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 22)	(7,814)
1,675	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23)	(5,787)
1,120	Net cash outflows/ (inflow) from Operating Activities	(11,250)
6,871	Net increase/(decrease) in Investing Activities (Note 24)	6,476
(15,808)	Net cash outflow/(inflow) from Financing Activities (Note 25)	13,514
(7,817)	Net (increase) or decrease in cash and cash equivalents	8,740
12,852	Cash and cash equivalents at the beginning of the reporting period	20,669
20,669	Cash and cash equivalents at the end of the reporting period (Note 17)	11,929

Section 3

Notes to the

Financial Statements

SECTION 3. NOTES TO THE ACCOUNTS

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SECTION 3. NOTES TO THE ACCOUNTS

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

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

The items in the Authority's Balance Sheet at 31 March 2019 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. The carrying value of Property, Plant and Equipment as at 31 March 2019 is £77 million.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to reduce by 1 year across all assets, this would have an impact of approximately £176,000 on the Council's finances.
Investment Property	The Council's external valuers use recognised valuation techniques to determine the fair value of Investment Property each year. This involves making assumptions and estimates in terms of how market participants would price the property. The fair value of Investment Properties as at 31 March 2019 is £14 million.	The fair value estimates may differ from the actual prices that could be achieved in an arm's length transaction.
Business Rates Appeals Provision	Estimates have been made for the provision for refunding ratepayers who may successfully appeal against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed. The total appeals provision as at 31 March 2019 is £3.6 million, of which the Council's share is 40% (£1.4 million).	There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation. If the Business Rates appeals provision were to change by 1% this would have an impact of £14,000 on the Council's finances.

SECTION 3. NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	<p>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 2019, the Authority had a balance of Sundry Debtors of £0.69 million. A review of significant balances suggested that an impairment for doubtful debts of 23% (£160,000) was appropriate.</p>	<p>The impairment for doubtful debts is reviewed annually in order to respond to changes in collection rates. If Council Tax arrears were to change by 1%, this would have an impact of £9,000 on the Council's finances.</p>
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, although these valuations could be earlier. The actual valuations at the Balance Sheet date, which may not be available until sometime later, may give a different value of pension assets, but this difference is not considered to be material.</p> <p>The Pension Fund's Actuary has provided updated figures for the year based on the valuation in 2016. This valuation is based upon cashflow and assets values as at 31 March 2019. 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 during 2019/20 (as at 31 March 2019) and will set contributions for the period from 1 April 2020 to 31 March 2023.</p> <p>The carrying value of the pensions liability as at 31 March 2019 is £48.6 million.</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 £2.6 million.</p> <p>The assumptions interact in complex ways. For example, in 2018/19, the Authority's actuaries advised that the pension liability has reduced by £8 million as a result of a change in "demographic assumptions" but increased by £5 million as a result of a change in "financial assumptions".</p> <p>Please refer to Note 35 for further information about the assumptions used by the actuaries.</p>
Britain leaving the European Union: pension liability and asset values	<p>There is a high level of uncertainty over the implications of Britain leaving the European Union. Currently there are various scenarios and it is not possible to predict which option will be taken and therefore the potential impact on asset values and the pension liability. The assumption has been made that the outcome will not significantly impair the Council's asset values or the pension liability.</p>	<p>If asset values fall a higher impairment allowance may need to be charged. If the discount rate changes this will impact on the value of the pension liability.</p>

SECTION 3. NOTES TO THE ACCOUNTS

2. MATERIAL ITEMS OF INCOME AND EXPENSE

The following material item has been included on the face of the Comprehensive Income and Expenditure Statement (CIES) since 2014/15. This expenditure relates to the upfront investment costs for the Council's Transformation Programme (T18).

Transformation Programme (T18) Investment Costs	2017/18			2018/19		
	Direct £000	Recharges £000	Total £000	Direct £000	Recharges £000	Total £000
GROSS REVENUE EXPENDITURE						
Redundancy and Pension Strain payments	530	-	530	336	-	336
Sub Total	530	-	530	336	-	336
GROSS REVENUE INCOME						
Shared Service Recharge to West Devon BC	-	-	-	-	-	-
Sub Total	-	-	-	-	-	-
NET REVENUE EXPENDITURE/ (INCOME) (as shown in the CIES)	530	-	530	336	-	336

3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2018/19 was approved for issue by the Section 151 Officer & Strategic Finance Lead on 29 May 2019. This is also the date up to which events after the reporting period have been considered.

4. EXPENDITURE AND FUNDING ANALYSIS

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Authority (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Authority's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement in Section 2A.

SECTION 3. NOTES TO THE ACCOUNTS

2018/2019	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis (Note 4A)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Customer First	2,170	3,554	5,724
Commercial Services	2,968	1,615	4,583
Strategy and Commissioning	945	189	1,134
Support Services	2,338	120	2,458
Centrally Held Costs	875	-	875
Material Items	336	-	336
Net Cost of Services	9,632	5,478	15,110
Other income and expenditure	(23,294)	10,535	(12,759)
(Surplus)/Deficit on Provision of Services	(13,662)	16,013	2,351

	General Fund Balance	Earmarked Reserves*	Total General Fund Reserves
	£000	£000	£000
Opening Balance at 31 March 2018	(1,849)	320	(1,529)
(Increase)/decrease in year	(49)	(13,613)	(13,662)
Closing Balance at 31 March 2019	(1,898)	(13,293)	(15,191)

2017/2018 Comparatives	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis (Note 4A)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Customer First	1,778	4,732	6,510
Commercial Services	2,210	2,367	4,577
Strategy and Commissioning	1,447	290	1,737
Support Services	2,030	266	2,296
Centrally Held Costs	1,032	-	1,032
Material Items	530	-	530
Net Cost of Services	9,027	7,655	16,682
Other income and expenditure	4,283	(14,398)	(10,115)
(Surplus)/Deficit on Provision of Services	13,310	(6,743)	6,567

	General Fund Balance	Earmarked Reserves*	Total General Fund Reserves
	£000	£000	£000
Opening Balance at 31 March 2017	(1,765)	(13,074)	(14,839)
(Increase)/decrease in year	(84)	13,394	13,310
Closing Balance at 31 March 2018	(1,849)	320	(1,529)

SECTION 3. NOTES TO THE ACCOUNTS

* Earmarked Reserves Position for 2017/18

The Business Rates Retention Earmarked Reserve showed a deficit position of £8.641 million at 31 March 2018 leading to an overall deficit in Earmarked Reserves of £320,000. However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also had to be taken into account. Further information can be found in Note 8 – Transfers to/from Earmarked Reserves.

4A. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This note explains the main adjustments from the net expenditure chargeable to the general fund balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement (CIES).

Adjustments between Funding and Accounting Basis				
2018/19	Adjustments for capital purposes (Note A) £000	Net change for the pensions adjustments (Note B) £000	Other Differences (Note C) £000	Total adjustments £000
Customer First	2,776	778	-	3,554
Commercial Services	1,063	552	-	1,615
Strategy and Commissioning	2	187	-	189
Support Services	31	79	10	120
Net Cost of Services	3,872	1,596	10	5,478
Other income and expenditure from the Expenditure & Funding Analysis	(3,497)	1,362	12,670	10,535
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	375	2,958	12,680	16,013

SECTION 3. NOTES TO THE ACCOUNTS

Adjustments between Funding and Accounting Basis				
2017/18 Comparatives	Adjustments for capital purposes	Net change for the pensions adjustments	Other Differences	Total adjustments
	(Note A)	(Note B)	(Note C)	
	£000	£000	£000	£000
Customer First	2,951	1,781	-	4,732
Commercial Services	1,105	1,262	-	2,367
Strategy and Commissioning	4	286	-	290
Support Services	85	181	-	266
Net Cost of Services	4,145	3,510	-	7,655
Other income and expenditure from the Expenditure & Funding Analysis	(2,725)	1,547	(13,220)	(14,398)
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	1,420	5,057	(13,220)	(6,743)

Note A: Adjustments for Capital Purposes

Adjustments for capital purposes reflect:

For services this column adds in depreciation and impairment and adjusts for revenue expenditure funded from capital under statute.

Other income and expenditure from the Expenditure and Funding Analysis – this adjusts for statutory charges for capital financing and other capital contributions are deducted. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written-off.

Note B: Net Change for the Pensions Adjustments

Net changes for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.

For other income and expenditure from the Expenditure and Funding Analysis – the net interest on the defined benefit liability is charged to the CIES.

Note C: Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For services reflects the change in the annual leave accrual when compared with the previous year.

For other income and expenditure from the Expenditure and Funding Analysis represents the timing difference between what is chargeable under

SECTION 3. NOTES TO THE ACCOUNTS

statutory regulations for Council Tax and Business Rates that was projected to be received at the start of the financial year, and the income recognised under generally accepted accounting practices.

5. SEGMENT REPORTING

The net expenditure figures in the Expenditure and Funding Analysis (Note 4) include the following particular amounts of income and expenditure:

2018/19	Customer First £000	Commercial Services £000	Strategy and Commissioning £000	Support Services £000	Financing & Investment Income £000	Total £000
Expenditure						
Housing Benefit Payments*	19,703	-	-	-	-	19,703
Depreciation	1,526	837	2	3	-	2,368
Income						
Housing Benefit Subsidy*	(19,481)	-	-	-	-	(19,481)
Dartmouth Lower Ferry fees and charges	-	(850)	-	-	-	(850)
Car Parking fees and charges	-	(3,170)	-	-	-	(3,170)
Planning fees and charges	(1,191)	-	-	-	-	(1,191)
Salcombe Harbour fees and charges	-	(1,091)	-	-	-	(1,091)
Trade Waste fees and charges	-	(725)	-	-	-	(725)
Income from other external sources**	(245)	(501)	-	-	-	(746)
Investment Properties**	-	-	-	-	(633)	(633)

* Housing Benefit Payments and Subsidy have reduced by £1.4 million between 2018/19 and 2017/18. This significant decrease is mainly due to a number of fraud and error initiatives such as Real Time Information (RTI) and more recently the Verify Earnings and Pensions (VEP) service, where the Council receives up to date information from HMRC on claimants earned income. These exercises have seen a large number of housing benefit claims drop out of entitlement. Another factor is the introduction of full service Universal Credit in

SECTION 3. NOTES TO THE ACCOUNTS

October 2017, which has seen the caseload drop significantly. In addition all the large Housing Associations have been reducing their rents each year by 1%.

