

South Hams District Council

Statement of Accounts

2009/2010



**South Hams
District Council**

Contents

	Page
1) Explanatory Foreword	1-7
• Introduction	
• Review of year	
• Financial needs and resources	
• Explanation of statements	
• Further information	
2) Statement of Accounting Policies	8 -14
3) Core Financial Statements	15 -21
• A. Income & Expenditure Account	
• B. Statement of the Movement on the General Fund Balance	
• C. Statement of Total Recognised Gains & Losses	
• D. Balance Sheet	
• E. Cash flow Statement	
4. Notes to the Core Financial Statements	22-63
5. Collection Fund	64-66
6. Statement of Responsibilities	67
7. Annual Governance Statement	68
8. Auditors' Report	69
9. Glossary of Terms	70-72

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 2009/2010 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)	11,326	11,235	(91)
Parish precepts	1,420	1,420	0
Interest and Investment income	(930)	(801)	129
Amount to be met from government grants and taxation	11,816	11,854	38
<i>Financed from:</i>			
Government grants – Revenue Support Grant	(1,028)	(1,028)	0
Business rates	(4,452)	(4,452)	0
Council tax	(6,336)	(6,336)	0
Surplus on collection fund	0	0	0
Government grants – LABGI	0	(38)	(38)
Area Based Grant	0	(23)	(23)
SURPLUS	0	(23)	(23)

SECTION 1. EXPLANATORY FOREWORD

4. From a financial point of view, the Council was faced with a challenging year due to the economic slowdown. It experienced a significant reduction in income from car parking, planning, building control services and investment interest. However, the net costs of waste management, benefits and salaries generally were kept under control and together with the full budget for concessionary fares not being required led to a small net surplus. A summary of the main differences from budget is provided below:

ANALYSIS OF VARIATIONS	£000
Increases in expenditure/reductions in income	
Car parks - reduction in income and increased liability for rates	294
Investment Income – due to lower interest rates	175
Planning - a reduction in income due to a fall in the number of planning applications received. In addition, the service has incurred costs resulting from compensation payments and externally provided legal and professional work.	161
Building Control – net deficit of chargeable and non chargeable services	69
Income reduction – reduced income from community parks sponsorship, land charges and council tax summons partially offset by additional trade waste, ferry and other non recurring income	27
Reductions in expenditure/additional income	
Concessionary Fares – full budget provision not required, partially due to the prolonged period of snow and ice during the winter which had the effect of reducing demand for bus travel	(183)
Waste management - the Environment Service has reduced its day to day operational costs. Savings have been made through vacancies and reduced agency costs.	(183)
Inflation – provision for inflation not all required due to the economic slowdown	(167)
Staff salaries – savings on vacant posts etc.	(70)
Benefits and Homelessness – additional housing benefit subsidy partially offset by increased homelessness expenses	(62)
Democratic and Corporate Management – savings in Members expenses and central costs	(46)
Receipt of additional local authority business growth incentive scheme grant	(38)
TOTAL SURPLUS	(23)

SECTION 1. EXPLANATORY FOREWORD

Icelandic Banks

5. We currently have £811,870 frozen in the Heritable Bank which is UK registered and regulated but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc. is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank Landsbanki.
6. We placed the deposit of £1,250,000 on 25th September 2008. At the time the deposit was placed the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits) which were within the deposit policy approved by the Council. Both these ratings indicate low risk.
7. The Administrators have paid three dividends to date with a fourth expected in July 2010 and they have recently said that up to 85% of liabilities should eventually be paid. The Administrators have kept the bank trading and will slowly wind down the business over a period of years. Further information is provided in Section 4.39.

Capital spending

8. The Council spent more than £3m on capital projects. The main areas of expenditure were as follows:
 - Improvements to parks and open spaces (£0.9m)
 - house renovation grants (£0.8m)
 - vehicle replacements (£0.6m)
 - the provision of affordable housing in partnership with registered social landlords (£0.5m)
 - replacement of Batson Creek Pontoon (£0.2m)

The capital programme is funded from capital receipts, capital grants and external contributions and earmarked reserves (please see Section 4.9)

Issue of accounts

9. The unaudited Statement of Accounts for 2009/2010 were authorised for issue on 29^d June 2010. 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.

SECTION 1. EXPLANATORY FOREWORD

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 decreased by £939,000 from the preceding year and stand at £9m at 31 March 2010. 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 £15.7 m at 31 March 2010. 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.
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.

SECTION 1. EXPLANATORY FOREWORD

17. The new Coalition Government are currently undertaking a Comprehensive Spending Review which is due to be published in October or November 2010. We do not know precisely how this will affect South Hams District Council but we are planning for a reduction in Government Grant. Members and management are currently undertaking a review of services so that we will be well placed to meet the demands of the anticipated future spending reductions.

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

18. 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 2009: 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.

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.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

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 4.39 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.

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.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

LEASES

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

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

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

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.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

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.

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.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

SECTION 106 DEPOSITS

Developer contributions are initially treated as revenue receipts (Long Term Liabilities in the Balance Sheet) unless a clear capital use is identified in the terms of the agreement in which case they are defined as Capital Contributions Unapplied.

