

South Hams District Council

Statement of Accounts

2008/2009



**South Hams
District Council**

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SECTION 1. EXPLANATORY FOREWORD

INTRODUCTION

1. Each year South Hams District Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute.
2. The Statement of Accounting Policies summarises the framework within which the Council's accounts are prepared and published. This foreword intends to give a general guide to the significant matters reported in the statements and provides a summary of the overall financial position.

REVIEW OF THE YEAR

The revenue budget

3. The main components of the General Fund budget for 2008/2009 and how these compare with actual income and expenditure are set out below:

	Estimate	Actual	Difference
	£000s	£000s	Cost/(Saving)
			£000s
Cost of services (after allowing for income and reserve contributions)	11,539	11,441	(98)
Parish precepts	1,373	1,373	0
Interest and Investment income	(1,150)	(1,299)	(149)
Investment Income – fair value adjustments	0	98	98
Amount to be met from government grants and taxation	11,762	11,613	(149)
<i>Financed from:</i>			
Government grants – Revenue Support Grant	(666)	(666)	0
Business rates	(4,786)	(4,786)	0
Council tax	(6,240)	(6,240)	0
Surplus on collection fund	(70)	(70)	0
Government grants – LABGI	0	(81)	(81)
Area Based Grant	0	(23)	(23)
SURPLUS	0	(253)	(253)

SECTION 1. EXPLANATORY FOREWORD

4. From a financial point of view, the Council was faced with a challenging year in that it experienced a significant reduction in income from a number of its key services. However, a conscious effort was made to reduce salary costs and it also received a significant reduction in its Concessionary Fare contribution. In addition, investment returns exceeded the budgeted figure despite the economic downturn. A summary of the main differences from budget is provided below:

ANALYSIS OF VARIATIONS	£000
Increases in expenditure/reductions in income	
Income reduction – mainly car parks and land charges	323
Trade Waste – reduction in net income	89
Development Control – Public enquiry consultancy costs etc.	89
Revenues and Benefits – mainly additional NNDR discretionary relief awarded.	72
Community Parks – sponsorship budget not achieved	51
Building Control – revised allocation of time to non-chargeable activities	44
Coast Protection – annual grant no longer payable (the Council received a lump sum in lieu in 2007/08 from the Environment Agency)	25
Reductions in expenditure/additional income	
Concessionary Fares – full budget provision not required	(448)
Staff salaries – savings on vacant posts etc.	(284)
Receipt of additional Government grants (LABGI etc.)	(78)
Corporate and Democratic Management – reduction in audit fees/consultation costs etc.	(52)
Investment Income (net of fair value adjustments) – improved cash flow	(51)
Elections – provisions for casual salaries and printing & stationery not required in full	(33)
TOTAL SURPLUS	(253)

SECTION 1. EXPLANATORY FOREWORD

Icelandic Banks

5. The authority currently has a £1.25 million deposit frozen in the Heritable Bank PLC which is UK registered and regulated but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Banks in Iceland were taken over by the authorities when the country's financial system collapsed in October 2008. Heritable Bank is registered in Scotland with a registered address in Edinburgh and is authorised and regulated by the Financial Services Authority.
6. We placed the deposit on 25th September 2008. At the time the deposit was placed, the risk rating of Heritable was 'A' (long term deposits) and 'F1' (short term deposits) which are within the deposit policy approved by the Council. Both these ratings indicate low risk.
7. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009 outlined that the return to creditors was projected to be 80p in the £ by end 2012 with the first dividend payment of 15p in the £ due in the summer of 2009. The authority has therefore decided to recognise an impairment based on it recovering 80p in the £ in its balance sheet. It is anticipated that there will be some front loading of these repayments, and that a final sale of assets will take place after the books have been run down to the end of 2012. There is a likelihood that the final payout will be higher than 80p in the £, but it is considered prudent to use this figure in the accounts because of the future uncertainty of the world banking crisis. The Council has taken advantage of a recent Government regulation that enables local authorities to delay any loss on such investments that may eventually be incurred until the 2010/11 financial year. Further information is provided in Section 4.44.

Capital spending

8. The Council spent more than £3m on capital projects. The main areas of expenditure were as follows:
 - vehicle replacements (£1.2m)
 - house renovation grants (£1.0m)
 - parks and open spaces (£0.5m)
 - the provision of affordable housing in partnership with registered social landlords (£0.4m)
 - refurbishment of public conveniences (£0.1m)

The capital programme is funded from capital receipts, capital grants and external contributions and earmarked reserves (please see Section 4.13)

SECTION 1. EXPLANATORY FOREWORD

Issue of accounts

9. The unaudited Statement of Accounts for 2008/2009 were authorised for issue on 23rd June 2009. This date is the date that the accounts were considered for approval by the Audit Committee. This is also the date up to which events after the balance sheet date have been considered.

FINANCIAL NEEDS AND RESOURCES

10. 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.
11. **Revenue reserves** have increased by £1.1m from the preceding year (largely due to the receipt of Housing and Planning Delivery Grant) and stand at £10 m at 31 March 2009. Revenue reserves may be used to finance capital or revenue spending plans.
12. **Capital reserves**, i.e. the Revaluation Reserve, Capital Adjustment Account and Usable Capital Receipts Account are the subject of complex government controls. The Usable Capital Receipts Reserve, standing at £7.6m, is available to meet capital expenditure. However, the Revaluation Reserve and Capital Adjustment Account cannot be used to finance capital or revenue expenditure.
13. The use of capital reserves must be carefully judged against the impact on the Council's interest receipts which are paid into the General Fund. Any reduction will influence the level of Council Tax required to balance the budget.
14. When reviewing the amount of overall reserves held, consideration should be given to the possible implications of the **Pension Fund deficiency** disclosed within the notes to the balance sheet. The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £21.3 m at 31 March 2009. This disclosure follows the implementation of the Financial Reporting Standard 17 'Retirement Benefits' (FRS17). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.
15. 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 employer's contribution rate and fund shortfall, which are calculated using actuarial assumptions spread over a number of years. This results in less volatility.

SECTION 1. EXPLANATORY FOREWORD

16. Overall, the Council's finances remain strong. In order to maintain this position, the Council operates continuous monitoring of both income and expenditure. This ensures that services are delivered within approved budgets, and value for money is achieved for our residents. In addition, a planning mechanism is in place which focuses, not only on one year, but also on the longer term. The consideration of longer term financial challenges and levels of reserves and balances has therefore played an important part in shaping not only the current year's budget, but those of future years.

EXPLANATION OF FINANCIAL STATEMENTS

The following notes provide an explanation of the main accounting statements which follow this section.

- **The Statement of Accounting Policies**

This section explains 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.

- **The Income and Expenditure Account**

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

- **Statement of the Movement on the General Fund Balance**

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the assets are consumed
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- The General Fund Balance shows whether the Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

SECTION 1. EXPLANATORY FOREWORD

- **Statement of Total Recognised Gains and Losses**

This statement brings together all the recognised gains and losses of the Council.

- **The 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 Cash Flow Statement**

This statement summarises the inflows and outflows of cash arising from transactions between the Council and third parties. The movement in cash measures the difference between the authority's opening cash position at the beginning of the financial year and its cash position at the end of the financial year. This movement is analysed over specified headings, so that the reader can see which parts of the Council's operations generated differing levels of cash flow within the financial year, and what the Council's overall cash movement was in the financial year.

- **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.

- **Statement of Responsibilities**

This comprises a statement of the Council's financial responsibilities and those of the Strategic Director (Resources).

- **Annual Governance Statement**

This statement sets out the framework within which control 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.

SECTION 1. EXPLANATORY FOREWORD

FURTHER INFORMATION

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

Mark Seymour BSc (Econ) CPFA
Strategic Director (Resources)

SECTION 2. 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 2008: 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 (FRS 18) .

AREA BASED GRANT (ABG)

ABG replaces Local Area Agreement Grant (LAA) from 2008/09. Unlike LAA, ABG is a non-ring fenced general grant. As such, no conditions are imposed on its use as part of the ABG determination and its use is not restricted to supporting the achievement of LAA targets.

CAPITAL RECEIPTS

Capital receipts are sums received by the Authority from the sale of assets. These receipts are available for financing future capital expenditure and are included in the Balance Sheet within the usable capital receipts reserve.

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.

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.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's Council Tax. These items are generally grants and expenditure on property not owned by the Authority. Such expenditure should be charged to the Income and Expenditure Account in accordance with the general provisions of the SORP. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance.

