Appendix B

South Hams District Council

Statement of Accounts

2012/2013

South Hams
District Council

Appendix B

Contents

Section 1

Explanatory Foreword

Appendix B

INTRODUCTION

1. Each year South Hams District Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute.

2. The Statement of Accounting Policies summarises the framework within which the Council's accounts are prepared and published. This foreword intends to give a general guide to the significant matters reported in the statements and provides a summary of the overall financial position.

REVIEW OF THE YEAR

The revenue budget

3. The main components of the General Fund budget for 2012/13 and how these compare with actual income and expenditure are set out below:

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

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

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

Shared Services

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

Pension Liability

6. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The results of the next pension triennial valuation are due in November/December 2013. The pension fund liability at 31 March 2013 is estimated at £32m which compares with £29m at 31 March 2012. The increase in the net deficit is mainly due to the fact that the actuarial assumptions used to value the liabilities have moved unfavourably and the assets have not earned as much return as was expected last year. This has led to an overall actuarial loss over the year of £1.7m charged to the Comprehensive Income and Expenditure Statement. The deficit is derived by calculating the pension assets and liabilities at 31 March 2013. See Note 37 for further information.

Icelandic Banks

7. At the 31 March 2013 the Council had £282,011 frozen in the Heritable Bank which is UK registered and regulated but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank Landsbanki.

8. The Council placed a deposit of £1,250,000 on 25th September 2008. At the time the deposit was placed the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits). Both ratings were within the deposit policy approved by the Council and indicate low risk.

9. The Administrators had paid thirteen dividends at the end of 2012/13 and they have said that up to 88% of liabilities should eventually be paid. The Administrators have kept the bank trading and will slowly wind down the business over a period of years. Further information is provided in Note 12.

Capital spending

10. The Council spent just under £2.6m on capital projects. The main areas of expenditure were as follows:

    - replacement ferry slipway (£0.9m)
    - house renovation grants (£0.6m)
    - replacement fish quay (£0.3m)
    - improvements to parks and open spaces (£0.2m)
    - vehicle replacements (0.2m)

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

Issue of accounts

11. The Head of Finance and Audit authorised the Statement of Accounts 2012/13 for issue on the 19th September 2013. Events taking place after this date are not reflected in the financial statements or notes.

FINANCIAL NEEDS AND RESOURCES

12. The Authority maintains both capital and revenue reserves. The provision of an appropriate level of balances is a fundamental part of prudent financial management enabling the Council to build up funds to meet known and potential financial commitments.

13. Revenue reserves have increased by £411,000 from the preceding year and stand at £9.5m at 31 March 2013. Revenue reserves may be used to finance capital or revenue spending plans. The General Fund Balance (un-earmarked reserve) stands at £2.5m.

14. Capital Reserves are represented on the Balance Sheet by capital receipts and capital contributions unapplied. The balance at 31 March 2013 amounts to £5.2m which compares to £5.9m at the end of the previous year.

LOOKING FORWARD TO THE FUTURE

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

Financial Strategy will be considered by the Executive at its July 2013 meeting.

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

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

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

FURTHER INFORMATION

19. The following pages explain the Council's financial position in detail including further details of the Authority's activities, cash flows and reserves. Further information on the Council's service priorities and issues can be found on the Council's website under "Your Council".

Lisa Buckle BSc, ACA
Head of Finance and Audit

Section 2

Core Financial Statements

SECTION 2A. MOVEMENT IN RESERVES STATEMENT

Movement in Reserves Statement

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

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

**At 1 April 2011, the Contingency and Working Balance Reserves had a combined balance of £867,000 within earmarked reserves. However, for financial planning purposes these reserves have been treated as un-earmarked balances. To reflect this, the balances have been moved from earmarked reserves to the General Fund Balance.*

SECTION 2A. MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance at 31 March 2012 Carried forward	**2,443**	**6,628**	**5,634**	**221**	**14,926**	**33,456**	**48,382**
Movement in Reserves during 2012/13							
Surplus or (deficit) on provision of Services	(1,146)	-	-	-	(1,146)	-	(1,146)
Other Comprehensive Income and Expenditure	-	-	-	-	-	6,892	6,892
Total Comprehensive Income and Expenditure	**(1,146)**	**-**	**-**	**-**	**(1,146)**	**6,892**	**5,746**
Adjustments between accounting basis & funding basis under regulations (Note 4)	1,264	-	(332)	(14)	918	(918)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**118**	**-**	**(332)**	**(14)**	**(228)**	**5,974**	**5,746**
Transfers to/from Earmarked Reserves (Note 5)	(27)	27	-	-	-	-	-
Increase/Decrease in Year	**91**	**27**	**(332)**	**(14)**	**(228)**	**5,974**	**5,746**
Balance at 31 March 2013 Carried forward	**2,534**	**6,655**	**5,302**	**207**	**14,698**	**39,430**	**54,128**

SECTION 2B. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2011/12				**2012/13**		
Gross Expenditure £000	**Gross Income £000**	**Net Expenditure £000**	**Service Division**	**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**
8,340	(7,223)	**1,117**	Central services to the public	8,152	(7,408)	**744**
3,094	(572)	**2,522**	Cultural & Related	2,889	(690)	**2,199**
8,120	(2,041)	**6,079**	Environmental	7,898	(2,072)	**5,826**
3,469	(5,027)	**(1,558)**	Highways and transport	3,077	(4,743)	**(1,666)**
23,873	(22,290)	**1,583**	Housing	24,986	(23,639)	**1,347**
3,839	(2,913)	**926**	Planning & Development	3,849	(2,699)	**1,150**
1,735	(12)	**1,723**	Corporate and democratic core	1,553	(57)	**1,496**
247	(21)	**226**	Non distributed costs	89	(7)	**82**
52,717	**(40,099)**	**12,618**	**Cost of Services**	**52,493**	**(41,315)**	**11,178**
1,588	-	1,588	Other operating expenditure (Note 6)	1,590	(18)	1,572
222	(431)	(209)	Financing and investment income and expenditure (Note 7)	769	(644)	125
31	(11,695)	(11,664)	Taxation and non-specific grant income (Note 8)	-	(11,729)	(11,729)
54,558	**(52,225)**	**2,333**	**(Surplus) or Deficit on Provision of Services**	**54,852**	**(53,706)**	**1,146**
		(3,039)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(8,578)
		13,233	Actuarial (gains)/losses on pension assets / liabilities			1,686
		10,194	**Other Comprehensive Income and Expenditure**			**(6,892)**
		12,527	**Total Comprehensive Income and Expenditure**			**(5,746)**

