Appendix B

South Hams District Council

Statement of Accounts

2013/2014

South Hams
District Council

Appendix B

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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 2013/14 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)	9,494	9,627	133
Parish precepts	1,544	1,544	-
Interest and Investment income	(190)	(169)	21
Amount to be met from Government grants and taxation	**10,848**	**11,002**	**154**
Financed from:			
Formula Grant	(4,217)	(4,244)	(27)
Council tax	(6,601)	(6,601)	-
Surplus on collection fund	(30)	(30)	-
DEFICIT	**-**	**127**	**127**

4. The deficit on the General Fund of £127,000 is essentially a break-even position and represents only 0.2% of the Council's gross turnover of £63 million.

5. This was achieved despite a very challenging year for the management of the Council's finances following the introduction of the scheme for

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

6. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value. The Council had some significant appeals outstanding at the year end. No provision has been made for business rates appeals not yet received as these items are not deemed to be significant.

7. Earlier in the year, the Council had predicted that it would achieve a surplus on business rates, but the year-end position was not as favourable as was estimated. Following external advice, the Council was obliged to increase its provision for appeals that it had included within its accounts.

8. The Council also experienced a reduction in income received from the Dartmouth Lower Ferry arising from its closure until the 20th May 2013 (due to essential slipway maintenance works). In addition, income from Car Parks did not reach its target during the second half of the year due to adverse weather conditions.

9. A summary of the main differences from budget is provided below:

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

Shared Services

10. The arrangements for shared services continue to be a crucial component of the Council's Financial Strategy. The Council continues to share staff with West Devon Borough Council, which has now yielded over £6 million in savings across the two Councils, with each Council generating ongoing savings of about £700,000 every year.

11. Both South Hams and West Devon have been bold in challenging the traditional local government model and have always been at the forefront of radical change. Indeed the Councils have recently taken their next step and abolished the role of Chief Executive, saving approximately 1% of council tax for each council per year, by moving to an Executive Director model.

Pension Liability

12. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The overall impact on the General Fund of the IAS 19 entries is neutral.

13. The actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2014 of £32.7million. This compares to £32.1million as at 31 March 2013. The deficit is derived by calculating the pension assets and liabilities at 31 March 2014. See Note 33 for further information.

Change in accounting Policies

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

Icelandic Banks

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

address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank Landsbanki.

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

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

Capital spending

18. The Council spent £4.0m on capital projects. The main areas of expenditure were as follows:

- replacement fish quay (£1.5m)
- house renovation grants (£0.5m)
- replacement ferry slipway (£0.3m)
- affordable housing (£0.3m)
- capital grants (£0.3m)
- leisure centre refurbishments (£0.3m)
- replacement pontoons (£0.3m)

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

Issue of accounts

19. The Head of Finance and Audit authorised the Statement of Accounts 2013/14 for issue on the 18th September 2014. Events taking place after this date are not reflected in the financial statements or notes.

FINANCIAL NEEDS AND RESOURCES

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

21. Revenue reserves have increased by £1.2m from the preceding year and stand at £10.4m at 31 March 2014. Revenue reserves may be used to finance capital or revenue spending plans. The General Fund Balance (un-earmarked reserve) stands at £1.7m.

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

LOOKING FORWARD TO THE FUTURE

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

Transformation Programme (T18)

24. The Council continues to face significant reductions in Central Government funding. Because of the unprecedented scale of financial challenges being faced in the next few years, the Council has embarked on a Transformation Programme 2018 (T18).

25. T18 is viewed as the primary driver to achieve the savings required over the next few years. This is a joint transformation programme with West Devon Borough Council, with whom the Council has been sharing services with since 2007. The Council is preparing to provide its services in an entirely new way by becoming more flexible and customer focused using the latest technology.

26. Services will be redesigned around our customers and communities and as a consequence we will remove all departmental silos. This will involve re-engineering over 400 business processes and sharing all of our corporate services and information technology systems. The main phase of the programme will be delivered during the spring of 2015.

27. Self service providing 24/7 access will be extended significantly enabling customers to access service delivery not just information. Many of our on line transactions will become fully automated, improving response times whilst reducing staff input.

28. Both Councils have now made the decision to proceed with the programme (October 2013) and the major financial implication the

Council has agreed to, is to **"**Approve an investment budget of £2.95 million for the T18 Programme (SHDC's share of the overall budget of £4.85 million), to deliver annual recurring revenue savings of £2.5 million (SHDC's share of the savings of £3.8 million)". The payback period for the Programme is 2 years.

Localisation of Business Rates

29. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the Business Rates generated in their area, with effect from 1 April 2013.

30. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline. However, the BRRS allows Authorities to voluntarily form a 'pool'. Pooling mitigates each Authority's exposure to Business Rate income volatility as the risks are spread over a larger pool. In 2013/2014, South Hams District Council agreed to be part of a Devonwide pooling arrangement and the pooling gain achieved in the first year equated to £61,000.

