



South Hams  
District Council

South Hams District Council

# **Statement of Accounts**

2003/2004

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## Contents

The following notes provide a brief explanation of the main accounting statements. Each statement is supported by detailed explanatory and disclosure notes.

### **Explanatory Foreword**

An explanatory introduction to the financial statements and a guide to the most significant matters.

### **The Consolidated Revenue Account**

This account provides a statement of financial stewardship of the money received by the Council. It analyses the cost of services and the income those services generate and shows how the difference between the two is met by local tax payers and general Government grants.

### **The Consolidated Balance Sheet**

A consolidation of the balances held by the Council at the end of the year indicating how much is owed to it and how much it owes others. Notes identify the nature and value of assets held.

### **The Statement of Total Movements in Reserves**

This statement brings together all the recognised gains and losses of the Council and identifies those that have not been shown in the Consolidated Revenue Account.

### **The Cash Flow Statement**

This statement summarises the inflows and outflows of cash arising from transactions between the Council and third parties.

### **The Collection Fund**

This shows the transactions of the Council as a charging authority in relation to the council tax, and how this has been distributed between the Council's General Fund and other precepting authorities. It also summarises the transactions relating to the collection of business rates on behalf of the government, which are held in a national pool. The total amount held in that pool is re-distributed to local authorities on the basis of population.

### **The Statement of Accounting Policies**

An explanation of the basis on which the accounts are prepared and how they comply with the guidelines of the regulatory bodies. Proper appreciation of the accounts requires a clear understanding of the policies that have been followed in dealing with material items.

### **Trading Operations**

Summarises the performance of trading operations. Under the Local Government Acts 1980 and 1988, the Council was obliged to compete in an open tender situation before carrying out certain functions and activities defined by the Secretary of State for the Environment. Although Compulsory Competitive Tendering (CCT) legislation was repealed from 2 January 2000, the authority continues to maintain trading accounts for work previously won by Direct Service Organisations (DSOs).

This section provides a summary of the trading operations that operated under contracts successfully tendered for under the former CCT legislation and other trading activities within the General Fund.

### **Statement of Responsibilities**

A brief statement of the Council's financial responsibilities and those of the Strategic Director (Resources).

### **Statement on Internal Control**

This statement sets out the framework within which is managed and reviewed and the main components of the system, including the arrangements for risk management.

### **Auditors' Opinion**

This represents the External Auditors' verification of the financial statements.

### **Glossary**

An explanation of financial terms used in this statement.

### **Relationship with other published financial information**

The Statement of Accounts provides an opportunity to provide more up-to-date information on some of the details contained within the best-value performance plan which was published in advance of the availability of out-turn figures.

## Section 1. EXPLANATORY FORWARD

### 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, and the contents pages include a brief explanation of each statement as a helpful reference. This foreword intends to give a general guide to the significant matters reported in the statements and provides a summary of the overall position.

### REVIEW OF 2003/2004

#### i. The 2003/2004 revenue budget

3. The main components of the General Fund budget for 2003/2004 and how these compare with actual income and expenditure are set out below:

	<b>Estimate (Note i) £000s</b>	<b>Actual £000s</b>	<b>Difference Cost/(Saving) £000s</b>
<b>Net cost of services</b>	13,300	12,677	(623)
Parish precepts / Dartmoor National Park Levy	1,003	1,003	-
Asset management revenue account	(2,164)	(1,490)	674
Interest and Investment income	(1,520)	(1,649)	(129)
Capital expenditure financed from revenue	508	508	-
Contributions to (from) revenue reserves	190	11	(179)
Contributions re Pensions	-	(237)	(237)
Contributions to (from) capital reserves	(1,409)	(1,284)	125
<b>Amount to be met from government grants and taxation</b>	<b>9,908</b>	<b>9,539</b>	<b>(369)</b>
<i>Financed from:</i>			
Government grants	(2,454)	(2,454)	-
Business rates	(2,858)	(2,858)	-
Surplus on collection fund	(32)	(32)	-
Council tax	(4,564)	(4,564)	-
<b>Surplus</b>	<b>0</b>	<b>(369)</b>	<b>(369)</b>

## **Section 1. EXPLANATORY FORWARD**

Note i. - The original estimate has been updated for inflation and any subsequent approvals.

4. It is pleasing to note that effective budgetary control within the organisation, together with significant income beyond expectation, has generated a surplus of £369,000, which is equivalent to approximately 1% of the Council's gross turnover. This surplus is derived from a large number of income and expenditure variations, but the main differences from budget can be summarised as follows:

<b>Variation</b>	<b>£000</b>
<b>Car Parks</b> – mainly additional income	<b>(218)</b>
<b>Housing Benefits</b> – reduced expenditure on claims	<b>(103)</b>
<b>Employment Estates</b> – additional income	<b>(90)</b>
<b>Street Sweeping</b> – contract savings	<b>(70)</b>
<b>Planning Applications</b> – additional income	<b>(69)</b>
<b>Building Regulations</b> – mainly additional income	<b>(51)</b>
<b>Homelessness</b> – insufficient budget provision for “Bed & Breakfast” accommodation.	<b>60</b>
<b>Land Charges</b> – reduced income arising from fewer searches	<b>74</b>
<b>Non Distributed Costs</b> – mainly early retirement payments and other costs arising from the “Management Change” process	<b>113</b>
<b>Miscellaneous variations (including net contributions to / from reserves)</b>	<b>(15)</b>
<b>TOTAL SUPLUS</b>	<b>(369)</b>

## ***Section 1. EXPLANATORY FORWARD***

### **ii. Capital spending**

5. In 2003/2004, the Council spent £3.7m on capital projects. The main areas of expenditure were as follows:
- the purchase of 6 properties to provide temporary accommodation for the homeless (£0.8m)
  - the construction of a new leisure centre at Dartmouth (£0.9m)
  - the reorganisation of depot sites and the development of facilities at Torr Quarry (£0.4m)
  - house renovation grants (£0.3m)
  - refurbishment of public conveniences (£0.2m)
  - miscellaneous projects of £1.1m largely relating to the enhancement and replacement of existing assets such as vehicles, car parks, public conveniences etc.

### **iii. Other matters that significantly affect the reported financial position**

6. The Council's financial statements, needs and resources, are significantly affected by its status as a "debt-free authority" and the making of an exceptional payment of £10.02m to the Pension Fund in March 2002. These matters are of fundamental importance to an understanding of the statements. In summary:
- **Debt-free status** negates the requirement to make provision for loan repayments. Furthermore, under existing legislation, the Council has exceptional powers to access capital reserves.
  - **The payment to reduce the Pension fund deficit** in March 2002 has significantly reduced the value of day-to-day payments to the pension fund.
7. Both opportunities have been afforded by the large-scale voluntary transfer of the Council's housing stock in March 1999 which generated a substantial capital receipt. As a result, the authority's investments exceed £30m and generate income of around £1.6m per annum at current interest rates.

## *Section 1. EXPLANATORY FORWARD*

### **FINANCIAL NEEDS AND RESOURCES**

8. 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.
9. **Revenue reserves** are largely unchanged from the preceding year, and stood at £9.5m on 31 March 2004. However, within this total, a sum of £2m has now been formally set aside to meet the potential costs of the anticipated local plan inquiry. Revenue reserves may be used to finance capital or revenue spending plans.
10. **Capital reserves**, i.e. the fixed asset restatement, capital financing and usable capital receipts reserves are the subject of complex government controls. The usable capital receipts reserve, standing at £10.5m, is available to meet capital expenditure. However, the fixed asset restatement and capital financing reserves cannot be used to finance capital or revenue expenditure, except to the extent that the authority, being **debt-free**, has access to the exceptional powers to apply up to £9.4m from the provision for credit liabilities. This is accounted for within the capital financing reserve and may only be used to finance capital items.
11. The use of capital reserves must be carefully judged against the impact on the Council's interest receipts and council tax.
12. In considering the amount of overall reserves held, consideration should be given to the possible implications of the **Pension Fund deficiency** disclosed within the notes to the balance sheet (totalling £4m at 31 March 2004). The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the authority by 5.9% (13.8% in 2002/03). This disclosure follows the implementation of the controversial Financial Reporting Standard 17 'Retirement Benefits' (FRS17). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the notes to the balance sheet.
13. It is important to an understanding of the accounts to appreciate the nature of this reported deficiency, which is based on a "snapshot" of pension assets and liabilities at the year-end. This is quite different from the valuation basis used for the purposes of establishing the employers contribution rates, and hence cashflows, which are calculated using actuarial assumptions spread over a number of years. This results in less fluctuation.
14. Consequently, the reported deficiency should not necessarily give cause for concern at this stage. The Pension fund will be formally re-valued at 31 March 2004 based on assumptions over a longer term and actual cash outflows required to fund employees' pension funds recalculated.

## *Section 1. EXPLANATORY FORWARD*

### **OUTLOOK**

15. The financial statements provide details of the authority's income and expenditure, financial performance compared to budget, and its assets and liabilities. This section of the explanatory foreword looks at future revenue and capital investment plans.
16. **Revenue plans** - A great deal of effort goes into preparing each year's budget and identifying the financial pressures that the Council is likely to face immediately and over the longer term. A Financial Planning Model identifies how inflation, interest rates, spending pressures, government grants etc. influence the level of income to be raised from council tax and other sources.
17. The preparation of such a forecast provides a framework within which Members can balance priority issues, service developments and efficiency savings against existing and potential funding.
18. Over a period of several months, Council Members consider all the available options before deciding what the Council's budget should be and setting the Council Tax.
19. **Capital Investment** – The Council's Capital Strategy provides a framework for the development and management of the Council's capital programme and its ongoing review.
20. The Council will commence a review of its capital programme later this year in order to assess the relative priority of uncommitted schemes compared to new priorities arising from service plans, asset condition surveys, etc. This necessitates consideration of several issues that may be summarised as follows:
  - **availability of financial resources** – Use of resources must be considered in terms of the balance between the loss of interest income and resulting impact on council taxpayers, v. the inability to progress all potential projects.
  - **the balance struck** between competing service priorities.
  - **the impact of levying council tax on second homes.** Measures contained within the Local Government Act enable this council and Devon County Council to retain any additional tax raised to fund local public services, such as affordable housing. Discussions are currently being held with the County Council to plan the way forward. It is hoped that significant sums of money will soon be available which will offset the abolition of social housing grant and its impact on affordable housing in the district.
  - **the scale of renovations required to existing assets** as revealed by condition surveys of the major property holdings
  - **the need to ensure buildings are accessible to the disabled**

## ***Section 1. EXPLANATORY FORWARD***

- **the scale of capital income arising from contributions by developers (as a condition of planning approval), receipts arising from a review of the property portfolio, etc.**
  - the government's requirement to achieve 100% **electronic service delivery** by 2005
21. The Council's existing approved capital programme of £16m includes the following categories of expenditure,:
- the maintenance or replacement of assets that enable delivery of existing, particularly statutory services
  - the provision of additional assets which develop services fulfilling corporate priorities or new statutory requirements

### **FURTHER INFORMATION**

22. The following pages explain the Council's financial position in detail including further details of the authority's activities, cashflows and reserves. Further information on the Council's service priorities and issues can also be found within the Council's Performance Plan. Copies are available from South Hams District Council, Follaton House, Plymouth Road, Totnes, TQ9 5NE, or e-mail [enquiries@southhams.gov.uk](mailto:enquiries@southhams.gov.uk)



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**Section 2**  
**Financial Statements**

2003/2004

## Section 2A. CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2004

Net Expenditure / (Income) 2002/2003 £000s		Notes	Year ending 31 March 2004		
			Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
	<u>Service Expenditure Analysis</u>				
791	Central Services to the Public	1a	5,132	(4,330)	802
2,755	Cultural and Related Services	1b	3,083	(228)	2,855
4,390	Environmental Services	1c	5,590	(1,280)	4,310
(726)	Highways, Roads and Transport Services	1d	2,403	(3,407)	(1,004)
2,313	Housing Services	1e	14,385	(12,550)	1,835
2,001	Planning and Development Services	1f	3,861	(2,181)	1,680
1,759	Corporate and Democratic Core	1g	1,970	(92)	1,878
233	Non Distributed Costs	1h	321	-	321
13,516	<b>Net cost of services</b>		36,745	(24,068)	12,677
828	Parish council precepts				936
64	Dartmoor National Park Levy				67
(2,093)	Asset management revenue account	2			(1,490)
(1,657)	Interest and Investment Income				(1,649)
(340)	Pensions Interest and Return on Assets				490
10,318	<b>Net operating expenditure</b>				11,031
	<u>Appropriations</u>				
590	Capital expenditure financed from revenue	3			508
16	Harbour surplus transferred to Harbour balances				34
(79)	Contributions to / (from) earmarked reserves				(111)
	Contributions to / (from) provisions				55
(225)	Contributions to / (from) general reserves				33
(1,619)	Contribution from capital financing reserve	3			(1,284)
178	Contributions to / (from) pensions reserve				(727)
-	Increase in provision for bad debts				-
9,179	<b>Amount to be met from government grants and local taxation</b>				9,539
(1,887)	Revenue Support Grant				(2,454)
(3,443)	Distribution from non-domestic rate pool				(2,858)
(4,171)	Demand on the Collection Fund				(4,564)
(32)	Transfer from Collection Fund in respect of previous year's surplus				(32)
(354)	<b>Net General Fund (surplus)</b>				(369)
(3,995)	Balance on General Fund brought forward				(2,221)
2,128	Appropriations / Transfers (incl. the set aside of a £2m provision for the Local Plan inquiry)				
(2,221)	<b>Balance on General Fund (Accumulated Surplus) carried forward</b>				(2,590)



## Section 2C. STATEMENT OF TOTAL MOVEMENTS IN RESERVES

The statement of total movements in reserves brings together all the recognised gains and losses of the authority during the period and identifies those which have and have not been recognised in the consolidated revenue account. This statement separates the movements between revenue and capital reserves.