SECTION 2C. BALANCE SHEET

31 March 2012 £000		**Notes**	**31 March 2013 £000**
61,856	Property, Plant & Equipment	9	70,928
322	Investment Property	10	307
115	Intangible Assets	11	145
68	Long Term Investments	12	-
91	Long Term Debtors	14	49
62,452	**Long Term Assets**		**71,429**
15,156	Short Term Investments	12	13,118
41	- accrued interest	12	107
138	Inventories	13	88
4,769	Short Term Debtors	14	4,601
2,192	Cash and Cash Equivalents	15	6,048
22,296	**Current Assets**		**23,962**
(3,433)	Short Term Creditors	16	(5,620)
(186)	Short Term Revenue Grants in Advance	31	(116)
(62)	Provisions	17	(18)
(3,681)	**Current Liabilities**		**(5,754)**
(94)	Long Term Creditors	16	(47)
(3,518)	Long Term Revenue Grants in Advance - Section 106 Deposits	31	(3,274)
(28,927)	Pensions Liability	37	(32,073)
(146)	Capital Grants- Receipts in Advance	31	(115)
(32,685)	**Long Term Liabilities**		**(35,509)**
48,382	**Net Assets**		**54,128**
14,926	Usable Reserves	18	14,698
33,456	Unusable Reserves	19	39,430
48,382	**Total Reserves**		**54,128**

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

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

SECTION 2D. CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income, or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2011/12 £000		**2012/13 £000**
2,333	**Net (surplus) or deficit on the provision of services**	**1,146**
(1,941)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 20)	(5,327)
(4,314)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 21)	(4,480)
(345)	Interest received	(163)
(4,267)	**Net cash outflows/ (inflow) from Operating Activities**	**(8,824)**
1,782	Net increase/ (decrease) in Investing Activities (Note 22)	(932)
5,904	Net cash outflow/ (inflow) from Financing Activities (Note 23)	5,900
3,419	**Net (increase) or decrease in cash and cash equivalents**	**(3,856)**
5,611	Cash and cash equivalents at the beginning of the reporting period	2,192
2,192	**Cash and cash equivalents at the end of the reporting period (Note 15)**	**6,048**

Section 3

Notes to the

Financial Statements

SECTION 3. NOTES TO THE ACCOUNTS

CONTENTS

SECTION 3. NOTES TO THE ACCOUNTS

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

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

The item in the Authority's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives which are estimated annually.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls.
Pensions Liability	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. The value of pension assets is estimated based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets, but this difference is not considered to be material.	The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2 million. However, the assumptions interact in complex ways. For example, in 2012/13, the Authority's actuaries advised that the pension liability had increased by £140,000 as a result of estimates being corrected as a result of experience and increased by £6.3M attributable to the updating of assumptions Please refer to Note 37 for further information about the assumptions used by the actuaries.

2. MATERIAL ITEMS OF INCOME AND EXPENSE

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

3. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

The draft Statement of Accounts (SOA) for 2012/13 was certified by the Acting Head of Finance and Audit on 28 June 2013. This is also the date up to which events after the Balance Sheet date have been considered. The draft SOA were reviewed by the Audit Committee on 18 July 2013.

4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

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

2012/13	Usable Reserves General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	**(404)**	**404**		**-**
Use of the Capital Receipts Reserve to finance new capital expenditure		**(743)**		**743**
Repayment of mortgage and parish loans		**7**		**(7)**
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 37)	**2,982**			**(2,982)**
Employer's pensions contributions and direct payments to pensioners payable in the year	**(1,522)**			**1,522**

2012/13	Usable Reserves General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	**(52)**			**52**
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**13**			**(13)**
Total Adjustments between the Accounting Basis and Funding Basis under regulations	**1,264**	**(332)**	**(14)**	**(918)**

	Usable Reserves			
2011/12 Comparatives	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	**1,809**			**(1,809)**
Revaluation losses on Property Plant and Equipment	**577**			**(577)**
Movements in the market value of Investment Properties	**17**			**(17)**
Amortisation of intangible assets	**95**			**(95)**
Capital grants and contributions applied	**(223)**			**223**
Revenue expenditure funded from capital under statute (REFCUS)	**159**			**(159)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**358**			**(358)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Capital expenditure charged against the General Fund	**(728)**			**728**
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	**(15)**		**15**	**-**
Application of grants to capital financing transferred to the Capital Adjustment Account			**(14)**	**14**

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

	Usable Reserves			
2011/12 Comparatives	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	**31**			**(31)**
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**7**			**(7)**
Total Adjustments between the Accounting Basis and Funding Basis under regulations	**2,485**	**(897)**	**1**	**(1,589)**