**The 'Income from other external sources' has reduced by £580,000 in 2018/19. This is mainly due to the reclassification of a non current asset to an Investment Property, with effect from 31 December 2017. This income which was previously shown within Customer First is now reflected in 'Financing and Investment Income'. Please see Note 10 – Financing and Investment Income and Expenditure and Note 13 – Investment Properties for further clarification.

2017/18 Comparatives	Customer First	Commercial Services	Strategy and Commissioning	Support Services	Financing & Investment Income	Total
	£000	£000	£000	£000	£000	£000
Expenditure						
Housing Benefit Payments*	21,155	-	-	-	-	21,155
Depreciation	1,428	933	4	3	-	2,368
Income						
Housing Benefit Subsidy*	(20,851)	-	-	-	-	(20,851)
Dartmouth Lower Ferry fees and charges	-	(824)	-	-	-	(824)
Car Parking fees and charges***	-	(2,960)	-	-	-	(2,960)
Planning fees and charges****	(987)	-	-	-	-	(987)
Salcombe Harbour fees and charges	-	(1,085)	-	-	-	(1,085)
Trade Waste fees and charges	-	(838)	-	-	-	(838)
Income from other external sources**	(666)	(660)	-	-	-	(1,326)
Investment Properties**	-	-	-	-	(191)	(191)

***The car parking income has been restated for 2017/18 from £2.144 million to £2.960 million to include all car parking fees and charges. Previously the figure related purely to daily parking fees.

SECTION 3. NOTES TO THE ACCOUNTS

****The Planning income has been restated for 2017/18 from £879,000 to £987,000 to include all Planning fees and charges.

6. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Expenditure and Income Analysed by Nature note shows the amounts that make up the surplus or deficit on the provision of services on the CIES, but here they are categorised by nature instead of by service segment.

Expenditure and Income Analysed by Nature	2017/18	2018/19
	£000	£000
Employee Benefits Expenses*	18,010	16,557
Other Service Expenses	31,959	29,998
Depreciation, Amortisation and Impairment	4,098	2,322
Interest Payments	1	120
Pension Fund Administration Expenses	49	68
Net Interest on the net defined benefit liability	1,487	1,290
Losses/(Gains) on disposal of non current assets**	21	1,037
Total Expenditure	55,625	51,392
Fees, Charges and Other Service Income	(13,493)	(14,173)
Interest and Investment Income	(155)	(292)
Income from Council Tax and Business Rates***	(5,788)	(7,796)
Revenue Grants and Contributions	(28,012)	(25,061)
Capital Grants and Contributions	(1,148)	(1,482)
Other Income	(462)	(237)
Total Income	(49,058)	(49,041)
(Surplus) or Deficit on Provision of Services	6,567	2,351

*The reduction in Employee Benefit Expenses is mainly due to a decrease in the accounting adjustment for pensions (IAS19) of £1.9m. This is shown in Note 4A - Note to the Expenditure and Funding Analysis.

** The £1 million loss on disposal of non current assets in 2018/19 mainly relates to assets transfers carried out in the year.

***The figure for Council Tax and Business Rates in this statement is shown net of expenditure (precepts to other bodies). The expenditure detail is shown in Note 11 – Taxation and Non-Specific Grant Income.

SECTION 3. NOTES TO THE ACCOUNTS

7. 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.

2018/19	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	2,368			(2,368)
Revaluation losses/(gains) on Property, Plant and Equipment	490			(490)
Movements in the market value of Investment Properties	(1,550)			1,550
Amortisation of Intangible Assets	84			(84)
Capital grants and contributions applied	(869)			869
Revenue expenditure funded from capital under statute (REFCUS)	930			(930)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,628			(1,628)
Write down of bank investment	50			(50)
Repayment of mortgage and parish loans		1		(1)
Insertion of items not debited or credited to the CIES:				
Capital expenditure charged against the General Fund	(1,314)			1,314
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(613)		613	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(198)	198
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(591)	591		-
Transfer of unattached capital receipts	(238)	238		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(260)		260

SECTION 3. NOTES TO THE ACCOUNTS

2018/19	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	4,688			(4,688)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,730)			1,730
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	7			(7)
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*	12,663			(12,663)
Adjustments primarily involving the Accumulated Absences 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*	10			(10)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2018/19	16,013	570	415	(16,998)

*The large adjustments involving the Business Rates Collection Fund Adjustment Account in 2018/19 and 2017/18 are due to the unwinding of the Business Rates appeals provision from 2015/16. A full explanation is provided in the Narrative Statement.

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	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
2017/18 Comparatives				
Adjustments primarily involving the Capital Adjustment Account (CAA):				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i>				
Charges for depreciation and impairment of non-current assets	2,368			(2,368)
Revaluation losses/(gains) on Property, Plant and Equipment	439			(439)
Movements in the market value of Investment Properties	6			(6)
Amortisation of Intangible Assets	132			(132)
Capital grants and contributions applied	(915)			915
Revenue expenditure funded from capital under statute (REFCUS)	1,208			(1,208)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	54			(54)
Repayment of mortgage and parish loans		1		(1)
<i>Insertion of items not debited or credited to the CIES:</i>				
Capital expenditure charged against the General Fund	(1,144)			1,144
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(233)		233	-
Application of grants to capital financing transferred to the CAA			(164)	164
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(33)	33		-
Transfer of unattached capital receipts	(462)	462		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,212)		1,212

SECTION 3. NOTES TO THE ACCOUNTS

2017/18 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	6,631			(6,631)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,574)			1,574
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	25			(25)
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	(13,245)			13,245
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2017/18	(6,743)	(716)	69	7,390

8. TRANSFERS TO/ FROM EARMARKED RESERVES

This note details 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 2018/19. The purpose of some of the more significant earmarked reserves are shown below:

Vehicles and Plant Renewals - This reserve is used to purchase vehicles and heavy plant to maintain a modern and efficient Council fleet, and to ensure Contract conditions are met.

Capital Programme – This reserve helps to support the funding of the Capital Programme.

SECTION 3. NOTES TO THE ACCOUNTS

New Homes Bonus – This reserve was established to show how New Homes Bonus funding has been used on an annual basis.

Business Rates Retention Scheme - The Business Rates Retention Earmarked reserve covers any possible funding issues from the new accounting arrangements. A full explanation of the movement in this reserve in 2018/19 is provided at the bottom of the Earmarked Reserves table. At Council on 22 February 2018 Members agreed to ring-fence £3.5 million for employment for the creation of local jobs and to better support the local economy.

Affordable Housing – This reserve helps to support the funding of affordable housing.

Community Housing Fund – This reserve was set up to hold the Community Housing Fund Grant. At Council on 21st March 2019 (Minute CM74/18), it was resolved that community housing development expenditure of up to £8.5 million be approved to build four Community Housing Schemes, delivering 55 residential units.

Revenue Grants Reserve – This reserve holds revenue grants with no repayment conditions that have not been used during the year.

Economic Regeneration Reserve – This reserve was set up in 2018/19 to hold the business rates pilot income. It will be used to meet the primary aim of the business rates pilot bid which is to achieve higher levels of investment in economic regeneration in Devon and encourage further business rates growth.

The table overleaf shows the earmarked reserve balances at 31 March 2019 and the movement during 2018/19.

SECTION 3. NOTES TO THE ACCOUNTS

2018/19 EARMARKED RESERVES	Balance at 31.3.2018 £000	Transfers Out £000	Transfers In £000	Balance at 31.3.2019 £000
General Fund				
Affordable Housing	998	(10)	-	988
Community Parks and Open Spaces	111	(21)	17	107
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	249	(316)	112	45
Members Sustainable Community	53	(47)	-	6
Marine Infrastructure Reserve	152	-	58	210
Land and Development	67	(36)	63	94
Ferry Repairs and Renewals	459	(91)	87	455
Economic Initiatives	49	(22)	-	27
Vehicles and Plant Renewals	1,023	(249)	490	1,264
Pay and Display Equipment	102	-	21	123
On-Street Parking	44	-	-	44
ICT Development	140	(64)	50	126
Sustainable Waste Management	4	-	25	29
District Elections	68	-	10	78
Beach Safety	14	-	-	14
Planning Policy & Major Developments	228	(153)	50	125
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	372	(119)	325	578
Capital Programme	791	(888)	181	84
New Homes Bonus	869	(991)	1,277	1,155
Renovation Grant Reserve	7	-	-	7
Business Rates Retention-Note * overleaf	(8,641)	-	13,755	5,114
Homelessness Prevention Reserve	82	-	30	112
Strategic Change	-	(210)	210	-
16/17 Budget Surplus Contingency	25	(25)	-	-
Innovation Fund (Invest to Earn)	25	(8)	-	17
Community Housing Fund	1,671	(386)	-	1,285
Leisure Services Reserve	87	(30)	-	57
Support Services Trading Reserve	20	-	23	43
Environmental Health Initiatives Reserve	20	-	-	20
S106 Monitoring Reserve	137	(13)	-	124
Economic Regeneration Reserve	-	(96)	475	379
Joint Local Plan Reserve	-	(136)	167	31
S106 Technical Support Reserve	-	-	20	20
Sub Total	(736)	(4,010)	17,545	12,799
Specific Reserves – Salcombe Harbour				
Pontoons	162	-	51	213
Harbour Renewals	111	(35)	41	117
General Reserve	143	-	21	164
Sub Total	416	(35)	113	494
TOTAL EARMARKED REVENUE RESERVES – See Note * overleaf	(320)	(4,045)	17,658	13,293