<b>Increase/(Decrease) in Reserve balances</b>	<b>2003/2004</b>	<b>2003/2004</b>	<b>2002/2003</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Surplus/(deficit) for year			
- General Fund	369		354
<i>Add back:</i>			
Movements on specific revenue reserves	(45)		(233)
Movement on collection fund balance	5		54
<i>Deduct:</i> Appropriation from pensions reserve	(727)		
Actuarial gains and losses relating to pensions	5,450		(8,970)
<b>Total increase/(decrease) in revenue resources (note 27)</b>		5,052	(8,795)
Increase/(decrease) in usable/deferred capital receipts	(54)		(823)
Increase/(decrease) in unapplied capital grants and contributions	540		292
<b>Total increase/(decrease) in realised capital resources (note 28)</b>		486	(531)
<b>Gain on revaluation of fixed assets (increase in unrealised value - note 29)</b>		5,593	648
<b>Value of assets sold, disposed of or decommissioned (note 29)</b>		(6)	(278)
Capital receipts set aside	1,335		1,697
Revenue resources set aside	(776)		(1,025)
Movements on Government Grants deferred	1,030		36
<b>Total increase/(decrease) in amounts set aside to finance capital investment (note 30)</b>		1,589	708
<b>Increase/(decrease) on the pensions reserve</b>		(1)	(40)
<b>TOTAL RECOGNISED GAINS AND LOSSES</b>		12,713	(8,288)



**Section 2E. COLLECTION FUND**

2002/2003 £000s		Notes	2003/2004 £000s
<b>Income</b>			
(30,668)	Council Tax	37	(36,024)
(2,893)	Council Tax Benefits		(3,666)
(14,770)	Business Rates	38	(14,312)
(26)	Less: Transitional Relief / (Surcharge)		(66)
-	Adjustment in respect of previous year's Community Charge		(1)
<u>(48,357)</u>			<u>(54,069)</u>
<b>Expenditure</b>			
	Precepts and Demands		
26,499	Devon County Council		31,271
2,552	Devon and Cornwall Police		3,572
4,171	South Hams District Council		4,564
	Business Rates		
14,543	Payment to national pool		14,095
165	Costs of collection allowance		165
	Distribution of previous year's estimated surplus		
200	Devon County Council		206
18	Devon and Cornwall Police		20
32	South Hams District Council		33
	Bad and doubtful debts		
	Write Offs		
41	Council Tax		55
87	Business Rates		60
	Provisions		
(5)	Council Tax		(35)
1	Business Rates		58
(1)	Community Charge		-
<u>48,303</u>			<u>54,064</u>
<u>(54)</u>	<b>Movement on fund balance</b>	<b>39</b>	<u>(5)</u>

### ***Section 3. STATEMENT OF ACCOUNTING POLICIES***

#### **General Principles**

The accounts have been drawn up in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2003: A Statement of Recommended Practice (the SORP)*, which is recognised by statute as representing proper accounting practice.

#### **Accruals**

The Council prepares its financial statements, except for cash flow information, on the accrual basis of accounting. The accrual basis of accounting requires the non-cash effects of transactions and other events to be reflected as far as it is possible, in the financial statements for the accounting period in which they occur, and not, for example in the period in which any cash involved is received or paid (Financial Reporting Standard 18 - FRS18).

Please see also the separate note explaining how the Council accounts for debtors and creditors.

#### **Capital Receipts**

The prescribed proportions of capital receipts, as required by the Local Government and Housing Act 1989, have been set aside for loan debt redemption and are included within the Capital Financing Reserve in the Consolidated Balance Sheet (these reserved receipts form part of the Provision for Credit Liabilities). The remaining part of receipts are available for financing future capital expenditure and are included in the Consolidated Balance Sheet within the usable capital receipts reserve. *However, exceptional powers are available to this Council, to apply the provision for credit liabilities for capital purposes following the achievement of "debt-free" status.*

#### **Contingent Assets and Liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. In accordance with FRS12, where a material contingent loss is not accrued, perhaps because it cannot be estimated or because the event is not considered sufficiently certain, it is disclosed as a note to the balance sheet. Contingent assets, where applicable, are disclosed by way of notes if the inflow of a receipt or economic benefit is probable. No material contingent assets were identified during 2002/2003 and 2003/2004.

### ***Section 3. STATEMENT OF ACCOUNTING POLICIES***

#### **Debtors and Creditors**

The Council's revenue accounts cover the day to day running cost of providing services. They are prepared on an accruals basis in accordance with FRS18, which means that adjustments are made for sums receivable or payable where the actual transaction has not been completed at the year-end.

#### **Deferred Charges**

Deferred charges are expenditure of a capital nature that does not impact on the acquisition or enhancement of a council fixed asset (as defined within the Code of Practice's definition of fixed assets). Expenditure that would fall into this category would include computer software, home improvement grants and advances to finance capital investment by other parties where there is no expectation of repayment – e.g. Town and Parish Councils. The authority's balance sheet includes a restricted number of balances under the category of "deferred charges" representing expenditure that has been capitalised but does not come under the heading of fixed assets.

The following principles have been adopted in accounting for deferred charges:

- amounts included in the balance sheet have been based upon the continuing value of the expenditure to the authority at the balance sheet date
- expenditure on deferred charges is identified with particular services and amortised to service revenue accounts based on the period of the deemed future benefit arising from the capital investment concerned.
- the effects of financing deferred charges are accounted for corporately after net operating expenditure has been disclosed. The amortised amounts are reversed out by a transfer from the capital financing reserve so that there is no net impact on the level of council tax

Deferred charges are generally amortised to revenue in the year that expenditure is incurred.

#### **Exceptional Items**

Exceptional items are ones that are material in terms of the authority's overall expenditure and not expected to recur frequently or regularly (please see FRS 3).

### ***Section 3. STATEMENT OF ACCOUNTING POLICIES***

#### **Fixed Assets**

##### a) Categories of assets

Fixed assets are categorised into classes as follows:

Operational assets:

- Land and buildings
- Vehicles, plant, furniture and equipment
- Infrastructure assets e.g. roads
- Community assets e.g. parks and open spaces

Non-operational assets e.g. assets under construction

##### b) Recognition

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains the value of an existing asset, is capitalised and classified as a fixed asset, provided that the asset yields benefits to the authority for a period of more than one year.

##### c) Measurement

Fixed assets are initially measured at cost. Only those costs, that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement.

Full valuations are performed on a rolling basis by a qualified internal valuer to cover all the authority's land and buildings over a five-year cycle. Operational land and properties and other operational assets are included in the balance sheet at value for existing use, or where this could not be assessed because the asset is specialised in nature, the depreciated replacement cost.

Non-operational land and properties are included in the balance sheet at market value. Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where appropriate.

Where a fixed asset is included in the balance sheet at current value, the difference between the amount at which the asset was included in the balance sheet immediately prior to the latest (re-) valuation is credited or debited to the fixed asset restatement reserve as appropriate.

### ***Section 3. STATEMENT OF ACCOUNTING POLICIES***

#### **d) Disposals (see also capital receipts)**

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Where the Government requires that a proportion of the receipt be reserved for the repayment of external loans this is credited to the capital financing reserve. Upon disposal, the net book value of the assets disposed of is written off against the fixed asset restatement reserve.

#### **e) Impairment**

The value of fixed assets included in the balance sheet is reviewed at the end of each reporting period and where there is reason to believe that its value has changed materially in the period, the valuation is adjusted accordingly (please see FRS11). Where the impairment is caused by a clear consumption of economic benefits, then a charge is made to the service revenue account. Other impairments, reflecting a general fall in prices, would be recognised in the fixed asset restatement reserve.

#### **f) Depreciation**

In accordance with FRS15, depreciation is provided on all fixed assets other than freehold land.

The Council depreciates its fixed assets on a straight-line basis over the expected life of the asset after allowing for the residual value of an asset. Useful lives are determined on a case by case basis. Typical useful lives are:

<b>Asset</b>	<b>Useful life</b>
Land and Buildings	Sixty years
Infrastructure	Twenty years
Vehicles	Seven years
Marine vessels	Fifteen years
IT equipment	Four years
Leisure equipment	Five years

#### **g) Charges for the use of Fixed Assets**

General fund service revenue accounts, central support services and trading accounts, including DSOs, are charged with a capital charge for all fixed assets used in the provision of the service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. The notional interest rate is 3.5% for assets at current value cost and 4.625% for assets at historical cost for 2003/04.

### ***Section 3. STATEMENT OF ACCOUNTING POLICIES***

However, in order to disclose the authority's corporate net operating expenditure, capital charges to services need to be reversed out and replaced by depreciation. This reconciliation is performed in the Asset Management Revenue Account (see note 2 to the Consolidated Revenue Account below).

Net operating expenditure contains accounting entries that are not revenue-based and should not have an impact on the Council Tax. Consequently, after the disclosure of net operating expenditure, a second reconciliation is needed to reverse out non-revenue items (e.g. depreciation and amortised government grants deferred). This is accomplished in the line 'Contribution from Capital Financing Reserve' in the Consolidated Revenue Account.

#### **h) Government Grants and Other Contributions**

Revenue grants are accrued and credited to income in the same period in which the related expenditure was charged.

Grants and other contributions relating to fixed assets are credited to a government grants deferred account and released to revenue over the expected useful life of the asset. Thus, the related asset is recorded at its gross current value in the balance sheet, and the grant is written off to the asset management revenue account over the life of the asset, thereby matching the depreciation of the asset.

#### **Government Grants**

In accordance with SSAP4, Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account. The treatment of government grants for fixed assets is explained above.

#### **Investments**

Investments are shown in the balance sheet at cost. They reflect the temporary investment of the amount of cash surplus to the Council's requirements at the end of the year. Investments are held with banks and similar institutions.

### ***Section 3. STATEMENT OF ACCOUNTING POLICIES***

#### **Leases**

The accounting statements reflect the requirements of SSAP21 *Accounting for lease and hire purchase contracts*. SSAP21 introduced the concept of two types of lease transaction occurring between lessors and lessees, operating leases and finance leases. An operating lease involves the lessee paying a rental for the hire of an asset for a period of time that is normally substantially less than its useful economic life. The lessor retains most of the risks and rewards of ownership of an asset in the case of an operating lease. A finance lease usually involves payment by a lessee to a lessor of the full cost of the asset together with a return on the finance provided by the lessor. The lessee has substantially all the risks and rewards associated with the ownership of the asset, other than the legal title. This Council does not hold any assets under finance leases.

Operating leases are accounted for by making charges to revenue as expenditure is incurred.

#### **Pension Costs**

The pension costs that are charged to the Council's accounts in respect of its employees are equal to the contributions paid to the funded pension scheme for these employees in accordance with statutory requirements. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis.

The implementation of FRS17 accounting policies in 2003/04 have had a material effect on substantial parts of the statement of accounts. Previous policy was to recognise liabilities in relation to retirement benefits only when the employer's contributions became payable to the pension fund or payments fell due to pensioners for which the council was directly responsible. The new policies better reflect the commitment in the long-term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

The change has had the following effects on the results for 2003/04:

- The overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are 1.9% lower (2002/03 1.2%) after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 7.0% higher (2002/03 1.7% lower) than it would otherwise have been.
- The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the authority by 5.9% (13.8% in 2002/03).

### ***Section 3. STATEMENT OF ACCOUNTING POLICIES***

#### **Provisions**

In accordance with FRS12, the Council sets aside provisions for future liabilities or losses, which are likely or certain to be incurred, but uncertain as to the amounts or the dates on which they will arise, such as potential costs arising from public inquiries, etc (see note 19 to the balance sheet).

#### **Reserves**

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. Expenditure is not charged direct to any reserve.

**Revenue Reserves:** The Council maintains certain reserves, some to meet general, and others to meet specific future expenditure. For each reserve established, the purpose of the reserve is explained in the notes supporting the balance sheet (please see notes 27 and 31).

**Capital Reserves:** Many capital reserves are not available to meet expenditure whether it is revenue or capital. Reserves brought about by the capital accounting arrangements (namely the fixed asset restatement reserve and the capital financing reserve) cannot be used to meet expenditure, except to the extent that the authority, being debt-free, has access to the exceptional powers to apply the provision for credit liabilities accounted for in the capital financing reserve (see note 21 to the balance sheet).