5. TRANSFERS TO/ FROM EARMARKED RESERVES

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

	Balance at 31 March 2012	Transfers Out	Transfers In	Balance at 31 March 2013
	£000	£000	£000	£000
EARMARKED RESERVES				
General Fund				
Affordable Housing	540	(127)		413
Design Office	10	(10)		-
Strategic Issues	1,325	(478)	2	849
Community Parks and Open Spaces	90	(14)	17	93
Economic Regeneration & Community Wellbeing	21	(1)	12	32
Pension Fund Strain	62	(94)	32	-
Repairs and Maintenance	424		4	428
Members Sustainable Community Locality Fund	25		9	34
Land and Development	282	(105)	36	213
Ferry Repairs and Renewals	350	(261)	25	114
Economic Initiatives	222	(58)		164
Vehicles and Plant Renewals	322	(152)	524	694
Pay and Display Equipment	39	(43)	21	17
On-Street Parking	44			44
Print Equipment	69		4	73
ICT Development	542	(103)	10	449
Sustainable Waste Management	151	(51)		100
Community Grants	2	(2)		-
District Elections	30		10	40
Beach Safety	17			17
Planning Policy & Major Developments	1,003	(192)	121	932
Building Control	99		39	138
Section 106 agreements	49		9	58
Revenue Grants	387	(175)	108	320
Capital Programme	198	(11)	737	924
New Homes Bonus	-	(726)	726	-
Sub Total	**6,303**	**(2,603)**	**2,446**	**6,146**
Specific Reserves – Salcombe Harbour				
Pontoons	41		91	132
Harbour Renewals	95	(14)	53	134
General Reserve	184	(49)	103	238
Sub Total	**320**	**(63)**	**247**	**504**
Trust & Bequest	**5**			**5**
TOTAL EARMARKED REVENUE RESERVES	**6,628**	**(2,666)**	**2,693**	**6,655**

6. OTHER OPERATING EXPENDITURE

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

7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

8. TAXATION AND NON SPECIFIC GRANT INCOME

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

SECTION 3. NOTES TO THE ACCOUNTS

9. PROPERTY, PLANT AND EQUIPMENT

Movements in 2012/13:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipm't £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2012	**54,327**	**8,586**	**3,874**	**722**	**1,445**	**68,954**
Additions	115	332	29	37	1,201	1,714
revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,335					8,335
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	721					721
derecognition – disposals		(386)				(386)
other movements in cost or valuation	36	353	774		(1,163)	-
At 31 March 2013	**63,534**	**8,885**	**4,677**	**759**	**1,483**	**79,338**
Accumulated Depreciation and Impairment at 1 April 2012	1,604	4,079	1,415	-	-	7,098
charge for 2012/13	870	864	199			1,933
depreciation written out to the Revaluation Reserve	(243)					(243)
depreciation written out to the Surplus/Deficit on the Provision of Services	(23)		(2)			(25)
impairment losses/(reversals) recognised in the Revaluation Reserve						
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services			16		3	19
derecognition-disposals		(372)				(372)
At 31 March 2013	**2,208**	**4,571**	**1,628**	**-**	**3**	**8,410**
Balance Sheet amount at 31 March 2013	**61,326**	**4,314**	**3,049**	**759**	**1,480**	**70,928***
Balance Sheet amount at 31 March 2012	**52,723**	**4,507**	**2,459**	**722**	**1,445**	**61,856***

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

SECTION 3. NOTES TO THE ACCOUNTS

Comparative Movements in 2011/12:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipm't £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2011	**52,661**	**7,535**	**3,566**	**671**	**1,266**	**65,699**
additions	345	734	190	51	776	2.096
revaluation increases/ (decreases) recognised in the Revaluation Reserve	2,512					2,512
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(994)					(994)
derecognition – disposals	(160)	(162)				(322)
other movements in cost or valuation	(37)	479	118		(597)	(37)
At 31 March 2012	**54,327**	**8,586**	**3,874**	**722**	**1,445**	**68,954**
Accumulated Depreciation and Impairment at 1 April 2011	1,669	3,413	1,273			6,355
charge for 2011/12	843	824	142			1,809
depreciation written out to the Revaluation Reserve	(575)					(575)
depreciation written out to the Surplus/Deficit on the Provision of Services	(473)					(473)
impairment losses/(reversals) recognised in the Revaluation Reserve	48					48
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	72					72
derecognition- disposals	(6)	(158)				(164)
other movements in depreciation and impairment (reclassifications)	26					26
At 31 March 2012	**1,604**	**4,079**	**1,415**	**-**	**-**	**7,098**
Balance Sheet amount at 31 March 2012	**52,723**	**4,507**	**2,459**	**722**	**1,445**	**61,856**
Balance Sheet amount at 31 March 2011	**50,992**	**4,122**	**2,293**	**671**	**1,266**	**59,344**

Depreciation

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

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

Capital Commitments

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

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

Revaluations

All material freehold land and buildings which comprise the Authority's property portfolio are revalued by the Council's Valuer on a rolling basis. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The valuations of real estate were carried out by an external contractor under the supervision of Stephen Forsey FRICS, the Council's Development Surveyor. Assets are valued in accordance with a five year rolling programme (with ad hoc valuations taking place, for example where assets have been enhanced). In addition, a formal impairment review of the entire holding of land and buildings is undertaken at the end of each financial year. The basis of valuation is set out in the Statement of Accounting policies in Note 40.

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

10. INVESTMENT PROPERTIES

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

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

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

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

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

11. INTANGIBLE ASSETS

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

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

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

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

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

Comprising:

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

12. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

Liabilities
- trade payables and other payables
- borrowings
- financial guarantees

Assets
- bank deposits
- trade receivables
- loans receivables
- investments

Derivatives
- swaps
- forwards
- options

Fair Values of Assets and Liabilities

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

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

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

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

Recognition and measurement of financial instruments

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

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

The carrying amount and fair values for investments at 31 March 2013 are shown in the following table:

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

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

Icelandic Banks

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

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

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

Heritable Bank

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

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

In view of the above information, LAAP currently recommends that the estimate of the recoverable amount is based on a total repayment of 88% based on the mid-point of the base case return and that subsequent repayments are profiled as follows:

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

Recoveries are expressed as a percentage of the Authority's claim in the administration, which includes interest accrued up to 6 October 2008.