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

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 and investment properties. 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) 2008/2009 £000s		Year ending 31 March 2010		
		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
977	Central Services to the Public	7,669	(6,653)	1,016
3,139	Cultural and Related Services	4,059	(471)	3,588
5,496	Environmental Services	7,893	(2,254)	5,639
(1,092)	Highways, Roads and Transport Services	4,281	(5,147)	(866)
2,332	Housing Services	22,534	(21,104)	1,430
835	Planning and Development Services	4,499	(2,939)	1,560
1,855	Corporate and Democratic Core	1,956	(24)	1,932
497	Non Distributed Costs	213	(69)	144
14,039	Net cost of services	53,104	(38,661)	14,443
741	(Gain)/loss on the disposal of fixed assets			1,041
1,373	Parish Council Precepts			1,420
479	Investment gains / (losses)			(47)
(1,319)	Interest and Investment Income			(801)
-	Other income			(120)
290	Pensions Interest cost and expected return on Assets			2,106
15,603	Net operating expenditure			18,042
(6,240)	Demand on the Collection Fund			(6,336)
(4,786)	Non-domestic rates redistribution			(4,452)
(70)	Transfer from Collection Fund in respect of Previous year's surplus			-
9*	Adjustment re Collection Fund in respect of current year's surplus			(59)
	Central Government Grants:			
(666)	Revenue Support Grant			(1,028)
(81)	LABGI Grant			(38)
(23)	Area Based Grant			(23)
3,746*	Net General Fund (surplus) / deficit			6,106

* Restated due to changes in accounting arrangements for the Collection Fund introduced in the SORP 2009

SECTION 3B2. ANALYSIS OF RECONCILING ITEMS FOR THE 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 2008/2009 £000s	Notes	Net Expenditure 2009/2010 £000s
3,746	(Surplus)/ deficit for the year on the Income and Expenditure Account	6,106
(3,999)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(6,129)
(253)	(Increase)/decrease in General Fund Balance for the Year	(23)
(1,925)	General Fund Balance brought forward	(1,408)
200	Transfer to Strategic Issues Reserve	173
190	Transfer to Contingency Reserve	-
380	Transfer to Carry forwards/ Strain Payments Reserve	-
-	Transfer to Economic Initiatives Reserve	80
(1,408)	General Fund Balance carried forward	(1,178)

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.

2008/09 £000		2009/10 £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	
(258)	Amortisation of intangible fixed assets	(98)
(3,281)	Depreciation and impairment of fixed assets	(3,025)
422	Government grants deferred amortisation	471
(180)	Write downs of deferred charges to be financed from capital resources (usable receipts)	(197)
(9)*	Collection Fund Adjustment Account	59
(746)	Net gain on sale of fixed assets	(1,060)
	- Other income (unattached capital receipts)	120
(361)	Impairment of investments	124
(1,680)	Net charges made for retirement benefits in accordance with FRS 17	(3,385)
(6,093)		(6,991)
	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	
37	Capital expenditure charged in-year to the General Fund Balance	504
1,220	Employer's contributions payable to the Devon County Council Pension Fund	1,321
1,257		1,825
	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	
(20)	Voluntary revenue provision for capital financing (Commutation Adjustment)	-
857	Net transfer to or (from) reserves	(963)
837		(963)
(3,999)	Net additional amount to be credited to the General Fund balance for the year	(6,129)

* Restated due to changes in accounting arrangements for the Collection Fund introduced in the SORP 2009

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.

2008/2009 £000s		2009/2010 £000s
3,746*	(Surplus)/ deficit for the year on the Income and Expenditure Account	6,106
(2,328)	Surplus arising on revaluation of fixed assets	(3,687)
16,420	Actuarial (gains)/ losses on pension fund assets and liabilities (please refer to note 39)	13,650
(3)	Other gains & losses	-
17,835	Total recognised (gains)/ losses for the year	16,069

**Restated due to changes in accounting arrangements for Collection Fund introduced in the SORP 2009*

SECTION 3E. CASH FLOW STATEMENT

2008/2009*				2009/2010
£000s	£000s		Notes	£000s
	(3,261)	NET CASH OUTFLOW/ (INFLOW) FROM REVENUE ACTIVITIES	35	(5,943)
		Returns on Investments and Servicing of Finance		
		<i>Cash Inflows:</i>		
	(859)	Interest received		(1,005)
	(859)	NET CASH INFLOW FROM INVESTMENTS		(6,948)
		Capital Activities		
		<i>Cash Outflows:</i>		
1,959		Expenditure on fixed assets		1,894
0		Other capital cash payments		0
	1,959			1,894
		<i>Cash Inflows:</i>		
(763)		Sale of fixed assets		(1,341)
(191)		Capital grants received	37	(15)
(38)		Other capital cash receipts		(18)
	(992)			(1,374)
	967	NET CASH (INFLOW)/OUTFLOW FROM CAPITAL ACTIVITIES		520
	(3,153)	NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING		(6,428)
		MANAGEMENT OF LIQUID RESOURCES		
	(190)	Net increase/(decrease) in short term deposits	38	872
	(1,541)	Net NNDR receipts paid to/ (received) from Central Government		2,317
	4,701	Net Council Tax receipts paid to / (received) from major preceptors		4,627
	(183)	NET (INCREASE)/ REDUCTION IN CASH	36	1,388

*Restated due to changes in accounting arrangements for Collection Fund introduced in the SORP 2009

Section 4

Notes to the

Core Financial Statements

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Index to Notes to the Core Financial Statements