SECTION 3. NOTES TO THE ACCOUNTS

2017/18 Comparatives	Balance at 31.3.2017	Transfers Out	Transfers In	Balance at 31.3.2018
EARMARKED RESERVES	£000	£000	£000	£000
General Fund				
Affordable Housing	770	(2)	230	998
Community Parks and Open Spaces	97	(3)	17	111
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	403	(309)	155	249
Members Sustainable Community	41	-	12	53
Marine Infrastructure Reserve	94	-	58	152
Land and Development	205	(255)	117	67
Ferry Repairs and Renewals	400	(28)	87	459
Economic Initiatives	77	(28)	-	49
Vehicles and Plant Renewals	489	-	534	1,023
Pay and Display Equipment	81	-	21	102
On-Street Parking	44	-	-	44
ICT Development	122	(32)	50	140
Sustainable Waste Management	3	(24)	25	4
District Elections	58	-	10	68
Beach Safety	14	-	-	14
Planning Policy & Major Developments	147	(44)	125	228
Building Control	436	(436)	-	-
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	316	(125)	181	372
Capital Programme	1,116	(507)	182	791
New Homes Bonus	474	(1,053)	1,448	869
Renovation Grant Reserve	7	-	-	7
Business Rates Retention-Note* overleaf	4,527	(13,168)	-	(8,641)
Homelessness Prevention Reserve	25	-	57	82
Strategic Change	-	(285)	285	-
16/17 Budget Surplus Contingency	559	(534)	-	25
Innovation Fund (Invest to Earn)	279	(254)	-	25
Community Housing Fund	1,881	(210)	-	1,671
Leisure Services Reserve	-	-	87	87
Support Services Trading Reserve	-	-	20	20
Environmental Health Initiatives Reserve	-	-	20	20
S106 Monitoring Reserve	-	-	137	137
Sub Total	12,703	(17,396)	3,957	(736)
Specific Reserves – Salcombe Harbour				
Pontoons	130	(30)	62	162
Harbour Renewals	85	(8)	34	111
General Reserve	156	(47)	34	143
Sub Total	371	(85)	130	416
TOTAL EARMARKED REVENUE RESERVES – See Note * overleaf	13,074	(17,481)	4,087	(320)

SECTION 3. NOTES TO THE ACCOUNTS

Note* - Earmarked Reserves position for 2017/18 (including the Business Rates Retention Earmarked Reserve)

In 2015/16 there was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals. In 2016/17 a large part of these outstanding appeals were settled and the significant appeals risk did not materialise.

The Local Government Accounting Regulations for Business Rates and the operation of the Collection Fund are set by the Government. These national regulations mean there is a two year timing delay between a business rates appeals provision being released back into the Collection Fund and in turn into the General Fund.

The Business Rates Retention Earmarked Reserve in 2017/18 showed a deficit position of £8.641 million at 31 March 2018. However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also needed to be taken into account. The aggregated Earmarked Revenue Reserves position, incorporating the Council's share of the Business Rates Collection Fund surplus was £13.157 million at 31 March 2018.

The funds held in the Business Rates Collection Fund have been released back into the General Fund of the Council during 2018/19 and the balance in the Business Rates Retention Earmarked Reserve is £5.1 million at 31 March 2019.

9. OTHER OPERATING EXPENDITURE

2017/18 £000		2018/19 £000
2,095	Parish council precepts	2,196
21	(Gains)/losses on the disposal of non-current assets	1,037
49	Pension administration expenses	68
2,165	Total	3,301

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2017/18 £000		2018/19 £000
1	Interest payable and similar charges	120
(141)	Interest receivable and similar income	(328)
(462)	Other investment income	(237)
-	Investment (gains)/losses	50
1,487	Net interest on the net defined benefit liability	1,290
(165)	Investment properties (Note 13)	(2,152)
720	Total	(1,257)

SECTION 3. NOTES TO THE ACCOUNTS

11. TAXATION AND NON-SPECIFIC GRANT INCOME

2017/18 £000		2018/19 £000
	Council Tax	
(7,905)	• Income	(8,269)
25	• Collection Fund adjustment	7
(143)	• Collection Fund - distribution of surplus	(73)
92	• Support grant to parishes	83
	Business Rates	
(9,659)	• Income*	(11,190)
11,363	• Tariff**	10,619
(657)	• Top up adjustment	-
13	• Levy payment	29
-	• Pooling administration costs	1
-	• Pilot contribution*	25
(1,012)	• Transfer of Collection Fund deficit/(surplus)	(1,224)
	Non ring - fenced Government grants :	
(1,888)	• Small Business Rate Relief Grant	(2,191)
(250)	• Revenue Support Grant	-
(1,448)	• New Homes Bonus Grant	(1,109)
(327)	• Rural Services Delivery Grant**	-
(56)	• Transition Grant	-
-	• Levy Account Surplus Grant	(29)
(1,148)	Capital grants and contributions	(1,482)
(13,000)	Total	(14,803)

Business Rates Pilot Status 2018/19

*The increase in Business Rates income includes the pilot gain for 2018/19. The income generated by the pilot is £575,000 (£600,000 additional localised income offset by the contribution made to the Devon Pilot in 2018/19 of £25,000). £100,000 of this pilot gain has been used to fund the 2018/19 revenue base budget and the balance of £475,000 has been transferred into a new Economic Regeneration earmarked reserve.

Rural Services Delivery Grant 2018/19

** Due to the 2018/19 pilot status the Council's business rates baseline was increased to reflect the Rural Services Delivery Grant for 2018/19 of £408,055. This is reflected in the reduced Tariff figure above.

SECTION 3. NOTES TO THE ACCOUNTS

12. PROPERTY, PLANT AND EQUIPMENT

Movements in 2018/19	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Community Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2018	51,301	9,449	9,910	737	2,874	74,271
Additions	956	288	963	-	5,045	7,252
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	9,842	-	-	-	-	9,842
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(690)	-	-	-	-	(690)
Derecognition – disposals	(983)	(486)	(211)	(283)	-	(1,963)
Other movements in cost/ valuation - reclassification	2,190	105	-	-	(2,295)	-
At 31 March 2019	62,616	9,356	10,662	454	5,624	88,712
Accumulated Depreciation & Impairment at 1 April 2018	1,737	6,317	3,196	-	-	11,250
Charge for 2018/19	1,289	688	391	-	-	2,368
Depreciation written out to the Revaluation Reserve	(1,043)	-	-	-	-	(1,043)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(200)	-	-	-	-	(200)
Derecognition - disposals	(122)	(401)	(108)	-	-	(631)
Other movements in depreciation - reclassification		-	-	-	-	
At 31 March 2019	1,661	6,604	3,479	-	-	11,744
Balance Sheet amount at 31 March 2019	60,955	2,752	7,183	454	5,624	76,968
Balance Sheet amount at 31 March 2018	49,564	3,132	6,714	737	2,874	63,021

SECTION 3. NOTES TO THE ACCOUNTS

Comparative Movements in 2017/18	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuation						
At 1 April 2017	66,707	9,437	9,722	737	345	86,948
Additions	57	141	188	-	2,529	2,915
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(2,071)	-	-	-	-	(2,071)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(810)	-	-	-	-	(810)
Derecognition – disposals	(52)	(129)	-	-	-	(181)
Other movements in cost/ valuation - reclassification*	(12,530)	-	-	-	-	(12,530)
At 31 March 2018	51,301	9,449	9,910	737	2,874	74,271
Accumulated Depreciation & Impairment at 1 April 2017	3,085	5,649	2,822	-	-	11,556
Charge for 2017/18	1,202	792	374	-	-	2,368
Depreciation written out to the Revaluation Reserve	(2,166)	-	-	-	-	(2,166)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(372)	-	-	-	-	(372)
Derecognition - disposals	(3)	(124)	-	-	-	(127)
Other movements in depreciation - reclassification	(9)	-	-	-	-	(9)
At 31 March 2018	1,737	6,317	3,196	-	-	11,250
Balance Sheet amount at 31 March 2018	49,564	3,132	6,714	737	2,874	63,021
Balance Sheet amount at 31 March 2017	63,622	3,788	6,900	737	345	75,392

*** Reclassification of land at Lee Mill in 2017/18**

During 2017/18, officers undertook a review of existing assets which has resulted in the Council reclassifying the site at Lee Mill as an Investment Property, with effect from 31 December 2017. The land is currently leased to a supermarket. The Section 151 Officer and the Head of Assets Practice were of the view that the site is now held solely to earn rentals and as such should be reclassified as an Investment Property.

SECTION 3. NOTES TO THE ACCOUNTS

Depreciation

The Council provides for depreciation on all assets other than freehold land, community assets 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

As at 31 March 2019 the Authority has entered into the following contracts for the construction or enhancement of Property, Plant and Equipment. These commitments relate to:

- Leisure centre investment £200,000
- New units, Ermington £750,000

As a comparison, as at 31 March 2018 the Authority had entered into the following contracts for the construction or enhancement of Property, Plant and Equipment. These commitments related to:

- Leisure centre investment £5.8 million
- New units, Ermington £500,000
- New walls, Kingsbridge Quay £500,000

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.

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, to ensure the carrying value reflects the fair value at the Balance Sheet date. The basis of valuation is set out in the Statement of Accounting policies in Note 38.

SECTION 3. NOTES TO THE ACCOUNTS

	Land and buildings £000	Vehicles, plant furniture & equipment £000	Total £000
Valued at historical cost	-	2,752	2,752
Valued at current value in:			
2018/2019	50,433	-	50,433
2017/2018	5,944	-	5,944
2016/2017	3,024	-	3,024
2015/2016	1,125	-	1,125
2014/2015	429	-	429
Total	60,955	2,752	63,707

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 the preceding movements table, 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.

13. INVESTMENT PROPERTIES

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

A. Income & Expenditure Account	2017/18 £000	2018/19 £000
Rental income from investment properties*	(195)	(637)
Direct operating expenses arising from investment properties**	30	(1,515)
Net (gain)/ loss	(165)	(2,152)

* Reclassification of land at Lee Mill

During 2017/18, officers undertook a review of existing assets which has resulted in the Council reclassifying the site at Lee Mill as an Investment Property, with effect from 31 December 2017. The increase in rental income in 2018/19 reflects a full year's reclassification compared to just one quarter in 2017/18. The movement in fair value of Investment Properties following the reclassification in 2017/18 is shown in table B below.

** The negative expenditure on Investment Properties in 2018/19 is due to an upward revaluation of the site at Lee Mill of £1.55 million shown in table B below.

SECTION 3. NOTES TO THE ACCOUNTS

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

B. Movement in fair value	2017/18 £000	2018/19 £000
Balance at start of the year	381	12,675
Disposals	-	(75)
Net gains/(losses) from fair value adjustments**	(6)	1,550
Transfers (to)/from Property, Plant and Equipment*	12,300	-
Balance at end of the year	12,675	14,150

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

14. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

Financial Liabilities

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus outstanding interest payable).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Financial Assets

To meet the new code requirements, financial assets are now classified into one of three categories:

- **Financial assets held at amortised cost** – These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specific amounts. The figure presented in the Balance Sheet represents the outstanding principal received plus

SECTION 3. NOTES TO THE ACCOUNTS

accrued interest. Interest credited to the Comprehensive Income and Expenditure Statement (CIES) is the amount receivable as per the loan agreement.