EXCEPTIONAL ITEMS

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence in the Statement of Accounts in order to give a true and fair view.

FINANCIAL INSTRUMENTS

The SORP 2007 introduced new disclosure requirements in respect of financial instruments. Our policies and framework within which the Council operates are summarised in Section 4.44 of the notes to the core financial statements.

GOVERNMENT GRANTS

Whatever their basis of payment, revenue grants are matched with the expenditure to which they relate. Grants made to finance the general activities of the Council or to compensate for a loss of income are credited to the revenue account of the period in respect of which they are payable.

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited to the government grants-deferred account and written off in the service revenue account over the useful life of the asset to match the depreciation of the asset to which it relates.

Government grants or other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and where there is reasonable assurance that the grant or contribution will be received.

GROUP ACCOUNTS

The SORP requires the preparation of group revenue accounts and balance sheets where local authorities have interests in subsidiaries, associated companies and joint ventures that are material. The Council has considered its arrangements with other bodies and is of the opinion that no requirement to produce group accounts currently exists.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

INTANGIBLE ASSETS

Intangible assets are defined in FRS 10 as “non-financial fixed assets that do not have physical substance, but are identifiable and are controlled by the entity through custody or legal rights”. Expenditure that falls into this category includes the purchase of computer software. Intangibles are capitalised at cost and amortised to revenue over a 3 year period. Amortisations are debited to the relevant service revenue account.

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, building societies and local authorities.

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.

LOCAL AREA AGREEMENT GRANT

A local area agreement (LAA) is a three year agreement between the Government Office (GO) for the area and a local strategic partnership (LSP) representing the local authorities, other public, private, voluntary and community interests for the area. The LAA sets out the priorities for a local area (e.g. a county), in defined areas of activity. The upper-tier local authority for the area must act as the accountable body for the LAA.

SHDC as a LAA local authority partner that is not the accountable body accounts for LAA as follows:

- Allocations of LAA Grant receivable from the accountable body that are recognisable as income are accounted for on an accruals basis.
- LAA Grant transactions recognised in revenue are apportioned between the services that are funded by the Grant

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

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. Where this amount does not match the amount charged to the Income and Expenditure Account for the year the difference is taken to the Pensions Reserve. Where the pension costs charged to the Income and Expenditure Account are:

- larger than the amount payable for the year in accordance with the scheme requirements the General Fund Balance is credited and the Pension Reserve debited.
- smaller than the amount payable for the year in accordance with the scheme requirements the General Fund Balance is debited and the Pensions Reserve credited.

the debit or credit to the General Fund is shown as a reconciling item in the Statement of Movement on the General Fund Balance.

The implementation of FRS17 "Retirement Benefits" has 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.

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.

PROVISIONS FOR BAD AND DOUBTFUL DEBTS

The carrying amount of debtors is adjusted for doubtful debts, which are provided for, and known uncollectible debts are written off.

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.

The Revaluation Reserve and Capital Adjustment Account cannot be called upon to support spending; the Usable Capital Receipts Reserve can be used to meet expenditure designated as expenditure for capital purposes; Revenue Reserves can be used to meet capital and revenue expenditure.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

STOCKS

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.

SUPPORT SERVICES AND OTHER OVERHEADS

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

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

TANGIBLE 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 which exceeds de-minimis levels (levels are reviewed annually by the Head of Financial Services) 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.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

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

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 and there is no active local market, 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 amounts at which the asset was included in the balance sheet immediately prior to the latest (re-) valuation is credited or debited to the Revaluation Reserve as appropriate.

d) Disposals (see also capital receipts)

Income and Expenditure Account

The gain or loss on disposal of a tangible fixed asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the carrying amount of the fixed asset. With the entries being debit cash/debtors and credit the Income and Expenditure (I & E) Account with the disposal proceeds and credit the fixed asset account and debit the I & E Account with the carrying amount of the tangible fixed asset.

Statement of Movement on the General Fund Balance (SMGFB)

If the asset was disposed of at historical cost, in order to comply with statutory/proper practices restrictions on the use of capital receipts:

to reverse out the gain or loss credited or debited to the I & E Account, the General Fund should be debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on disposal of the tangible fixed asset, with the double entries being:

- A credit to the Capital Receipts Reserve of an amount equal to the disposal proceeds
- A debit to the Capital Adjustment Account of an amount equal to the carrying amount of the fixed asset disposal

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

The gain or loss on disposal of the tangible fixed asset should be a reconciling item in the SMGFB. If the asset disposed of was carried at current value, in addition to the entries above needed to comply with statutory/proper practices restrictions on the use of capital receipts, the balance on the Revaluation Reserve in respect of asset disposals is written off to the Capital Adjustment Account.

e) Impairment

Where on revaluation there has been a decrease over the previous carrying amount an impairment loss has incurred. If the loss has been caused by clear consumption of economic benefits it is recognised in the I & E Account. The amount of the decrease in value not associated with a clear consumption of economic benefit is recognised in the Statement of Total Recognised Gains and Losses (STRGL) until the asset's carrying amount reaches its depreciated historical cost and taken to the Revaluation Reserve: and thereafter in the I & E Account.

f) Depreciation

In accordance with FRS15, depreciation is provided on all fixed assets other than freehold land. Assets are not depreciated in the year of acquisition.

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:

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

Service revenue accounts, support services and trading accounts are charged with a depreciation charge for all fixed assets used in the provision of the service.

VALUE ADDED TAX

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

Section 3

Core Financial Statements

SECTION 3A. INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

Net Expenditure / (Income) 2007/2008 £000s		Year ending 31 March 2009		
		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
1,223	Central Services to the Public	7,080	(6,103)	977
2,390	Cultural and Related Services	3,498	(359)	3,139
5,083	Environmental Services	7,657	(2,161)	5,496
(847)	Highways, Roads and Transport Services	3,915	(5,007)	(1,092)
1,412	Housing Services	19,938	(17,606)	2,332
2,148	Planning and Development Services	4,874	(4,039)	835
2,035	Corporate and Democratic Core	1,888	(33)	1,855
888	Non Distributed Costs	497	-	497
14,332	Net cost of services	49,347	(35,308)	14,039
(69)	Gain on the disposal of fixed assets			741
1,305	Parish Council Precepts			1,373
1	Contribution of housing capital receipts to Government Pool			-
(146)	Investment gains			479
(1,359)	Interest and Investment Income			(1,319)
(630)	Pensions Interest cost and expected return on Assets			290
13,424	Net operating expenditure			15,603
(769)	Revenue Support Grant			(666)
(4,585)	Non-domestic rates redistribution			(4,786)
(5,947)	Demand on the Collection Fund			(6,240)
(70)	Transfer from Collection Fund in respect of previous year's surplus			(70)
(320)	LABGI Grant			(81)
-	Area Based Grant			(23)
1,743	Net General Fund (surplus) / deficit			3,737

SECTION 3B1. STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the assets are consumed
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are charged
- The General Fund Balance shows whether the Council has over- or – under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

Net Expenditure 2007/2008 £000s	Notes	Net Expenditure 2008/2009 £000s
1,743	(Surplus)/ deficit for the year on the Income and Expenditure Account	3,737
(2,133)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(3,990)
(390)	(Increase)/decrease in General Fund Balance for the Year	(253)
(1,870)	General Fund Balance brought forward	(1,925)
200	Transfer to Strategic Issues Reserve	200
-	Transfer to Contingency Reserve	190
135	Transfer to Carry forwards/ Strain Payments Reserve	380
(1,925)	General Fund Balance carried forward	(1,408)

SECTION 3B2. ANALYSIS OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2007/08 £000		2008/09 £000
	Amounts included in the Income and Expenditure Account, but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	
(243)	Amortisation of intangible fixed assets	(258)
(1,391)	Depreciation and impairment of fixed assets	(3,281)
412	Government grants deferred amortisation	422
(535)	Write downs of deferred charges to be financed from capital resources (usable receipts)	(180)
61	Net gain on sale of fixed assets	(746)
-	Impairment of investments	(361)
(1,710)	Net charges made for retirement benefits in accordance with FRS 17	(1,680)
(3,406)		(6,084)
	Amounts not included in the Income and Expenditure Account, but required to be included by statute when determining the Movement on the General Fund Balance for the year	
759	Capital expenditure charged in-year to the General Fund Balance	37
(1)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	-
1,170	Employer's contributions payable to the Devon County Council Pension Fund	1,220
1,928		1,257
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
(36)	Voluntary revenue provision for capital financing (Commutation Adjustment)	(20)
(619)	Net transfer to or from reserves	857
(655)		837
(2,133)	Net additional amount to be credited to the General Fund balance for the year	(3,990)

SECTION 3C. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and the re-measurement of the net liability to cover the cost of retirement benefits.