#### **Stocks and Work in progress**

Stocks are valued at cost and represent goods and materials chargeable to revenue, which have not been consumed by the accounting date. Costs are carried forward to be charged in the accounting period in which they are consumed. Work in Progress on uncompleted jobs is valued at cost including an allocation of overheads.

### ***Section 3. STATEMENT OF ACCOUNTING POLICIES***

#### **Support Services and other overheads (accommodation, etc.)**

The costs of the Council's support services are fully recharged to services based on the actual time spent by staff in accordance with the requirements of the Best Value Accounting Code of Practice. The bases of allocation used for the main costs are outlined below:

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

Some support service expenditure is allocated to the corporate and democratic core, which brings together the costs of democratic representation and management and corporate management, excluding them from the total cost of any particular service. Items included under this head are member support services, (including the preparation of agendas and minutes), the cost of the Chief Executive, completion of all service annual returns and reports such as the Best Value Performance Plan, cost of the treasury management function, etc.

#### **Value Added Tax**

The Council does not include VAT as part of income or expenditure, except where it is unable to recover VAT. This is in accordance with the requirements of SSAP5.

**Section 4**

**Explanatory and Disclosure  
Notes**

## Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNTS

### 1. Service Expenditure Analysis

Net Expenditure / (Income) 2002/2003 £000s		Year ending 31 March 2004		
		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
	<u>a. Central Services to the Public</u>			
261	Council Tax Benefits	3,900	(3,698)	202
592	Council Tax Collection	835	(226)	609
12	Conducting Elections	80	(20)	60
93	Electoral Registration	91	(3)	88
34	Emergency Planning	46	-	46
(201)	Local Land Charges	180	(383)	(203)
<hr/> 791	Total	<hr/> 5,132	<hr/> (4,330)	<hr/> 802
	<u>b. Cultural and Related Services</u>			
61	Culture and Heritage	62	-	62
	Open Spaces:			
642	Community Parks and Open Spaces	783	(59)	724
75	Countryside Recreation and Management*	110	(31)	79
	Sport and Recreation:			
355	Outdoor Sports and Recreation*	384	(52)	332
599	Quayside Leisure Centre	644	(59)	585
546	South Dartmoor Leisure Centre	508	-	508
256	Totnes Pavilion Leisure Centre	304	(10)	294
	Tourism:			
193	Marketing and Tourism	240	(1)	239
28	South Dartmoor Tourist Information Centre	48	(16)	32
<hr/> 2,755	Total	<hr/> 3,083	<hr/> (228)	<hr/> 2,855

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

Net Expenditure / (Income) 2002/2003 £000s		Year ending 31 March 2004		
		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
	<u>c. Environmental Services</u>			
94	Beach and Water Safety	99	-	99
28	Cemeteries and Burials	22	-	22
95	Coast Protection	185	(82)	103
	Environmental Health:			
69	Community Safety	75	-	75
175	Food Safety	208	-	208
136	Health and Safety at Work	97	-	97
70	Housing Standards	76	-	76
37	Licensing	102	(67)	35
25	Pest Control	25	-	25
164	Pollution Reduction	212	(35)	177
618	Public Conveniences	616	(2)	614
127	Public Health	131	(1)	130
77	Flood Defence and Land Drainage	58	-	58
936	Street Cleaning:	955	(11)	944
75	Beach Cleaning	60	(2)	58
	Waste Management:			
1,277	Household Waste Collection	1,289	(125)	1,164
462	Recycling	925	(449)	476
(75)	Trade Waste	455	(506)	(51)
<u>4,390</u>	<b>Total</b>	<u>5,590</u>	<u>(1,280)</u>	<u>4,310</u>
	<u>d. Highways, Roads and Transport</u>			
(870)	Car and Boat Parking	962	(2,034)	(1,072)
(22)	Dartmouth Lower Ferry	635	(719)	(84)
(16)	Salcombe Harbour	620	(654)	(34)
182	Transport Policy and Public Transport	186	-	186
<u>(726)</u>	<b>Total</b>	<u>2,403</u>	<u>(3,407)</u>	<u>(1,004)</u>
	<u>e. Housing Services</u>			
314	Homelessness	797	(432)	365
(1)	Housing Advances	1	(3)	(2)
109	Housing Advice	102	-	102
1,225	Housing Benefits	12,853	(11,919)	934
99	Housing Strategy	102	-	102
524	Private Sector Housing Renewal	466	(196)	270
43	Registered Social Landlords	64	-	64
<u>2,313</u>	<b>Total</b>	<u>14,385</u>	<u>(12,550)</u>	<u>1,835</u>

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

Net Expenditure / (Income) 2002/2003 £000s		Year ending 31 March 2004		
		Gross		Net
		Expenditure £000s	Income £000s	Expenditure £000s
	<u>f. Planning and Development Services</u>			
	Building Control:			
(21)	Building Regulations	389	(451)	(62)
61	Other Building Control Work	67	-	67
245	Community Development	252	(1)	251
	Development Control:			
154	Enforcement	145	-	145
357	Planning Applications and Appeals	844	(485)	359
284	Economic Development*	276	(26)	250
133	Employment Estates	844	(884)	(40)
240	Environmental Initiatives	284	(164)	120
196	Land and Investment Properties	198	(53)	145
(68)	Pannier Markets	37	(108)	(71)
420	Planning Policy	525	(9)	516
<u>2,001</u>	<u>Total</u>	<u>3,861</u>	<u>(2,181)</u>	<u>1,680</u>
	<u>g. Corporate and Democratic Core</u>			
842	Corporate Management	952	(92)	860
917	Democratic Representation and Management	1,018	-	1,018
<u>1,759</u>	<u>Total</u>	<u>1,970</u>	<u>(92)</u>	<u>1,878</u>
	<u>h. Non Distributed Costs</u>			
233	Non distributed costs	321	-	321
<u>233</u>		<u>321</u>	<u>-</u>	<u>321</u>

Services affected by the write-down of deferred charges are marked with an \* (please see explanatory note ii)

***Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)***

**1. Service Expenditure Analysis (Further explanatory notes)**

i. Non Distributed Costs – Non Distributed Costs represent overheads which are considered to be unapportionable and are therefore not allocated to services in accordance with guidance contained in the Best Value Accounting Code of Practice. The cost of £321,000 for 2003/2004 represents charges resulting from early retirements and redundancies (including approximately £96,000 arising from the Council's management restructuring process).

ii. Deferred charges are written off to the revenue account in the year that expenditure is incurred. These costs are matched by a credit in the appropriations section of the Consolidated Revenue Account under the heading "Contribution from Capital Financing Reserve".

Deferred charges represent expenditure that qualifies as capital for the purposes of government controls, but does not result in the acquisition, creation or enhancement of a tangible fixed asset. Types of deferred charges include items such as improvement grants, grants to community organisations and computer software. Please see note 14(iv) to the balance sheet for a further explanation of the items included within the service expenditure analysis above.

iii. Surpluses on Trading Undertakings – (See also Section 5 to the Statement of Accounts). The Best Value Accounting Code of Practice requires that significant balances on trading accounts should be reapportioned to services. This is necessary to avoid a material misstatement of the total cost to the authority of performing functions - (particularly where these are the subject of a published performance indicator). Consequently, surpluses and deficits on trading operations amounting to some £180,000 have been credited back to the net cost of services by reference to the value of the work performed or contractor payment.

An amount is credited back to the DSO reserves in the appropriations section of the Consolidated Revenue Account within the line 'Contributions to (from) earmarked reserves'.

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

**2. Transactions in the Asset Management Revenue Account**

The Asset Management Revenue Account reverses out the capital charges made to services under the capital accounting system and replaces them with depreciation (net of government grants deferred) and external interest charges (where applicable). The balance on the asset management revenue account is transferred to the Consolidated Revenue Account after the net cost of services has been determined.

The transactions on the asset management revenue account are summarised below:

<b>2002/2003 £000s</b>		<b>2003/2004 £000s</b>	<b>2003/2004 £000s</b>
	<b>Income</b>		
	Capital Charges		
(3,004)	- General Fund	(2,389)	
(16)	Government grants - deferred	(19)	
<u>(3,020)</u>			(2,408)
	<b>Expenditure</b>		
927	Provision for depreciation	918	
-	Impairment	-	
<u>927</u>			918
	Balance to Consolidated		
<u>(2,093)</u>	Revenue Account		<u>(1,490)</u>

Following the redemption of the Council's debt in 2000/2001, no external interest is payable.

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

**3. Contribution to / (from) capital financing reserve**

The notes and table, which follow, detail the contributions to and from the capital financing reserve:

<b>2002/2003 £000s</b>		Notes	<b>2003/2004 £000s</b>
<b>i. Contribution to the Capital Financing Reserve</b>			
<b>590</b>	Capital expenditure financed from revenue	(i)	<b>508</b>
<b>ii. Contribution from the Capital Financing Reserve</b>			
(927)	Depreciation charged to revenue accounts		(918)
-	Impairment charged to revenue accounts		
16	Less: deferred grants written down		18
(911)		(ii)	(900)
(164)	Credit to General Fund Revenue Account in respect of the commutation of specific grants	(iii)	(111)
(544)	Deferred charges (net of capital grant)	(ii)	(273)
<b>(1,619)</b>	Balance to Consolidated Revenue Account		<b>(1,284)</b>

- (i) This entry represents the direct revenue financing of capital expenditure from earmarked reserves. A corresponding credit from the earmarked reserves is included within the line contributions to / (from) earmarked reserves.
- (ii) Net operating expenditure contains accounting entries that are not revenue-based and should not have an impact on the Council Tax (e.g. depreciation and deferred charges written off to general fund services). Consequently, after the disclosure of net operating expenditure, further reconciling entries are needed to reverse out these items.
- (iii) Commutation Adjustment – The commutation adjustment is an annual allowance to offset losses from the early repayment of improvement grant loan charges subsidy by the government in 1992/93.

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

**4. Expenditure on Publicity**

Section 5(1) of the Local Government Act 1986, requires disclosure of the Council's expenditure on publicity. Expenditure during the year totalled approximately £356,000 including recruitment advertising of £73,000 (Total expenditure in 2002/2003 was £345,000 including recruitment expenditure of £72,000).

**5. Leases**

The Authority uses certain land and buildings under the terms of an operating lease. The amount paid under these arrangements in 2003/2004 was £81,722 (2002/2003 £75,601).

The authority is committed to making payments of £84,722 under these leases in 2004/2005, comprising the following elements:

	<u>£</u>
Leases expiring in 2004/2005	-
Leases expiring between 2005/2006 and 2008/2009	84,680
Leases expiring after 2009/2010	42

The authority also uses various fixed assets, principally photocopiers, leased cars and vending machines under the terms of an operating lease. However, the payments due under such agreements are of negligible value being less than £5,000 for any one operating lease.

The authority does not hold any assets under finance leases.

**6. Employee Remuneration**

The Accounts and Audit Regulations 2003 require the disclosure of certain information relating to officers' emoluments. This means all amounts paid to or receivable by an employee and includes sums due by way of expenses, allowances and the estimated money value of any other benefits received by an employee otherwise than in cash. Details of the number of employees whose remuneration fell in bands of £10,000, starting from £50,000 are as follows:

<b>2002/2003 Total</b>	<b>Remuneration Band</b>	<b>2003/2004 Total</b>
4	£50,000 - £59,999	3
-	£60,000 - £69,999	1
1	£70,000 - £79,999	1
-	£80,000 - £89,999	1

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

**7. Pensions**

(i) Pensions Costs

Explanation:

In accounting for pension costs, local authorities follow the objective of recognising the expected cost or providing pensions on a systematic and rational basis over the period during which they derive benefit from an employee's services. The costs in any one financial year can include both a current service cost and a variation from the regular cost (for example, through changes in regulations and the existence of fund surpluses or deficits).

Notes regarding the Council's pension liabilities and effects on the accounts are included both in this section and in the notes to the Consolidated Balance Sheet. The Consolidated Balance Sheet discloses the authority's net liability in relation to retirement benefits.

The Pension Scheme:

The Local Government Pension scheme is a defined benefit scheme based on final pensionable salary.

The contribution rate in any one year is determined by the Fund's actuary based on triennial actuarial valuations. The rate applicable for 2003/2004 is based on the actuarial valuation of the fund as at 31 March 2001.

Charges in 2003/2004

In 2003/2004, the Council paid an employer's contribution of £770,000 (£727,000 in 2002/2003) into the pension fund, representing 9.6% of employees' pensionable pay. The contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, the last review being 31 March 2001.

In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2003/2004 these amounted to £242,754 (£165,399 in 2002/2003), representing 3.2% of pensionable pay.

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

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

(ii) Implementation of FRS17

Following full implementation of FRS17 in 2003/2004 the cost of retirement benefits is recognised in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charges made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure. The following transactions have been made in the Consolidated Revenue Account during the year.