Note	Note No.	Page No.
Agency arrangements	4	26
Asset information	11	32
Building Control Trading Account	3	26
Capital Adjustment Account	26	42
Capital Contributions Unapplied	31	45
Capital expenditure & fixed asset disposals	9	29
Capital Receipts / Deferred Capital Receipts	28	43
Cash Analysis	36	54
Cash flow reconciliation	35	53
Commitments under capital contracts	10	31
Contingent liabilities	22	37
Creditors	20	37
Debtors	18	36
Deferred credits	16	35
Depreciation methodologies	13	34
Employees' Remuneration	6	27
External Audit Costs	8	28
Financial Instruments	39	55
Financial Instruments Adjustment Accounts (FIAA)	27	43
Government grants (on a cash basis)	37	54
Government Grants Deferred	33	46
Intangible assets movement	14	34
Investments	19	36
Leases	15	35
Liquid resources	38	54
Long-term Contracts	40	63
Members' allowances	5	26
Post balance sheet events	23	39
Prior Period Adjustments	1	24
Provisions	21	37
Related party transactions	7	28
Reserve movements	24	39
Retirement Benefits	34	47
Revaluation Reserve	25	41
Revenue reserves	29	44
Section 106 Receipts	32	46
Stocks	17	35
Trading Operations	2	25
Trusts & Bequests	30	45
Valuation information	12	33

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

1. Prior Period Adjustments

Collection Fund

The Balance Sheet figures for 31 March 2009 have been adjusted from those included in the Statement of Accounts for 2008/09 to accommodate changes introduced in the SORP 2009 in relation to the Collection Fund. Changes have also made in the Income & Expenditure Account (I & E), Statement of Movement on General Fund Balance (SMGFB), STRGL and Cash Flow Statements.

Up to 2008/09 the SORP required Council Tax income included in the I & E Account to be the amount that under regulation was required to be transferred from the Collection Fund to the General Fund of the billing authority. From the year commencing 1 April 2009 the Council Tax included in the I & E Account for the year shall be the accrued income for the year.

The difference between the income included in the I & E Account and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the SMGFB.

In addition, there are changes in the accounting arrangements for National Non Domestic Rates (NNDR). Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government and the amount not yet paid to the Government at the balance sheet date shall be designated as a creditor. Likewise, if the cash paid to the Government exceeds the cash collected from NNDR taxpayers, the excess shall be included in the Balance Sheets as a debtor.

Long term liabilities

Following a review of the Balance Sheet in readiness for the implementation of Internal Financial Reporting Standards (IFRS), a sum of £1.352M in respect of Section 106 deposits previously classified in the 2008/09 balance sheet as creditors has been designated as long term liabilities.

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:

2008/09				2009/10
Net Expenditure/ (Surplus) £000s	Service	Turnover £000s	Expenditure £000s	Net Expenditure/ (Surplus) £000s
(1,394)	Car & Boat Parking	(2,692)	1,586	(1,106)
(69)	Dartmouth Ferry	(844)	793	(51)
(506)	Employment Estates	(1,291)	759	(532)
(74)	Pannier Markets	(105)	37	(68)
(1)	Salcombe Harbour	(941)	910	(31)
55	Trade Refuse	(858)	895	37
(1,989)	Net surplus on trading units	(6,731)	4,980	(1,751)

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. 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 2008/2009 £000s		Chargeable 2009/2010 £000s	Non – Chargeable 2009/2010 £000s	Total Building Control 2009/2010 £000s
	Expenditure			
405	Employee expenses	326	126	452
	Supplies and			
43	Services	19	18	37
29	Transport	22	7	29
74	Support Services	70	7	77
551	Total Expenditure	437	158	595
	Income			
(399)	Building Regulations Charges	(355)	0	(355)
(15)	Other Income		(21)	(21)
(414)	Total Income	(355)	(21)	(376)
137	(Surplus)/ Deficit for Year	82	137	219

4. 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 £37,000 in 2009/2010 (£31,000 in 2008/2009).

5. Members allowances

The total of Members' Allowances paid in the year was £276,000 (2007/2008: £273,000).

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

6. Employees' remuneration

Senior Officers

Post Holder	Salary	Expense Allowances	Benefits	Total Remuneration excl. pension contributions	Employers pension contribution	Total Remuneration incl. pension contributions 2009/10
	£	£	£	£	£	£
Strategic Director (Resources)	79,900	100	0	80,000	12,000	92,000
Strategic Director (Community)	79,900	200	0	80,100	11,400	91,500
Legal Services Manager / Monitoring Officer	43,000	100	0	43,100	6,400	49,500
TOTAL	202,800	400	0	203,200	29,800	233,000

Note: South Hams District Council (SHDC) shares a Chief Executive with West Devon Borough Council (WDBC). The shared Chief Executive is employed by WDBC, but 50% of the employment costs are reimbursed to WDBC by SHDC. However the total cost of employing the Chief Executive has to be included in full in the equivalent note of WDBC's Accounts in accordance with the accounting requirements and is therefore excluded from the table above.

Other officers earning over £50,000

<u>Remuneration band</u>	2008/2009 *		2009/2010	
	Total	Left during year	Total	Left during year
£50,000 - £54,999	6	2	4	
£55,000 - £59,999	2		3	
£60,000 - £64,999	3	1	3	
£65,000 - £69,999		1		
£70,000 - £74,999		1		1
£75,000 - £79,999				
£80,000 - £84,999				
£85,000 - £89,999		1		2

* 2008/09 has been restated to exclude Senior Officers

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

7. 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.