2007/2008 £000s	2008/2009 £000s
1,743	3,737
(Surplus)/ deficit for the year on the Income and Expenditure Account	
(2,746)	(2,328)
Surplus arising on revaluation of fixed assets	
(3,780)	16,420
Actuarial (gains)/ losses on pension fund assets and liabilities	
-	(4)
- Other gains & losses	
399	70
Collection Fund (Surplus)	
(4,384)	17,895
Total recognised gains for the year	

SECTION 3D. BALANCE SHEET

31 March 2008		Notes	31 March 2009	
£000s	£000s		£000s	£000s
478		Intangible Fixed Assets	18	249
		Tangible Fixed Assets		
		<i>Operational assets</i>	13	
49,705		- land and buildings		48,331
2,754		- vehicles, plant and equipment		3,459
2,947		- infrastructure assets		2,872
344		- community assets		355
		<i>Non operational assets</i>	13	
1,210		- investment properties		1,953
567		- assets under construction		89
	58,005	Total Fixed assets		57,308
	-	Long-term investments	23	10,048
	59	Deferred Credits	20	28
	24	Long term debtors		21
	58,088	Total long term assets		67,405
		Current assets		
114		- stocks and work in progress	21	80
3,797		- debtors	22	3,160
200		- accrued interest on investments	22	660
20,716		- short-term investments	23/44	10,000
168		- cash and bank	41	351
	24,995			14,251
	83,083	Total assets		81,656
		Current liabilities		
(5,457)		- creditors	24	(5,758)
-		- provisions	25	-
	(5,457)			(5,758)
	77,626	Total assets less current liabilities		75,898
		Long term liabilities		
(1,238)		- capital contributions unapplied	36/37	(769)
(4,101)		- government grants deferred	38	(3,857)
(4,440)		- pensions liability*	39	(21,320)
	67,847	Total assets less liabilities		49,952
		Financed by:		
2,746		Revaluation Reserve	29/30	4,837
51,298		Capital adjustment account	29/31	48,732
-		Financial instruments adjustment account	32	(360)
(4,440)		Pensions reserve*	29/39	(21,320)
8,805		Usable capital receipts reserve	29/33	7,586
1		Deferred capital receipts	29/33	1
6,093		Earmarked reserves	29/34	7,720
		Balances		
1,925		- accumulated surplus	29/34	1,408
868		- contingency/working balances	29/34	867
551		- collection fund	Sct 5	481
	67,847	Total net worth		49,952
		* Restated due to FRS 17 changes		
15 June 2009		Mark Seymour BSc (Econ) CPFA Strategic Director (Resources)		

SECTION 3E. CASH FLOW STATEMENT

2007/2008		Notes	2008/2009	
£000s	£000s		£000s	£000s
588	NET CASH OUTFLOW FROM REVENUE ACTIVITIES	40		(101)
	Returns on Investments and Servicing of Finance			
	<i>Cash Inflows:</i>			
(1,359)	Interest received			(859)
(1,359)	NET CASH INFLOW FROM INVESTMENTS			(859)
	Capital Activities			
	<i>Cash Outflows:</i>			
1,967	Expenditure on fixed assets		1,959	
0	Other capital cash payments		0	
				1,959
	<i>Cash Inflows:</i>			
(290)	Sale of fixed assets		(763)	
(217)	Capital grants received	42	(191)	
(17)	Other capital cash receipts		(38)	
				(992)
1,443	NET CASH (INFLOW)/OUTFLOW FROM CAPITAL ACTIVITIES			967
672	NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING			7
	MANAGEMENT OF LIQUID RESOURCES			
(785)	Net increase/(decrease) in short term deposits	23		(190)
(113)	NET (INCREASE)/REDUCTION IN CASH	41		(183)

NB 2007/08 has been restated due to changes in the accounting guidance for "Revenue Expenditure funded from Capital under statute (formerly Deferred Charges)"

Section 4

Notes to the

Core Financial Statements

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

1. Prior Period Adjustments

The Balance Sheet figures for 31 March 2008 have been adjusted from those included in the Statement of Accounts for 2007/08 to accommodate some changes in the valuation basis used for the calculation of the pension fund deficit.

The 2008 SORP has replaced deferred charges with a new category of expenditure – Revenue Expenditure Funded from Capital under Statute. These changes have been reflected in the construction of the Cash Flow Statement for 2008/09 and the comparative figures for 2007/08 have also been restated.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

2. Trading Operations

The Council operates a number of trading services which are shown in the following table:

2007/08				2008/09
Net Expenditure/ (Surplus) £000s	Service	Turnover £000s	Expenditure £000s	Net Expenditure/ (Surplus) £000s
(1,502)	Car & Boat Parking	(2,572)	1,178	(1,394)
(25)	Dartmouth Ferry	(849)	780	(69)
(792)	Employment Estates	(1,278)	772	(506)
(78)	Pannier Markets	(111)	37	(74)
(54)	Salcombe Harbour	(961)	960	(1)
(6)	Trade Refuse	(829)	884	55
(2,457)	Net surplus on trading units	(6,600)	4,611	(1,989)

Car & Boat Parking

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.

Dartmouth Ferry

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

Employment Estates

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

Pannier Markets

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

Salcombe Harbour

The 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.

Trade Refuse

The Council operates a trade refuse collection service.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

3. Financial assistance to organisations and individuals

Service Area	2007/2008 £000s	2008/2009 £000s
Environmental projects, including land management grants under the EU funded Area of Outstanding Natural Beauty programme	105	122
Housing enabling grants	34	62
Citizens Advice Bureau	39	40
Economic promotion grants	495	45
Grants to town/parish councils, village halls and local organisations through the Community Grants Reserve	24	36
Support to the arts	12	12
Beach and Water safety	0	3
Public transport	23	24
Other welfare payments	39	44
Sports development	5	5
Miscellaneous	35	32
Total	811	425

4. Expenditure on publicity

Section 5(1) of the Local Government Act 1986, requires disclosure of the Council's expenditure on publicity. The Council's spending on publicity is as follows:

	2007/08 £000	2008/09 £000
Recruitment advertising	67	54
Other advertising	54	67
Publicity	260	290
Total	381	411

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

5. 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.

Total Building Control 2007/2008 £000s		Chargeable 2008/2009 £000s	Non – Chargeable 2008/2009 £000s	Total Building Control 2008/2009 £000s
	Expenditure			
437	Employee expenses	385	110	495
7	Premises	5	2	7
31	Transport	22	7	29
48	Supplies and Services	23	19	42
79	Support Services	61	6	67
602	Total Expenditure	496	144	640
	Income			
(457)	Building Regulations Charges	(399)	-	(399)
(58)	Other Income	(103)	(1)	(104)
(515)	Total Income	(502)	(1)	(503)
87	(Surplus)/ Deficit for Year	(6)	143	137

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

6. Agency arrangements

Certain statutory powers allow the Council to undertake work on behalf of other public bodies. The main arrangement under these powers is 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 £31,000 in 2008/2009 (£45,000 in 2007/2008).

7. 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 Income and Expenditure Account. The activities undertaken by South Hams District Council are analysed below:

	2007/08 £000	2008/09 £000
Provision of professional services to local Councils (payroll, internal audit, health & safety etc.)	34	28
Lease of accommodation to the Devon County Council Registration service, Citizens Advice Bureau and Teignbridge Enterprise Agency etc.	48	44
Provision of printing services (to local housing associations, parish councils etc.)	12	12
Provision of building maintenance services (to parish & town councils etc.)	35	48
Provision of grounds maintenance services (to Devon County Council, parish & town councils etc.)	57	52
Total	186	184

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

8. Local Area Agreements

A Local Area Agreement (LAA) is a 3 year agreement, based on local Sustainable Community Strategies, that sets out the priorities for a local area agreed between Central Government, represented by the Government Office (GO) & a local area, represented by the lead local authority and other key partners through Local Strategic Partnerships (LSPs).

The primary objective of an LAA is to deliver genuinely sustainable communities through better outcomes for local people. LAAs also have the secondary objectives of:

- improving central & local government relations
- enhancing efficiency
- strengthening partnership working
- offering a framework within which local authorities can enhance their community leadership role.