	<b>2002/03</b>	<b>2003/04</b>
	<b>£000s</b>	<b>£000s</b>
<b>Net Cost of Services</b>		
current service cost	860	970
past service costs	194	280
<b>Net Operating Expenditure</b>		
interest cost	2,380	2,430
expected return on assets in the scheme	(2,720)	(1,940)
<b>Amounts to be met from Government Grants and Local Taxation</b>		
movement on pensions reserve	178	(728)
<b>Actual amounts charges against council tax for pensions in the year</b>		
employer's contributions payable to scheme	(892)	(1,012)

**8. Members Allowances**

The total of Members' Allowances paid in the year was £232,178 (2002/2003: £226,212).

***Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)***

**9. Related Party Transactions**

The Council is obliged under FRS8 (Related Party Disclosures) to consider details of related party transactions between itself and each related party – e.g. central government, individual Member or Chief Officer (and that individual's close family). Any material transactions, other than those common to all individuals (e.g. Council Tax, Housing Benefit, etc.) are disclosed so that the reader of the accounts can judge the effect such a transaction may have had on the reported financial position.

No material transactions with related parties during the year have been identified, other than those disclosed below or elsewhere, i.e. government grants, etc..

The Council is a member of Tor Homes which is a company limited by guarantee and a registered charity which was set up to own and manage the stock previously owned by the Council. The Council's voting rights as a member of the company amount to (and are limited by the company's constitution to) 33.3 per cent. The Council also has the right to appoint five of the company's fifteen trustees (who are the company's board of directors), and five of its Councillors currently serve in this capacity. Although their membership of the board does not constitute a controlling interest, it is felt appropriate, within the definition of FRS8, to disclose this relationship and the transactions between the two organisations.

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

**10. Financial Assistance to Organisations and Individuals**

During the year the Council advanced a number of grants and loans to organisations within its area. Details of significant payments are as follows:

	<b>2002/2003</b>	<b>2003/2004</b>
	<b>£000s</b>	<b>£000s</b>
<u>Details of grants / service areas:</u>		
Environmental projects, including land management grants under the EU funded Area of Outstanding Natural Beauty programme	7	8
Housing enabling grants	74	49
Citizens Advice Bureau	34	35
Economic promotion grants	23	24
Grants to town/parish councils and local organisations through the Community Partnership Fund	59	21
Village Halls	5	23
Support to the arts	19	20
Beach and Water safety	48	51
Public transport	10	11
Other welfare payments	22	36
Sports development	61	12
Miscellaneous	16	33
	<hr/>	<hr/>
	378	323
	<hr/>	<hr/>

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

**11. Building Control Trading Account**

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

Chargeable	Non - Chargeable	Total Building Control		Chargeable	Non - Chargeable	Total Building Control
2002/2003	2002/2003	2002/2003		2003/2004	2003/2004	2003/2004
£000s	£000s	£000s		£000s	£000s	£000s
<b>Expenditure</b>						
202	36	238	Employee expenses	226	36	262
8	2	10	Premises	7	2	9
21	4	25	Transport	22	4	26
46	18	64	Supplies and services	77	15	92
42	1	43	Central and support services	49	8	57
319	61	380	Total Expenditure	381	65	446
<b>Income</b>						
-	(1)	(1)	Access Auditing	-	-	-
(345)	-	(345)	Building Regulations charges	(451)	-	(451)
(345)	(1)	(346)	Total Income	(451)	-	(451)
(26)	60	34	<b>(Surplus)/Deficit for Year</b>	(70)	65	(5)

**Section 4A. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT  
(CONTINUED)**

**12. Local Authority (Goods and Services) Act 1970**

The Council is required to provide details of work carried out for other Public bodies. The purpose of this disclosure is to demonstrate the extent to which the Council is engaged in trading activities which would not otherwise be part of its function as a Local Authority.

All Local Authorities are allowed to supply goods and services to a number of prescribed public bodies by the 1970 Act. The income and expenditure in respect of these activities is included in the Council's Consolidated Revenue Account. The activities undertaken by South Hams District Council are analysed below:

	<u>2002/03</u> £ 000	<u>2003/04</u> £ 000
i. Provision of administrative and professional services to local Councils	3	4
ii. Lease of accommodation to the Devon County Council Registration service, Citizens Advice Bureau and Teignbridge Enterprise Agency - <i>(comparatives reflect income from the lease of accommodation to Tor Homes and the DCC Registration service only)</i>	31	37
iii. Provision of printing services (mainly to local housing associations)	13	5
	<u>47</u>	<u>46</u>

**13. Agency Arrangements**

Certain statutory powers allow the Council to undertake work on behalf of other public bodies. The main arrangement under these powers was the collection of land charge search fees on behalf of Devon County Council. These fees are included within the standard search fee and reimbursed to the County Council on a periodic basis. The amount collected was £51,000 in 2003/2004 (£59,700 in 2002/03). The Council also undertakes building maintenance work on an agency basis for housing associations. The value of work undertaken was £196,300 in 2003/2004 (£14,900 in 2002/03).

**13a. External Audit Costs**

The following fees were payable in respect of external audit and inspection:

	<u>2002/03</u> £ 000	<u>2003/04</u> £ 000
Audit Code Responsibilities	58	60
Statutory Performance	15	16
Grant Claims and Returns	21	22
Other Services	9	6
	<u>103</u>	<u>104</u>

## **Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET**

### **Introduction to the Balance Sheet**

The Balance Sheet has been prepared in accordance with the principles laid down by the Chartered Institute of Public Finance and Accountancy (CIPFA) and as set out in the 'Code of Practice on Local Authority Accounting in the United Kingdom 2003 – A Statement of Recommended Practice (the SORP).

### **14. Fixed Assets**

In accordance with the capital accounting provisions of the 'Code of Practice', the Council's assets have been valued as at 1 April 1994 and increased by expenditure incurred since that date where appropriate or revalued.

All material freehold and leasehold properties which comprise the authority's property portfolio are revalued by the Council's valuer on a rolling basis. Valuations are in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

Plant and machinery are not included in the valuation of the buildings.

Properties regarded by the authority as operational are valued on the basis of value for the existing use or, where this cannot be assessed because there is no market for the subject asset, the depreciated replacement cost. Properties regarded by the authority as non-operational are valued on the basis of market value.

Infrastructure and community assets are included on the balance sheet at historical cost. In the absence of full relevant information the Council has included these assets on the basis of debt outstanding at 31 March 1994 updated for expenditure since that date.

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

(i) Movements on fixed assets this year

	Land and Buildings	Vehicles, plant furniture & equipment	Infra- structure assets	Community Assets	Non-operational assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Certified valuation at 31 March 2003	29,726	3,947	3,381	307	1,345	38,706
Accumulated depreciation and impairment	(1,051)	(1,918)	(646)	-	(24)	(3,639)
Net book value of assets at 31 March 2003	28,675	2,029	2,735	307	1,321	35,067
Reclassification of assets (please see note)	(117)	(1)	1	-	117	-
Net book value of assets at 31 March 2003 (restated)	28,558	2,028	2,736	307	1,438	35,067
Movements in 2003/2004						
- Additions	1,641	509	101	1	810	3,062
- Disposals	-	(6)	-	-	-	(6)
- Revaluations	6,090	-	-	-	(497)	5,593
- Depreciation	(470)	(340)	(94)	-	(14)	(918)
Net book value of fixed assets as at 31 March 2004	35,819	2,191	2,743	308	1,737	42,798
Accumulated depreciation / impairment at 31 March 2004	1,305	2,132	741	-	38	4,216

(ii) Depreciation Methodologies

In accordance with FRS15, the council provides depreciation on all fixed assets other than freehold land. 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 a fixed asset is revised, the carrying amount of the fixed asset is depreciated over the revised remaining life.

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

(iii) Major fixed asset information – Asset Base

The following table identifies the land and buildings held by the Council during the financial year 2003/2004.

Please note that during the year the Council has improved the records regarding the number of assets held by the Council and this has been reflected in the analysis for 2003/04. The movement of the asset from the end of March 2003 does not necessarily reflect new assets acquired or disposed of during the year. The value of the assets has not been affected.

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

The land and buildings held by the Council this year included:

31.3.2003 Number	31.3.2003 Net Book Value £000		31.3.2004 Number	31.3.2004 Net Book Value
		<b>- Operational Assets</b>		
		- Land and buildings		
6	1,093	Dwellings used for housing the homeless	18	1,955
3	8,445	Sports centres and pools	3	8,658
3	2,778	Offices, administrative	3	2,751
3	550	Depots	5	1,030
4	245	Visitor / Resource Centres	4	271
	488	Courts and pitches (5 main sites)		505
		Courts and pitches include:		
19		Tennis Courts	19	
3		Bowling Greens (incl. 1 all weather)	3	
2		Putting Greens	2	
10		Soccer pitches (incl 1 junior)	10	
4		Rugby pitches (incl. 1 junior)	4	
4		Cricket Squares	4	
1		All weather pitches	1	
6		Skateparks	6	
4		BMX tracks	4	
94	93	Children's play areas	94	106
		Off street car parks / park and ride (including 36 fee-paying car parks)	49	4,779
46	3,016			
156	10,206	Industrial Units and other operational property	156	13,590
51	1,761	Public conveniences	51	2,174
		<b>- Vehicles, plant furniture and equipment</b>		
14	353	Watercraft / vessels	14	330
87	1,291	Vehicles and plant	87	1,382
50	386	IT and other equipment	63	479
31	2,735	<b>- Infrastructure assets</b>	31	2,743
	307	<b>- Community assets (see notes)</b>		308
		including: -		
16		- Parks / Ornamental Gardens (23 hectares)	16	
		- Informal parks / Open spaces (105.4 hectares)		
		<b>- Non operational land and buildings</b> - including		
11	1,320	café, shops and land awaiting development	11	1,737
	<u>35,067</u>	<b>Total</b>		<u>42,798</u>

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

Notes:

Please note that the Council sold the whole of its Council dwellings on 22 March 1999.

Community Assets are carried at historical cost. As many of these assets may have been acquired some considerable time ago, further information is provided of the assets held to aid an understanding of the Authority's asset holdings.

(iii) Revaluation

The following statement shows the progress of the Council's rolling programme of the revaluation of fixed assets.

The valuations of real estate were carried out by Paul Abrey FRICS, the Council's Principal Valuer. Fixed assets are valued in accordance with a five year rolling programme (with ad hoc valuations taking place, for example where assets have been enhanced). The basis of valuation is set out in the Statement of Accounting policies. The table that follows shows the date and amounts of the valuations. All assets have been subjected to a full valuation since 1 April 1999 (excepting assets carried at historical cost):

	Land and Buildings	Vehicles, plant furniture & equipment	Infra- structure assets	Community Assets	Non- operational assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Valued at historical cost	1,532	2,191	2,743	308	844	7,618
New certified valuation included in balance sheet in						
2003/2004	14,314	-	-	-	189	14,503
2002/2003	7,365	-	-	-	-	7,365
2001/2002	9,054	-	-	-	443	9,497
2000/2001	2,459	-	-	-	128	2,587
1999/2000	1,095	-	-	-	133	1,228
	35,819	2,191	2,743	308	1,737	42,798

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

(iv) Analysis of Deferred Charges

Deferred charges are expenditure of a capital nature which does not impact on the acquisition or enhancement of a council fixed asset (as defined within the Code of Practice's definition of fixed assets). Expenditure which would fall into this category would include computer software, home improvement grants and advances to finance capital investment by other parties where there is no expectation of repayment – e.g. Town and Parish Councils.

The bulk of deferred charges have been written off straight away.

