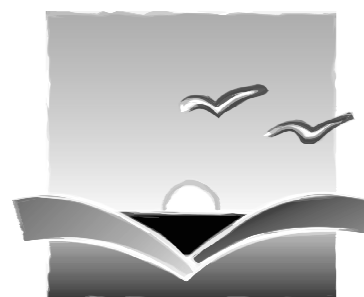


South Hams District Council

Statement of Accounts

2007/2008



**South Hams
District Council**

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SECTION 1. EXPLANATORY FOREWORD

INTRODUCTION

1. Each year South Hams District Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute. Significant changes have been introduced for 2007/08 which are designed to align local authority accounts more closely with the United Kingdom Generally Accepted Accounting Practice (UK GAAP).
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 provide a summary of the overall financial position.

REVIEW OF THE YEAR

The revenue budget

3. The main components of the General Fund budget for 2007/2008 and how these compare with actual income and expenditure are set out below:

	Estimate £000s	Actual £000s	Difference Cost/(Saving) £000s
Cost of services (after allowing for income and reserve contributions)	11,337	11,501	164
Parish precepts	1,305	1,305	0
Interest and Investment income	(1,170)	(1,505)	(335)
Amount to be met from government grants and taxation	11,472	11,301	(171)
<i>Financed from:</i>			
Government grants – Revenue Support Grant	(770)	(769)	1
Business rates	(4,585)	(4,585)	0
Council tax	(5,947)	(5,947)	0
Surplus on collection fund	(70)	(70)	0
Government grants – LABGI	(100)	(320)	(220)
SURPLUS	0	(390)	(390)

SECTION 1. EXPLANATORY FOREWORD

4. From a financial point of view, the Council was faced with a challenging year. It experienced increased costs arising from the delivery of the waste management service and reduced income from the car parks and ferry services. Fortunately, it received some “windfalls” in the form of additional LABGI grant and the repayment of debt charges from the Environment Agency (EA). In addition, investment returns exceeded the budgeted figure. A summary of the main differences from budget is provided below:

ANALYSIS OF VARIATIONS	£000
Increases in expenditure/reductions in income	
Waste Management – increased operational costs (net)	330
Redundancy and compensation payments etc	223
Car Parks - reduction in anticipated net income	137
Benefits – reduction in recovery of subsidy etc.	116
Development Control – compensation payments/ consultants’ fees etc.	96
Dartmouth Ferry - reduction in anticipated net income	72
Land Charges – shortfall in income reflecting the impact of the introduction of the new charging regime in line with revised Government regulations (Council 97/06).	35
Reductions in expenditure/additional income	
Coast Protection – repayment of debt charges from the EA	(253)
Employment Estates – net additional income from rent reviews	(247)
Receipt of Local Authority Business Growth Incentive Scheme (LABGI) grant – final allocation received late due to court case	(220)
Investment Income – increased interest rates/ improved cash flow	(189)
Investment Income – gains arising from changes in accounting practice (please see page 56)	(146)
Concessionary Fares – full provision not required	(110)
Staff salaries – savings on vacant posts etc.	(97)
Licensing – increased net income	(65)
Electoral Registration – provisions for casual salaries and printing & stationery not required in full	(27)
Leisure Centres – contract payments/ additional income etc.	(27)
Corporate Management – reduction in audit fees/ consultation costs	(18)
TOTAL SURPLUS	(390)

SECTION 1. EXPLANATORY FOREWORD

Capital spending

5. The Council spent £4.6m on capital projects. The main areas of expenditure were as follows:

- the provision of affordable housing in partnership with registered social landlords (£1.1m)
- house renovation grants (£0.7m)
- community development/grant aid (£0.7m)
- employment estates (£0.5m)
- Salcombe Harbour (£0.4m)
- vehicle replacements (£0.4m)
- leisure and recreation (£0.3m)
- information technology (£0.1m)

The capital programme is funded from capital receipts, capital grants and external contributions and earmarked reserves (please see Section 13 pages 30-35).