Nationally, the basic funding arrangements are in 4 blocks for the following areas of activity:

- Children & young people
- Healthier communities & older people
- Safer & stronger communities
- Economic development

During 2008/09 this Council received £71,000 via Devon County Council (the accountable body) under the Waste Performance & Efficiency Grant, as part of the Safer & Stronger Communities pooled funding stream from round 2 of the Local Area Agreement.

9. Members allowances

The total of Members' Allowances paid in the year was £273,000 (2007/2008: £259,000).

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

10. Officers' emoluments

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 other than in cash. Details of the number of employees, whose remuneration fell in bands of £10,000, starting from £50,000 are as follows:

2007/2008* Total	Remuneration Band	2008/2009** Total
3	£50,000 - £59,999	10
-	£60,000 - £69,999	5
3	£70,000 - £79,999	2
-	£80,000 - £89,999	2
1	£90,000 - £99,999	-
1	£100,000 - £109,999	-

* Includes costs associated with 2 redundancies

** In Includes costs associated with 6 redundancies

11. 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 four of the Company's twelve trustees (who are the company's board of directors), and four of its Councillors currently serve in this capacity. Their membership of the board does not constitute a controlling interest and indeed these individuals are unable to vote on issues which involve the interests of the District Council.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

12. External Audit Costs

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

	2007/08	2008/09
	£ 000	£ 000
Audit Code Responsibilities	59	66
Statutory Performance	38	28
Grant Claims and Returns	23	18
Other Services	1	-
TOTAL	121	112

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

13. Summary of capital expenditure and fixed asset disposals

Movement on fixed assets

	Land and Buildings £000s	Vehicles, plant furniture & Equipment £000s	Infra-structure assets £000s	Community Assets £000s	Non-operational assets £000s	Assets Under Construction	Total £000s
Cost or valuation							
At 1 April 2008	51,668	5,574	4,134	344	1,234	568	63,522
Additions	277	1,203	74	11	282	89	1,936
Disposals	(402)	(526)	-	-	(1,240)	-	(2,168)
Reclassifications	(502)	75	5	-	990	(568)	-
Revaluations	1,519	-	-	-	744	-	2,263
Impairment	(2,586)	-	-	-	(41)	-	(2,627)
At 31 March 2009	49,974	6,326	4,213	355	1,969	89	62,926
Depreciation							
At 1 April 2008	1,891	2,821	1,187	-	22	-	5,921
Charge for 2008/09	690	524	151	-	25	-	1,390
Disposals	(170)	(478)	-	-	(66)	-	(714)
Reclassifications	(53)	-	-	-	53	-	-
Revaluations	(175)	-	-	-	(13)	-	(188)
Impairment	(661)	-	-	-	(5)	-	(666)
At 31 March 2009	1,522	2,867	1,338	-	16	-	5,743
Impairment							
At 1 April 2008	71	-	3	-	-	-	74
Charge for 2008/09	50	-	-	-	-	-	50
Disposals	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-	-
At 31 March 2009	121	-	3	-	-	-	124
Balance Sheet amount at 31 March 2009	48,331	3,459	2,872	355	1,953	89	57,059
Balance Sheet amount at 31 March 2008	49,704	2,754	2,946	344	1,211	568	57,527

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Summary of capital expenditure and financing

The following table shows how expenditure on fixed assets was financed:

	2007/08 £000s	2008/09 £000s
Capital Investment		
Operational assets	1,206	1,843
Non-operational assets	707	93
Intangible fixed assets	109	28
Revenue expenditure funded from capital under statute (previously called "Deferred Charges")*	2,537	1,368
Loans	0	0
Total expenditure	4,559	3,332
Sources of Finance		
Capital receipts	1,407	1,930
Capital grants and external contributions	2,372	1,365
Earmarked reserves	780	37
Total funding	4,559	3,332

* Expenditure (net of grants) forms part of the deficit on the Income and Expenditure Account

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Analysis of Capital Expenditure by Service

2007/08 £000s		2008/09 £000s
	Central Services	
429	Vehicle replacement programme	1,191
21	Follaton House (repairs, access, drainage works etc.)	0
109	IT hardware and software	28
	Cultural and Related Services	
103	Leisure centre new facilities / refurbishments	0
191	Outdoor facilities	522
0	Disability Discrimination Act Works	0
	Environmental Services	
12	Refurbishment of public conveniences	99
0	Waste Management	0
0	Coast and Flood Protection etc.	0
	Highways, Roads and Transport Services	
0	Car and boat park enhancements	0
355	Salcombe Harbour - Harbour office, watercraft and infrastructure	37
72	Dartmouth Ferry - workshop	0
	Housing Services	
700	Renovation grants, etc.	958
15	Purchase of properties for temporary accommodation	0
1,070	New housing in partnership with housing associations	372
	Planning and Development	
538	Industrial units	47
701	Community development / grant aid	38
147	Totnes Southern Area	0
23	Environmental Schemes	11
73	Other	29
4,559	TOTAL	3,332

14. Commitments under capital contracts

The following significant contractual commitment has been entered into by the Council:

Project	£000s
Passenger Ferry Pontoon and Bridge, Kingswear – The Council is in the process of replacing a pontoon and bridge at Kingswear. The total identified project cost is approximately £300,000.	
Total	300

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

15. Information on assets held

31.3.2008 Number		31.3.2009 Number
	Operational Assets	
	Land and buildings	
24	<i>Dwellings used for housing the homeless</i>	20
4	<i>Sports centres and pools</i>	4
3	<i>Offices, administrative</i>	3
4	<i>Depots</i>	4
4	<i>Visitor / Resource Centres</i>	4
	Courts and pitches (5 main sites) include:	
19	<i>Tennis Courts</i>	19
3	<i>Bowling Greens (incl. 1 all weather)</i>	3
2	<i>Putting Greens</i>	2
10	<i>Soccer pitches (incl 1 junior)</i>	10
4	<i>Rugby pitches (incl. 1 junior)</i>	4
4	<i>Cricket Squares</i>	4
1	<i>All weather pitches</i>	1
8	<i>Skate parks</i>	8
4	<i>BMX tracks</i>	4
-	<i>Multi-use games area</i>	1
94	Children's play areas	94
49	Off street car parks / park and ride	49
165	Industrial Units	151
46	Public conveniences	46
	Vehicles, plant, furniture and equipment	
13	Watercraft / vessels	13
86	Vehicles and plant	86
	Community assets	
	including: -	
16	<i>Parks / Ornamental Gardens (23 hectares), Informal parks / Open spaces (105.4 hectares)</i>	16
	Non operational land and buildings - including	
8	café, shops and land awaiting development	10

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

16. Valuation information

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.

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 (except assets carried at historical cost):

	Land and Buildings	Vehicles, plant furniture & equipment	Infra-structure assets	Community Assets	Non-operation al assets	Assets under Constr uction	Total
	£000s	£000s	£000s	£000s	£000s		£000s
Valued at historical cost	1,146	3,459	2,872	355	-	89	7,921
New certified valuation included in balance sheet :							
2008/2009	9,358	-	-	-	1,014	-	10,372
2007/2008	10,515	-	-	-	288	-	10,803
2006/2007	15,934	-	-	-	651	-	16,585
2005/2006	11,378	-	-	-	-	-	11,378
2004/2005	-	-	-	-	-	-	-
2003/2004	-	-	-	-	-	-	-
Total	48,331	3,459	2,872	355	1,953	89	57,059

Due to the present economic crisis and resulting falling capital values an impairment review was undertaken of the entire holding of land and building at the end of the 2008/09 financial year by the Council's Principal Valuer

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

17. 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.

18. Movement in intangible assets

	Software purchases £000s
Original Cost	904
Amortisation to 1 April 2008	(426)
Balance at 1 April 2008	478
Expenditure in Year	28
Written off to revenue in year	(257)
Balance at 31 March 2009	249

The balance at the 31 March 2009 represents expenditure on the Financial Management, Document Management, Customer Services, Council Tax, Housing Management and Planning systems. Expenditure is being written off over three years.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

19. Leases

The Authority does not hold any assets under finance leases. The Authority uses certain land and buildings under the terms of an operating lease. The amount paid under these arrangements in 2008/2009 was £85,000 (2007/2008, £85,000).

The Authority is committed to making payments of £70,000 under these leases in 2009/2010, comprising the following elements:

	£000
Leasing expiring in 2009/2010	-
Leasing expiring between 2010/2011 and 2013/2014	-
Leases expiring after 2015/2016	70

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.