8. External Audit Costs

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

	2008/09	2009/10
	£ 000	£ 000
External audit services	66	66
Statutory Performance	28	36
Grant Claims and Returns	18	21
Other Services	-	-
TOTAL	112	123

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

9. 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 2009	49,974	6,326	4,213	355	1,969	89	62,926
Additions	75	742	334	55	-	659	1,865
Disposals	(1,581)	(536)	(1,280)	-	(753)	-	(4,150)
Reclassifications	96	440	289	-	(825)	-	-
Upward revaluations	4,202	-	-	-	-	-	4,202
Downward revaluations	(1,426)	-	-	-	-	-	(1,426)
At 31 March 2010	51,340	6,972	3,556	410	391	748	63,417
Depreciation							
At 1 April 2009	1,522	2,867	1,338	-	16	-	5,743
Charge for 2009/10	656	740	166	-	-	-	1,562
Disposals	(72)	(542)	(416)	-	-	-	(1,030)
Reclassifications	(34)	73	2	-	(3)	-	38
Downward revaluations	(89)	-	-	-	-	-	(89)
At 31 March 2010	1,983	3,138	1,090	-	13	-	6,224
Impairment							
At 1 April 2009	121	-	2	-	-	-	123
Charge for 2009/10	-	-	-	-	-	-	-
Disposals	(64)	-	-	-	-	-	(64)
Reclassifications	(36)	-	(2)	-	-	-	(38)
At 31 March 2010	21	-	-	-	-	-	21
Balance Sheet amount at 31 March 2010	49,336	3,834	2,466	410	378	748	57,172
Balance Sheet amount at 31 March 2009	48,331	3,459	2,873	355	1,953	89	57,060

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:

	2008/09	2009/10
	£000s	£000s
Capital Investment		
Operational assets	1,843	1,221
Non-operational assets	93	646
Intangible fixed assets	28	133
Revenue expenditure funded from capital under statute (REFCUS)*	1,368	1,350
Loans	0	10
Total expenditure	3,332	3,360
Sources of Finance		
Capital receipts	1,930	1,439
Capital grants and external contributions	1,365	1,358
Earmarked reserves	37	563
Total funding	3,332	3,360

* *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

2008/09 £000s		2009/10 £000s
	Central Services	
1,191	Vehicle replacement programme	636
28	IT hardware and software	134
	Cultural and Related Services	
0	Leisure centre new facilities / refurbishments	58
522	Parks and open spaces	888
	Environmental Services	
99	Refurbishment of public conveniences	14
0	Coast and Flood Protection etc.	61
	Highways, Roads and Transport Services	
37	Salcombe Harbour – replacement of Batson Creek Pontoon	187
0	Dartmouth Ferry - slipways	16
	Housing Services	
958	Renovation grants, etc.	815
372	New housing in partnership with housing associations	502
	Planning and Development	
47	Industrial units	0
38	Community development / grant aid	0
0	Totnes Southern Area	33
11	Environmental Schemes	0
29	Other	16
3,332	TOTAL	3,360

10. Commitments under capital contracts

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

Project	£000s
Improvements to Public Open Space – The Council is currently making improvements to many of its public open spaces. The total identified project cost is approximately £1,900,000.	
Total	1,900

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

11. Information on assets held

31.3.2009 Number		31.3.2010 Number
	<u>Operational Assets</u>	
	Land and buildings	
20	<i>Dwellings used for housing the homeless</i>	15
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
1	<i>Multi-use games area</i>	1
94	Children's play areas	94
49	Off street car parks / park and ride	49
151	Industrial Units	151
46	Public conveniences	43
	Vehicles, plant, furniture and equipment	
13	Watercraft / vessels	13
86	Vehicles and plant	88
	Community assets	
	including: -	
16	<i>Parks / Ornamental Gardens (23 hectares), Informal parks / Open spaces (105.4 hectares)</i>	16
	<u>Non operational land and buildings</u> - including	
10	café, shops and land awaiting development	8

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

12. 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 Stephen Forsey FRICS, the Council's Development Surveyor. 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). In addition, a formal impairment review is undertaken of the entire holding of land and buildings at the end of each financial year. 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	95	3,834	2,466	410	-	748	7,553
New certified valuation included in balance sheet :							
2009/2010	13,237	-	-	-	-	-	13,237
2008/2009	7,376	-	-	-	135	-	7,511
2007/2008	5,907	-	-	-	-	-	5,907
2006/2007	13,304	-	-	-	243	-	13,547
2005/2006	9,417	-	-	-	-	-	9,417
Total	49,336	3,834	2,466	410	378	748	57,172

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

13. Depreciation methodologies

In accordance with FRS15, the council provides depreciation on all fixed assets other than freehold land and investment properties. The provision for depreciation is made by allocating the cost (or revalued amount) less the estimated residual value of the assets over the accounting periods expected to benefit from their use. The straight-line method of depreciation is used.

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

14. Movement in intangible assets

	Software purchases £000s
Original Cost	580
Amortisation to 1 April 2009	(331)
Balance at 1 April 2009	249
Expenditure in Year	89
Written off to revenue in year	(98)
Balance at 31 March 2010	240

The balance at the 31 March 2010 represents expenditure on the, 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

15. Leases

The Authority uses certain land and buildings under the terms of an operating lease. The amount paid under these arrangements in 2009/2010 was £72,000 (2008/2009, £70,000).