Issue of accounts

6. It is intended that The Statement of Accounts for 2007/2008 will be authorised for issue on 26th June 2008. This is also the date up to which events after the balance sheet date will have been considered.

SECTION 1. EXPLANATORY FOREWORD

FINANCIAL NEEDS AND RESOURCES

7. 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.
8. **Revenue reserves** have decreased by £229,000 from the preceding year, and stand at £8.9m at 31 March 2008. Revenue reserves may be used to finance capital or revenue spending plans.
9. **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 £8.8m, is available to meet capital expenditure. However, the Revaluation Reserve and Capital Adjustment Account cannot be used to finance capital or revenue expenditure.
10. 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.
11. 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 £4.24 m at 31 March 2008. 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.
12. 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.
13. 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

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.

- **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.

SECTION 1. EXPLANATORY FOREWORD

- **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.

FURTHER INFORMATION

14. 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 also be found within the Council's Performance Plan. Copies are available from South Hams District Council, Follaton House, Plymouth Road, Totnes, TQ9 5NE, or e-mail enquiries@southhams.gov.uk

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 2007: 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) .

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.

DEFERRED CHARGES

A deferred charge occurs when an asset is purchased with capital finance which has no long-term benefit to the Council e.g. home renovation grants, capital grants to external bodies etc. Deferred charges are "amortised" (written off) to the revenue account in the year of expenditure. A contra-entry is made to the Capital Adjustment Account so that the amortisation does not impact on the level of Council Tax to be collected.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

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.

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 2007 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 and similar institutions.

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.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

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

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

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

PROVISIONS

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

PROVISIONS FOR BAD AND DOUBTFUL DEBTS

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

RESERVES

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

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

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.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

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.

c) Measurement

Fixed assets are initially measured at cost. Only those costs that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement. Plant and machinery are not included in the valuation of buildings.

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

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

assessed because the asset is specialised in nature, the depreciated replacement cost.

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

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

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.

SECTION 2. STATEMENT OF ACCOUNTING POLICIES

e) Impairment

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

f) Depreciation

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

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

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

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

VALUE ADDED TAX

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

Section 3

Core Financial Statements

SECTION 3A. INCOME AND EXPENDITURE ACCOUNT

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

Net Expenditure / (Income) 2006/2007 £000s		Year ending 31 March 2008		
		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
698	Central Services to the Public	6,957	(5,734)	1,223
3,175	Cultural and Related Services	2,698	(308)	2,390
5,028	Environmental Services	7,343	(2,260)	5,083
(735)	Highways, Roads and Transport Services	3,407	(4,254)	(847)
1,531	Housing Services	18,120	(16,708)	1,412
1,982	Planning and Development Services	4,926	(2,778)	2,148
2,105	Corporate and Democratic Core	2,056	(21)	2,035
174	Non Distributed Costs	888	-	888
13,958	Net cost of services	46,395	(32,063)	14,332
(290)	Gain on the disposal of fixed assets			(69)
1,205	Parish Council Precepts			1,305
1	Contribution of housing capital receipts to Government Pool			1
-	Investment gains			(146)
(1,318)	Interest and Investment Income			(1,359)
(600)	Pensions Interest cost and expected return on Assets			(640)
12,956	Net operating expenditure			13,424
(843)	Revenue Support Grant			(769)
(4,369)	Non-domestic rates redistribution			(4,585)
(5,667)	Demand on the Collection Fund			(5,947)
(35)	Transfer from Collection Fund in respect of previous year's surplus			(70)
(288)	LABGI Grant			(320)
1,754	Net General Fund (surplus) / deficit			1,733

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

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

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

Net Expenditure 2006/2007 £000s	Notes	Net Expenditure 2007/2008 £000s
1,754	(Surplus)/ deficit for the year on the Income and Expenditure Account	1,733
(1,593)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(2,123)
161	(Increase)/decrease in General Fund Balance for the Year	(390)
(2,679)	General Fund Balance brought forward	(1,870)
-	- Transfer to Strategic Issues Reserve	200
270	Transfer to Economic Initiatives Reserve	-
250	Transfer to Planning Reserve	-
128	Transfer to Carry forwards/ Strain Payments Reserve	135
(1,870)	General Fund Balance carried forward	(1,925)

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.