- **Fair Value Through Other Comprehensive Income (FVOCI)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- **Fair Value Through Profit and Loss (FVTPL)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit loss method. Changes in loss allowances (including balances outstanding at the date of recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES. Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

The value of debtors and creditors reported in the table overleaf are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the Balance Sheet and Notes 15 and 18 also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

Summary of Financial Instruments

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

SECTION 3. NOTES TO THE ACCOUNTS

	Long-term		Current	
	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000
Financial Assets at Amortised Cost				
Investments	-	-	22,600	14,500
Cash and Cash Equivalents	-	-	20,669	11,929
Debtors	19	1	3,545	2,776
Fair Value through Other Comprehensive Income – Financial Assets				
Investments – CCLA Local Authorities’ Property Fund	-	468	-	-
Investments – CCLA Diversified Income Fund	-	1,009	-	-
Total Financial Assets	19	1,478	46,814	29,205
Financial Liabilities at Amortised Cost				
Borrowing	-	(5,490)	-	-
Creditors	(26)	(51)	(2,227)	(2,066)
Total Financial Liabilities	(26)	(5,541)	(2,227)	(2,066)

Reclassification and Measurement of Financial Assets at 1 April 2018

This note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting. No remeasurements were required for 2018/19.

	Carrying amount brought forward at 1 April 2018 £000	New Classifications at 1 April 2018	
		Amortised Cost £000	Fair Value Through Other Comprehensive Income £000
Previous Classifications:			
Loans and receivables	24,233	24,233	-
Reclassified amounts at 1 April 2018	24,233	24,233	-

SECTION 3. NOTES TO THE ACCOUNTS

Effect of Asset Reclassification on the Balance Sheet

This note shows how the new balances at 1 April 2018 for financial assets are incorporated into the Balance Sheet.

New Classifications at 1 April 2018

	Amortised Cost	Fair Value Through Other Comprehensive Income	Total Balance Sheet Carrying Amount
	£000	£000	£000
Reclassified carrying amounts at 1 April 2018	24,233	-	24,233
Reclassified amounts:			
Cash and Cash Equivalents	20,669	-	20,669
Long-term Debtors	19	-	19
Current Debtors	3,545	-	3,545
Total	24,233	-	24,233

Designated to Fair Value Through Other Comprehensive Income

In April 2018 the Council invested £0.5 million with the CCLA Property Fund and £1.0 million with the CCLA Diversified Income Fund.

With the adoption of accounting standard IFRS 9 Financial Instruments, the 'Available for Sale Financial Asset' category is no longer available. The new standard requires that investments in equity are to be classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income.

The Council has elected to designate the CCLA investments as fair value through other comprehensive income. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds these investments as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

This election means that there is no impact on the revenue budget. Any gains or losses on the valuation of the CCLA investments will therefore be transferred to a Financial Instruments Revaluation Reserve until they are realised.

Statutory Override on Pooled Investments

As a result of the change in accounting standards for 2018/19 under IFRS 9, the Ministry for Housing, Communities and Local Government (MHCLG) have agreed a temporary override to allow English Local Authorities time to adjust

SECTION 3. NOTES TO THE ACCOUNTS

their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from April 2018. The Council will use the statutory override to account for any changes in the fair value on its pooled investments. For the Council's Money Market Fund investments the change in fair value was immaterial in 2018/19.

Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income

Following the introduction of IFRS 9, the Council has designated the following equity instruments at 31 March 2019 as fair value through other comprehensive income:

Investment	Nominal	Fair Value	Change in Fair Value during 2018/19
	£000	£000	£000
CCLA Property Fund	500	468	(32)
CCLA Diversified Income Fund	1,000	1,009	9
Total	1,500	1,477	(23)

Net Gains and Losses on Financial Instruments

The following gains and losses have been recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments:

	2017/18	2018/19
	£000	£000
Net gains/losses on: Financial Assets measured at fair value through other comprehensive income	-	(23)
Total Net Gains/(Losses)	-	(23)

Fair Value of Financial Instruments

The following financial asset is measured in the Balance Sheet at fair value on a recurring basis:

SECTION 3. NOTES TO THE ACCOUNTS

Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation Technique Used to Measure Fair Value	31 March 2018 Fair Value £000	31 March 2019 Fair Value £000
Fair Value Through Other Comprehensive Income CCLA Property Fund and CCLA Diversified Income Fund	Level 1	Unadjusted quoted prices in active markets for identical shares	-	1,477
TOTAL			-	1,477

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented are carried forward on the Balance Sheet at amortised cost. Their fair values are as follows:

	31 March 2018		31 March 2019	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
PWLB Debt – Maturity	-	-	(5,490)	(5,791)
Long Term Debtors	19	19	1	1
Long Term Creditors	(26)	(26)	(51)	(51)

Heritable Bank

At the 31 March 2019 the Council had £22,483 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that was 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 with the Heritable Bank. Of this amount £1,227,517 (98%) has already been repaid to the Council by the Administrators.

The balance outstanding at 31 March 2014 (£72,368) was impaired (written out of the Balance Sheet) in the 2013/14 Accounts.

SECTION 3. NOTES TO THE ACCOUNTS

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.

Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators have paid fifteen dividends amounting to 98% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

15. DEBTORS

31.3.2018 £000		31.3.2019 £000
	Short Term	
1,665	Central Government bodies*	1,069
901	Other Local Authorities	710
	Other debtors	
897	Council Tax	889
1,682	Business Rates**	1,144
2,618	Other entities and individuals	2,642
7,763	Total	6,454
	Long Term	
17	Other Local Authorities	-
2	Other entities and individuals	1
19	Total	1

*The 'Central Government bodies' debtor has reduced substantially in 2018/19 mainly due to the end of year position for the Housing Benefit subsidy claim. At 31 March 2019 £291,000 was due from Central Government following completion of the final claim, compared to £1.1m at 31 March 2018.

**The net reduction in the 'Business Rates' debtor for 2018/19 of £538,000 is due to two main reasons. The 31 March 2018 'Business Rates' debtor included payments due from Central Government in respect of the 2017/18 top up adjustment (£657,000), and Section 31 grant (£595,000) relating to reliefs such as small business rate relief. This reduction is partly offset in 2018/19 by a payment due from Central Government of £512,000 relating to their share of the difference between the actual surplus at 31 March 2018 (£33.7m) and the estimated surplus calculated in the 2018/19 NNDR1 Return (£34.7m). Unlike the other Business Rates Preceptors Central Government's debtor is not offset by a share of the current year surplus following the Devon Authorities successful bid for Pilot status in 2018/19. The 2018/19 Devon Business Rates Pilot is explained further in the Narrative Statement.

16. DEBTORS FOR LOCAL TAXATION

The past due but not impaired amount for local taxation (council tax and business rates) can be analysed by age as follows:

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31.3.2018 £000		31.3.2019 £000
547	Up to one year	559
399	One to three years	450
109	Over three years	139
1,055	Total Debtors for Local Taxation	1,148

17. CASH AND CASH EQUIVALENTS

31.3.2018 £000		31.3.2019 £000
529	Cash held by the Authority	609
20,140	Money Market Funds	11,320
20,669	Total Cash and Cash Equivalents*	11,929

*Cash and Cash Equivalents have reduced from £20.7 million in 2017/18 to £11.9 million in 2018/19. Part of this reduction is due to the fact that the Council has invested £1.5 million in the CCLA Property Fund and the CCLA Diversified Income Fund in 2018/19 and these are shown in Long Term Investments on the Balance Sheet in 2018/19.

In addition, the large surplus on the Collection Fund in 2017/18 has now been distributed to preceptors in 2018/19 following the release of the business rates appeals provision that was created in 2015/16 and released in 2016/17 when the significant appeals risk did not materialise. This is further explained in the Narrative Statement under the heading 'Business Rates and the Earmarked Reserves position for 2017/18'.

18. CREDITORS

31.3.2018 £000		31.3.2019 £000
	Short Term	
(436)	Central Government bodies	(395)
(778)	Other local Authorities	(990)
	Other Creditors	
(75)	Council Tax	(95)
(22,932)	Business Rates*	(3,722)
(2,934)	Other entities and individuals	(3,020)
(27,155)	Total	(8,222)
	Long Term	
(26)	Other entities and individuals	(51)
(26)	Total	(51)

SECTION 3. NOTES TO THE ACCOUNTS

*The significant decrease in the 'Business Rates' short term creditor reflects the large reduction in the Business Rates Collection Fund balance as at 31 March 2019. The Business Rates creditor as at 31 March 2018 reflected the large amounts due to the Preceptors following complexities around the unwinding of a large part of the Business Rates appeal provision from 2015/16. See Section 4 – Collection Fund for further information.

19. PROVISIONS

Provisions payable within twelve months of the Balance Sheet date are classified as current liabilities; provisions payable more than twelve months from the Balance Sheet date are classified as long term liabilities. No long term provisions were created in 2018/19 or 2017/18. The breakdown of the 2018/19 provision is shown in the following table:

	Business Rates Appeals £000
Balance at 1 April 2018	1,796
Provisions made in year	(218)
Amounts used in year	(142)
Balance at 31 March 2019	1,436

Short term – Business Rates Appeals:

Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The 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 is made about the likely success rate of appeals and their value. In 2018/19 there has been a £899,000 reduction in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £360,000). The 2018/19 position for Business Rates is explained in detail in the Narrative Statement.

20. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement in Section 2B. The Council has the following usable reserves:

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

Earmarked Reserves - The Council has set aside monies for specific purposes e.g. vehicle and plant replacement and the funding of strategic issues. In addition, on an annual basis monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of business rates income volatility in future years. The movements in the 2018/19 Earmarked Reserves balance is explained in detail in the Narrative Statement.

SECTION 3. NOTES TO THE ACCOUNTS

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.