The Authority is committed to making payments of £72,000 under these leases in 2009/2010, comprising the following elements:

	£000
Leasing expiring in 2010/2011	-
Leasing expiring between 2011/2012 and 2015/2016	-
Leases expiring after 2015/2016	72

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 low value.

NB the Council is currently undertaking a comprehensive review of its leases in response to the introduction of International Financial Reporting Standards in 2010/2011 (IFRS). The IFRS regime sets out a more extensive range of tests which are to be used in order to classify the type of leases in operation (i.e. finance or operating).

16. Deferred credits

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 £24,000 recorded as a deferred credit represents the amount owing to the District Council at 31 March 2010.

17. Stocks

31.3.2009		31.3.2010
£000s		£000s
63	Works Depot	90
4	Drawing Office	4
3	Postage	0
10	Printing Materials	11
80		105

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

18. Debtors

31.3.2009 * £000s		31.3.2010 £000s
579	Government departments	296
293	Other local authorities	736
2,004	Sundry debtors	3,717
660	Investment interest	456
40	Housing Rents	14
0	NNDR Debtor (Government)	1,615
125	Council tax payers	139
3,701		6,973
	Provision for bad debts:	
(562)	General Fund	(491)
	Collection Fund	
(62)	Council tax	(69)
3,077	Totals	6,413

**Restated due to changes in accounting arrangements for Collection Fund introduced in the SORP 2009*

19. Investments

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

31.3.2009 £000s			31.3.2010 £000s
	Long term		
10,048	Bank and Building Societies		2,509
	Short term		
1,000	Local Authorities	0	
5,850	Bank and Building Societies	16,038	
3,150	HM Treasury (Debt Management Office)	2,420	18,458
20,048	Total		20,967

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

20. Creditors

31.3.2009*		31.3.2010
£000s		£000s
257	Inland Revenue	265
478	Other Government departments	1,364
210	Other local authorities	259
2,032	Sundry creditors	2,306
43	Council taxpayers	44
275	Council taxpayers – preceptors a/c	670
795	NNDR (Central Government)	0
4,090		4,908

**Restated due to changes in accounting arrangements for Collection Fund introduced in the SORP 2009*

21. Provisions

31.3.2009		31.3.2010
£000s		£000s
0	Single Status – Leisure Centre Staff	300
0		300

The provision listed above reflects the maximum potential payment to the Council's Leisure Contractor in consideration of an agreement to vary the terms of the Business Transfer Agreement in order to remove the obligations relating to Single Status.

22. 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).

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

- 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 £168,608. It remains the view of the Directors of MMI that based on all of the information known to them at 8 September 2009; it is unlikely that a Scheme of Arrangement will need to be invoked.
- c) The Council has undertaken 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 budget reserve of £1.05M was established to fund changes in staff salaries and an ongoing budget allocation of £400,000 was set aside. 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. To date, no agreement has been reached and the Executive took the decision in July 2009 that no further progress towards reaching an agreement could be made at the present time. 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 :
- the risk of there having to be a public inquiry because the developers consider that the authority has been tardy in determining their application. This risk has receded (though not disappeared) because permission was granted conditionally on 31st July, subject to completion of a S106 agreement.
 - it is generally understood and agreed that developers will pay the local planning authority's legal costs of entering into planning obligation agreements. Discussions continue on the terms of the agreement and about the amount of the authority's legal fees for the work required.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

23. Post balance sheet events

None.

24. 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 2009 £000s	Net Movement in Year £000s	Balance 31 March 2010 £000s	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	4,837	3,121	7,958	Store of gains on revaluation of fixed assets not yet realised through sales	See note 25
Capital Adjustment Account	48,732	(2,728)	46,004	Store of capital resources set aside to meet past expenditure	See note 26
Financial Instruments Adjustment Account	(360)	124	(236)	Balancing account to allow for difference in statutory requirements and proper accounting practices for borrowings and investments	See note 27
Usable Capital Receipts	7,586	10	7,596	Proceeds of fixed asset sales available to meet future capital investment	See note 28
Deferred Capital Receipts	1	(1)	0	Principal outstanding on mortgages	See note 28
Pensions Reserve	(21,320)	(15,714)	(37,034)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	See note 34
Collection Fund Adjustment Account	54	59	113	Represents Council's share of the Collection Fund Surplus.	See note 1
Earmarked Reserves	8,587	(709)	7,878	Set up to provide funds for future liabilities and expenditure in specific service areas.	See note 29
General Fund Balance	1,408	(230)	1,178	Available to meet contingencies and other budget pressures in any service area	See note 29

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

25. 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 2009/2010 are shown below:

	2009/10 £000s
Gains/(losses) on revaluation and restatement of fixed assets	3,736
Depreciation adjustment	(58)
Amounts written off fixed asset balances for disposals	(557)
Net movement in year	3,121

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

26. 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 off 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:

	2009/2010 £000s
Contributions to the Capital Adjustment Account	
Depreciation adjustment re revaluation reserve	58
Capital expenditure financed from capital receipts	1,469
Capital expenditure financed from revenue	504
Deferred grants written down	471
Contributions from the Capital Adjustment Account	
Depreciation charged to revenue accounts	(1,562)
Impairments	(1,462)
Amortisation of intangible fixed assets	(98)
Parish loans written down	(3)
Disposal of fixed assets	(1,908)
REFCUS (net of capital grant)	(197)
Net movement in year	(2,728)

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

27. 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 2009/10 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 4.39).