<u>2002/2003</u> <u>£000s</u>		<u>2003/2004</u> <u>£000s</u>
-	Balance as at 1 April	29
	Expenditure	
-	i. Contribution towards the Pension Fund Deficit (Note)	
634	ii. Improvement Grants	317
	iii. Other Items:	
74	- Environmental Initiatives	106
	- Community Development - including grants to village halls and other local organisations through the Community Partnership Fund	
54		34
	- Grants/capital contributions to capital expenditure by third parties - e.g. South Devon Tennis Centre, Harberton Flood alleviation scheme etc.	
75		19
29	iv. IT Software	125
	Less	
(837)	- Charge to revenue in year	(507)
	- Charge to reserved capital receipts in year	(9)
29	Balance at 31 March	114

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

- (v) Analysis of Capital Expenditure  
Total capital expenditure in 2003/2004 amounted to £3.7m (2002/03 £3.8m). This is analysed below into the major schemes:

<u>2002/03</u> £000s		<u>2003/04</u> £000s
	<b>Central Services</b>	
391	Vehicle replacement programme	353
46	Follaton House rewiring, replacement telephone system, etc.	9
-	Contribution towards the Pension fund deficit (Note i)	
42	IT hardware and software	204
	<b>Cultural and Related Services</b>	
136	Leisure centre new facilities / refurbishments	793
81	Sports development, including Norton playing pitches and capital contributions to external organisations	68
	<b>Environmental Services</b>	
94	Refurbishment of public conveniences	246
311	Waste Management, including the reorganisation of depot sites and the development of facilities at Torr Quarry (this site was purchased for use as a depot and waste transfer station)	406
34	Coast and Flood Protection	92
-	Other	27
	<b>Highways, Roads and Transport Services</b>	
155	Car and boat park enhancements	168
33	Salcombe Harbour - Harbour office, watercraft and infrastructure	73
	<b>Housing Services</b>	
634	Housing - renovation grants, etc.	318
	Temporary Accommodation	809
1,644	New housing in partnership with housing associations	-
	<b>Planning and Development</b>	
5	Industrial units - Dartmouth, Lee Mill and Babbage Road	24
54	Community development / grant aid - financial and technical assistance to parish / town councils and local organisations	35
77	Environmental schemes (re. the Area of Outstanding Natural Beauty, etc.)	38
42	<b>Other</b>	-
<u>3,779</u>		<u>3,663</u>

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

(vi) Commitments under capital contracts

The following significant contractual commitments have been entered into by the Council:

	<b>£000s</b>
<b>Dartmouth Leisure Facilities</b>	
- represents outstanding commitments relating to the new leisure facilities at Dartmouth. The construction phase is currently underway and is due for completion during September 2004.	461
<b>Steamer Quay Car Park</b>	
- represents the cost of improvements to the existing surfacing and extending the number of parking spaces to compensate for those spaces lost following the construction of the new toilet block; also improvements to the adjacent section of the riverside walkway. The contract was let in March 2004 and work commenced in April 2004.	112
	<hr/>
	573
	<hr/>

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

- (vii) Summary of capital expenditure and sources of finance  
The following table shows how expenditure on fixed assets was financed:

	<b>2002/03</b>	<b>2003/04</b>
	<b>£000s</b>	<b>£000s</b>
<b>Capital Investment</b>		
Operational Assets	920	2,251
Non-operational assets	331	810
Deferred Charges	866	602
Amounts written down to the Fixed asset restatement reserve	18	-
Long term debtors (grants to Housing Associations)	1,644	-
Total expenditure for capital purposes	<u>3,779</u>	<u>3,663</u>
* (Increase) / Decrease in Capital Creditors	<u>(303)</u>	<u>263</u>
Expenditure for capital controls	<u>3,476</u>	<u>3,926</u>
<b>Sources of Finance</b>		
Credit approvals used	-	-
Capital receipts	1,333	589
Reserved Capital receipts (Provision for Credit Liabilities) (Please see explanatory note)	1,202	1,453
Capital grants and external contributions	351	1,337
Earmarked reserves	573	538
Revenue/Revenue balances	17	9
	<u>3,476</u>	<u>3,926</u>

\* The Government's capital controls system requires that a financing statement is prepared only for cash payments. However, in line with CIPFA guidance, the Council accrues for capital expenditure. The resulting adjustment on the financing statement represents the difference between opening and closing accruals (capital creditors).

Following the achievement of debt-free status in 2000/01, the Council is able to access reserved capital receipts (please see further details contained within Appendix 2 to the Statement of Accounts and the note referring to the PCL)

**14a. Deferred Credits**

The District Council has entered into a partnership with Devon County Council (DCC) to construct and operate a waste transfer facility at Torr Quarry. DCC makes an annual contribution to the construction cost which is based on the annual tonnage of throughput. The sum of £336,000 shown as a deferred credit represents the amount owing to the District Council at 31 March 2004. (Nil at the 31 March 2003)

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

**15. Stocks**

<b>31.3.2003</b>		<b>31.3.2004</b>
<b>£000s</b>		<b>£000s</b>
61	Works Depot	67
16	Dartmouth Ferry	16
26	Leisure Centres	24
4	Stationery	3
12	Postage	15
8	Printing Materials	7
5	Tourist Information Centre	5
<hr/> 132		<hr/> 137

**16. Debtors**

<b>31.3.2003</b>		<b>31.3.2004</b>
<b>£000s</b>		<b>£000s</b>
1,185	Government departments	424
207	Other local authorities	196
897	Sundry debtors	1,558
422	Interest receivable on investments	
-	NNDR Pool Debtor	231
854	Council tax payers	844
371	Business ratepayers	528
<hr/> 3,936		<hr/> 3,781
	Provision for bad debts:	
(385)	General Fund	(394)
	Collection Fund	
(322)	Council tax	(287)
(117)	Business rates	(175)
<hr/> 3,112		<hr/> 2,925

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

**17. Temporary Investments**

The investments detailed below represent the amount of cash surplus to the Council's day to day requirements:

<b>31.3.2003</b>		<b>31.3.2004</b>
<b>£000s</b>		<b>£000s</b>
775	Local authorities	-
29,800	Banks and other monetary sector	30,815
<u>30,575</u>		<u>30,815</u>

**18. Creditors**

<b>31.3.2003</b>		<b>31.3.2004</b>
<b>£000s</b>		<b>£000s</b>
235	Inland revenue	245
319	Other government departments	543
184	Other local authorities	155
2,399	Sundry creditors	2,020
625	Council taxpayers	742
87	Business ratepayers	292
<u>3,849</u>		<u>3,997</u>

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

**19. Provisions**

<b>Balance as at</b>		<b>Balance as at</b>
<b>1 April 2003</b>		<b>31 March</b>
<b>£000s</b>		<b>2004</b>
		<b>£000s</b>
22	Leisure staffing	-
75	Award of costs (planning)	75
-	Langage S106 Contribution	55
-	Provision for Rates Revaluation	24
97		154

**Leisure Staffing** - represents potential costs arising from the review of terms and conditions for leisure centre staff following finalisation of proposals in 2003/2004 and the necessary consultation.

**Award of costs (planning)** - represents costs awarded against the Council following the Development Control committee's refusal of planning permission for the installation of a radio mast at Bolberry Down. The Council's legal services have appointed negotiators to explore the scope for reducing this figure based on their assessment of whether the appellant's costs were reasonably incurred.

**Langage S106 Contribution** - represents the potential refund of the contribution

**Provision for Rates Revaluation** - represents the potential additional rates due following reassessment of the Rateable Value of South Dartmoor Leisure Centre

**20. Contingent liabilities**

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

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

ii. Redundancy costs - two further redundancies have been agreed in 2004/2005. One off costs of approximately £200,000 will be incurred following these decisions.

iii. During 1992 the Council's insurers, Municipal Mutual Insurance Ltd (MMI) ceased accepting new business or renewing policies as they expired due to a lack of sufficient solvency to meet the Department of Trade and Industry's requirements. Whilst the Council has insured elsewhere from 1 June 1993, it had a number of outstanding claims with MMI and arrangements are in place for the orderly settlement of the sums due. A contingent liability exists in that it is possible that if at some time in the future the Directors of MMI cannot foresee the conclusion of such orderly settlement, the company would invoke a Scheme of Arrangement with its major creditors, one of which is this Council. Should the Scheme of Arrangement be invoked the Council's maximum exposure to loss would be £118,608.

It remains the view of the Directors of MMI that, based on all of the information known to them at 28 October 2003, it is unlikely that a Scheme of Arrangement will need to be invoked.

**21. Provision for Credit Liabilities (PCL) Memorandum Account**

In accordance with statutory requirements, the Council is required to set aside sums as a provision to repay external loans and for other limited purposes. The Council does not keep an account within the accounting records for the PCL as there is no need to do so but maintains a memorandum account which is set out below.

<u>2002/2003</u> <u>£000s</u>		<u>2003/2004</u> <u>£000s</u>
(32,665)	Balance brought forward as at 1 April	(33,316)
164	Commutation adjustment	111
1,202	Application of PCL to finance expenditure for capital purposes	1,453
(373)	Capital Receipts set-aside	(748)
(1,644)	Capital Grants set-aside	-
<u>(33,316)</u>	Balance at 31 March	<u>(32,500)</u>

## **Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET (CONTINUED)**

Following the Council's debt-free status from 1 April 2001, the authority is able to use exceptional powers to apply the provision for credit liabilities for capital purposes. This power is subject to certain restrictions and constraints as follows:

- the amount which can be applied in any financial year must not exceed the amount by which the credit ceiling at the end of the preceding financial year was less than nil. The credit ceiling represents the net amount of capital investment for which the authority has still to set aside resources. For South Hams, the credit ceiling at 31.3.2004 was negative - £9.4m)
- advances to housing associations for the purposes of elements of expenditure in respect of which the association received Social Housing Grant are excluded

### **22. Analysis of net assets employed**

<b>31.3.2003</b> <b>£000s</b>		<b>31.3.2004</b> <b>£000s</b>
55,120	General Fund	67,767
516	Salcombe harbour	577
449	Collection Fund	454
56,085	Total	68,798

### **23. Pension Assets and Liabilities**

In accordance with Financial Reporting Standard No. 17 – Retirement Benefits (FRS 17) South Hams District Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.

South Hams District Council participates in the Local Government Pension Scheme, which is administered by Devon County Council. The Local Government Pension Scheme is a defined benefit scheme based on final pensionable salary.

The most recent actuarial valuation was carried out as at 31 March 2001, and has been updated by independent actuaries to the Devon County Council Pension Fund (the Fund) to take account of the requirements of FRS 17 in order to assess the liabilities of the Fund as at 31 March 2004. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value. It should be noted that under the projected unit method, the current service cost will increase as members of the scheme approach retirement.

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

South Hams District Council's contribution rate over the period was 160% of members' contributions (i.e. 9.6% of pensionable pay). The contribution rates certified for South Hams District Council at the 31 March 2001 valuation are as follows:

April 2002 to March 2003 160% of members' contributions  
April 2003 to March 2004 160% of members' contributions  
April 2004 to March 2005 160% of members' contributions

These figures include the past service element of the contribution rate.

The main assumptions used for the purposes of FRS 17 are as follows:

	<b>31.3.03</b>	<b>31.3.04</b>
	<b>% pa</b>	<b>% pa</b>
Discount rate	6.1	6.4
Rate of increase in salaries	4.1	4.4
Rate of increase in pensions in payment	2.6	2.9
Rate of increase in deferred pensions	2.6	2.9
Rate of inflation	2.6	2.9
Long-term expected rates of return on:		
Equities	7.6	7.7
Bonds	4.6	4.7
Property	6.6	6.7
Other assets	3.1	4.2
Average long term expected rate of return	6.3	6.9

The Authority has used the Government Actuary's Department rate for discount rates for the corporate bonds in accordance with the SORP requirements. Management recognises that this rate does not necessarily best reflect economic conditions.

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

Assets are valued at fair value, principally market value for investments, and comprise:

	<b>31.3.03</b>		<b>31.3.04</b>	
	<b>Value (£m)</b>	<b>%</b>	<b>Value (£m)</b>	<b>%</b>
Equities	17.77	57	24.99	66
Bonds	5.78	19	6.06	16
Property	3.23	11	3.79	10
Other	3.97	13	3.03	8
Total	<u>30.75</u>		<u>37.87</u>	

The proportions of total assets held in each asset type, shown above, reflect the proportions held by the Fund as a whole on 31 March 2004.

The following amounts were measured in accordance with the requirements of FRS 17:

	<b>As at 31.3.03 Value (£m)</b>	<b>As at 31.3.04 Value (£m)</b>
Share of assets in Devon County Council Pension Fund	30.75	37.87
Estimated liabilities in Devon County Council Pension Fund	39.76	42.16
South Hams District Council's surplus (deficit) in the scheme	<u>(9.01)</u>	<u>(4.29)</u>

The deficiency disclosed above should be borne in mind when considering the amount of overall reserves held. However in making any comparison, readers should be aware that the deficit revealed above is based upon a snapshot of assets and liabilities which reflects, among other things, poor stock market performance. Consequently, the size of the deficit should not necessarily give cause for concern at this stage. Further comment is included within the explanatory foreword (paragraphs 12-14).

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

The movement in net (deficiency) for the year to 31 March 2004 is as follows:

	£m	£m
Net surplus/(deficiency) at beginning of the year		(9.01)
Movement in year:		1.01
Operating Charge:		
Current service cost	(0.97)	
Past service costs	(0.28)	
Gain/loss on any settlements or curtailments	-	
Total Operating Charge	<u>          </u>	(1.25)
Contributions (deduced)		-
Finance Income:		
Expected return on Pension Fund assets	1.94	
Interest on pension scheme liabilities	<u>(2.43)</u>	
Total Finance Income		(0.49)
Actuarial gain/loss		5.45
Net surplus/(deficiency) at end of year		<u>          </u> <u>(4.29)</u>

The actuarial gain/loss can be further analysed as follows:

	Amount £m	Percentage
Actual return less expected return on assets	5,390.00	14.2
Experience gains and losses on pension liabilities	(40.00)	-0.1
Changes in assumptions underlying the present value of pension liabilities	<u>100.00</u>	0.2
<b>Total</b>	<b>5,450.00</b>	

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March 2004 were:

	<b>31 March 2003 £000s</b>	<b>31 March 2004 £000's</b>
Estimated Liabilities in scheme	(39,760)	(42,160)
Estimated assets in scheme	30,750	37,872
Net assets/(liability)	(9,010)	(4,288)

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. However, statutory arrangements for funding the deficit means that this will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The above disclosures indicate that the funding position appears to be lower than that indicated by the last formal actuarial valuation as at 31 March 2001, although an improvement has been seen over the past year. This is due to:

- poor experience since that date – in particular poor investment returns
- use of different assumptions for FRS17 accounting purposes

**24. Post balance sheet events**

None.