FURTHER INFORMATION

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

Lisa Buckle BSc, ACA
<u>Head of Finance and Audit</u>

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

*See explanatory foreword – revisions to IAS19.

SECTION 2B. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

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

*See explanatory foreword – revisions to IAS19.

SECTION 2C. BALANCE SHEET

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

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

The unaudited accounts were issued on 30 June 2014. The audited accounts were issued on 18 September 2014.

SECTION 2D. CASH FLOW STATEMENT

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

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

*See explanatory foreword – revisions to IAS19.

Section 3

Notes to the

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SECTION 3. NOTES TO THE ACCOUNTS

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

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives which are estimated annually.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to change by 1 year across all assets, this would have a £35,000 impact on the Council's finances.
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 £2.1 million. However, the assumptions interact in complex ways. For example, in 2013/14, the Authority's actuaries advised that the pension liability had decreased by £4.4million as a result of estimates being corrected as a result of experience and increased by £2.1million attributable to the updating of assumptions. Please refer to Note 33 for further information about the assumptions used by the actuaries.
Arrears	The Authority makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. For example at 31 March 2014, the Authority had a balance of Sundry Debtors of £1.08 million. A review of significant balances suggested that an impairment for doubtful debts of 4.7% (£51,000) was appropriate.	The impairment for doubtful debts is reviewed annually in order to respond to changes in collection rates. If Council Tax arrears were to change by 1%, this would have an impact of £2,000 on the Council's finances.

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

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

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

3. EVENTS AFTER THE BALANCE SHEET DATE

The draft Statement of Accounts (SOA) for 2013/14 was certified by the Head of Finance and Audit on 30 June 2014. The SOA were then reviewed by the Audit Committee on 31 July 2014 and the audited accounts were authorised for issue on 18 September 2014. This is also the date up to which events after the Balance Sheet date have been considered. There are no events which took place after 31 March 2014 which require disclosure.

4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

	Usable Reserves			
2013/14	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	**2,017**			**(2,017)**
Revaluation losses/(gains) on Property Plant and Equipment	**(462)**			**462**
Movements in the market value of Investment Properties	**(31)**			**31**
Amortisation of intangible assets	**58**			**(58)**
Capital grants and contributions applied	**(1,460)**			**1,460**
Revenue expenditure funded from capital under statute	**1,205**			**(1,205)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	**190**			**(190)**
Insertion of items not debited or credited to the CIES:				
Capital expenditure charged against the General Fund	**(1,036)**			**1,036**
Adjustments primarily involving the Capital Grants Unapplied Account:				
Application of grants to capital financing transferred to the CAA			**(89)**	**89**

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

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

* See explanatory foreword – revisions to IAS19.

5. TRANSFERS TO/ FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2013/14.

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

SECTION 3. NOTES TO THE ACCOUNTS

6. OTHER OPERATING EXPENDITURE

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

7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

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

8. TAXATION AND NON SPECIFIC GRANT INCOME

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

9. PROPERTY, PLANT AND EQUIPMENT

Movements in 2013/14:

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

Comparative Movements in 2012/13:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2012	**54,327**	**8,586**	**3,874**	**722**	**1,445**	**68,954**
additions	115	332	29	37	1,201	1,714
revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,335					8,335
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	721					721
derecognition – disposals		(386)				(386)
other movements in cost or valuation	36	353	774		(1,163)	-
At 31 March 2013	**63,534**	**8,885**	**4,677**	**759**	**1,483**	**79,338**
Accumulated Depreciation and Impairment at 1 April 2012	1,604	4,079	1,415	-	-	7,098
charge for 2012/13	870	864	199			1,933
depreciation written out to the Revaluation Reserve	(243)					(243)
depreciation written out to the Surplus/Deficit on the Provision of Services	(23)		(2)			(25)
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services			16		3	19
derecognition-disposals		(372)				(372)
At 31 March 2013	**2,208**	**4,571**	**1,628**	**-**	**3**	**8,410**
Balance Sheet amount at 31 March 2013	**61,326**	**4,314**	**3,049**	**759**	**1,480**	**70,928**
Balance Sheet amount at 31 March 2012	**52,723**	**4,507**	**2,459**	**722**	**1,445**	**61,856**

Depreciation

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

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

Capital Commitments

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

Revaluations

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

The valuations of real estate were carried out by an external contractor under the supervision of Stephen Forsey FRICS, the Council's Development Surveyor. Assets are valued in accordance with a five year rolling programme (with ad hoc valuations taking place, for example where assets have been enhanced). In addition, a formal impairment review of the entire holding of land and buildings is undertaken at the end of each financial year. The basis of valuation is set out in the Statement of Accounting policies in Note 36.