28. 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 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 2009/2010	1,479	-
Principal repaid in 2009/2010	-	(1)
Amounts applied to finance new capital investment in 2008/09	(1,469)	-
Net movement in year	10	(1)

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

29. 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:

	31.03.09	Applications	Contributions	31.03.10
	£ 000	£ 000	£ 000	£ 000
EARMARKED RESERVES				
General Fund				
Working Balance	750	-	-	750
Contingency	117	-	-	117
Affordable Housing	1,057	(65)	-	992
Drawing Office	10	-	-	10
Strategic Issues	832	(561)	23	294
Community Parks and Open Spaces	67	(2)	17	82
Economic Regeneration & anti-social behaviour	53	(24)	24	53
Pension Fund Strain	-	(154)	154	-
Repairs and Maintenance	299	(159)	55	195
Single Status	-	-	750	750
Members Sustainable Community	-	-	16	16
Locality Fund				
Land and Development	517	(89)	46	474
Ferry Repairs and Renewals	292	-	25	317
Economic Initiatives	340	(130)	80	290
Vehicles and Plant Renewals	638	(636)	374	376
Pay and Display Equipment	107	(44)	21	84
On-Street Parking	11	-	11	22
Print Equipment	72	-	4	76
ICT Development	574	(10)	-	564
Sustainable Waste Management	337	(82)	-	255
Community Grants	48	(26)	30	52
District Elections	17	(6)	10	21
Beach Safety	19	(2)	-	17
Planning (Local Plans)	2,107	(566)	135	1,676
Building Control	35	(35)	-	-
Section 106 agreements	31	-	-	31
Sub Total	8,330	(2,591)	1,775	7,514
Specific Reserves – Salcombe Harbour				
Pontoons	46	-	47	93
Harbour Renewals	69	-	29	98
General Reserve	137	-	31	168
Sub Total	252	-	107	359
Trust and Bequest	5	-	-	5
TOTAL EARMARKED REVENUE RESERVES	8,587	(2,591)	1,882	7,878
GENERAL FUND BALANCE	1,408	(253)	23	1,178
TOTAL REVENUE RESERVES	9,995	(2,844)	1,905	9,056

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

30. 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 1.4.09 £	Balance 31.3.10 £
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

31. Capital Contributions Unapplied

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

	2009/2010 £000s
Amounts received	1,603
Amounts applied to finance new capital investment	(1,403)
Net movement in year	200

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

32. 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" (long term liabilities).

Site	31.03.2009 £000s	Income £000s	Expenditure £000s	31.03.2010 £000s
Langage Energy Centre	883	2,358	(221)	3,020
Dartmouth Supermarkets	481		(5)	476
Other	338	253	(239)	352
TOTAL	1,702	2,611	(465)	3,848

33. 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.

	2009/2010 £000s
Grants applied to finance capital investment	189
Amounts written-down to the Income and Expenditure Account	(471)
Net movement in year	(282)

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

34. 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 10.5% applicable for 2009/2010 is based on the actuarial valuation of the fund as at 31 March 2007.

In 2009/2010, the Council paid an employers' contribution of £1,321,000 (£1,220,000 in 2008/2009) into the pension fund. The equivalent figure for 2010/11 is anticipated to be £1,212,000 after accounting for the Local Government pay award and an increase in the employer's contribution rate to 11%.

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.

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.

	2008/9 £000s	2009/10 £000s
Net Cost of Services		
current service cost	1,250	1,191
past service costs/ curtailments	140	88
Net Operating Expenditure		
interest cost	4,600	4,765
expected return on scheme assets	(4,310)	(2,659)
Net Charge to the Income and Expenditure Account	1,680	3,385
Statement of Movement in the General Fund Balance		
Reversal of net charges made for retirement benefits in accordance with FRS 17	(1,680)	(3,385)
Actual amounts charged against the General Fund Balance for pensions in the year		
Employers' contributions payable to scheme	1,220	1,321

In addition, to the recognised gains and losses included in the Income and Expenditure Account, an actuarial loss of £16.65M (compared to a loss of £13.42M in 2008/09) is 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

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 two components are separated out in the following tables.

Reconciliation of the present value of the scheme liabilities

	2008/09 Value (£000)	2009/10 Value (£000)
Opening present value of liabilities	67,750	71,460
Current service cost	1,250	1,191
Interest cost	4,600	4,765
Actuarial (gains)/ losses on liabilities	(520)	27,045
Past service costs/ curtailments	140	88
Benefits paid out (net of transfers in)	(2,140)	(2,298)
Contributions by scheme participants	570	598
Unfunded pension payments	(190)	(199)
Closing present value of liabilities	71,460	102,650

Reconciliation of the fair value of the scheme assets

	2008/09 Value (£000)	2009/10 Value (£m)
Opening fair value of assets	63,310	50,140
Expected return on assets	4,310	2,659
Actuarial gains/ (losses) on assets	(16,940)	13,395
Employer contributions	1,220	1,321
Contributions by scheme participants	570	598
Benefits paid out	(2,330)	(2,497)
Closing fair value of assets	50,140	65,616