**25. Euro Costs**

The Council has not incurred any expenditure on modifications to assets to deal with the Euro and has no such commitments. However, the situation is being closely monitored by the Chief Finance and Administration Officer and where new purchases are made, e.g. pay and display car park machines and the proposed replacement of the authority's financial management system, euro compliance is considered.

**Section 4B. NOTES TO THE CONSOLIDATED BALANCE SHEET  
(CONTINUED)**

**26. Trusts and Bequests**

These are funds which are held on trust for specified purposes in which the Council has an interest but do not strictly form part of the Council's finances. They are invested by the Council as trustee. Details are as follows:

	<b>Balance</b> <b>1.4.03</b>	<b>Balance</b> <b>31.3.04</b>
	<b>£</b>	<b>£</b>
<b>Hendra Bequest</b>		
Represents a sum bequeathed to the council for the upkeep of land maintained by the council on behalf of the general public. Interest on the investment is transferred to the open spaces budget to support the annual costs of maintenance.	4,656	4,656
<b>Re: Salcombe Castle Presentation Association</b>		
Represents funds arising on the dissolution of the charity. The association sought to preserve Salcombe Castle with financial support from English Heritage and the Council. On dissolution, funds were transferred to the authority for the sole purpose of repair and preservation of the castle.	3,618	3,618

**Section 4C. NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES.**

**27. Movements in revenue reserves – (increase)/decrease**

As a matter of prudence the Council has set aside various amounts to cover future liabilities and items of expenditure. These reserves are set out below:

	<b>31.3.2003</b>	<b>Applications</b>	<b>Contributions</b>	<b>31.3.2004</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>EARMARKED RESERVES</b>				
<b>Specific Reserves - General Fund</b>				
Repairs & Maintenance	537	(396)	398	539
Local Plans	162	(29)	35	168
Elections	52	(41)	17	28
Staff Training and Development	30			30
IT Development	784	(138)	67	713
Pay & Display Equipment Renewals	3		22	25
Land and Development	500	(79)	129	550
Vehicles & Plant Renewals	259	(255)	274	278
Ferry Repairs & Renewals	400	(43)	35	392
Leisure Centres Equipment	-	(115)	115	-
Economic Initiatives	151	(37)	59	173
Print Equipment	122	(26)	9	105
Sustainable Waste Management	208	(8)	10	210
Village Halls	64	(23)	26	67
Building Control	26	(1)	71	96
Strategic Issues	276	(138)	3	141
Section 106 agreements	55	(55)		-
<b>Sub-Total</b>	<b>3,629</b>	<b>(1,384)</b>	<b>1,270</b>	<b>3,515</b>
<b>Specific Reserves - Salcombe Harbour</b>				
Salcombe Harbour General	64	(1)	34	97
New Facilities	18		6	24
Harbour Renewals	98	(26)	23	95
<b>Sub-Total</b>	<b>180</b>	<b>(27)</b>	<b>63</b>	<b>216</b>
<b>Trust and Bequest</b>	<b>5</b>			<b>5</b>
<b>TOTAL - Earmarked Revenue Reserves</b>	<b>3,814</b>	<b>(1,411)</b>	<b>1,333</b>	<b>3,736</b>
<b>GENERAL RESERVES</b>				
General Fund-Working Balance	750			750
General Fund-Accumulated Surplus (Note i.)	2,221		369	2,590
General Fund-Contingency (Note i)	2,118			2,118
Trading Accounts (continuing CCT arrangements)	319	(199)	231	351
<b>TOTAL - General Reserves</b>	<b>5,408</b>	<b>(199)</b>	<b>600</b>	<b>5,809</b>
<b>TOTAL REVENUE RESERVES</b>	<b>9,222</b>	<b>(1,610)</b>	<b>1,933</b>	<b>9,545</b>
<b>Movement on Collection Fund balance</b>	<b>449</b>		<b>5</b>	<b>454</b>

**Section 4C. NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES (CONTINUED)**

**28. Movements in realised capital resources**

This heading brings together the movements in reserves that represent an increase or decrease in the authority's ability to finance capital investment in future years.

**i. Usable capital receipts**

Capital Receipts received in the year are allocated between usable and reserved proportions. The usable proportion is available to finance new capital expenditure. The reserved proportion is required to be set aside as Provision for Credit liabilities (i.e. to repay debt) and is transferred to the Capital Financing Reserve.

**ii. Deferred capital receipts**

Deferred capital receipts are amounts derived from sales of assets which will be received in instalments over an agreed period of time. They arise principally from mortgages on Council house sales. Only after the 'Mortgagor' has repaid the principal will the Council be able to utilise this as a true capital receipt.

**iii. Unapplied capital grants and contributions**

These represent grants and contributions received in advance of their matching to new capital investment. The major item under this heading is a £360,000 capital grant provided by the government to fund the implementation of electronic government.

	<b>Usable/deferred capital receipts £000s</b>	<b>Unapplied capital grants &amp; contributions £000s</b>
Amounts received in 2003/2004	535	1,742
Amounts applied to finance new capital investment in 2003/04	(589)	(1,202)
<b>Total increase/(decrease) in realised capital resources in 2003/2004</b>	<b>(54)</b>	<b>540</b>
Balance brought forward at 1 April 2003	10,591	292
<b>Balance carried forward at 31 March 2004</b>	<b>10,537</b>	<b>832</b>

**Section 4C. NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES (CONTINUED)**

**29. Movements in unrealised value of Fixed Assets – Fixed Asset Restatement Reserve.**

The system of capital accounting introduced in 1994/95 required the establishment of the fixed asset restatement reserve. The balance represents the difference between the valuation of assets under the previous system of capital accounting and subsequent revaluations, adjustments and disposals. The reserve will be written down in each year by the net book value of assets as they are disposed of and debited or credited with the deficits or surpluses arising on future revaluations.

The movements on the fixed asset restatement reserve in 2003/2004 are shown below:

	<b>Restatement Reserve £000s</b>
Gains/(losses) on revaluation and restatement of fixed assets	(5,593)
Impairment losses on fixed assets due to general changes in prices in 2003/2004	-
<b>Total increase/(decrease) in unrealised capital resources in 2003/2004</b>	<b>(5,593)</b>
<b>Amounts written off fixed asset balances for disposals in 2003/2004</b>	<b>6</b>
Total movement on reserve in 2003/2004	(5,587)
Balance brought forward at 1 April 2003	17,227
<b>Balance carried forward at 31 March 2003</b>	<b>11,640</b>

***Section 4C. NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES (CONTINUED)***

**30. Movements in amounts set aside to finance capital investment**

(i) Capital Financing Reserve

The capital financing reserve contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

As explained within the notes to the balance sheet (Note 21), the authority's debt-free status enables the Council, (subject to considering the revenue effects of reduced interest), to reinvest some of the reserve balance back into capital expenditure. Effectively, the Council can reinvest up to £9.4m representing the value of the negative ceiling.

The movements on the capital financing reserve in 2003/2004 are shown in the table below.

(ii) Government grants deferred

The balance on this account represents the value of capital grants and contributions which have been applied to finance the acquisition or enhancement of fixed assets. The balance is released to revenue over the life of the asset taking account of depreciation.

**Section 4C. NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES (CONTINUED)**

	<b>Capital financing reserve £000s</b>	<b>Government grants deferred £000s</b>	<b>Total £000s</b>
Capital receipts set aside in 2003/2004			
- reserved capital receipts	748		748
- usable receipts applied	588		588
- write-down of reserved capital receipts	(1)		(1)
<b>Total capital receipts set aside in 2003/2004</b>	<b>1,335</b>	<b>-</b>	<b>1,335</b>
Revenue resources set aside in 2003/2004			
- capital expenditure financed from revenue	508		508
- minimum revenue provision (less depreciation, impairment and government grants deferred)	(900)		(900)
- commutation adjustment	(111)		(111)
- write down of deferred charges	(273)		(273)
<b>Total revenue resources set aside in 2003/2004</b>	<b>(776)</b>	<b>-</b>	<b>(776)</b>
Grants applied to capital investment in 2003/2004		1,051	1,051
Amounts credited to the asset management revenue account in 2003/2004		(19)	(19)
Amounts credited to grants unapplied		(2)	(2)
<b>Movement on government grants deferred</b>		<b>1,030</b>	<b>1,030</b>
<b>Total (increase)/decrease in amounts set aside to finance capital investment</b>			<b>1,589</b>
Total movement on reserve in 2003/2004	559	1,030	1,589
Balance brought forward at 1 April 2003	61,109	660	61,769
Balance carried forward at 31 March 2004	61,668	1,690	63,358

**Section 4C. NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES (CONTINUED)**

**31. The Authority's revenue reserves**

The Local Government and Housing Act 1989 empowers a local authority to establish reserves which, through annual charges to service accounts, seek to smooth the cost of certain activities over a number of years – e.g. repairs and maintenance. Reserves may also be raised for use, for example, to finance future capital expenditure. The purpose of each of the major reserves is detailed below:

- (i) Repairs & Maintenance – these reserves are designed to provide for the repair and maintenance of the following service areas:
  - (a) Community Parks & Open Spaces
  - (b) Car & Boat Parking
  - (c) Pannier Markets
  - (d) Economic Development
  - (e) Employment Estates
  - (f) South Dartmoor TIC
  - (g) Coast Protection / Tidal Flood alleviation
  - (h) Land Drainage
  - (i) Public Conveniences
  - (j) Cemeteries and Burials
  - (k) Drawing Office
  - (l) Investment Properties
  - (m) HQ Buildings
  - (n) Non Specific
- (ii) Local Plans - This reserve is designed to help smooth out annual expenditure on the review and preparation of the local plan.
- (iii) Elections – This reserve is designed to make provisions for the periodic cost of conducting district elections.
- (iv) Staff Training and Development – This reserve is earmarked to supplement management initiatives expenditure.
- (v) IT Development – This reserve provides finance for the investment in information technology, both hardware and software. Generally, the services which benefit from this investment make an annual contribution based on the cost of the facilities provided.
- (vi) Pay and Display Equipment Renewals – This reserve is designed to make provisions for periodic replacement of pay and display machines.

***Section 4C. NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES (CONTINUED)***

- (vii) General, Land and Development – This reserve has been earmarked to finance capital expenditure.
- (viii) Vehicles and Plant Renewals – All acquisitions of vehicles and plant are financed from this reserve and annual contributions, based on a straight-line method of depreciation, are made by the General Fund.
- (ix) Ferry Repairs and Renewals – This reserve allows for the financing of major repairs required to the tugs and floats used in the Council's ferry operation and the renewals of those assets. Contributions are based on the asset replacement programme.
- (x) Leisure Centre Equipment – Annual contributions are made to this reserve in order to provide monies for the replacement of plant and equipment at the Council's Leisure Centres.
- (xi) Economic Initiatives – Annual contributions are made to this reserve in order to ensure that external funding contributions are not lost to the District for lack of available matching funds.
- (xii) Print Equipment – This reserve was set up to fund the repair and renewal of equipment in the print room.
- (xiii) Sustainable Waste Management - This reserve makes some provision to enable the Council to develop sustainable waste initiatives in line with the Government's National Waste Strategy.
- (xiv) Village Halls – Annual contributions are set aside in order to grant aid works to village halls.
- (xv) Building Control – This reserve has been established to gather together surpluses which might arise from time to time on the authority's building control operation and to finance building control expenditure of a "non-recurring nature". This follows the government's intention that the costs of local authority building control services should be self-financing over a three-year period, now that private sector competition is sufficiently in place (Please see the Building (Local Authority Charges) Regulations 1998 – SI1198 No. 3129).
- (xvi) Strategic Issues – This reserve was set up to enable the Council to prepare for major challenges – e.g. Best Value, and Sustainable Waste Management.

***Section 4C. NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES (CONTINUED)***

- (xvii) Section 106 agreements – This reserve is operated in order to meet expenditure plans associated with the planning approval process.

The reserve has been established from revenue sums paid by developers to the planning authority to address the impacts of proposed planning developments to make the application acceptable to the local planning authority.

- (xviii) Salcombe Harbour

(a) General – This reserve was set up to account for any surplus / deficit made on the revenue account within the financial year as the account is ring fenced. It also helps fund any one off items that cannot be funded from within the revenue account.

(b) New Facilities – This reserve was set up to enable new facilities to be funded.

(c) Renewals – This reserve was set up to enable capital assets to be replaced on a rolling programme.

- (xix) Trust and Bequest – A sum of money was left to the authority for the maintenance of an informal space (the Hendra Bequest). Further details are provided in the notes to the balance sheet.

- (xx) General Fund Working Balance – The working balance is held to cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing.

- (xxi) General Fund Accumulated surplus – This balance has been established from surpluses on the Council's total expenditure.

- (xxii) Contingency – This reserve is set aside to meet expenditure arising from unforeseen occurrences such as flooding or oil pollution.

- (xxiii) Trading Account surpluses – This reserve is made up of accumulated surpluses arising from the authority's trading operations which can then be used to finance expenditure of a capital nature, etc.