21. UNUSABLE RESERVES

31.3.2018 £000		31.3.2019 £000
20,656	Revaluation Reserve	30,649
54,780	Capital Adjustment Account	54,312
(51,459)	Pensions Reserve	(48,569)
124	Council Tax Collection Fund Adjustment Account	117
13,477	Business Rates Collection Fund Adjustment Account*	814
-	Financial Instruments Revaluation Reserve	(23)
(125)	Accumulated Absences Account	(135)
37,453	Total Unusable Reserves	37,165

*South Hams District Council's share of the Business Rates Collection Fund has reduced from a surplus of £13.477 million in 2017/18, to a surplus of £0.814 million in 2018/19. This reflects the additional business rate income that was held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income was released to the Council's General Fund in 2018/19. A full explanation of the Business Rates position is provided in the Narrative Statement.

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 includes 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.

*As shown in the table below, during 2017/18 a site at Lee Mill was reclassified from Property, Plant and Equipment to an Investment Property. This led to an

SECTION 3. NOTES TO THE ACCOUNTS

adjustment in the Revaluation Reserve of £4.572 million. Further information regarding this reclassification can be found in Note 13 – Investment Properties.

**There has been a large increase in the upward revaluation of assets from £2.6 million to £11.5 million in 2018/19. This is mainly due to an upward revaluation on car parks (£9.2 million) and Employment Estates (£2.2 million).

31.3.2018 £000	31.3.2018 £000	Revaluation Reserve	31.3.2019 £000	31.3.2019 £000
	25,468	Balance at 1 April		20,656
2,645		Upward revaluation of assets**	11,456	
(2,550)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(571)	
	95	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**		10,885
(295)		Difference between fair value depreciation and historical cost depreciation	(409)	
(40)		Accumulated gains on assets sold or scrapped	(483)	
(4,572)		Accumulated gains on assets reclassified as Investment Properties*	-	
	(4,907)	Amount written off to the Capital Adjustment Account*		(892)
	20,656	Balance at 31 March		30,649

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 an 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.

SECTION 3. NOTES TO THE ACCOUNTS

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.

2017/18 £000	2017/18 £000	Capital Adjustment Account	2018/19 £000	2018/19 £000
	50,646	Balance at 1 April		54,780
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(2,368)		▪ Charges for depreciation of non-current assets	(2,368)	
(439)		▪ Revaluation losses on Property, Plant and Equipment (PPE)	(490)	
(6)		▪ Revaluation gains/(losses) on Investment Properties	1,550	
(132)		▪ Amortisation of Intangible Assets	(84)	
(1,208)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(930)	
(54)		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(1,628)	
—		▪ Write down of bank investment	(50)	
	(4,207)	Total		(4,000)
40		Amounts of Revaluation Reserve balance written off on disposal or sale of PPE	483	
4,572		Amounts of Revaluation Reserve written off on reclassification of PPE to Investment Properties*	-	
<u>295</u>		Adjusting amounts written out of the Revaluation Reserve	<u>409</u>	
	4,907	Net written out amount of the cost of non-current assets consumed in the year		892
		Capital financing applied in the year:		
1,212		• Use of the Capital Receipts Reserve to finance new capital expenditure	260	
915		• Capital grants and contributions credited to the CIES that have been applied to capital financing	869	
164		• Application of grants to capital financing from the Capitals Grants Unapplied Account	198	
1,144		• Capital expenditure charged against the General Fund	1,314	
<u>(1)</u>		• Repayment of parish loans	<u>(1)</u>	
	3,434	Total		2,640
	54,780	Balance at 31 March		54,312

SECTION 3. NOTES TO THE ACCOUNTS

*As shown in the table above, during 2017/18 a site at Lee Mill was reclassified from Property Plant and Equipment to an Investment Property. This led to an adjustment in the Revaluation Reserve of £4.572 million, reflected in the Capital Adjustment Account. Further information regarding this reclassification can be found in Note 13 – Investment Properties.

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.

31.3.2018 £000	Pensions Reserve	31.3.2019 £000
(53,397)	Balance at 1 April	(51,459)
6,995	Actuarial gains or (losses) on pension assets and liabilities	5,848
(6,631)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(4,688)
1,574	Employer's pensions contributions and direct payments to pensioners payable in the year	1,730
(51,459)	Balance at 31 March	(48,569)

SECTION 3. NOTES TO THE ACCOUNTS

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.

31.3.2018 £000	Council Tax Collection Fund Adjustment Account	31.3.2019 £000
149	Balance at 1 April	124
(25)	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	(7)
124	Balance at 31 March	117

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.

31.3.2018 £000	Business Rates Collection Fund Adjustment Account	31.3.2019 £000
232	Balance at 1 April	13,477
13,245	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	(12,663)
13,477	Balance at 31 March *	814

*South Hams District Council's share of the Business Rates Collection Fund has reduced from a surplus of £13.477 million in 2017/18, to a surplus of £0.814 million in 2018/19. This reflects the additional business rate income that was held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income was released to the Council's General Fund in 2018/19. A full explanation of the Business Rates position is provided in the Narrative Statement.

SECTION 3. NOTES TO THE ACCOUNTS

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

31.3.2018 £000	Financial Instruments Revaluation Reserve	31.3.2019 £000
-	Balance at 1 April	-
-	Upward/(downward) revaluation of assets	(23)
-	Balance at 31 March	(23)

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 this Account.

31.3.2018 £000	£000	Accumulated Absences Account	31.3.2019 £000	£000
	(125)	Balance at 1 April		(125)
125		Settlement or cancellation of accrual made at the end of the preceding year	125	
(125)		Amounts accrued at the end of the current year	(135)	
	-	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		(10)
	(125)	Balance at 31 March		(135)

SECTION 3. NOTES TO THE ACCOUNTS

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

2017/18 £000		2018/19 £000
(2,368)	Depreciation	(2,368)
(439)	Impairment and downward valuations	(490)
(6)	Movement in market value of investment properties	1,550
(132)	Amortisation	(84)
(86)	Increase/(decrease) in Debtors	(763)
1,036	Increase/(decrease) in Creditors	(1,085)
(16)	Increase/(decrease) in Inventories	12
(5,057)	Movement in pension liability	(2,958)
(54)	Carrying amount of non-current assets held for sale, sold or derecognised	(1,628)
(7,122)	Total	(7,814)

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

2017/18 £000		2018/19 £000
495	Proceeds from the sale of Property, Plant and Equipment and Investment Properties	(7,269)
1,180	Other non-cash items charged to the net surplus or deficit on the provision of services	1,482
1,675	Total	(5,787)

24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2017/18 £000		2018/19 £000
2,971	Purchase of Property, Plant and Equipment, Investment Properties and Intangible Assets	7,306
5,600	Increase/(decrease) in investments	1,499
(495)	Proceeds from the sale of Property, Plant and Equipment, Investment Properties and Intangible Assets	(829)
(1,205)	Other receipts from investing activities (capital grants and contributions)	(1,500)
6,871	Net cash flows from investing activities	6,476

SECTION 3. NOTES TO THE ACCOUNTS

25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2017/18 £000		2018/19 £000
-	Cash receipts of short term and long term borrowing	(5,490)
(15,808)	Other receipts from financing activities*	-
-	Other payments for financing activities*	19,004
(15,808)	Total	13,514

*This large movement between 2017/18 and 2018/19 is due to the unwinding of the Business Rates appeals provision from 2015/16. A full explanation is provided in the Narrative Statement.

26. TRADING OPERATIONS – BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the Building Control function. Building Regulations Control Services operate as a separate trading unit.

As of 1 April 2017, South Hams District Council (SHDC), West Devon Borough Council (WDBC) and Teignbridge District Council (TDC) entered into an updated partnership agreement and a new hosting agreement with respect to the staff and functions delivered by Devon Building Control Partnership (DBCP) to the three Council areas. This agreement saw the transfer of all staff who had DBCP responsibilities from SHDC or WDBC to TDC. As a result of this change, operational arrangements such as the delivery and management of support service functions, including holding the DBCP financial reserve, passed to TDC. Consequently the balance of the Building Control earmarked reserve was paid over to TDC during 2017/18 (£436,000). SHDC & WDBC retain control over the operation of this reserve and the DBCP by virtue of the partnership and hosting agreement, along with active participation in the controlling Devon Building Control Partnership Committee.

The Summary Accounts for the year will be detailed in the Devon Building Control Partnership Accounts, which can be found at the following website under the Devon Building Control Partnership Committee 2019-2020:

<https://www.teignbridge.gov.uk/committee-meetings-and-agendas-archive/>

27. 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:

<https://www.southhams.gov.uk/article/3489/Councillor-Allowances>

SECTION 3. NOTES TO THE ACCOUNTS

2017/18 £000		2018/19 £000
235	Allowances	239
20	Expenses	20
255	Total	259

28. 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.

A senior employee is defined as an employee whose salary is more than £150,000 per year, or alternatively one whose salary is at least £50,000 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.

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

Post	Year	Salary, Fees and Allowances £	Expenses £	Pension Contribution £	Total £
Chief Executive (w.e.f. 21 Feb 19 – previously Executive Director and Head of Paid Service) – Note B	18/19	110,800	1,600	16,200	128,600
	17/18	97,200	2,100	14,200	113,500
Group Manager for Customer First and Support Services	18/19	82,300	1,300	12,000	95,600
	17/18	73,600	800	10,700	85,100
Head of Finance Practice (Deputy S.151 Officer)	18/19	49,700	100	7,300	57,100
	17/18	50,000	200	7,100	57,300
Customer First Specialist Manager	18/19	56,800	800	8,300	65,900
	17/18	49,200	500	7,200	56,900

SECTION 3. NOTES TO THE ACCOUNTS

No other officers earned over £50,000 during 2018/19 or 2017/18.

Note A: Shared Services with West Devon Borough Council

The total cost of senior employees employed by West Devon Borough Council has been included in the equivalent note of West Devon Borough Council's Accounts in accordance with the accounting requirements and is therefore excluded from the table above. In 2018/19 South Hams District Council reimbursed costs amounting to £367,200 (2017/18 £282,000) in respect of some members of the Senior Leadership Team (SLT) and the Extended Leadership Team (ELT) who are employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2018/19 from West Devon Borough Council of £181,800 (2017/18 £133,000) in respect of the above shared senior employees.

Note B: Senior Leadership Team interim arrangements

South Hams District Council is in a shared services arrangement with West Devon Borough Council and the two Councils have a shared senior leadership team and a shared non-manual workforce. Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements. A report was presented to Council on 21 February 2019 (Council Minute 55/18) that outlined a review of the Staffing Establishment.