The impairment loss recognised in the Comprehensive Income and Expenditure Statement has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the Authority until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

Summary details of the investment made are as follows:

Date Invested	Maturity Date	Amount Invested £	Interest Rate %	Dividends Received £	Carrying Amount £	Impairment £
25/09/08	22/12/08	1,250,000	6.25	968,000	118,000	164,000

In previous years the Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £237,000 was transferred to the Financial Instruments Adjustment Account. However, this was a temporary arrangement and the potential impairment loss was brought into account in the 2010/11 financial year.

Summary of Financial Instruments

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

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

Income, Expense, Gains & Losses

	Financial Assets 2011/12			Financial Assets 2012/13		
	Investments £000	Investments at Fair Value through I & E £000	Total £000	Investments £000	Investments at Fair Value through I & E £000	Total £000
Losses on derecognition		2	**2**			**-**
Total expense in Surplus or deficit on the provision of Services	**-**	**2**	**2**	**-**	**-**	**-**
Interest income	(194)	(47)	**(241)**	(235)		**(235)**
Interest income accrued on impaired financial assets	14		**14**	7		**7**
Increases in fair value	(62)		**(62)**	(11)		**(11)**
Total expense in Surplus or deficit on the provision of Services	**(242)**	**(47)**	**(289)**	**(239)**	**-**	**(239)**
Net (gain)/loss for the year	**(242)**	**(45)**	**(287)**	**(239)**	**-**	**(239)**

SECTION 3. NOTES TO THE ACCOUNTS

13. INVENTORIES

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

14. DEBTORS

Short term

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

Long term

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

15. CASH AND CASH EQUIVALENTS

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

16. CREDITORS

Short term

31.3.2012 £000		31.3.2013 £000
(233)	HMRC	(217)
(133)	Other Government departments	(1,537)
(405)	Other local authorities	(503)
(1,745)	Sundry creditors	(2,329)
(126)	Employee benefits	(139)
(47)	Council taxpayers	(53)
(744)	Council taxpayers – preceptors a/c	(842)
(3,433)	**Total**	**(5,620)**

Long term

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

17. PROVISIONS

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

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

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

Redundancies - A decision to make a member of staff redundant was made in 2011-12, but the employee in question did not leave the employment of the Council until the 2012-13 financial year**.** A short term provision of £62,000 was made in 2011-12 for the redundancy payment payable in 2012-13.

18. USABLE RESERVES

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

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

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

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

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

19. UNUSABLE RESERVES

31.3.2012 £000		31.3.2013 £000
14,710	Revaluation Reserve	23,099
47,700	Capital Adjustment Account	48,392
(28,927)	Pensions Reserve	(32,073)
99	Collection Fund Adjustment Account	151
(126)	Accumulated Absences Account	(139)
33,456	**Total Unusable Reserves**	**39,430**

Revaluation Reserve

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.
The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2011/12 £000		2012/13 £000	2012/13 £000
48,214	**Balance at 1 April**		**47,700**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(1,809)	▪ Charges for depreciation of non-current assets	(1,933)	
(577)	▪ Revaluation losses on Property, Plant and Equipment	727	
(17)	▪ Revaluation gains/(losses) on Investment Properties	(15)	
(95)	▪ Amortisation of intangible assets	(72)	
(159)	▪ Revenue expenditure funded from capital under statute (REFCUS) - funded from capital receipts	-	
(358)	▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(13)	
(3,015)	**Total**		**(1,306)**
22	Amounts of Revaluation Reserve balance written off on disposal or sale of Property, Plant & Equipment		-
182	Adjusting amounts written out of the Revaluation Reserve		189
(2,811)	**Net written out amount of the cost of non-current assets consumed in the year**		**(1,117)**
	Capital financing applied in the year:		
1,335	Use of the Capital Receipts Reserve to finance new capital expenditure	743	
223	Capital grants and contributions credited to the CIES that have been applied to capital financing	88	
14	Application of grants to capital financing from the Capital Grants Unapplied Account	14	
728	Capital expenditure charged against the General Fund	971	
(3)	Repayment of parish loans	(7)	
2,297	**Total**		**1,809**
47,700	**Balance at 31 March**		**48,392**

Pensions Reserve

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

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

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

Collection Fund Adjustment Account

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

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

SECTION 3. NOTES TO THE ACCOUNTS

Accumulated Absences Account

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

31.3.2012 £000		31.3.2013 £000	31.3.2013 £000
(119)	**Balance at 1 April**		**(126)**
119	Settlement or cancellation of accrual made at the end of the preceding year	126	
(126)	Amounts accrued at the end of the current year	(139)	
(7)	**Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**		**(13)**
(126)	**Balance at 31 March**		**(139)**

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

2011/12 £000		2012/13 £000
(1,809)	Depreciation	(1,933)
(594)	Impairment & downward valuations	712
(95)	Amortisation	(72)
627	Increase/(decrease) in Debtors	(1,445)
910	Increase/(decrease) in Creditors	(1,260)
32	Increase/(decrease) in Inventories	(50)
(833)	Movement in pension liability	(1,460)
(358)	Carrying amount of non-current assets held for sale, sold or derecognised	(13)
179	Other non-cash items charged to the net surplus or deficit on the provision of services	194
(1,941)	**Total**	**(5,327)**

SECTION 3. NOTES TO THE ACCOUNTS

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

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

22. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2011/12 £000		2012/13 £000
2,092	Purchase of property, plant and equipment, investment property and intangible assets	1,317
277	(Increase)/decrease in investments	(2,117)
(304)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(31)
(283)	Other receipts from investing activities (capital grants & contributions)	(101)
1,782	**Net cash flows from investing activities**	**(932)**