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Scheme History

	2005/06*	2006/07	2007/08	2008/09	2009/10
	£000	£000	£000	£000	£000
Present value of liabilities	65,110	68,350	64,760	68,410	99,277
Fair value of scheme assets	60,650	63,580	63,310	50,140	65,616
Net liability (funded obligations)	4,460	4,770	1,450	18,270	33,661
Present value of unfunded liabilities	3,040	3,120	2,990	3,050	3,373
Net liability in Balance Sheet	7,500	7,890	4,440	21,320	37,034

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

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

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

	31.3.09	31.3.10
	% pa	% pa
Price increases	3.4	3.9
Salary increases	4.9	5.4
Pension increases	3.4	3.9
Discount rate for pension cost	6.7	5.5

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Mortality assumptions

	31.3.09 Years	31.3.10 Years
Life expectancy from age 65 (currently aged 65)		
• Males	23.1	23.1
• Females	25.0	25.0
Life expectancy from age 65 (currently aged 45)		
• Males	25.4	25.4
• Females	27.3	27.3

Expected Return on Assets

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2009 for the year to 31 March 2010). The actuaries have adopted the following expected returns:

	Long-term rate of return expected at 31 March 2009 (% p.a.)	Long-term rate of return expected at 31 March 2010 (% p.a.)
Equities	7.0	7.5
Gilts (Government bonds)	4.0	4.5
Other bonds	5.8	5.5
Property	6.0	6.5
Cash	1.6	3.0
Absolute Return Funds	N/A	5.0
Total	5.3	6.6

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2010 is estimated to be 32%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. The actual return on Fund assets over the year may be different.

The estimated asset allocation for South Hams District Council as at 31 March 2010 is as follows:

	Asset split at 31 March 2009 (%)	Value at 31 March 2010 (£ %)
Equities	52	69
Gilts (Government bonds)	22	17
Other bonds	1	-
Property	8	6
Cash	17	7
Absolute Return Funds	-	1
Total	100	100

Based on the above, the Employer's share of the assets of the Fund is approximately 3%.

History of experience gains and losses

The actuarial gains/losses identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2010.

	2005/06		2006/07		2007/08		2008/09		2009/10	
	£m	%	£m	%	£m	%	£m	%	£m	%
Differences between the expected and actual return on assets	8.47	14.0%	0.58	0.9%	(4.15)	(6.6)%	(16.940)	(33.8)%	13.395	20.4%
Differences between expected level of liabilities and actual experience	(0.01)	(0.0%)	(0.16)	(0.2%)	(0.99)	(1.5)%	(0.35)	(0.5)%	0.146	0.1%

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

35. 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.

		2009/2010 £000s
Net deficit on the Income and Expenditure Account		6,106
Non cash items in the I & E		
Depreciation, impairment and amortisation	(2,652)	
Financial instruments	140	
Surplus/(loss on disposal of fixed assets	(1,041)	
Charges for FRS 17	(3,385)	
		(6,938)
Other adjustments		
Capital receipts in I & E	(197)	
Amounts paid to Pension Fund	1,321	
Collection Fund Adjustment Account	(4,929)	
		(3,805)
Movement in working capital		
Increase/(decrease) in long & short term debtors	1,734	
(Increase)/decrease in long & short term creditors	(4,070)	
Increase /(Decrease) in stock	25	
		(2,311)
Add cash inflow from investments		1,005
Net cash outflow from revenue activities		(5,943)

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

36. Analysis of Cash

	31.3.2009 £000s	31.3.2010 £000s	Movement £000s
Cash/(Overdrawn)	351	(1,037)	(1,388)

37. Analysis of capital grants (on a cash basis)

2008/2009 £000s		2009/2010 £000s
Capital Grants		
94	Devon County Council	-
89	ERDF – Admiral’s Court	-
-	Slapton Parish Council - Greenbank Play Space	5
-	Ivybridge Town Council – Play Areas	10
8	Other	-
191	Total	15

38. Liquid resources – Short term deposits include investments held with banks, building societies and loans to other local authorities.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

39. 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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

The carrying amount and fair values for investments at 31 March 2010 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	2,509	106	2,615	2,764
Short term – Heritable Bank*	529	46	575	N/A
Short term – other	17,929	304	18,233	18,259
TOTAL	20,967	456	21,423	

* 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.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Heritable Bank

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

For the 2009/10 accounts the authority decided to recognise an impairment based on it recovering 80p in the £ following guidance received from the Local Authority Accounting Panel (LAAP).

The administrators issued the latest creditors report in January 2010. This report noted that current projections suggest a base case return to creditors of 79 to 85 pence in the pound. The first interim payment had been made in July 2009 for 16.13% of the claim. Since then, further dividends have been paid (12.66% in December 2009 and 6.19% in March 2010), bringing the total dividends paid to date to 34.98% of the claim. In cash terms a total of £438,000 has now been received by South Hams District Council.

In view of this information, LAAP recommends that the following repayment schedule is used to estimate the recoverable amount at 31 March 2010. The schedule is based on expected total dividends of 84.98% of the claim.