The Review Panel, consisting of the Leaders of each Council and senior Members recommended that the previous structure incorporating two Executive Directors was replaced with a Chief Executive Officer. The Panel also recommended that once in post, the Chief Executive brings forward a proposed new senior leadership structure that builds upon the recommendations of the Peer Review and will be along the lines of:

- Director of Customer Service and Delivery
- Director of Place and Enterprise
- Director of Governance
- Director of Strategic Finance

It was resolved that with effect from 21 February, the Executive Director for Service Delivery and Head of Paid Service be appointed to the role of Chief Executive and that agreement be given to extending the interim senior management arrangements with a report being brought to Council recommending a new structure within six months of the 2019 Council elections, with the objective of finding cost reductions.

29. 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:

SECTION 3. NOTES TO THE ACCOUNTS

	2017/18 £000	2018/19 £000
Fees payable with regard to external audit services	51	39
Core Audit Fees	43	33
Audit of Grants and Returns	8	6
Rebate from Public Sector Audit Appointments Ltd	(6)	-
Total	45	39

30. GRANT INCOME

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

	2017/18 £000	2018/19 £000
Credited to Taxation and Non-Specific Grant Income		
Capital grants and contributions:		
Environment Agency - Coastal Recovery Grant	(94)	-
European Maritime & Fisheries Fund – Salcombe Fishquay	-	(200)
Disabled Facilities Grants	(835)	(955)
Capital Section 106 deposits	(199)	(263)
Other capital grants and contributions	(20)	(64)
Non ring - fenced Government grants and contributions:		
Revenue Support Grant	(250)	-
New Homes Bonus Grant	(1,448)	(1,109)
Small Business Rate Relief	(1,888)	(2,191)
Levy Account Surplus Grant	-	(29)
Rural Services Delivery Grant*	(327)	-
Transition Grant	(56)	-
Total	(5,117)	(4,811)
Credited to Services		
Rent Allowance subsidy**	(20,851)	(19,481)
Housing Benefit administration subsidy	(226)	(211)
Rent rebate subsidy	(60)	(58)
Discretionary housing payments	(132)	(125)
Council Tax benefit administration subsidy	(84)	(81)
Business Rates cost of collection allowance	(206)	(205)
Recycling credits	(472)	(478)
Devon County Council - Torr Quarry Transfer Station	(279)	(117)
Revenue Section 106 deposits	(789)	(191)
Electoral Commission – Elections and Referendum	(149)	-
Devon County Council – County Council Elections	(142)	-
Other grants	(653)	(785)
Total	(24,043)	(21,732)

SECTION 3. NOTES TO THE ACCOUNTS

Rural Services Delivery Grant 2018/19

* Due to the Council's business rates pilot status in 2018/19 the Rural Services Delivery Grant of £408,055 is included in the lower business rates tariff for 2018/19. Further information can be found in Note 11 – Taxation and Non Specific Grant Income.

Rent Allowance Subsidy

** Housing Benefit Payments and Subsidy have reduced by £1.4 million between 2018/19 and 2017/18 mainly due to a reduction in caseload. Please see Note 5 – Segment Reporting for further detail.

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have repayment conditions attached to them. Until these conditions are met these grants are held as receipts in advance. Should these conditions not be met the monies would need to be returned to the grantor. The balances at the year-end are as follows:

Capital Grants Receipts in Advance	31 March 2018 £000	31 March 2019 £000
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(16)	(16)
Total	(100)	(100)

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	31 March 2018 £000	31 March 2019 £000
Langage Energy Centre	(1,740)	(1,724)
Leyford Close, Wembury	(156)	(1)
Riverside, Totnes	(225)	(128)
Gara Rock, East Portlemouth	(323)	(523)
Bonfire Hill, Salcombe	(194)	(188)
Former Old Chapel Inn, Bigbury	(104)	(110)
Trennels, Herbert Road, Salcombe	(93)	(93)
Sawmills Field, Dartington	(149)	(149)
Follaton Oak, Totnes	(37)	(13)
Plot 2 Godwell Lane, Ivybridge	(2)	(2)
Land at Moorview, Marldon	(170)	(170)
Land at Fairfield, South Brent	(92)	(48)
Land South East of Torhill Farm, Ivybridge	(85)	(460)
Land at Woodland Road, Ivybridge	(80)	(242)
Venn Farm, Brixton	-	(110)
Webbers Yard, Dartington	-	(85)
Former Gas Works, Salcombe	-	(79)
Holywell Stores, Bigbury	-	(74)
Various other sites	(846)	(900)
Total	(4,296)	(5,099)

SECTION 3. NOTES TO THE ACCOUNTS

31. RELATED PARTIES

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

Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates 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 30.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 27.

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it, giving rise to the movement in the Council's Capital Financing Requirement.

As at 31 March 2018 the Council had no external borrowing but had internally borrowed (i.e. used its own resources in lieu of external borrowing) £744,000 for the leisure investment. During 2018/19 the Council undertook further investment in its Leisure Facilities. £155,000 has been met from internal borrowing and £5.49 million from a series of loans from the Public Works Loans Board (PWLB). The total borrowing of £5.645 million is reflected in the movement in the Capital Financing Requirement (CFR) below.

The Council is being reimbursed by the leisure contractor for the borrowing costs of the leisure investment. By borrowing from the PWLB at a fixed rate, this protected against future interest rate rises over the next 23 years and ensured that leisure is a self-financing stand alone investment project.

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. The Minimum Revenue Provision is not required in 2018/19 as the leisure investment will not be fully operational until 2019/20.

SECTION 3. NOTES TO THE ACCOUNTS

Summary of Capital Expenditure and Financing (incorporating the Capital Financing Requirement)	2017/18 £000	2018/19 £000
<i>Opening Capital Financing Requirement</i>	(98)	646
Capital Investment		
Property, Plant and Equipment	386	2,207
Intangible Assets	56	54
Revenue expenditure funded from capital under statute (REFCUS)	1,208	930
Assets under Construction	2,529	5,045
Bank investment	-	50
Total expenditure for capital purposes	4,179	8,286
Sources of Finance		
Capital receipts	(1,212)	(260)
Capital grants and external contributions	(1,079)	(1,067)
Earmarked reserves	(1,144)	(1,314)
Total funding	(3,435)	(2,641)
<i>Closing Capital Financing Requirement</i>	646	6,291
<i>Movement in Capital Financing Requirement</i>	744	5,645
Explained by:		
Increase in underlying need to borrow (supported by government financial assistance)	-	5,490
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	744	155
Increase/(decrease) in Capital Financing Requirement	744	5,645

33. 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	Segment in CIES
A parcel of land for car parking	6 years	30.05.2023	Commercial Services
The fundus of the Salcombe & Kingsbridge Estuary for the provision of harbour activities	21 years	24.03.2028	Commercial Services

SECTION 3. NOTES TO THE ACCOUNTS

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

	31 March 2018 £000	31 March 2019 £000
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	228	225
Later than one year & not later than five years	925	817
Later than five years	650	486
Total	1,803	1,528

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

	2017/18 £000	2018/19 £000
Minimum lease payments	223	223
Total	223	223

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	Segment in CIES
The operation of a supermarket	99 years	20.12.2077	Investment Properties
The rental of an industrial unit	25 years	31.05.2029	Customer First
The provision of temporary accommodation	10 years	30.03.2021	Customer First
The rental of office accommodation	20 years	24.07.2032	Customer First
The rental of office accommodation	10 years	29.09.2026	Customer First

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

SECTION 3. NOTES TO THE ACCOUNTS

	31 March 2018 £000	31 March 2019 £000
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	794	794
Later than one year & not later than five years	3,015	2,935
Later than five years	33,190	32,476
Total	36,999	36,205

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.

34. EXIT PACKAGES AND TERMINATION BENEFITS

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

Exit package cost band (incl. special payments)	Number of voluntary redundancies		Number of compulsory redundancies		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	17/18	18/19	17/18	18/19	17/18	18/19	17/18	18/19
£0 - £20,000	-	-	1	1	1	1	1,530	878
TOTAL	-	-	1	1	1	1	1,530	878

The exit package amount (£878 in 2018/19) is the cost of redundancy payment plus the cost of any pension strain payments.

Shared Services with West Devon Borough Council

No contributions have been received from West Devon Borough Council (WDBC) towards these exit packages in 2018/19 or 2017/18. WDBC had no exit packages during 2018/19 and 2017/18.

35. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority

SECTION 3. NOTES TO THE ACCOUNTS

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). The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

The administering Authority for the Fund is Devon County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering Authority. Where appropriate some functions are delegated to the Fund's professional advisers.

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 during 2019/20 (as at 31 March 2019) and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. 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 2020 is £1.217m. The Actuary has estimated the duration of the Employer's liabilities to be 18 years.

Further information can be found in Devon County Council Pension Fund's Annual Report which is available upon request from The County Treasurer, Devon County Council, County Hall, Exeter, EX2 4QJ.

Transactions Relating to Post-employment Benefits

The cost of retirement benefits are recognised 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 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.