**Section 4C. NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES (CONTINUED)**

- (xxiv) Collection Fund – The Collection Fund is a statutory fund maintained by the billing authority, which is used to record local taxes and non domestic rates collected by the authority, along with payments to precepting authorities, the national pool of non-domestic rates and its own general fund. The Collection Fund balance represents the surplus of monies collected over the amounts paid to the precepting authorities. This balance is reviewed annually, and where balances have built up, redistributed to the precepting authorities.

**32. Pensions Reserve**

The actuarial gains identified as movements on the Pensions Reserve in 2003/04 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2004:

	<b>Amount £m</b>	Percentage
Actual return less expected return on assets	5,390	14.2
Experience gains and losses on pension liabilities	(40)	0.1
Changes in assumptions used to estimate pension liabilities	100	0.2
	<b>5,450</b>	<b>12.9</b>

**Section 4D. NOTES TO THE CASHFLOW STATEMENT**

**33. Reconciliation between the net surplus on the Consolidated Revenue Account and the revenue activities net cash flow**

The surplus on the Consolidated Revenue Account includes transactions which do not result in cash flows. The following table identifies these transactions and reconciles the Consolidated Revenue Account surplus/deficit with the actual net revenue cashflows shown in the cashflow statement.

<b>2002/2003</b>		<b>2003/2004</b>
<b>£000s</b>		<b>£000s</b>
(354)	(Surplus) per Consolidated Revenue Account	(369)
(54)	Deficit/(Surplus) per Collection Fund	(5)
<u>(408)</u>	<b>Net Surplus</b>	<u>(374)</u>
1,787	Add: Investment income received	1,649
	<b>Non cash transactions</b>	
97	Increase/(Decrease) in Provisions	57
(138)	Contributions (to) from reserves	180
	<b>Items accounted for on an accruals basis</b>	
784	Increase in Debtors	(237)
561	Decrease/(Increase) in Creditors / Provisions	(203)
(11)	(Decrease)/Increase in Stock	(5)
<u>2,672</u>	<b>Net cash outflow from revenue activities</b>	<u>1,067</u>

Debtors and creditors exclude capital debtors and creditors which are shown under capital transactions in the cashflow statement.

**34. Analysis of Cash**

	<b>31.3.2003</b>	<b>31.3.2004</b>	<b>Movement for year</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Cash/(Overdraft)	18	54	36
	<u>18</u>	<u>54</u>	<u>36</u>

**Section 4D. NOTES TO THE CASHFLOW STATEMENT (CONTINUED)**

**35. Analysis of Government grants**

2002/2003 £000s		2003/2004 £000s
	<b>Revenue - DSS Grant for Benefits</b>	
11,859	Re. Rent Allowance payments (Private dwellings)	11,157
<u>208</u>	Re. Non HRA Rent Rebates (leased properties)	<u>325</u>
12,067	<b>Sub Total:</b>	11,482
	<b>Revenue - Other</b>	
2,714	Council tax benefit	3,493
277	Benefits administration allowance	484
-	- Disabled Facilities Grants	136
-	- NNDR Administration Grant	165
13	European grants - environmental initiatives etc.	12
0	Other Benefit and Housing Grants	228
23	Home Office Grant - Communities	34
109	Countryside and other environmental funding	140
35	Regional Development Agency	-
99	ODPM Grants - re. loan charges, emergency procedures, improvement agencies, etc.	79
<u>3,270</u>	<b>Sub Total:</b>	<u>4,771</u>
	<b>Capital Grants</b>	
127	Home Renovation Grants	136
1,644	Housing Corporation - re. housing schemes in partnership with Registered Social Landlords	-
200	ODPM Grant - Local Government on-line	200
-	- Torcross Public Conveniences - South West Water	106
-	- Devon County Council - Tor Quarry	387
-	- Devon County Council - Flood Management	56
-	- Dartmouth Leisure Facilities - Sport England/DCC/Dartmouth TC	482
12	Countryside Agency funding	-
<u>-</u>	DEFRA - Waste Analysis & Air Quality	<u>112</u>
1,983	<b>Sub Total:</b>	1,479

**36. Liquid resources – Liquid resources include investments held with banks, building societies and loans to other local authorities.**

**Section 4E. NOTES TO THE COLLECTION FUND**

**37. In 2003/2004, the Council set a band D tax of £1139.26. The charge for each band is a ratio of band D. The 2003/2004 charges were:**

<b>Band</b>	<b>Ratio to Band D</b>	<b>Council Tax (£)</b>
A	6/9	759.51
B	7/9	886.09
C	8/9	1,012.68
D	1	1,139.26
E	11/9	1,392.43
F	13/9	1,645.60
G	15/9	1,898.77
H	18/9	2,278.52

These charges are before any appropriate discounts or benefits. The Council taxbase, 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 and appeals. The taxbase estimate for 2003/2004 was 34,589.70 as calculated below.

<b>Band</b>	<b>Dwellings per Valuation List</b>	<b>Adjustment for Disabled Banding Appeals, Discounts and Exemptions</b>	<b>Revised Dwellings</b>	<b>Ratio to Band D</b>	<b>Band D Equivalent</b>
A	4,749.00	(1,179.75)	3,569.25	6/9	2,379.50
B	8,084.00	(1,246.75)	6,837.25	7/9	5,317.86
C	7,987.00	(1,126.50)	6,860.50	8/9	6,098.22
D	7,515.00	(920.25)	6,594.75	1	6,594.75
E	6,073.00	(842.75)	5,230.25	11/9	6,392.53
F	3,291.00	(420.75)	2,870.25	13/9	4,145.92
G	2,800.00	(437.25)	2,362.75	15/9	3,937.92
H	244.00	(61.75)	182.25	18/9	364.50
<b>Total</b>	<b>40,743.00</b>	<b>(6,235.75)</b>	<b>34,507.25</b>	<b>1.00</b>	<b>35,231.20</b>
	Less allowance for non collection				(704.62)
	Plus adjustment for armed forces dwellings				63.12
	<b>Taxbase</b>				<b>34,589.70</b>

*Section 4E. NOTES TO THE COLLECTION FUND (CONTINUED)*

**38. RATEABLE VALUE**

The total non-domestic rateable value at 31 March 2004 was £37,552,074 (2002/2003: £38,038,488) and the non-domestic rate multiplier was 44.4p (2002/2003: 43.7p). This gives a total income of £16,673,121 (2002/2003: £16,622,819). These figures are a snapshot only and differ from the value of NNDR bills issued due to changes in rateable values during the year, void properties and charitable relief.

**39. COLLECTION FUND BALANCE**

<u>2002/2003</u> <u>£000s</u>		<u>2003/2004</u> <u>£000s</u>
(395)	Fund balance at 1 April	(449)
(54)	(Surplus) / Deficit for year	(5)
<u>(449)</u>	Fund balance as at 31 March	<u>(454)</u>

## Section 5. NOTES TO TRADING OPERATIONS

### Revenue Accounts for the year ended 31 March 2004

The Local Government Planning and Land Act 1980 and the Local Government Act 1988 introduced Compulsory Competitive Tendering (CCT) for certain activities. In order for the Council to undertake these activities they had to successfully tender for the work through the creation of Direct Labour Organisations (DLOs) and Direct Service Organisations (DSOs). Although the CCT legislation was repealed on 2 January 2000, the Council has continued to provide the services in a competitive environment.

The Council operates the Building Maintenance, Cleansing and Grounds Maintenance divisions in order to provide an efficient labour force, able to carry out work in a cost effective manner and able to react immediately to emergency situations. In addition, the Council operates contracts for the Management of Sports and Leisure facilities, and Revenues and Benefits.

Under the CCT legislation, all divisions were required to break even after allowing for capital charges, comprising depreciation and 6% interest. Actual performance for the year is set out below:

2002/2003 (Surplus) / Deficit £000s	Revenue Account	Year ending 31 March 2004		
		Income £000s	Expenditure £000s	(Surplus) / Deficit £000s
26	Refuse Collection	(1,799)	1,795	(4)
(40)	Street Cleaning	(761)	711	(50)
	<b>Sub Total: Cleansing Contract:</b>			
(14)		(2,560)	2,506	(54)
(6)	Beach Cleaning	(50)	38	(12)
(1)	Building Maintenance	(774)	696	(78)
(1)	Public Conveniences	(275)	274	(1)
(36)	Grounds Maintenance	(533)	497	(36)
15	Management of Sports & Leisure Facilities	(1,598)	1,625	27
(9)	Revenues and Benefits	(970)	944	(26)
(52)	<b>(Surplus) / Deficit</b>	<b>(6,760)</b>	<b>6,580</b>	<b>(180)</b>

## Section 5. NOTES TO THE TRADING OPERATIONS (CONTINUED)

Notes:

- i. Trading account performance is formally monitored by the authority's Business Boards on a quarterly basis. Monthly management accounts are also produced.
- ii. The Council has been reviewing the management arrangements at its Leisure Centres and a tendering exercise has been undertaken. Contract negotiations are in progress with the preferred bidder with the aim of a transfer taking place in 2004/2005.

The Best Value Accounting Code of Practice requires that significant balances on trading accounts should be reapportioned to the net cost of services within the Consolidated Revenue Account. This is necessary to avoid a material misstatement of the total cost to the authority of performing functions – (particularly where these are the subject of a published performance indicator). DSO surpluses have therefore been credited back to the net cost of services by reference to the value of the work performed or contractor payment.

A corresponding appropriation of equivalent value has been made in the appropriations section of the Consolidated Revenue Account and credited to DSO reserves.

<b>2002/2003</b> <b>£000s</b>	<b>Appropriation Account</b>	<b>2003/2004</b> <b>£000s</b>
(415)	Balance brought forward	(319)
(52)	Net (Surplus) for year	(180)
(10)	Interest received	(8)
105	Contributions to the General Fund Revenue Account *	156
	Financing of capital expenditure	
	- Contribution towards Depot construction	
53		-
<u>(319)</u>	Balance carried forward	<u>(351)</u>

The Council also operates a number of other trading services such as Trade Refuse, Pannier Markets, Industrial units and Car and Boat Parking. Details of income and expenditure are as follows:

**Section 5. NOTES TO THE TRADING OPERATIONS (CONTINUED)**

<b>Other Trading Operations</b>	<b>Turnover</b>	<b>Expenditure</b>	<b>Difference Expenditure/ (Surplus)</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Dartmouth Ferry</b>			
The council operates a public ferry service for cars and foot passengers across the River Dart between Kingswear and Dartmouth <i>[2002/2003 net surplus - £23,000]</i>	(719)	635	(84)
<b>Employment Estates</b>			
The Council undertakes the programmed development and letting of identified employment sites to generate quality employment opportunities.	(884)	844	(40)
<i>Please note that the net income for 2003/2004 includes an exceptional receipt of £52,000 relating to additional rental income due to planning consent for Tesco's agreed in 2002/2003 [2002/2003 net expenditure - £131,000]</i>			
<b>Car &amp; Boat Parking</b>			
The Council provides off-street parking at an appropriate level according to demand and environmental impact. Charges are made where it is economic to do so and at a level which will ensure that the provision and management are not a cost burden to local council tax payers. <i>[2002/2003 surplus - £874,000]. The increase in net income generated is due to the review of charges.</i>	(2,034)	962	(1,072)

**Section 5. NOTES TO THE TRADING OPERATIONS (CONTINUED)**

**Other Trading Operations  
(continued)**

	Turnover	Expenditure	Difference Expenditure/ (Surplus)
	£000s	£000s	£000s
<b>Pannier Markets</b>			
The Council operates weekly markets in Totnes, Kingsbridge and Ivybridge as permitted by statutory powers and thereby maintains the tradition of market towns for the benefit of customers, traders and the towns as a whole.	(108)	37	(71)
<i>[2002/2003 surplus - £68,000]</i>			
<b>Trade Refuse Collection</b>			
The Council operates a trade refuse collection service.	(506)	455	(51)
<i>[2002/2003 surplus - £76,000].</i>			
<b>Salcombe Harbour</b>			
The Council aims to improve, maintain and manage the whole of the Salcombe-Kingsbridge Estuary for the benefit of users who include commercial fishermen, local residents and visitors on a self-financing basis.	(654)	620	(34)
<i>[2002/2003 surplus - £16,000]</i>			

**Section 6. 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 Strategic Director (Resources)
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the statement of accounts

***Responsibilities of the Strategic Director (Resources)***

The Strategic Director (Resources) 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 Strategic Director (Resources) 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 Strategic Director (Resources) 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 presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2004.



M R Seymour  
BSc (Econ) CPFA  
Strategic Director (Resources)

15 July 2004



Cllr M F Saltern  
Chairman of Council

22 July 2004

## **Section 7. STATEMENT OF INTERNAL CONTROL**

### **1. SCOPE OF RESPONSIBILITY**

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

In discharging this overall responsibility, South Hams District Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of South Hams District Council's functions and which includes arrangements for the management of risk.

### **2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness.

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

The system of internal control has been in place at South Hams District Council for the year ended 31<sup>st</sup> March 2004 and up to the date of approval of the annual report and accounts.