20. 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 £29,000 shown as a deferred credit at 31 March 2008 represented the amount owing to the District Council at that date. This sum was paid off in 2008/09 and therefore the outstanding balance was cleared.

In addition, the Council has constructed a new play area in Ivybridge for which it is receiving a contribution from the Ivybridge Youth Action Group. The sum of £28,000 recorded as a deferred credit represents the amount owing to the District Council at 31 March 2009.

21. Stocks

31.3.2008		31.3.2009
£000s		£000s
95	Works Depot	63
4	Drawing Office	4
4	Postage	3
11	Printing Materials	10
114		80

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

22. Debtors

31.3.2008 £000s		31.3.2009 £000s
760	Government departments	782
381	Other local authorities	90
1,840	Sundry debtors	2,004
200	Investment interest	660
45	Housing Rents	40
288	NNDR Pool Debtor	-
1,074	Council tax payers	1,095
734	Business ratepayers	516
5,322		5,187
	Provision for bad debts:	
(487)	General Fund	(562)
	Collection Fund	
(595)	Council tax	(542)
(243)	Business rates	(263)
3,997	Totals	3,820

23. Investments

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

31.3.2008 £000s		31.3.2009 £000s
	Long term	
	Bank and Building Societies	10,048
	Short term	
	Local Authorities	1,000
	Bank and Building Societies	5,850
	HM Treasury (Debt Management Office)	<u>3,150</u>
20,716	Total	20,048

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

24. Creditors

31.3.2008 £000s		31.3.2009 £000s
253	Inland Revenue	257
947	Other Government departments	478
564	Other local authorities	210
3,175	Sundry creditors	3,383
407	Council taxpayers	382
111	Business ratepayers	267
-	NNDR Pool	781
5,457		5,758

25. Provisions

No provisions were required in 2008/09 or 2007/08.

26. Contingent liabilities

- a) The transfer of the Council's housing stock in March 1999 resulted in a capital receipt of some £42m. As the stock transfer had to take place over a very short timescale, wide warranties were given to South Hams Housing (now Tor Homes) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). The purpose of these warranties is to safeguard the housing company if any of the main assumptions on which the transfer price was calculated, turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Unfortunately, owing to the uncertainties surrounding any potential claim, it is not practicable to make an estimate of the total value of liabilities (if any).
- b) 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 9 December 2008, it is unlikely that a Scheme of Arrangement will need to be invoked.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

- c) The Council has under taken an Equal Pay Review by way of Job Evaluation in order to meet its Single Status obligation as part of the 2004 National Implementation Agreement. A 3-year Pay Protection Arrangement for staff down-graded through Single Status has been jointly agreed with the trade union bodies party to the negotiations. Conversely, a budget reserve has been established to fund staff that are up-graded or protected through Single Status and the implementation of new terms and conditions. £1.05 million over three years has been set aside for implementation with an on going budget allocation of £400,000. The new pay and grading structure resulting from Job Evaluation and Single Status is subject to the satisfactory conclusion of negotiations with Trade Unions through the Collective Bargaining process. It is difficult to foresee to what extent the Council will be subject to equal pay claims. The Council has not put aside any money to deal with these and they will be dealt with on a case by case basis.
- d) There is a risk of significant costs associated with progressing the proposal for the new community at Sherford, but it is difficult to judge the likely scale of risk or the cost at this stage of the process. The risks are related to;
- lawyers instructed by the 3 authorities (South Hams District Council (SHDC), Plymouth City Council (PCC) and Devon County Council (DCC)) have reorganised (main solicitor has changed firms) and firms will no longer operate at risk of costs. None of the authorities has provision to meet the costs which are due to be paid by the developer. There could be a residual, partial (shared) liability for a proportion of the costs in the event that costs are incurred which the developers choose not to pick up and they are such that we cannot compel them to pay. This is unquantifiable as a risk and is mitigated by policy of strict monitoring in SHDC's Legal Section of the costs incurred by the external solicitors so that none are incurred which will not be paid. Meanwhile, there is a delay while authorities decide if they are going to instruct the new firm; both PCC and DCC have yet to agree that we should. Work on the Section 106 is at a standstill. The consequences of this are outlined in the next paragraph.
 - there is a risk of there having to be a public inquiry because the developers consider that the authority has been tardy in determining their application. This would be a major inquiry running to more than a few weeks; SHDC would need to engage leading counsel (a QC) plus a junior and would need to continue to have additional legal resources in house. £500,000 - £600,000 would not be an unrealistic estimate for the legal costs alone. The authority would also need expert witnesses and possibly additional planning officer support which together with facilities costs (room hire, travel, and subsistence) could easily double that requirement.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

27. Analysis of net assets employed

31.3.2008 £000s		31.3.2009 £000s
67,296	General Fund	49,471
551	Collection Fund	481
67,847	Total	49,952

28. Post balance sheet events

None.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

29. Summary introduction to movements on Reserves

Some reserves are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

	Balance 1 April 2008 £000s	Net Movement in Year £000s	Balance 31 March 2009 £000s	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	2,746	2,091	4,837	Store of gains on revaluation of fixed assets not yet realised through sales	See note 31
Capital Adjustment Account	51,298	(2,566)	48,732	Store of capital resources set aside to meet past expenditure	See note 32
Financial Instruments Adjustment Account	-	(360)	(360)	Balancing account to allow for difference in statutory requirements and proper accounting practices for borrowings and investments	See note 32
Usable Capital Receipts	8,805	(1,219)	7,586	Proceeds of fixed asset sales available to meet future capital investment	See note 33
Deferred Capital Receipts	1	0	1	Principal outstanding on mortgages	See note 33
Pensions Reserve *	(4,440)	(16,880)	(21,320)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	See note 39
Earmarked Reserves	6,093	1,627	7,720	Set up to provide funds for future liabilities and expenditure in specific service areas.	See note 34
Balances	2,793	(518)	2,275	Available to meet contingencies and other budget pressures in any service area	See note 34

* Adjusted for FRS 17 changes

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

30. Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the fixed assets held by the authority arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

The Reserve is also debited with amounts equal to the part of depreciation charges on assets that have been incurred only because the asset has been revalued. On disposal, the Revaluation Reserve balance for the asset disposed of is written out of the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the current value of fixed assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

While these gains arising from revaluations increases the net worth of the authority they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated.

The movements on the Revaluation Reserve in 2008/2009 are shown below:

	2008/09 £000s
Gains/(losses) on revaluation and restatement of fixed assets	2,811
Impairment losses on fixed assets due to general changes in prices	(482)
Depreciation adjustment	(68)
Amounts written off fixed asset balances for disposals	(170)
Net movement in year	2,091

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

31. Capital Adjustment Account

The Capital Adjustment Account (CAA) accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written of on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is capital only by statutory definition (deferred charges). The balance on the Account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

The table which follows shows the contributions to and from the Capital Adjustment Account:

	2008/2009 £000s
Contributions to the Capital Adjustment Account	
Depreciation adjustment re revaluation reserve	68
Capital expenditure financed from capital receipts	1,930
Capital expenditure financed from revenue	36
Deferred grants written down	422
Contributions from the Capital Adjustment Account	
Depreciation charged to revenue accounts	(1,390)
Impairments	(1,887)
Amortisation of intangible fixed assets	(258)
Commutation adjustment	(20)
Disposal of fixed assets	(1,284)
Parish loans written down	(3)
Deferred charges (net of capital grant)	(180)
Net movement in year	(2,566)

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

32. Financial Instruments Adjustment Account (FIAA)

The SORP's requirements for financial instruments are similar to those for fixed assets, in that financial assets are required to be carried at fair value (unless they have fixed or determinable payments but are not quoted in an active market) and that the outcome of proper accounting practices for the Income and Expenditure Account is different from that required for assessing the impact on local taxes.

The FIAA provides a balancing mechanism between the different rates at which gains and losses are recognized under the SORP and are required by statute to be met from the General Fund.

The FIAA has been used in 2008/09 to deal with the effect of the potential impairment losses on the Council's investment with the Heritable Bank (please refer to the explanatory foreword and Section 4.44).

33. Capital Receipts/Deferred Capital Receipts

Usable capital receipts

Capital Receipts received in the year are available to finance new capital expenditure.

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.