SECTION 3. NOTES TO THE ACCOUNTS

Comprehensive Income and Expenditure Statement	2017/18 £000	2018/19 £000
Cost of Services		
<i>Service cost comprising</i>		
- Current Service Cost – see note above	3,265	3,330
- Capitalised (gain)/loss on Settlements	1,830	-
<i>Financing and Investment Income and Expenditure</i>		
- Net Interest Expense	1,487	1,290
- Administration Expenses	49	68
Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	6,631	4,688
Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement		
<i>Re-measurement of the net defined benefit liability comprising:</i>		
- Change in financial assumptions	(5,485)	5,337
- Change in demographic assumptions	-	(8,357)
- Return on fund assets in excess of interest	(1,510)	(2,828)
<i>Total re-measurement recognised</i>	<i>(6,995)</i>	<i>(5,848)</i>
Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement	(364)	(1,160)
<i>Movement in Reserves Statement</i>		
- Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code	6,631	4,688
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
- Employers contributions payable to scheme	1,574	1,730

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

Net Pension Liability	31 March 2018 £000	31 March 2019 £000
Present value of the defined benefit obligation	144,013	144,482
Fair value of Fund assets	(95,543)	(98,688)
Deficit/(surplus)	48,470	45,794
Present value of unfunded obligation	2,989	2,775
Net defined benefit liability/(asset)	51,459	48,569

SECTION 3. NOTES TO THE ACCOUNTS

Reconciliation of opening and closing balances of the fair value of Fund assets	31 March 2018 £000	31 March 2019 £000
Opening fair value of Fund assets	90,451	95,543
Interest on assets	2,532	2,411
Return on assets less interest	1,510	2,828
Administration expenses	(49)	(68)
Contributions by employer including unfunded	1,574	1,730
Contributions by Scheme participants	499	546
Estimated benefits paid plus unfunded net of transfers in	(4,297)	(4,302)
Settlement prices received/(paid)	3,323	-
Closing fair value of Fund assets	95,543	98,688

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	31 March 2018 £000	31 March 2019 £000
Opening defined benefit obligation	143,848	147,002
Current service cost	3,265	3,330
Interest cost	4,019	3,701
Change in financial assumptions	(5,485)	5,337
Change in demographic assumptions	-	(8,357)
Liabilities assumed/(extinguished) on settlements	5,153	-
Estimated benefits paid net of transfers in	(4,104)	(4,109)
Contributions by Scheme participants	499	546
Unfunded pension payments	(193)	(193)
Closing defined benefit obligation	147,002	147,257

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 2019, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2016, 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.

SECTION 3. NOTES TO THE ACCOUNTS

The major assumptions are summarised in the table below:

Basis for estimating assets and liabilities	31 March 2018	31 March 2019
Mortality assumptions (in years):		
<i>Longevity at 65 for current pensioners</i>		
- Men	23.5	22.4
- Women	25.6	24.4
<i>Longevity at 65 for future pensioners (in 20 years)</i>		
- Men	25.7	24.1
- Women	27.9	26.2
Financial assumptions (in percentages):		
- RPI increases	3.3%	3.4%
- CPI increases	2.3%	2.4%
- Salary increases	3.8%	3.9%
- Pension increases	2.3%	2.4%
- Discount rate	2.55%	2.4%

The financial assumptions summarised in the table above are set with reference to market conditions at 31 March 2019.

The table below looks at the sensitivity of the major assumptions:

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	(0.1%)
Present value of total obligation	144,647	147,257	149,917
Projected service cost	2,548	2,613	2,680
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	147,464	147,257	147,051
Projected service cost	2,613	2,613	2,613
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	149,707	147,257	144,850
Projected service cost	2,680	2,613	2,548
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	153,015	147,257	141,722
Projected service cost	2,696	2,613	2,532

SECTION 3. NOTES TO THE ACCOUNTS

The estimated asset allocation for South Hams District Council as at 31 March 2019 is as follows:

Employer asset share	31 March 2018		31 March 2019	
	£000	%	£000	%
Gilts	3,000	3%	3,389	3%
UK equities	20,484	22%	16,395	17%
Overseas equities	35,361	37%	42,442	43%
Property	8,890	9%	8,723	9%
Infrastructure	3,427	4%	3,624	4%
Target return portfolio	14,269	15%	13,971	14%
Cash	2,333	2%	1,578	1%
Other bonds	1,953	2%	1,736	2%
Alternative assets	5,190	5%	5,212	5%
Private equity	636	1%	1,618	2%
Total	95,543	100%	98,688	100%

Of the total fund asset at 31 March 2019, the following table identifies the split of those assets with a quoted market price and those that do not:

Employer Asset Share – Bid Value		31 March 2019	
		% Quoted	% Unquoted
Fixed interest government securities	UK	0.2%	-
	Overseas	3.3%	-
Corporate bonds	UK	0.1%	-
	Overseas	1.7%	-
Equities	UK	15.8%	0.8%
	Overseas	38.1%	4.8%
Property	All	-	8.8%
Others	Absolute return portfolio	14.2%	-
	Private equity	-	1.6%
	Infrastructure	-	3.7%
	Multi sector credit fund	5.3%	-
	Cash/Temporary investments	-	1.5%
Net current assets	Debtors	-	0.1%
Total		78.7%	21.3%

SECTION 3. NOTES TO THE ACCOUNTS

36. CONTINGENT LIABILITIES

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 LiveWest, previously Liverty) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). These warranties were granted for 35 years from 1999. 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).

37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its Financial Regulations/Standing Orders/Constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:

SECTION 3. NOTES TO THE ACCOUNTS

- 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;
- 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 Council and is available on the Council's website.

These policies are implemented by the Finance 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.

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 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 Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

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Institutions are split into colour bandings to determine the maximum level and duration of the investment.

The full Investment Strategy for 2018/19 was approved by Council and is available on the Council's website.

The Council's Counterparty limits are as follows:

- £6.0 million for Money Market Funds
- £0.5 million on CCLA Property Investment Fund
- £1.0 million on CCLA Diversified Income Fund
- £6.0 million on term deposits with banks and building societies with the UK (£7.0 million with Lloyds Bank PLC, the Council's bank).

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 2019 and is reflected in the current figure of £503,000. This compares to £759,000 in 2017/18. 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 15 to the accounts.

Amounts Arising from Expected Credit Losses

The Council's short term investments have been assessed and the expected credit loss is not material therefore no allowances have been made.

	Balance at 31 March 2019	Historical Experience of Default	Estimated Maximum Exposure to Default and Uncollectability at 31 March 2019
	£000	%	£000
Deposits with Bank and Financial Institutions			
Aberdeen Standard Money Market Fund	6,000	0.000%	-
Blackrock Money Market Fund	500	0.000%	-
LGIM Money Market Fund	4,820	0.000%	-
Nationwide Building Society	5,000	0.001%	-
Barclays Bank PLC	2,500	0.005%	-
Nationwide Building Society	1,000	0.012%	-
Lloyds Bank PLC	5,000	0.014%	1
Lloyds Bank PLC	1,000	0.018%	-
Total	25,820		1

SECTION 3. NOTES TO THE ACCOUNTS

Liquidity risk

The Authority 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 a comprehensive cash flow management system, as required by the CIPFA Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 17 to the accounts.

This seeks to ensure that cash is available when needed.

The Authority has ready access to borrowing from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Market Risk

The Council is exposed to market risk in terms of its exposure that the value of an instrument will fluctuate because of changes in:

- Interest rate risk;
- Price risk; and
- Foreign exchange rate risk.

Interest rate risk

The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in fixed interest rates would have the following effects:

- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential

SECTION 3. NOTES TO THE ACCOUNTS

indicators and its expected treasury operations, including an expectation of interest rate movements.

From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Finance team will monitor markets and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

Price risk

The Council has an investment of £0.5 million in the CCLA Local Authorities Property Fund and £1.0 million in the CCLA Diversified Income Fund. At the end of each financial year the value of the Local Authority's investments are adjusted to equal the number of units held, multiplied by the published bid price.

The above investments have been elected as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve, therefore there will be no impact on the General Fund until the investment is sold or impaired.

Foreign exchange risk

The Council does not have any financial assets or liabilities denominated in foreign currencies, and thus has no exposure to loss arising from movements in exchange rates.

Refinancing and Maturity Risk

The Council maintains a debt and investment portfolio. Whilst the cash flow procedures above 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. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the Finance team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

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The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	Approved minimum limits	Approved maximum limits	31 March 2018		31 March 2019	
	%	%	£million	%	£million	%
Less than 1 year	0%	10%	-	-	-	-
Between 1 and 2 years	0%	10%	-	-	-	-
Between 2 and 5 years	0%	30%	-	-	-	-
Between 5 and 10 years	0%	50%	-	-	2.160	39.3%
More than 10 years	0%	100%	-	-	3.330	60.7%
Total			-	-	5.490	100.0%

38. ACCOUNTING POLICIES

a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. 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 2018/19, 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.

The accounting policies are applicable to all of the Council's transactions including those of the Collection Fund (council tax and business rates).

b) 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

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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.
- 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. For revenue and capital expenditure the de minimis has remained at £5,000 in 2018/19.

c) 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

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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.

d) Material Items of Income and Expense

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.

e) 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.

f) 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.

SECTION 3. NOTES TO THE ACCOUNTS

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

g) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits 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 end 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.

SECTION 3. NOTES TO THE ACCOUNTS

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, employee turnover rates etc and estimates of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value.

For further information please refer to Note 35.

The change in the net pension liability is analysed into 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

SECTION 3. NOTES TO THE ACCOUNTS

- 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
 - 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.

SECTION 3. NOTES TO THE ACCOUNTS

h) Events after the Reporting Period

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

Two types of events can be identified:

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

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

i) 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.

For the borrowings held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

The three main classes of financial assets are measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI)

SECTION 3. NOTES TO THE ACCOUNTS

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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 CIES.

Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)

The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI).

The Council has made an irrevocable election to designate its equity instruments as FVOCI on the basis that it is held for non-contractual benefits, it is not held for trading but for strategic purposes.

The asset is initially measured and carried at fair value.

Dividend income is credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus or Deficit on the Provision of Services.

SECTION 3. NOTES TO THE ACCOUNTS

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Fair Value

The Council measures some of its assets and liabilities at their fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability. The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

SECTION 3. NOTES TO THE ACCOUNTS

j) 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.

k) 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.

l) 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)

SECTION 3. NOTES TO THE ACCOUNTS

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.

m) Inventories

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

n) Investment Properties

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 that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

SECTION 3. NOTES TO THE ACCOUNTS

o) 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.

p) 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. Where material, charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

The Council does not hold any finance leases as a lessor.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant line within the 'Cost of Services' or 'Financing and Investment Income' in the Comprehensive Income and Expenditure Statement. Where material, the rental income is credited on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

SECTION 3. NOTES TO THE ACCOUNTS

q) Overheads and Support Services

Costs of overheads and support services are only recharged to services requiring full cost recovery including Salcombe Harbour. Apart from these exceptions support services are shown in the Comprehensive Income and Expenditure Statement in their own reporting segment, which is in line with the Council's internal reporting method.

r) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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.

SECTION 3. NOTES TO THE ACCOUNTS

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 at a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

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.

SECTION 3. NOTES TO THE ACCOUNTS

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

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

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

1. Non-Depreciable Land
2. Assets Under Construction
3. Investment Properties
4. Infrastructure
5. Plant and 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

SECTION 3. NOTES TO THE ACCOUNTS

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

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:

SECTION 3. NOTES TO THE ACCOUNTS

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, 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.