	Land and buildings	Vehicles, plant furniture & equipment	Total
	£000	**£000**	**£000**
Valued at historical cost	-	3,512	3,512
Valued at current value in:			
2013/2014	23,184		23,184
2012/2013	24,049		24,049
2011/2012	9,660		9,660
2010/2011	3,172		3,172
2009/2010	1,809		1,809
Total	**61,874**	**3,512**	**65,386**

SECTION 3. NOTES TO THE ACCOUNTS

10. INTANGIBLE ASSETS

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

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

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

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

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

Comprising:

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

11. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

Liabilities

- trade payables and other payables
- borrowings
- financial guarantees

SECTION 3. NOTES TO THE ACCOUNTS

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

Derivatives
- swaps
- forwards
- options

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

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

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

Summary of Financial Instruments

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

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

Income, Expense, Gains & Losses

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

SECTION 3. NOTES TO THE ACCOUNTS

12. INVENTORIES

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

13. DEBTORS

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

14. CASH AND CASH EQUIVALENTS

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

15. CREDITORS

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

16. USABLE RESERVES

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

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

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

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

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

17. UNUSABLE RESERVES

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

Revaluation Reserve

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

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

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

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

Capital Adjustment Account

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

2012/13 £000		2013/14 £000	2013/14 £000
47,700	**Balance at 1 April**		**48,392**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(1,933)	▪ Charges for depreciation of non-current assets	(2,017)	
727	▪ Revaluation losses on Property, Plant and Equipment	462	
(15)	▪ Revaluation gains/(losses) on Investment Properties	31	
(72)	▪ Amortisation of intangible assets	(58)	
-	▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,205)	
(13)	▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(190)	
(1,306)	**Total**		**(2,977)**
189	Adjusting amounts written out of the Revaluation Reserve		205
(1,117)	**Net written out amount of the cost of non-current assets consumed in the year**		**(2,772)**
	Capital financing applied in the year:		
743	Use of the Capital Receipts Reserve to finance new capital expenditure	1,455	
88	Capital grants and contributions credited to the CIES that have been applied to capital financing	1,460	
14	Application of grants to capital financing from the Capital Grants Unapplied Account	89	
971	Capital expenditure charged against the General Fund	1,036	
(7)	Repayment of parish loans	(4)	
1,809	**Total**		**4,036**
48,392	**Balance at 31 March**		**49,656**

SECTION 3. NOTES TO THE ACCOUNTS

Pensions Reserve

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

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

*See explanatory foreword – revisions to IAS19.

Council Tax Collection Fund Adjustment Account

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

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

Business Rates Collection Fund Adjustment Account

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

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

Accumulated Absences Account

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

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

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

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

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

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

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

20. CASH FLOW STATEMENT – INVESTING ACTIVITIES

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

21. CASH FLOW STATEMENT – FINANCING ACTIVITIES

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

22. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

Service Income & Expenditure 2013-14

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

23. TRADING OPERATIONS – BUILDING CONTROL

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

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

24. MEMBERS' ALLOWANCES

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

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

25. OFFICERS' REMUNERATION

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

Note 1: The total cost of senior employees employed by WDBC have been included in the equivalent note of WDBC's Accounts in accordance with the accounting requirements and is therefore excluded from the table above. In 2013/14 SHDC reimbursed costs amounting to £262,700 (2012/13 £254,800) in respect of the Chief Executive, four Heads of Services and Monitoring Officer employed by WDBC. SHDC received a reimbursement in 2013/14 from WDBC of £203,300 (2012/13 £229,800) in respect of the above shared senior employees.

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

<u>Other officers earning over £50,000</u>

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

26. PAYMENTS TO EXTERNAL AUDITORS

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

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

27. GRANT INCOME

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

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

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

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

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

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

28. RELATED PARTIES

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

Central Government

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

Members

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

iESE Transformation Ltd

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

29. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

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

30. LEASES

Operating Leases

Authority as Lessee

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

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

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

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

Authority as Lessor

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

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

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

	31 March 2013 £000	**31 March 2014 £000**
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	742	746
Later than one year & not later than five years	2,969	2,984
Later than five years	36,599	35,863
	40,310	**39,593**

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

31. IMPAIRMENT LOSSES

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

32. EXIT PACKAGES

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

Exit package cost band (incl. special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
£0 - £20,000	4	1	1	-	5	1	58,600	7,500
£20,001 - £40,000	4	-	-	-	4	-	120,200	-
TOTAL	**8**	**1**	**1**	**0**	**9**	**1**	**178,800**	**7,500**

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

33. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

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

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Indeed the County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 27 years. Funding levels are monitored on an annual basis. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2015 is £1.3m.