	Usable capital receipts	Deferred capital receipts
	£000s	£000s
Amounts received in 2008/2009	711	-
Principal repaid in 2008/2009	-	-
Contribution to housing capital receipts pool	-	-
Amounts applied to finance new capital investment in 2008/09	(1,930)	-
Net movement in year	(1,219)	-

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

34. The Authority's revenue reserves

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:

	31.03.08	Applications	Contributions	31.03.09
	£ 000	£ 000	£ 000	£ 000
EARMARKED RESERVES				
General Fund				
Affordable Housing	837	-	220	1,057
Drawing Office	10	-	-	10
Strategic Issues	473	(191)	550	832
Community Parks and Open Spaces	54	(9)	22	67
Economic Regeneration & anti-social behaviour	50	(21)	24	53
Pension Fund Strain	-	(482)	482	-
Repairs and Maintenance	258	(43)	84	299
Land and Development	476	(80)	121	517
Ferry Repairs and Renewals	316	(49)	25	292
Economic Initiatives	385	(47)	2	340
Vehicles and Plant Renewals	304	-	334	638
Pay and Display Equipment	86	-	21	107
On-Street Parking	-	-	11	11
Print Equipment	74	(5)	3	72
ICT Development	574	(54)	54	574
Sustainable Waste Management	331	(34)	40	337
Community Grants	55	(27)	20	48
District Elections	7	-	10	17
Beach Safety	26	(7)	-	19
Planning (Local Plans)	1,466	(359)	1,000	2,107
Building Control	30	-	5	35
Section 106 agreements	31	-	-	31
Sub Total	5,843	(1,402)	3,022	7,463
Specific Reserves – Salcombe Harbour				
Pontoons	40	(46)	52	46
Harbour Renewals	70	(25)	24	69
General Reserve	135	-	2	137
Sub Total	245	(71)	78	252
Trust and Bequest	5	-	-	5
TOTAL - Earmarked Revenue Reserves	6,093	(1,473)	3,100	7,720
GENERAL RESERVES				
General Fund – Working Balance	750	-	-	750
General Fund – Contingency (see note)	118	(291)	290	117
General Fund – Accumulated Surplus	1,925	(770)	253	1,408
Trading Account Surpluses	-	-	-	-
TOTAL – General Reserve	2,793	(1,061)	543	2,275
TOTAL REVENUE RESERVES	8,886	(2,534)	3,643	9,995

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

35. 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:

	Balance 1.4.08 £	Balance 31.3.09 £
Hendra Bequest 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

36. Capital Contributions Unapplied

These represent grants and contributions received in advance of matching to new capital investment.

	2008/2009 £000s
Amounts received	970
Amounts applied to finance new capital investment	(1,439)
Net movement in year	(469)

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

37. Section 106 Receipts

Section 106 receipts are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities provided as a condition of that permission. The sums are restricted to being spent only in accordance with the agreement concluded with the developer. Any unspent capital amounts are held in the Balance Sheet in the Capital Contributions Unapplied Account whereas revenue receipts are treated as "receipts in advance" (creditors).

Site	31.03.2008 £000s	Income £000s	Expenditure £000s	31.03.2009 £000s
Langage Energy Centre	891	108	(116)	883
Lee Mill	34	3	(37)	-
Dartmouth Supermarkets	490	-	(9)	481
Other	455	32	(149)	338
TOTAL	1,870	143	(311)	1,702

38. 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 written-down to revenue based upon the depreciation policy adopted for the assets in question.

	2008/2009 £000s
Grants applied to finance capital investment	177
Amounts written-down to the Income and Expenditure Account	(422)
Net movement in year	(245)

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

39. Retirement Benefits

The Pension Scheme

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

South Hams District Council participates in the Devon County Council Pension Fund (the Fund) which is part of the Local Government Pension Scheme. This is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets.

The employer's contribution rate in any one year is determined by the Fund's actuary, based on triennial actuarial valuations. The rate of 10.1% applicable for 2008/2009 is based on the actuarial valuation of the fund as at 31 March 2007.

In 2008/2009, the Council paid an employers' normal contribution of £888,000 (£850,000 in 2007/2008) into the pension fund.

In addition, the Council is responsible for all pension payments relating to added years it has awarded. In 2008/2009 these amounted to £332,000 (£320,000 in 2006/2007).

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.

In accordance with Financial Reporting Standard No. 17 – Retirement Benefits (FRS 17) disclosures of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

Change of Accounting Policy

Under the 2008 SORP the Council has adopted the amendment to FRS17, "Retirement Benefits". As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the pension deficit at 31 March 2008 has been restated from £4.24M to £4.40M, an increase of £200,000.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Transactions Relating to Retirement Benefits (Funded)

The implementation of FRS17 requires that 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 charge made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year.

	2007/08 £000s	2008/09 £000s
Net Cost of Services		
current service cost	1,700	1,250
past service costs	630	140
Net Operating Expenditure		
interest cost	3,630	4,400
expected return on assets in the scheme	(4,420)	(4,310)
Net Charge to the Income and Expenditure Account	1,540	1,480
Statement of Movement in the General Fund Balance		
Reversal of net charges made for retirement benefits in accordance with FRS 17	(1,540)	(1,480)
Actual amounts charged against the General Fund Balance for pensions in the year		
Employers' contributions payable to scheme	980	1,030

In addition, to the recognised gains and losses included in the Income and Expenditure Account, an actuarial loss of £16.37M (compared to a gain of £3.88M in 2007/08 as restated) was included in the Statement of Total Recognised Gains and Losses.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Assets and liabilities in relation to retirement benefits (funded)

Changes to the present value of liabilities during the accounting period

	2007/08 Value (£m)	2008/09 Value (£m)
Opening present value of liabilities	68.35	64.76
Current service cost	1.70	1.25
Interest cost	3.63	4.40
Contributions by scheme participants	0.54	0.57
Actuarial (gains)/ losses on liabilities*	(8.03)	(0.57)
Benefits paid out	(2.06)	(2.14)
Past Service Cost	0.63	0.14
Closing present value of liabilities	64.76	68.41

Changes to the fair value of assets during the accounting period

	2007/08 Value (£m)	2008/09 Value (£m)
Opening fair value of assets	63.58	63.31
Expected return on assets	4.42	4.31
Actuarial gains/ (losses) on assets	(4.15)	(16.94)
Employer contributions	0.98	1.03
Contributions by scheme participants	0.54	0.57
Benefits paid out	(2.06)	(2.14)
Closing fair value of assets	63.31	50.14

Scheme History (funded)

	2004/05* £m	2005/06* £m	2006/07 £m	2007/08 £m	2008/09 £m
Fair value of assets	49.08	60.65	63.58	63.31	50.14
Present value of liabilities	57.20	65.11	68.35	64.76	68.41
Surplus/ (deficit)	(8.12)	(4.46)	(4.77)	(1.45)	(18.27)

* The Council has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS 17 (as revised).

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Readers should be aware that the deficit revealed above is based upon a snapshot of assets and liabilities at a given point in time. Results under the FRS 17 reporting standard can change dramatically depending on market conditions. The liabilities are linked to AA-rated corporate bonds whereas the majority of assets of the Fund are invested in equities. This will lead to volatility in the net pension asset on the balance sheet.

Basis for estimating assets and liabilities (funded)

The latest actuarial valuation of the Devon County Council Pension Fund took place on 31 March 2007. The principal assumptions used by the independent qualified actuaries in updating the latest valuations of the Fund for FRS 17 purposes were:

Principal financial assumptions

	31.3.08	31.3.09
	% pa	% pa
Inflation	3.7	3.4
Rate of increase in salaries	5.2	4.9
Rate of increase to pensions	3.7	3.4
Discount rate for scheme liabilities	3.7	3.4
Discount rate for pension cost	6.8	6.7

Principal demographic assumptions

	31.3.08	31.3.09
	Years	Years
Future lifetime from age 65 (currently aged 65)		
• Males	22.1	23.1
• Females	24.1	25.0
Future lifetime from age 65 (currently aged 45)		
• Males	24.0	25.4
• Females	25.3	27.3

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below.

	Long-term rate of return expected at 31 March 2008 (% p.a.)	Asset split at 31 March 2008 (£ M)	Long-term rate of return expected at 31 March 2009 (% p.a.)	Value at 31 March 2009 (£ M)
Equities	7.6	64.9	7.0	52.2
Property	6.6	8.8	6.0	7.9
Government bonds	4.6	15.9	4.0	21.5
Corporate bonds	6.8	1.0	5.8	1.2
Cash/other	6.0	9.4	1.6	17.2
Total	6.9	100	5.3	100

South Hams District Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted market principals. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2009.