23. CASH FLOW STATEMENT – FINANCING ACTIVITIES

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

24. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

Service Income & Expenditure 2012-13

	Central Services	Cultural & Related	Environmental	Highways	Housing	Planning	CDC & NDC	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(797)	(245)	(1,206)	(4,705)	(780)	(2,645)	(45)	(10,423)
Government grants & contributions	(6,611)	(445)	(866)	(38)	(22,859)	(54)	(19)	(30,892)
Total Income	**(7,408)**	**(690)**	**(2,072)**	**(4,743)**	**(23,639)**	**(2,699)**	**(64)**	**(41,315)**
Employee expenses	984	243	3,665	1,296	1,053	2,257	406	9,904
Other service expenses	6,393	1,848	3,355	1,643	22,946	833	561	37,579
Depreciation / amortisation	10	691	305	(33)	730	199	-	1,902
Support service recharges	765	107	573	171	257	560	675	3,108
Total Expenditure	**8,152**	**2,889**	**7,898**	**3,077**	**24,986**	**3,849**	**1,642**	**52,493**
Net Expenditure	**744**	**2,199**	**5,826**	**(1,666)**	**1,347**	**1,150**	**1,578**	**11,178**

SECTION 3. NOTES TO THE ACCOUNTS

Service Income & Expenditure 2011-12

	Central Services	Cultural & Related	Environmental	Highways	Housing	Planning	CDC & NDC	TOTAL
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(653)	(371)	(1,194)	(4,991)	(595)	(2,514)	(32)	(10,350)
Government grants & contributions	(6,570)	(220)	(847)	(36)	(22,297)	(400)	-	(30,370)
Total Income	**(7,223)**	**(591)**	**(2,041)**	**(5,027)**	**(22,892)**	**(2,914)**	**(32)**	**(40,720)**
Employee expenses	1,155	284	3,532	1,260	937	2,168	453	9,789
Other service expenses	6,374	1,767	3,449	1,610	22,056	772	557	36,585
Depreciation / amortisation	10	900	411	362	1,127	237	-	3,047
Support service recharges	801	162	728	237	355	663	971	3,917
Total Expenditure	**8,340**	**3,113**	**8,120**	**3,469**	**24,475**	**3,840**	**1,981**	**53,338**
Net Expenditure	**1,117**	**2,522**	**6,079**	**(1,558)**	**1,583**	**926**	**1,949**	**12,618**

25. TRADING OPERATIONS - GENERAL

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

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

Car & Boat Parking
The Council provides off-street parking at an appropriate level according to demand and environmental impact. Charges are made at a level which will ensure that the provision and management of facilities are not a cost burden to local Council Tax payers.

Dartmouth Ferry
The Council operates a public ferry service for cars and foot passengers across the River Dart between Kingswear and Dartmouth.

Employment Estates
The Council undertakes the programmed development and letting of identified employment sites to generate quality employment opportunities.

Pannier Markets
The Council operates weekly markets in Totnes, Kingsbridge and Ivybridge as permitted by statutory powers and thereby maintains the tradition of market towns for the benefit of customers, traders and the towns as a whole.

Salcombe Harbour
The Harbour Board aims to improve, maintain and manage the whole of the Salcombe-Kingsbridge Estuary for the benefit of users, who include commercial fishermen and the sailing communities.

Trade Waste
The Council operates a trade waste collection service.

26. TRADING OPERATIONS – BUILDING CONTROL

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

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

27. AGENCY SERVICES

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

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

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

(b) The Authority collects land charge search fees on behalf of Devon County Council. These fees are included within the standard search fee and reimbursed to the County Council on a periodic basis. The amount collected was £25,000 in 2012/2013 (£25,000 in 2011/2012).

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

28. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Council during the year. Members allowances are published on the Council's website at: http://www.southhams.gov.uk/CHttpHandler.ashx?id=6218&p=0

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

29. OFFICERS' REMUNERATION

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

Note 1: The total cost of senior employees employed by WDBC have been included in the equivalent note of WDBC's Accounts in accordance with the accounting requirements and is therefore excluded from the table above. In 2012/13 SHDC reimbursed costs amounting to £254,800 (2011/12 £240,700) in respect of the Chief Executive and four Heads of Services employed by WDBC. SHDC received a reimbursement in 2012/13 from WDBC of £229,800 (2011/12 £229,400) in respect of the above shared senior employees.

Other officers earning over £50,000

Remuneration band	2011/2012 Number of employees		2012/2013 Number of employees	
	Total	**Left during year**	**Total**	**Left during year**
£50,000 - £54,999	2	2	1	
£55,000 - £59,999		2		
£60,000 - £64,999		4		

30. PAYMENTS TO EXTERNAL AUDITORS

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

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

* Rebate from Audit Commission in respect of audit fees

SECTION 3. NOTES TO THE ACCOUNTS

31. GRANT INCOME

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

	2011/12 £000	2012/13 £000
Credited to Taxation and Non Specific Grant Income		
Capital grants & contributions:		
Waste & Resources Action Programme – Commercial Waste	-	(38)
Devon County Council – Torr Quarry	(102)	-
Devon County Council – Playbuilder Project	(45)	-
Other capital grants & contributions	(91)	(50)
Non ring- fenced Government grants & contributions:		
Non Domestic Rates	(3,211)	(3,705)
Revenue Support Grant	(992)	(72)
Council Tax Freeze Grant	(128)	-
New Homes Bonus	(298)	(826)
Local Services Support Grant	(85)	(86)
Total	**(4,952)**	**(4,777)**
Credited to Services		
Rent Allowance subsidy	(21,165)	(22,019)
Housing Benefit administration subsidy	(233)	(224)
Rent rebate subsidy	(121)	(113)
Council Tax benefit grant	(5,966)	(5,907)
Council Tax benefit administration subsidy	(322)	(309)
NNDR cost of collection allowance	(204)	(205)
REFCUS grants applied		
Disabled facilities grant	(385)	(365)
Regional housing pot	(216)	-
Section 106 deposits	(19)	(60)
Second homes funding	-	(27)
Recycling credits	(467)	(488)
Devon County Council – Torr Quarry Transfer Station	(243)	(254)
Natural England – Area of Outstanding Natural Beauty	(139)	-
Section 106 deposits	(137)	(292)
Home Office – Police & Crime Commissioners Elections 2012	-	(109)
Other grants	(753)	(520)
Total	**(30,370)**	**(30,892)**

SECTION 3. NOTES TO THE ACCOUNTS

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

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

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

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

32. RELATED PARTIES

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

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in Note 28.