### **3. THE INTERNAL CONTROL ENVIRONMENT**

The key elements of the internal control environment include:

#### **The Council's Objectives**

The Council has established its Aim, Priorities and Commitments and these are published annually in the Council's Performance Plan.

The Performance Plan also sets out the measures of achievement for each priority, as well as the progress with targeted objectives. Senior managers and Members monitor the achievement of objectives through the presentation of key measures to the Strategic Management Team on a monthly basis and Members quarterly, using a 'balanced scorecard' approach.

All reports to Members, and Service Plans produced annually by managers, link service priorities to the overall objectives of the Council. The officer appraisal process disseminates these priorities into personal objectives and targets.

## **Section 7. STATEMENT ON INTERNAL CONTROL (CONTINUED)**

### **Policy and Decision Making**

Policy and decision making is facilitated by the following:

- Delegation of powers to specific member bodies in the Council's Constitution;
- The stating of member and officer roles within the Constitution;
- National and local Codes of Conduct for Members and officers;
- A formally adopted Scheme of Delegation to named officers;
- A Policy Panel made up of the Chairs of the Policy Development Group and Scrutiny, as well as the Leader of the Council, reviews policies and produces the Council's Policy Development and Review Programme. The Programme sets out, for each policy, details of the Member Group to review or develop the policy and the approval required; and
- The principles of decision making are set out in the Council's Constitution.

### **Compliance With Established Policies**

Compliance with established policies, procedures, laws and regulations is the responsibility of all officers and Members.

Ensuring that established policies, procedures, laws and regulations are complied with is the responsibility of nominated statutory officers, the Monitoring Officer and S151 Officer, as laid down in the Council's Constitution.

The Council has also adopted a Local Code of Corporate Governance. The Code defines how the principles that underpin good governance - openness and inclusivity, accountability and integrity – are reflected in the dimensions of the Council's business.

### **Risk Management**

The Council has a number of mechanisms in place that help it to identify and control risk including:

- A Risk Management Strategy that defines risk and identifies the process for ongoing risk management and the responsibilities of the various stakeholders in the risk management process;
- A Risk Management Group, a group of officers responsible for the implementation of the strategy and provide information, advice and training to promote risk management;
- A Strategic Risk Register which lists the key risks to the Council rated by likelihood and impact;
- A review by the Council's insurers of the Council's approach to the identification of corporate and departmental risks;
- Identification by service managers of their key operational risks in their service plans; and
- A risk assessment included in all reports to member bodies.

## **Section 7. STATEMENT ON INTERNAL CONTROL (CONTINUED)**

### **Economic, Effective and Efficient Use of Resources**

The Council ensures that its resources are utilised in the most effective, efficient and economic manner in order to deliver continuous improvement and hence, Best Value in all functions through:

- A programme of fundamental service reviews, which looks closely at and challenges service provision and delivery and discharges the Governments Best Value requirements for the Council, compares with the performance of the best, consults with those who have an interest and ensures competitiveness in all aspects;
- A reporting process to Scrutiny of the outcomes of service reviews, including follow up of action plans from previously completed reviews; and
- Annual planning and review of services by service teams.

### **Financial Management**

The financial management of the authority and the reporting of financial management includes:

- Comprehensive budgeting systems set targets to measure financial performance;
- A medium-term financial plan covering both revenue and capital spend which provides a framework for the planning and monitoring of resource requirements;
- Annual budget setting process involving officers and Members enables priorities and ambitions to be prioritised through a bids and reductions approach;
- Financial performance is reported to the Executive four times per year, and is considered regularly by the Strategic Management Team;
- Regular reports to managers and accountancy staff indicate actual expenditure against targets;
- The Council's adopted codes of practice in relation to treasury management for investments, and for capital finance and accounting (the Prudential Regime); and
- Clearly defined capital expenditure guidelines (Standing Orders) and Financial Regulations that are contained within the Council's Constitution. These set out the overall framework that governs the management of the Council's finances.

### **Performance Management**

The performance management of the authority and its reporting includes:

- A range of national and local performance statistics, collected across all service, and compared with other councils using figures collected nationally by the Office of the Deputy Prime Minister. The results are published annually in the Council's Performance Plan; and

## **Section 7. STATEMENT ON INTERNAL CONTROL (CONTINUED)**

- A number of key indicators, which are collected monthly through the year, with the results reported regularly to the Strategic Management Team and Members.

### **4. REVIEW OF EFFECTIVENESS**

South Hams District Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

- Annual reviews of the Council's key financial systems by Internal Audit against known and evolving risks;
- Cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks;
- Twice yearly report by the Internal Audit Manager to Scrutiny Committee on the work of Internal Audit, including an opinion on the overall adequacy and effectiveness of the Council's internal control environment;
- Annual service planning to align service development against Strategic Objectives;
- Ongoing review of the business and the decisions taken by the Council by its Monitoring Officer which includes an assurance that the Council has acted lawfully and that agreed standards have been met;
- Annual audit of the Council by the external auditor leading to their certificate and opinion on the Statement of Accounts, and the annual 'Audit Letter' to Members;
- Annual review of the Council's Local Code of Corporate Governance by the S151 Officer, Monitoring Officer and Internal Audit Manager, the results of which are reported to the Standards Committee and Scrutiny; and
- A reporting process to Scrutiny on the outcomes of fundamental service reviews, including follow up of action plans from previously completed reviews.

### **5. SIGNIFICANT INTERNAL CONTROL ISSUES**

#### **System Of Internal Control**

This interim statement has been prepared in accordance with the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) The Statement on Internal Control in Local Government – Meeting the Requirements of the Accounts and Audit Regulations 2003.

The statement has shown in sections 3 and 4 the extent to which the Council has been able to follow the guidance.

## Section 7. STATEMENT ON INTERNAL CONTROL (CONTINUED)

A report has been taken to Management Team setting out the responsibilities in relation to the System of Internal Control, with an action plan for:

- A process for Directors and Managers to provide assurance through routine monitoring of internal controls as an integral part of the risk management process, and, regularly report on the operation of internal controls to elected Members through the appropriate corporate management team;
- Improvements to be made to the formal links between the System of Internal Control with the Risk Management process;
- The appropriate Member body to be nominated to review the system of internal control annually, and, evaluate assurance and conclude as to the independence and objectivity of the various sources of assurance before coming to an overall conclusion; and
- The appointed Member body to approve the Statement on Internal Control, if satisfied that it has obtained relevant and reliable evidence to support the disclosures, and, consider the reviews of the S151 and Monitoring Officer on issues covered by statutory responsibilities.

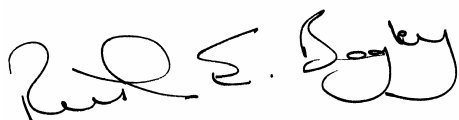
### Risk Management

As discussed in paragraph 3, above the Council has a number of mechanisms in place that help it to identify and control risk. However, further development needs have been identified and work has commenced to improve:

- The identification and prioritising of risks to the achievement of the Council's objectives;
- The mechanism to identify emerging risks and feed these into the risk management process;
- The Strategic and Operational risk registers;
- Training on the management of risk for both officers and Members; and
- The formal links between the Risk Management process with the System of Internal Control.

## 6. CERTIFICATION

To the best of our knowledge the internal control environment as defined above has been effectively generated during the year.



Date: 13 July 2004

**Ruth Bagley**  
Chief Executive



13 July 2004

**Richard Yonge**  
Leader of the Council

## **Section 8. AUDITORS' REPORT**

### ***Auditors' Report to South Hams District Council***

We have audited the statement of accounts on pages 8 to 71 which has been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 13 to 20.

This report is made solely to South Hams Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

#### **Respective Responsibilities of the Chief Financial Officer and Auditors**

As described on page 71 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2003. Our responsibilities, as auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the statement of accounts presents fairly the financial position and results of operations of the Council.

We review whether the statement on internal control on page 72 to 76 reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the statement of accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts. The other information comprises only the explanatory foreword.

## **Section 8. AUDITORS' REPORT**

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of accounts. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the statement of accounts, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

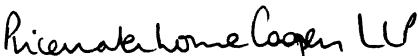
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the statement of accounts.

### **Opinion**

In our opinion the statement of accounts presents fairly the financial position of South Hams District Council as at 31 March 2004 and its income and expenditure for the year then ended.

### **Certificate**

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature:  .....

Date:

PricewaterhouseCoopers LLP  
Bristol

## **Section 9. GLOSSARY OF TERMS**

**Basic Credit Approval (BCA)** - an annual general approval from the Office of the Deputy Prime Minister which allows a local authority to raise credit, e.g. loan, lease, etc. to finance capital expenditure (see also Supplementary Credit Approval).

**Capital Charges** - are charges made to service accounts for the use of assets. The charges consist of depreciation (where appropriate) and an interest charge.

**Capital Expenditure** - payments made for the acquisition or provision of assets, which will be of a long-term value to the Council, e.g. land and buildings.

**Capital Financing Reserve** - this reserve contains the proportion of capital receipts and certain capital grants which have to be set aside under the Local Government and Housing Act 1989, for the redemption of debt. In addition, all capital financing transactions relating to the use of capital receipts, revenue contributions and reserves are credited to this reserve.

**Capital Receipts** - money received from the sale of land, buildings and other assets; a proportion of which has to be set aside for loan debt redemption whilst the remainder is available for financing future capital expenditure.

**Capital Receipts Deferred** - money that is due under deferred purchase arrangements. This item consists mainly of Council House sales where the purchasers are buying their house from the Council over a number of years. As the principal is repaid it becomes a true capital receipt.

**Creditors** - amounts owed by the Council for work done, goods received or services rendered but for which payment had not been made by the end of the year.

**Debtors** - sums of money due to the Council but unpaid at the end of the year.

**Deferred Charge** - represents expenditure that qualifies as capital for the purposes of government controls, but does not result in the acquisition, creation or enhancement of a tangible fixed asset. Types of deferred charges include items such as improvement grants, grants to community organisations and computer software.

**Defined contribution/defined benefit schemes (Pension costs)** - there is an important distinction between defined contribution and defined benefit schemes in terms of pension accounting. The key features of each scheme are as follows:

Defined contribution:

- Employer pays fixed amounts into the scheme and has no obligation to pay further amounts if the scheme does not have sufficient assets to pay employee benefits

## **Section 9. GLOSSARY OF TERMS (CONTINUED)**

- Accounted for by charging employer contributions to revenue as they become payable

Defined benefit:

- Retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits
- Accounted for by recognising liabilities as benefits are earned (i.e. employees work qualifying years of service), matching them with the organisations attributable share of the scheme's investments

**Finance Lease** - a finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Accounting guidance requires that it should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally ninety percent or more) of the fair value of the leased asset. The present value is calculated by using the interest rate implicit in the lease.

**Fixed Assets** - assets that yield benefits for a period of more than one year, split into several categories:

**Operational Assets** - held, occupied, used or consumed in the direct delivery of those services for which the Council has either a statutory or discretionary responsibility e.g. offices, leisure centres, depots.

**Non-operational Assets** - held by the council but not directly occupied, used or consumed in the direct delivery of services e.g. assets in the course of construction, land awaiting development.

**Infrastructure Assets** - fixed assets which by their very nature cannot be sold and therefore expenditure can only be recoverable by continued use of the asset created e.g. coastal defences, highways, land drainage.

**Community Assets** - assets which the Council intends to hold in perpetuity, that have no determinable finite useful life, and may have restrictions on their disposal e.g. parks, historic buildings.

**Fixed Asset Restatement Reserve** - when an asset is revalued the difference between the valuation at the beginning of the year and the new valuation is credited (increase in valuation) or debited (decrease in valuation) to this Reserve.

**Governments Grants Deferred Account** - this account collates certain government grants and other contributions received in relation to capital schemes. As assets to which these grants relate are depreciated, the corresponding amount is released from this account to the General Fund Summary.

## **Section 9. GLOSSARY OF TERMS (CONTINUED)**

**Minimum Revenue Provision** - the minimum amount which must be charged to an authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989.

**Operating lease** - an operating lease is a lease other than a finance lease (please see above). The future obligations relating to operating leases are disclosed to provide the reader with an estimate of the outstanding undercharged obligations in relation to such leases.

**Projected unit method (Pensions costs)** - an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

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

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

**Provisions** - amounts set aside for the purposes of providing for any liability or loss which is likely or certain to be incurred but is uncertain as to the amount or the date on which it will arise e.g. bad debts.

**Reserves** - available for meeting general, future expenditure, for example, capital expenditure on new projects or unforeseen occurrences such as flooding or oil pollution. Reserves may also be used to smooth the cost of certain activities over a number of years e.g. repairs and maintenance.

**Revenue Contribution to Capital Outlay** - the financing of capital expenditure directly from revenue, rather than from loan or other sources.

**Revenue Expenditure** - expenditure on day-to-day expenses consisting mainly of employees, running expenses of buildings and equipment and capital financing costs.

**Supplementary Credit Approval** - similar to the BCA but issued in respect of specific projects.

**Total cost** - the actual cost of services reflects all of the direct, indirect and overhead costs that have been incurred in providing the service, even where the expenditure is not under the control of the service's chief officer.