History of experience gains and losses (funded)

The actuarial gains/losses identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2009.

	2004/05*		2005/06*		2006/07*		2007/08		2008/09	
	£m	%	£m	%	£m	%	£m	%	£m	%
Differences between the expected and actual return on assets	2.13	4.3%	8.47	14.0%	0.58	0.9%	(4.15)	(8.3)%	(16.94)	(33.8)%
Differences between expected level of liabilities and actual experience	(1.00)	(1.7%)	(0.01)	(0.0%)	(0.16)	(0.2%)	(0.97)	(1.5)%	(0.31)	(0.5)%

**In accordance with Paragraph 79 of FRS 17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The history of experience gain/(loss) on liabilities shown has not been restated for periods ending 2007, 2006 and 2005 and includes the experience relating to unfunded liabilities.*

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Transactions Relating to Retirement Benefits (unfunded)

Unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions. Such benefits are usually charged to the Employer as they are paid.

This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the Employer has responsibility for funding by paying contributions to the Fund.

The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year.

	2007/08 £000s	2008/09 £000s
Net Cost of Services		
current service cost	0	0
past service costs	10	0
Net Operating Expenditure		
interest cost	160	200
Net Charge to the Income and Expenditure Account	170	200
Statement of Movement in the General Fund Balance		
reversal of net charges made for retirement benefits in accordance with FRS 17	170	200
Actual amounts charged against the General Fund Balance for pensions in the year		
employer's contributions payable to scheme	190	190

Changes to the present value of unfunded liabilities during the accounting period

	2007/08 Value (£m)	2008/09 Value (£m)
Opening present value of liabilities	3.12	2.99
Interest cost	0.16	0.20
Actuarial (gains) / losses on assets	(0.11)	0.05
Net benefit paid out	(0.19)	(0.19)
Past service cost	0.01	0.00
Closing present value of liabilities	2.99	3.05

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Scheme History (unfunded)

	2004/05	2005/06	2006/07	2007/08	2008/09
	£m	£m	£m	£m	£m
Present value of liabilities	2.88	3.04	3.12	2.99	3.05
Surplus/ (deficit)	(2.88)	(3.04)	(3.12)	(2.99)	(3.05)

Basis for estimating assets and liabilities (unfunded)

The latest actuarial valuation of the Devon County Council Pension Fund took place on 31 March 2007. The principal assumptions used by the independent qualified actuaries in updating the latest valuations of the Fund for FRS 17 purposes were:

Principal financial assumptions

	31.3.08	31.3.09
	% pa	% pa
Inflation	3.7	3.4
Rate of increase to pensions in payment	3.7	3.4
Discount rate for pension cost	6.8	6.7

Principal demographic assumptions

	31.3.08	31.3.09
	Years	Years
Future lifetime from age 65 (currently aged 65)		
• Males	22.1	23.1
• Females	24.1	25.0
Future lifetime from age 65 (currently aged 45)		
• Males	24.0	25.4
• Females	25.3	27.3

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

History of experience gains and losses (unfunded)

The actuarial gains/losses identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2009.

	2004/05		2005/06		2006/07		2007/08		2008/09	
	£m	%	£m	%	£m	%	£m	%	£m	%
Differences between expected level of liabilities and actual experience #	N/A	N/A	N/A	N/A	N/A	N/A	(0.02)	(0.7)%	(0.04)	(1.3)%

In accordance with Paragraph 79 of FRS17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The history of experience gain / (loss) on liabilities shown has not been re-stated for periods ending 2007, 2006 and 2005 and includes the experience relating to unfunded liabilities.

This item consists of gains / (losses) in respect of liability experience only - and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

40. Reconciliation between the net deficit on the Income and Expenditure Account and the revenue activities net cash flow

The deficit on the Income and Expenditure Account includes transactions which do not result in cash flows. The following table identifies these transactions and reconciles the Income and Expenditure Account deficit with the actual net revenue cash flows shown in the cash flow statement.

	2008/2009 £000s
Net deficit on the Income and Expenditure Account	3,737
Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance for the year	(3,990)
(Increase)/decrease in General Fund Balance	(253)
Add: investment gains/(losses) (not reversed)	(98)
Collection Fund (surplus)/deficit	70
Add: Investment income received	859
Non cash transactions	
Contributions to/ (from) reserves	(316)
Items accounted for on an accruals basis	
Increase/(decrease) in Debtors	(33)
Decrease/(Increase) in Creditors	(296)
(Decrease)/Increase in Stock	(34)
Net cash outflow from revenue activities	(101)

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

41. Analysis of Cash

	31.3.2008 £000s	31.3.2009 £000s	Movement £000s
Cash/(Overdraft)	168	351	183

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

42. Analysis of Government grants (on a cash basis)

2007/2008 £000s		2008/2009 £000s
Revenue - DWP Grant for Benefits		
16,363	Re. Rent Allowance Payments (Private Dwellings)	16,552
421	Re. Non HRA Rent Rebates (Leased Properties)	333
16,784	Sub total:	16,885
Revenue - Other		
4,985	DWP - council tax benefit	4,903
634	DWP - benefits administration allowance	605
130	DWP - benefits technical projects	-
186	DCLG - NNDR Administration Grant	192
142	European grants - environmental initiatives etc.	16
113	Other benefit and Housing Grants	125
112	DEFRA - environmental funding	35
53	DCLG - re. loan charges etc.	26
230	DCLG - Planning Delivery etc.	1,021
206	DCLG - Disabled Facilities Grants	276
490	DCLG - Regional Housing Pot	333
7	Dept. of Constitutional Affairs – elections	5
35	Dept. of Health – “Smoke Free” regulations	-
70	Ministry of Transport – travel concession	403
553	Devon County Council – second homes funding	15
185	Devon County Council – Torr Quarry etc	356
169	Other	281
8,300	Sub total:	8,592
Capital Grants		
20	Devon County Council	94
197	ERDF – Admirals Court	89
-	- Other	8
217	Sub total:	191
25,301	Total	25,668

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

44. Financial Instruments

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

Liabilities

- trade payables and other payables
- borrowings
- financial guarantees

Assets

- bank deposits
- trade receivables
- loans receivables
- investments

Derivatives

- swaps
- forwards
- options

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

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

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

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Recognition and measurement of financial instruments

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

Financial Instrument	Basis of Measurement	Note
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates
Investments – Other	Held at carrying value on basis of materiality	Cash, money market funds etc.
Investments – Forward Purchases	Fair value through Income & Expenditure	Please refer to next section.
Operational debtors	Held at invoiced or billed amount less an estimate of for non collection of debts.	Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate.
Operational creditors	Held at invoiced or billed amount	Carrying amount is a reasonable approximation of fair value for these short term liabilities

The carrying amount and fair values for investments at 31 March 2009 are shown in the following table:

Investment Type	Carrying Amount (net of interest)	Interest due at year end	Gross carrying Amount	Fair Value*
	£000	£000	£000	£000
Long term	10,048	397	10,445	11,005
Short term – Heritable Bank*	850	40	890	N/A
Short term – other	9,150	223	9,373	9,442
TOTAL	20,048	660	20,708	

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

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

Icelandic Banks

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

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

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

Heritable Bank

Heritable bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 09 outlined that the return to creditors was projected to be 80p in the £ by end 2012 with the first dividend payment of 15p in the £ due in the summer of 2009. The authority has therefore decided to recognise an impairment based on it recovering 80p in the £. It is anticipated that there will be some front loading of these repayments and that a final sale of assets will take place after the books have been run down to the end of 2012. Therefore in calculating the impairment the Authority has made the following assumptions re timing of recoveries:

July 2009 – 15%

July 2010 – 30%

July 2011 – 15%

July 2012 – 10%

July 2013 – 10%

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

The impairment loss recognised in the Income and Expenditure Account in 2008/09, of £400,000, has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

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

Summary details of the investment made are as follows:

Date Invested	Maturity Date	Amount Invested £	Interest Rate	Carrying Amount	Impairment
25/09/08	22/12/08	1,250,000	6.25%	850,000	400,000

The Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £360,000 has been transferred to the Financial Instruments Adjustment Account. The balance of £40,000 relates to interest which has been borne in full by the General Fund.

The expected repayments have been estimated as follows, based on the statements made by the administrator:

Date	Amount (£000)
2009/10	189
2010/11	375
2011/12	188
2012/13	125
2013/14	125
TOTAL	1,002

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Forward Deposits

The Council committed £7.5m in “Forward Deposits” which were included as derivatives in the Balance Sheet i.e. at “fair value through profit and loss” in 2007/08. A forward deal is regarded as a derivative between the period of trade date and start date. When the investment passes the start date it is classified under loans and receivables.