33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2011/12 £000	**2012/13 £000**
Capital Investment		
Property, plant & equipment	2,096	1,714
Intangible assets	45	102
Revenue expenditure funded from capital under statute (REFCUS)	1,216	753
Total expenditure	**3,357**	**2,569**
Sources of Finance		
Capital receipts	1,335	743
Government grants and other contributions	904	554
Direct revenue contributions (earmarked reserves)	1,118	1,272
Total funding	**3,357**	**2,569**

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

34. LEASES

Operating Leases

Authority as Lessee

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

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

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

	31 March 2013 £000's	**31 March 2012 £000's**
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	184	173
Later than one year and not later than five years	668	702
Later than five years	1,132	1,224
	1,984	**2,099**

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

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

SECTION 3. NOTES TO THE ACCOUNTS

Authority as Lessor

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

Detail of lease	Term	Expiry date	Service group
The operation of a supermarket	99 years	20.12.2077	Planning & Development
The rental of an industrial unit	25 years	31.05.2029	Planning & Development
The provision of temporary accommodation	10 years	30.03.2021	Housing
The rental of office accommodation	20 years	24.07.2032	Corporate

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

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

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

35. IMPAIRMENT LOSSES

Impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure, are summarised in Note 9 reconciling the movement over the year in the Property, Plant and Equipment balances. No impairment losses other than those relating to revaluation losses were incurred.

36. EXIT PACKAGES

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

Exit package cost band (incl. special payments)	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band (£)**	
	2011/12	**2012/13**	**2011/12**	**2012/13**	**2011/12**	**2012/13**	**2011/12**	**2012/13**
£0 - £20,000	1	4		1	1	5	17,300	58,600
£20,001 - £40,000	1	4			1	4	23,100	120,200
£40,001- £60,000	2				2		85,300	
£60,001 - £80,000								
£80,001 - £100,000	1				1		99,700	
£100,001 - £150,000	1				1		114,000	
£150,001 - £200,000								
TOTAL	**6**	**8**	**-**	**1**	**6**	**9**	**339,400**	**178,800**

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

37. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Authority participates in the Local Government Pension Scheme, administered locally by Devon County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liability with investment assets.

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

At South Hams District Council, unfunded benefits take the form of pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions. Such benefits are charged to the Council as they are paid. For new retirees CAY pensions are no longer payable. The liabilities that the Council continues to face relate to the impact of previous early retirement decisions.

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

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

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

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

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

Assets and liabilities in relation to retirement benefits

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

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

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

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

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

Scheme History

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

SECTION 3. NOTES TO THE ACCOUNTS

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £32m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £1.3m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £205,000.

Basis for estimating assets and liabilities

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

To assess the value of the Employer's liabilities as at 31 March 2013, the actuaries have rolled forward the value of the Employer's liabilities calculated for the valuation as 31 March 2010 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2012.

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

	31/03/13	**31/03/12**
Long-term expected rate of return on assets in the scheme:		
Equity Investments	6.0%	6.3%
Gilts	3.0%	3.3%
Other Bonds	4.1%	4.6%
Property	4.0%	4.3%
Cash	0.5%	3.0%
Target Return Portfolio	4.5%	4.7%
Total	**5.1%**	**5.4%**

	31/03/13	31/03/12
Mortality assumptions:		
Retiring today		
➢ Men	20.6	20.5
➢ Women	24.6	24.5
Retiring in 20 years		
➢ Men	22.6	22.5
➢ Women	26.5	26.4
Financial Assumptions		
RPI increases	3.3%	3.3%
CPI increases	2.5%	2.5%
Rate of increase in salaries	4.7%	4.7%
Rate of increase in pensions	2.5%	2.5%
Rate for discounting scheme liabilities	4.3%	4.6%

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

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

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

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

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

History of Experience Gains and Losses

The actuarial gains/losses identified as movements on the Pensions Reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities.

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

38. CONTINGENT LIABILITIES

a) The transfer of the Council's housing stock in March 1999 resulted in a capital receipt of some £42m. As the stock transfer had to take place over a very short timescale, wide warranties were given to South Hams Housing (now Tor Homes) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). The purpose of these warranties is to safeguard the housing company if any of the main assumptions on which the transfer price was calculated, turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Unfortunately, owing to the uncertainties surrounding any potential claim, it is not practicable to make an estimate of the total value of liabilities (if any).

b) Municipal Mutual Insurance (MMI) was formed as a limited company by guarantee in 1903 and by 1974 some 90% of local authorities were reliant on the company for the provision of the bulk of their insurance needs. Due to dramatic increases in claims, coincidental with a fall in the property market and poor investment environment, along with its inability to raise capital because of its mutual status, MMI's net assets fell below the minimum regulatory solvency requirement and the company went into run-off in September 1992. Although Zurich Municipal (ZM) acquired the right to renew MMI's policies in 1993, it did not assume financial responsibility for the run-off of MMI's historical portfolio. Therefore, a contingent Scheme of Arrangement (SOA) under Section 425 of the Companies Act 1985 became effective on 21 January 1994. This allowed for a clawback from scheme creditors to be introduced, in the event that MMI did not have sufficient funds available to pay remaining claims. Most of MMI's insured public sector members elected to participate in the SOA, effectively becoming scheme creditors. This means that they may have to pay back part of all claims for which they have received settlements since 1993 following the SOA being triggered, and meet a percentage of future claims. Claims are still being reported to MMI relating to policy years pre-1993 (there were 2,379 reported claims outstanding as at 30 June 2012) comprising principally, by number of claims, employers' liability claims for deafness and vibration white finger, although asbestos related and abuse related claims are by value the most significant claims.