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

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

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

Transactions Relating to Post-employment Benefits

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

The International Accounting Standards Board (IASB) published a revised **IAS 19 Employee Benefits** standard in June 2011 which is intended to simplify and improve the quality of disclosures made about employee benefits plans (pensions). The new standard is effective for accounting periods beginning on or after 1 January 2013, so did not affect the original published disclosures for 2012/13

The main changes that affect the CIES are:

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

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

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

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

- the deficit on the Local Government Scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary

- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

Basis for estimating assets and liabilities

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

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

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

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

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

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

Sensitivity analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	106,810	108,694	110,614
Projected service cost	2,091	2,139	2,187
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	108,966	108,694	108,424
Projected service cost	2,139	2,139	2,139
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	110,370	108,694	107,049
Projected service cost	2,188	2,139	2,091
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	104,881	108,694	112,542
Projected service cost	2,066	2,139	2,212

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

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

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

34. CONTINGENT LIABILITIES

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

b) In common with 370 other English district and unitary councils, SHDC are subject of a claim by a group of companies whose business is the making of personal searches of our local land charges records. Multiple Claims have been submitted. The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those Regulations were unlawfully made, the Government should compensate. The Local Government Association have instructed external solicitors to deal with the matter on behalf of the member Local Authorities. The Council is currently considering a framework for settlement and legal advice received to determine whether this matter can be concluded, the costs are currently estimated to be £87,400 (plus interest and costs) which is substantially lower than the original estimates. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

c) The Council received an HMRC inspection during the 2012/13 financial year. We have accepted a liability of approximately £44,000 plus any penalty charges relating to tax and national insurance contribution for a worker who was incorrectly considered to be self-employed. A provision of £50,000 has been made in the accounts for this liability. HMRC are still considering whether we have a liability relating to the personal use of Council vans or payment for home broadband. However, the Council has taken advice and put forward a robust defence which is currently under consideration by HMRC. Until this issue is resolved the financial impact is not known.

35. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

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

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

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

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

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

Credit risk

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

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

The full Investment Strategy for 2013/14 was approved by the Executive on 21 March 2013 and is available on the Council's website. The Council's investment priorities are: -

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

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

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

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2014 and is reflected in the current figure of £494,000. This compares to £489,000 in 2012/13. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 13 to the accounts.

<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 14 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 £245,000 in interest would have been generated.

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

Price risk

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

Foreign exchange risk

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

Refinancing and Maturity Risk

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

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

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

36. ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 (SI 2011 No. 817). These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the *Service Reporting Code of Practice for Local Authorities (SeRCOP)*, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

2. Accruals of Income and Expenditure

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

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

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

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

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

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

- 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. <u>Cash and Cash Equivalents</u>

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. <u>Exceptional Items</u>

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 in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement to terminate at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

Post Employment Benefits

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

The Local Government Scheme

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

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

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

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

For further information please refer to Note 33

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

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

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the Devon County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

8. Events after the Balance Sheet Date

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

Two types of events can be identified:

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

Events taking place after the date of authorisation for issue (18 September 2014) 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.

Fair Values of Assets and Liabilities

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

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

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

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

Recognition and measurement of financial instruments

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

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

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. Jointly Controlled Operations

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

16. Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Operating Leases

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

17. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2013/14* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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

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

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

18. Property, Plant and Equipment

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

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

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

Component Accounting

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

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

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

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

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

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

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

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

The criteria for components to be separately valued are that:

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

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

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

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

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

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

- Plant and equipment and engineering services
- Structure

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

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

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

Impairment

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 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.

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.

25. Business Rates Retention

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

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

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

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

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

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

38. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 36, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

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

SECTION 4. COLLECTION FUND

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

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

SECTION 4. COLLECTION FUND

1. Council tax and council tax base

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

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

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

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

2. Rateable value

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

3. Collection fund balance

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

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

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

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

The Authority's responsibilities

The Authority is required to:

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

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

- approve the Statement of Accounts

Responsibilities of the Head of Finance and Audit

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

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

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

The Head of Finance and Audit has also:

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

The Statement of Accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2014.

………………………………………………….

Lisa Buckle BSc, ACA
Head of Finance and Audit

18 September 2014

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee as its meeting held on 18 September 2014.

Signed on behalf of South Hams District Council

……………………………………………

Councillor JT Pennington

Chairman of the Audit Committee

18 September 2014

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

Opinion on the Authority financial statements

We have audited the financial statements of South Hams District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

Respective responsibilities of the Head of Finance and Audit and auditor

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

Scope of the audit of the financial statements

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

SECTION 6. AUDITORS' REPORT

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Hams District Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

SECTION 6. AUDITORS' REPORT

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, *South Hams District Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

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

Barrie Morris

Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Bristol

18 September 2014

SECTION 7. GLOSSARY OF TERMS

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

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

SECTION 7. GLOSSARY OF TERMS

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