The details are summarised in the following table:

Deposit value	£2,500,000	£5,000,000
Trade date	05/06/2007	05/06/2007
Start (settlement) date	23/07/2008	31/07/2008
Maturity Date	22/07/2011	30/07/2010
Forward Interest Rate	6.15%	6.18%
Market Interest Rate at 23/07/08 and 31/07/08	5.88%	5.64%
Duration (years)	3.0	2.0
Deposit Value – amortised cost	£2,518,136	£5,049,976
NPV Gain to I & E Year	£18,136	£49,976

A gain of £146,212 was credited to the I & E account in 2007/08 and reflected in the Council’s balance sheet (classified as “Fair Value through I & E”). Any gains (or losses) are unwound after the contract has been settled and continues until maturity. There are no statutory reversals for these transactions. As a result, any such gains or losses are recognised in each financial year for the duration of the investment, but are neutral over its life.

Nature and extent of risks arising from financial instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the resources available to fund services. Risk management is carried out by a central finance team, under policies approved by the Council in the Annual Treasury Management Strategy.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council has no historical experience of default with banks and financial institutions. It takes a very prudent approach regarding the collection of debts from its customers and calculates annually a provision for bad debts based on the age of its debt. This provision is adequate to deal with the historical experience of default and there is no reason to believe that it needs adjustment for current market conditions at the 31 March 2008.

Liquidity risk

The Council is debt free, but has ready access to borrowings from the Money Markets to cover any day to day cash flow need. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

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

Market Risk

Interest rate risk

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

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

Changes in interest receivable on variable rate investments are posted to the I & E account and affect the General Fund Balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the STRGL.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

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

If all interest rates had been 1% higher with all other variables held constant the financial effect would be that an additional £204,000 in interest would have been generated.

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

Price risk

The Council, excluding the pension fund, does not generally invest in instruments with this type of risk.

Foreign exchange risk

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

45. Long-term Contracts

The Council transferred the management of its leisure centres to Tone Leisure (South Hams) Limited on 1 December 2006. The Council is committed to making service fee payments of £5.2 M over a ten year period as follows (all figures as at November 2005)

Year	£000
2007/08	697
2008/09	672
2009/10	616
2010/11	535
2011/12	523
2012/13	480
2013/14	464
2014/15	404
2015/16	420
2016/17	404
TOTAL	5,215

SECTION 5. COLLECTION FUND

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

2007/2008 £000s	Notes	2008/2009 £000s
Income		
(46,848) Council Tax	1	(49,118)
(4,770) Council Tax Benefits		(5,214)
(19,015) Business Rates	2	(20,775)
492 Less: Transitional Relief / (Surcharge)		80
(70,141)		(75,027)
Expenditure		
Precepts and Demands		
38,014 <i>Devon County Council</i>		39,629
4,891 <i>Devon and Cornwall Police</i>		5,297
2,356 <i>Devon and Somerset Fire Authority</i>		2,480
5,947 <i>South Hams District Council</i>		6,240
Business Rates		
18,247 <i>Payment to national pool</i>		20,280
186 <i>Costs of collection allowance</i>		192
Distribution of previous year's estimated surplus		
447 <i>Devon County Council</i>		447
57 <i>Devon and Cornwall Police</i>		57
28 <i>Devon and Somerset Fire Authority</i>		28
70 <i>South Hams District Council</i>		70
Bad and doubtful debts		
Write Offs		
60 <i>Council Tax</i>		206
42 <i>Business Rates</i>		204
Provisions		
147 <i>Council Tax</i>		(53)
48 <i>Business Rates</i>		20
70,540		75,097
399	MOVEMENT ON FUND BALANCE	70

SECTION 5. COLLECTION FUND

1. Council tax and council tax base

In 2008/2009, the Council's average Band D Council Tax was £1,440.18. The charge for each band is a ratio of band D. The 2008/2009 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	800.10
A	6/9	960.12
B	7/9	1,120.14
C	8/9	1,280.16
D	1	1,440.18
E	11/9	1,760.22
F	13/9	2,080.26
G	15/9	2,400.30
H	18/9	2,880.36

These charges are before any appropriate discounts or benefits. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2008/2009 was 37,249.41 as calculated below.

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A	0	8.75	8.75	5/9	4.86
A	4,769.00	(956.35)	3,812.65	6/9	2,541.77
B	8,301.00	(1,112.00)	7,189.00	7/9	5,591.44
C	8,225.00	(910.60)	7,314.40	8/9	6,501.69
D	7,721.00	(571.00)	7,150.00	1	7,150.00
E	6,134.00	(520.35)	5,613.65	11/9	6,861.13
F	3,435.00	(273.10)	3,161.90	13/9	4,567.19
G	2,833.00	(258.40)	2,574.60	15/9	4,291.00
H	256.00	(41.40)	214.60	18/9	429.20
Total	41,674.00	(4,634.45)	37,039.55		37,938.28
					(758.77)
					69.90
Tax base					37,249.41

SECTION 5. COLLECTION FUND

2. Rateable value

The total non-domestic rateable value at 31 March 2009 was £51,778,081. This compares to £50,773,910 at 31 March 2008. The standard non-domestic rate multiplier was 46.2p in 2008/09 (2007/08: 44.4p). Without reliefs this would generate a total income of £23,921,473.42 (2007/08 £22,543,616.04). These figures are a snapshot only and differ from the value of NNDR bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

3. Collection fund balance

2007/2008 £000s		2008/2009 £000s
(950)	Fund balance at 1 April	(551)
399	(Surplus) / Deficit for year	70
(551)	Fund balance as at 31 March	(481)

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 2009.

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

23 June 2009

Cllr JT Pennington
Chairman of the Audit Committee

23 June 2009

SECTION 7. ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement is being considered by the Audit Committee on 23 June

SECTION 8. AUDITORS' REPORT

The Audit Commission will produce their report following the audit of the accounts in August.

SECTION 9. GLOSSARY OF TERMS

Accruals

The concept that income and expenditure is accounted for as earned or incurred, not as money is received or paid.

Area Based Grant (ABG)

ABG is a non-ring fenced general grant. As such no conditions are imposed on its use as part of the ABG determination.

Capital Charges

Depreciation charges made to service accounts for the use of assets.

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 Adjustment Account

In simple terms this new account will record (i.e. debits) the consumption of historic cost over the life of the asset and deferred charges over the period that the authority benefits from the expenditure. The account will also record (i.e. credits) the resources set aside to finance capital expenditure.

Capital Receipts

Proceeds received from the sale of land, buildings and other assets.

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 with a mortgage from the Council. As the principal is repaid it becomes a true capital receipt.

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.

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.

Finance Lease

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee.

SECTION 9. GLOSSARY OF TERMS

Financial Reporting Standards (F.R.S.)

Financial Reporting Standards are accounting standards developed by the Accounting Standards Board. They determine the standards adopted in the preparation and presentation of the Council's accounting records.

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 under construction, land awaiting development, investment properties. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held for investment purposes and does not support the service or strategic objectives of the Council.

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

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 Income and Expenditure Account.

Revaluation Reserve

In simple terms this reserve accounts for amounts where the current value net book value (NBV) of an asset is above its historic cost NBV. It should always represent the accumulated amount of valuation gains less amounts written off owing to depreciation and impairment.

Revenue Expenditure Funded From Capital Under Statute

Represents expenditure that qualifies as capital expenditure, 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 and grants to community organizations

SECTION 9. GLOSSARY OF TERMS

Intangible fixed assets

Defined in FRS 10 as “non-financial fixed assets that do not have physical substance, but are identifiable and are controlled by the entity through custody or legal rights” Expenditure that falls into this category includes the purchase of computer software.

National Non- Domestic Rates (NNDR)

Often referred to as business rates. A NNDR poundage is set annually by the Government, collected by local authorities and paid into a national pool. The proceeds are then distributed by Central Government as a grant to authorities in accordance with a government formula.

Operating lease

An agreement in which the Council derives the use of an asset in exchange for rental payments, but where the risks and rewards of ownership are not transferred substantially.

Precept

This is an amount levied by various bodies e.g. Devon County Council that is collected by this Council on their behalf.

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

Accounts available for meeting future planned expenditure, for example, vehicle replacement or unforeseen occurrences such as flooding or oil pollution

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.