This estimate is at the top end of the range quoted by the administrators. This is in line with the approach taken in LAAP Bulletin 82, where it was noted that a strategy of winding up the bank by 2012 was expected to produce a return at the top end of the range; a strategy of winding up the bank before 2012 would lead to lower returns. On this basis, the Local Authority Accounting Panel considers that a recovery at the top end of the estimate is the most likely outcome, and this therefore forms its best estimate:

Date	Repayment	Date	Repayment
June 2010	5%	September 2011	5%
September 2010	5%	December 2011	5%
December 2010	5%	March 2012	5%
March 2011	5%	June 2012	5%
June 2011	5%	September 2012	5%

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

The impairment loss recognised in the Income and Expenditure Account 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.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

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

Summary details of the investment made are as follows:

Date Invested	Maturity Date	Amount Invested £	Interest Rate	Dividends Received £	Carrying Amount	Impairment
25/09/08	22/12/08	1,250,000	6.25%	438,000	575,000	237,000

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 £237,000 has been transferred to the Financial Instruments Adjustment Account. However, this is a temporary arrangement and any potential losses will have to be brought into account in the 2010/11 financial year.

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 2008/09. 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	£2,508,330	£5,008,853

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.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum for exposures the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

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

The annual treasury management strategy which incorporates the prudential indicators was approved by the Executive on 22 January 2009 and is available on the Council website.

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

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

The full Investment Strategy for 2009/10 was approved by the Executive on 22 January 2009 and is available on the Council's website. The Council's investment priorities are: -

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

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

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

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates 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 2010.

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. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure.

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.

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.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

If all interest rates had been 1% higher with all other variables held constant the financial effect would be that an additional £250,000 in interest would have been generated.

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

Price risk

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

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.

40. 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
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
2017/18	
TOTAL	4,114

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.

2008/2009 £000s	Notes	2009/2010 £000s
Income		
(49,118) Council Tax	1	(50,700)
(5,214) Council Tax Benefits		(5,738)
(20,775) Business Rates	2	(21,200)
80 Less: Transitional Relief / (Surcharge)		(72)
(75,027)		(77,710)
Expenditure		
Precepts and Demands		
39,629 <i>Devon County Council</i>		41,188
5,297 <i>Devon and Cornwall Police</i>		5,615
2,480 <i>Devon and Somerset Fire Authority</i>		2,603
6,240 <i>South Hams District Council</i>		6,336
Business Rates		
20,280 <i>Payment to national pool</i>		20,871
192 <i>Costs of collection allowance</i>		197
Distribution of previous year's estimated surplus		
447 <i>Devon County Council</i>		-
57 <i>Devon and Cornwall Police</i>		-
28 <i>Devon and Somerset Fire Authority</i>		-
70 <i>South Hams District Council</i>		-
Bad and doubtful debts		
Write Offs		
206 <i>Council Tax</i>		130
204 <i>Business Rates</i>		148
Provisions		
(53) <i>Council Tax</i>		59
20 <i>Business Rates</i>		55
75,097		77,202
70	MOVEMENT ON FUND BALANCE	(508)

SECTION 5. COLLECTION FUND

1. Council tax and council tax base

In 2009/2010, the Council's average Band D Council Tax was £1,481.47. The charge for each band is a ratio of band D. The 2009/2010 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	823.04
A	6/9	987.65
B	7/9	1,152.25
C	8/9	1,316.86
D	1	1,481.47
E	11/9	1,810.69
F	13/9	2,139.90
G	15/9	2,469.12
H	18/9	2,962.94

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 2009/2010 was 37,626.03 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	11.75	11.75	5/9	6.53
A	4,796.00	(973.00)	3,823.00	6/9	2,548.67
B	8,333.00	(1,106.90)	7,226.10	7/9	5,620.30
C	8,277.00	(933.35)	7,343.65	8/9	6,527.69
D	7,755.00	(410.20)	7,344.80	1	7,344.80
E	6,176.00	(538.35)	5,637.65	11/9	6,890.46
F	3,445.00	(253.15)	3,191.85	13/9	4,610.45
G	2,854.00	(259.25)	2,594.75	15/9	4,324.58
H	260.00	(35.20)	224.80	18/9	449.60
Total	41,896.00	(4,497.65)	37,398.35		38,323.08
					(766.45)
					69.40
Tax base					37,626.03

SECTION 5. COLLECTION FUND

2. Rateable value

The total non-domestic rateable value at 31 March 2010 was £52,044,579. This compares to £51,778,081 at 31 March 2009. The standard non-domestic rate multiplier was 48.5p in 2009/10 (2008/09: 46.2p). Without reliefs this would generate a total income of £25,241,620.81 (2008/09 £23,921,473.42). 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

2008/2009 £000s		2009/2010 £000s
(551)	Fund balance at 1 April	(481)
70	(Surplus) / Deficit for year	(508)
(481)	Fund balance as at 31 March	(989)

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

2008/2009 £000s	Preceptor	2009/2010 £000s
(356)	Devon County Council	(728)
(49)	Devon and Cornwall Police	(101)
(22)	Devon and Somerset Fire Authority	(47)
(427)	Total surplus due to Preceptors	(876)
(54)	South Hams District Council	(113)
(481)	Fund balance as at 31 March – (surplus)/deficit	(989)

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 present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

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

29 June 2010

Cllr JT Pennington
Chairman of the Audit Committee

29 June 2010

SECTION 7. ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement will be incorporated into the Statement of Accounts following its approval by the Audit Committee.

SECTION 8. AUDITORS' REPORT

An audit opinion will be issued by the Audit Commission following completion of their audit of the Statement of Accounts.

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.

Collection Fund Adjustment Account

Represents the District Council's share of the surplus on the Collection Fund.

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 (REFCUS)

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.