On 13 November 2012, the directors of MMI concluded that the terms of the SOA should be triggered and served notice on the Scheme Administrator and the company to that effect. As a result, the SOA was triggered and the Scheme Administrator has taken over the management of the business of the company. A Levy is chargeable to the scheme creditors. After the imposition of the Levy, scheme creditors are also liable to contribute to each and every subsequent claim paid by MMI on the creditor's behalf, thereby creating an on-going financial obligation. The Scheme Administrator has advised that if the Levy Notice had been issued on the 31 March 2013 the Council's liability for Levy would have been in the order of £18,000. This initial Levy rate is calculated as 15% of the value of 'total claims payments carried forward at 31 March 2013' exceeding £50,000. No Levy is raised on the first £50,000 of claims payments. Therefore a short term provision of £18,000 has been created, but the Council's maximum exposure to loss remains at £118,608.

c) In common with 370 other English district and unitary councils, SHDC may be the subject of a claim by a group of companies whose business is the making of personal searches of our local land charges records. No claim has been served upon the Council and the issue is whether the charges were lawfully imposed. The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those Regulations were unlawfully made, the

Government should compensate. The Authorities have instructed external solicitors to deal with the matter on their behalf with the support of the Local Government Association. It is not clear what the value of any such claim would be against the Council.

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

e) The Council has been through a HMRC inspection during the year and there may be the possibility of a tax liability. However, the Council has taken advice and put forward a robust defence which is currently under consideration by HMRC. Until this issue is resolved the financial impact is not known.

39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

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

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

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

The annual treasury management strategy which incorporates the prudential indicators was approved by the Executive on 8 March 2012 and is available on the Council's website.

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures from the Council's customers. An analysis of the Council's investments is provided in Note 12 to the accounts.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch and Moody's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The full Investment Strategy for 2012/13 was approved by the Executive on 8 March 2012 and is available on the Council's website. The Council's investment priorities are: -

- the security of capital and
- the liquidity of its investments

Since October 2008 we have used an ultra cautious investment strategy to avoid the possibility of potential losses. However, this has come at a cost; investing in virtually risk free institutions, namely the UK Government and Local Authorities, means that we must accept a much lower interest rate on our investments.

No breaches of the Council's counterparty criteria occurred during the reporting period. With the exception of the investment with the Heritable Bank the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2013 and is reflected in the current figure of £489,000. This compares to £583,000 in 2011/12. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 14 to the accounts.

<u>Liquidity risk</u>

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

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

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 15 to the accounts.

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

<u>Market Risk</u>

Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. A rise in interest rates would have the following effects:

- Investments at variable rates – the interest income credited to the I & E account will rise
- Investments at fixed rates – the fair value of the assets will fall

Changes in interest receivable on variable rate investments are posted to the I & E account and affect the General Fund Balance £ for £.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Finance team will monitor markets and forecast interest rates within the year to adjust exposures appropriately.

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

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

Price risk

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

Foreign exchange risk

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

<u>Refinancing and Maturity Risk</u>

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

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

This includes monitoring the maturity profile of investments to ensure that sufficient liquidity is available for the Council’s day to day cash flow needs. The spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

SECTION 3. NOTES TO THE ACCOUNTS

40. ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 (SI 2011 No. 817). These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the *Service Reporting Code of Practice for Local Authorities (SeRCOP)*, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

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

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

3. Cash and Cash Equivalents

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

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

Key: T = trade date

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

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

4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

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

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

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

7. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

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

Post Employment Benefits

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

SECTION 3. NOTES TO THE ACCOUNTS

The Local Government Scheme

The Local Government Scheme is accounted for as a defined benefits scheme in the following way:

- The liabilities of the Devon County Council Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and estimates of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate.

- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value.

For further information please refer to Note 37

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

- **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- **expected return on assets** – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- **gains or losses on settlements and curtailments** – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve

- **contributions paid to the Devon County Council Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

8. Events after the Balance Sheet Date

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

Two types of events can be identified:

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

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

9. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments (the Council does not currently hold any available-for-sale assets).

Loans and Receivables

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service), or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

10. Government Grants and Contributions

General

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

11. Heritage Assets

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

12. Intangible Assets

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

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

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

13. Inventories

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

14. Investment Property

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

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

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

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

15. <u>Jointly Controlled Operations</u>

Jointly controlled operations are activities undertaken by the Authority in conjunction with other partners that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

16. <u>Leases</u>

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

<u>Finance Leases</u>

The Council does not hold any finance leases as a lessee

<u>Operating Leases</u>

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

The Authority as Lessor

<u>Finance Leases</u>

The Council does not hold any finance leases as a lessor

Operating Leases

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

17. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2012/13* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

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

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

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

18. Property, Plant and Equipment

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

SECTION 3. NOTES TO THE ACCOUNTS

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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 deminimis limit of £10,000 has been set for the recognition of capital expenditure except for:

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

Component Accounting

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

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

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

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

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

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

1. Operational Buildings
2. Assets Held for Sale

SECTION 3. NOTES TO THE ACCOUNTS

The following will be considered outside the scope for componentisation:

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

The criteria for components to be separately valued are that:

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

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

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

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

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

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

- Plant and equipment and engineering services
- Structure

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

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

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

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).

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

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

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

19. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.
Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

20. Reserves

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

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

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

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

22. Section 106 deposits

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

23. Shared Services

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

Officers have produced a methodology for recharging the salary costs of shared officers based on the most appropriate cost driver and ratio to best reflect the officer's split of workload between the two Councils. Examples of the cost drivers used are caseloads, call volumes, property numbers, number of claims or cases processed etc and other methods such as time recording.

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

24. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

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

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

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

a) **IAS 1 Presentation of Financial Statements** – a presentational change that requires items of 'Other Comprehensive Income and Expenditure to be grouped into those that may in future years be reclassified into the 'Surplus/Deficit on the Provision of Services,' and those that will never be reclassified. As these changes are presentational there is no impact on the reported amounts.

b) **IFRS 7 Financial Instruments Disclosures** – this standard clarifies the rules for offsetting financial assets and liabilities, and requires new disclosures. The new standard will have no effect for 2013/14 as the Authority does not currently have any such offsetting of financial assets and liabilities.

c) **IAS 12 Deferred Tax : Recovery of Underlying Assets** – this standard relates to Group Accounts and is therefore not currently relevant to SHDC.