SECTION 3. NOTES TO THE ACCOUNTS

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.

s) 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. The Council operates a disclosure de minimis policy for contingent liabilities and assets of £50,000.

SECTION 3. NOTES 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.

t) 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.

u) Revenue Recognition

With the adoption of accounting standard IFRS 15, revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

The analysis carried out to date indicates that there will be no material impact on the revenue recognised in relation to the significant contracts entered into by the Council. A review will take place each year to identify whether any disclosure is necessary.

SECTION 3. NOTES TO THE ACCOUNTS

v) 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.

w) 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.

x) Shared Services

South Hams District Council and West Devon Borough Council have been in a shared services arrangement since 2007. Following the implementation of the joint Transformation Programme (T18), all of the Councils' non-manual workforce are shared across both Councils.

Officers have produced a methodology for recharging the salary costs of shared officers based on the most appropriate cost driver and ratio to best reflect the officer's split of workload between the two Councils. Examples of the cost drivers used are caseloads, call volumes, property numbers, number of claims or cases processed etc, and other methods such as time recording. The work carried out includes establishing from the Heads of Practice/Group Managers the relevant recharge requirements for all of the non-manual workforce. On an annual basis, the Audit Committee approve the methodology for recharging the salary cost of shared officers.

y) 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.

z) Accounting for Local Taxes

Billing authorities act as agents, collecting council tax and business rates on behalf of the major preceptors (including government for business rates) and, as principals, collecting council tax and business rates for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the

SECTION 3. NOTES TO THE ACCOUNTS

Collection Fund) for the collection and distribution of amounts due in respect of council tax and business rates. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted.

Accounting for Council Tax and Business Rates

The council tax and business rates income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and business rates that must be included in the Authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and business rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

aa) Minimum Revenue Provision

The Council is not required to use Council Tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards provision for the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Authority in the 2019/20 financial statements i.e. from 1 April 2019.

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

The Accounting Standards that have been issued but have not yet adopted are:

- Amendments to IAS 40 Investment Property : Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

SECTION 3. NOTES TO THE ACCOUNTS

- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

These Standards are not anticipated to have a material impact on the Council's financial performance or financial position.

In addition IFRS 16 *Leases* will require local authorities that are lessees to recognise leases on their balance sheets as right-of-use assets with corresponding lease liabilities. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

40. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs.
- 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. In 2018/19 there has been a £899,000 reduction in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £360,000). The 2018/19 position for Business Rates is explained in detail in the Narrative Statement.

SECTION 4. COLLECTION FUND

COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2019

This account reflects the statutory requirements for the Council as a billing Authority 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 business rates.

2017/18 Business Rates* £000	2017/18 Council Tax £000		2018/19 Business Rates* £000	2018/19 Council Tax £000
		INCOME		
-	(66,336)	Income from Council Tax	-	(70,123)
(29,831)	-	Business Rates Receivable	(30,648)	-
486	-	Less: Transitional Relief	99	-
(29,345)	(66,336)		(30,549)	(70,123)
		EXPENDITURE		
		Precepts, Demands and Shares*:		
12,074	-	Central Government	-	-
2,173	47,394	Devon County Council	16,505	50,388
-	6,589	Devon & Cornwall Police Authority	-	7,127
241	3,049	Devon & Somerset Fire Authority	280	3,180
9,659	7,905	South Hams District Council (net including Towns/Parishes)	11,190	8,269
(131)	-	Business Rates written off and change in impairment allowance	209	-
-	426	Council Tax written off and change in impairment allowance	-	602
2,594	-	Business Rates increase/(decrease) in provision for appeals	(899)	-
206	-	Business Rates – Costs of collection	205	-
		Distribution/collection of previous year's estimated surplus/(deficit)**:		
(15,291)	-	Central Government	17,358	-
(2,752)	861	Devon County Council	3,124	435
-	123	Devon and Cornwall Police	-	60
(306)	57	Devon and Somerset Fire Authority	347	28
(12,233)	143	South Hams District Council	13,887	73
(3,766)	66,547		62,206	70,162
(33,111)	211	MOVEMENT ON BALANCE	31,657	39

SECTION 4. COLLECTION FUND

*Business Rates Pilot Status 2018/19

The move towards 75% Business Rate Retention of business rates growth is expected to be in place by 2020. Devon was selected as one of 10 areas to take part in a national pilot allowing Councils to retain a higher share of business rates growth in 2018/19. This pilot status is reflected in the movement in the Preceptor's Shares above for 2018/19 with no surplus due to Central Government and Devon County Council's share increased from 9% to 59% in 2018/19.

**Business Rates Position 2017/18

South Hams District Council's share of the Business Rates Collection Fund reduced from a surplus of £13.477 million in 2017/18, to a surplus of £0.814 million in 2018/19 as shown in Note 3 below – Collection Fund balance. This reflects the additional business rate income that was held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years which was released to the Council's General Fund in 2018/19. This is reflected in the movement in the previous year's estimated surplus/deficit position between 2017/18 and 2018/19 as shown in the table above. A full explanation of the Business Rates position is provided in the Narrative Statement.

1. Council Tax and Council Tax Base

In 2018/19, the Council's average Band D Council Tax was £1,821.93 (£1,737.25 in 2017/18). The charge for each band is a ratio of band D. The 2018/19 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	1,012.18
A	6/9	1,214.62
B	7/9	1,417.06
C	8/9	1,619.49
D	1	1,821.93
E	11/9	2,226.80
F	13/9	2,631.68
G	15/9	3,036.55
H	18/9	3,643.86

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 2018/19 was **37,851.93** as calculated below (**37,379.62** in 2017/18).

SECTION 4. COLLECTION FUND

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A	-	12.50	12.50	5/9	6.94
A	4,977.00	(834.75)	4,142.25	6/9	2,761.50
B	8,621.00	(963.25)	7,657.75	7/9	5,956.03
C	8,628.00	(799.50)	7,828.50	8/9	6,958.67
D	7,985.00	(552.50)	7,432.50	1	7,432.50
E	6,718.00	(447.25)	6,270.75	11/9	7,664.25
F	3,709.00	(176.00)	3,533.00	13/9	5,103.22
G	3,020.00	(162.25)	2,857.75	15/9	4,762.92
H	340.00	(22.50)	317.50	18/9	635.00
Total	43,998.00	(3,945.50)	40,052.50		41,281.03
Less allowance for non collection					(825.63)
Plus adjustment for armed forces dwellings					68.40
Other adjustments including Council Tax Support					(2,671.87)
Tax base					37,851.93

2. Rateable Value

The total business rates rateable value at 31 March 2019 was £87,046,425. This compares to £86,432,453 at 31 March 2018. The standard business rates multiplier was 49.3p in 2018/19 (2017/18: 47.9p). Without reliefs this would generate a total income of £42,913,887.52 (2017/18 £41,401,144.98). 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

2017/18 Business Rates* £000	2017/18 Council Tax £000		2018/19 Business Rates* £000	2018/19 Council Tax £000
(581)	(1,231)	Fund balance at 1 April	(33,692)	(1,020)
(33,111)	211	Deficit/(surplus) for year	31,657	39
(33,692)	(1,020)	Fund balance as at 31 March – deficit/(surplus)	(2,035)	(981)

*See Note at the end of Section 4 and the Narrative Statement which explains the Business Rates position for 2017/18 and 2018/19.

SECTION 4. COLLECTION FUND

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

2017/18 Business Rates* £000	2017/18 Council Tax £000		2018/19 Business Rates** £000	2018/19 Council Tax £000
(16,846)	-	Central Government	512	-
(3,032)	(745)	Devon County Council	(1,713)	(717)
-	(104)	Devon and Cornwall Police	-	(102)
(337)	(47)	Devon and Somerset Fire Authority	(20)	(45)
(20,215)	(896)	Total deficit/(surplus) due to Preceptors	(1,221)	(864)
(13,477)	(124)	South Hams District Council	(814)	(117)
(33,692)	(1,020)	Fund balance as at 31 March – deficit/(surplus)	(2,035)	(981)

*Business Rates position for 2017/18

In 2015/16 there was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals. In 2016/17 a large part of these outstanding appeals were settled and the significant appeals risk did not materialise. South Hams District Council's share of the Business Rates Collection Fund increased from a surplus of £232,000 in 2016/17, to a surplus of £13.477 million in 2017/18 as shown in Note 3 above – Collection Fund balance. This reflected the additional business rate income that was held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income was released to the Council's General Fund in 2018/19.

**Business Rates Pilot Status for 2018/19

The table above shows Central Government has a deficit balance on the Business Rates Collection Fund as at 31 March 2019 of £512,000. This relates to their share of the difference between the actual surplus at 31 March 2018 (£33.7m) and the estimated surplus calculated in the 2018/19 NNDR1 Return (£34.7m). Unlike the other Business Rates Preceptors Central Government's debtor is not offset by a share of the current year surplus following the Devon Authorities successful bid for Pilot status in 2018/19. The figures above also reflect the increase to Devon County Council's share for 2018/19 from 9% to 59% in line with the Pilot status. The pilot is for one year, 2018/19 and has generated an extra £575,000 of business rate income for the District Council. £100,000 of this pilot gain has been used to fund the 2018/19 revenue base budget and the balance of £475,000 has been transferred into a new Economic Regeneration earmarked reserve.

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 (the Chief Financial Officer) has responsibility for the administration of those affairs. In this Authority, that officer is the Section 151 Officer & Strategic Finance Lead;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error,

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31 March 2019.

.....

**Lisa Buckle BSc (Hons), ACA
Section 151 Officer & Strategic Finance Lead**

29 May 2019

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

Approval of the Statement of Accounts

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

Signed on behalf of South Hams District Council

.....

Councillor T R Holway

Chairman of the Audit Committee

SECTION 6. AUDITORS' REPORT

The Auditors' 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 works 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 AND 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.

SECTION 7. GLOSSARY OF TERMS

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 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.
FAIR VALUE	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
FEES AND CHARGES	In addition to the income from charge payers and the Government, 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 collectible 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) AND 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.

SECTION 7. GLOSSARY OF TERMS

MINIMUM REVENUE PROVISION (MRP)	This is a statutory requirement to make an annual calculation of an amount or MRP considered prudent to offset against borrowings made under the Prudential Borrowing rules.
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.
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, 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.