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

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

- Removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate;

- Some labelling changes to the Profit and Loss charge e.g. ‘Service cost now includes what was previously described as the “Current Service Cost’ plus the ‘Past Service Cost’ plus any ‘Curtailments’ plus any ‘Settlements’.

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

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

42. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 40, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The assumptions made by the actuary in determining the value of the pension liability are appropriate and reasonable.
- The value of the impairment relating to the investment of funds with the Heritable Bank is calculated on an appropriate and realistic basis.
- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads.

SECTION 4. COLLECTION FUND

This statement shows the transactions of the Council as the Charging Authority in relation to the Council Tax, and how these have been distributed between the Council's General Fund and other precepting authorities. It also summarises the transactions relating to the collection of Business Rates on behalf of the Government, which are held in a national pool. The total amount held in that pool is re-distributed to local authorities on the basis of population.

2011/2012 £000		**Notes**	**2012/2013 £000**
	Income		
(52,554)	Council Tax	***1***	(53,363)
(5,932)	Council Tax Benefits		(5,858)
(29,338)	Business Rates	***2***	(30,445)
4,214	Less: Transitional Relief / (Surcharge)		3,420
(83,610)			**(86,246)**
	Expenditure		
	Precepts and Demands		
42,534	*Devon County Council*		42,669
5,967	*Devon and Cornwall Police*		6,105
2,734	*Devon and Somerset Fire Authority*		2,825
6,662	*South Hams District Council*		6,860
	Business Rates		
24,835	*Payment to national pool*		26,623
-	*2012/13 deferral scheme*		106
204	*Costs of collection allowance*		205
	Distribution of previous year's estimated surplus		
515	*Devon County Council*		253
72	*Devon and Cornwall Police*		36
33	*Devon and Somerset Fire Authority*		16
80	*South Hams District Council*		40
	Bad and doubtful debts		
	Write Offs		
126	*Council Tax*		112
75	*Business Rates*		139
	Provisions		
54	*Council Tax*		(109)
11	*Business Rates*		(48)
83,902			**85,832**
292	**MOVEMENT ON FUND BALANCE**		**(414)**

SECTION 4. COLLECTION FUND

1. Council tax and council tax base

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

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

These charges are before any appropriate discounts or benefits. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2012/13 was 38,221.67 as calculated below (38,100.80 in 2011/12).

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A	0	8.00	8.00	5/9	4.44
A	4,842.00	(952.75)	3,889.25	6/9	2,592.83
B	8,470.00	(1,078.05)	7,391.95	7/9	5,749.29
C	8,320.00	(926.30)	7,393.70	8/9	6,572.18
D	7,828.00	(495.20)	7,332.80	1	7,332.80
E	6,359.00	(558.30)	5,800.70	11/9	7,089.74
F	3,509.00	(248.65)	3,260.35	13/9	4,709.39
G	2,894.00	(264.90)	2,629.10	15/9	4,381.83
H	285.00	(35.40)	249.60	18/9	499.20
Total	**42,507.00**	**(4,551.55)**	**37,955.45**		**38,931.70**
Less allowance for non collection					(778.63)
Plus adjustment for armed forces dwellings					68.60
Tax base					**38,221.67**

2. Rateable value

The total non-domestic rateable value at 31 March 2013 was £81,828,083. This compares to £82,155,154 at 31 March 2012. The standard non-domestic rate multiplier was 45.8p in 2012/13 (2011/12: 43.3p). Without reliefs this would generate a total income of £37,477,262.01 (2011/12 £35,573,181.68). These figures are a snapshot only and differ from the value of NNDR bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

3. Collection fund balance

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

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

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

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

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Finance and Audit

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets

- approve the Statement of Accounts

Responsibilities of the Head of Finance and Audit

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

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

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

The Head of Finance and Audit has also:

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

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

……………………………………………….

Lisa Buckle BSc, ACA
– Head of Finance and Audit

19 September 2013

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting held on 19 September 2013.

Signed on behalf of South Hams District Council

……………………………………………

Councillor JT Pennington

Chairman of the Audit Committee
19 September 2013

SECTION 6. AUDITORS' REPORT

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

SECTION 7. GLOSSARY OF TERMS

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

	the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
DEMAND	The charging authorities own Demand is, in effect, its precept on the fund.
FEES & CHARGES	In addition to the income from charge payers and the Governments, Local Authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.
FINANCIAL INSTRUMENTS	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
GOVERNMENT GRANTS	Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.
IMPAIRMENT ALLOWANCE ("BAD DEBT PROVISION")	Provisions against income to prudently allow for non collectable amounts.
INTEREST COST	For the pension fund this represents the discount rate at the start of the accounting period applied to the liabilities during the year based on the assumptions at the start of the accounting period.
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) & THE CODE OF PRACTICE (CODE)	Formal financial reporting standards adopted by the accounting profession and to be applied when dealing with specific topics within its accounting Code. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
LIBID	Acronym for the London Inter-bank Bid Rate, being the interest rate at which a market maker or underwriter will offer to buy bonds and securities.
PAST SERVICE COST	These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.

SECTION 7. GLOSSARY OF TERMS

PRECEPT

The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

RATEABLE VALUE

A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.

REVENUE EXPENDITURE

Recurring items of day to day expenditure consisting principally of Salaries and Wages, Debt Charges and general running expenses etc.

SETTLEMENTS

A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability.

STRAIN ON FUND CONTRIBUTIONS

Additional employers pension contributions as a result of an employee's early retirement.

SUNDRY CREDITORS

Amounts owed by the Council at 31 March.

SUNDRY DEBTORS

Amounts owed to the Council at 31 March.