2006/07 £000		2007/08 £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	
(233)	Amortisation of intangible fixed assets	(243)
(1,296)	Depreciation and impairment of fixed assets	(1,391)
371	Government grants deferred amortisation	412
(224)	Write downs of deferred charges to be financed from capital resources (usable receipts)	(535)
308	Net gain on sale of fixed assets	61
(1,360)	Net charges made for retirement benefits in accordance with FRS 17	(1,700)
(2,434)		(3,396)
	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	
393	Capital expenditure charged in-year to the General Fund Balance	759
(1)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1)
1,230	Employer's contributions payable to the Devon County Council Pension Fund	1,170
1,622		1,928
	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	
(32)	Voluntary revenue provision for capital financing (Commutation Adjustment)	(36)
(749)	Net transfer to or from reserves	(619)
(781)		(655)
(1,593)	Net additional amount to be credited to the General Fund balance for the year	(2,123)

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.

2006/2007		2007/2008
£000s		£000s
1,754	(Surplus)/ deficit for the year on the Income and Expenditure Account	1,733
(2,376)	Surplus arising on revaluation of fixed assets	(2,746)
50	Actuarial (gains)/ losses on pension fund assets and liabilities	(3,970)
2	Other gains & losses	-
(229)	Collection Fund (Surplus)	399
(799)	Total recognised gains for the year	(4,584)

SECTION 3D. BALANCE SHEET

31 March 2007		Notes	31 March 2008	
£000s	£000s		£000s	£000s
612		Intangible Fixed Assets	18	478
		Tangible Fixed Assets		
		<i>Operational assets</i>	13	
47,341		- land and buildings		49,705
2,841		- vehicles, plant and equipment		2,754
2,699		- infrastructure assets		2,947
321		- community assets		344
		<i>Non operational assets</i>	13	
1,057		- investment properties		1,210
24		- assets under construction		567
	54,895	Total Fixed assets		58,005
	139	Deferred Credits	20	59
	27	Long term debtors		24
	55,061	Total long term assets		58,088
		Current assets		
76		- stocks and work in progress	21	114
5,598		- debtors	22	3,997
21,355		- investments	23	20,570
		- investments (fair value through I & E)	44	146
55		- cash and bank	41	168
	27,084			24,995
	82,145	Total assets		83,083
		Current liabilities		
(4,463)		- creditors	24	(5,457)
	(4,463)			(5,457)
	77,682	Total assets less current liabilities		77,626
		Long term liabilities		
(2,418)		- capital contributions unapplied	35/36	(1,238)
(4,121)		- government grants deferred	37	(4,101)
(7,680)		- pensions liability	38	(4,240)
	63,463	Total assets less liabilities		68,047
		Financed by:		
		- Revaluation Reserve	29/30	2,746
50,952		Capital adjustment account	29/31	51,298
(7,680)		Pensions reserve	29/38	(4,240)
10,124		Usable capital receipts reserve	29/32	8,805
2		Deferred capital receipts	29/32	1
6,327		Earmarked reserves	29/33	6,093
		Balances		
1,870		- accumulated surplus	29/33	1,925
868		- contingency/working balances	29/33	868
50		- trading accounts	29/33	-
950		- collection fund	Sct 5	551
	63,463	Total net worth		68,047

Mark Seymour

14 June 2008

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

Section 4

Notes to the

Core Financial Statements

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

1. Prior Period Adjustments

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve (see accounting policies). The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The debit balance of £3.9m on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£54.9m credit balance) to form the new Capital Adjustment Account with a balance of £51m. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore only shows revaluation gains accumulated since 1 April 2007.

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:

2006/07				2007/08
Net Expenditure/ (Surplus) £000s	Service	Turnover £000s	Expenditure £000s	Net Expenditure/ (Surplus) £000s
(1,609)	Car & Boat Parking	(2,655)	1,153	(1,502)
(141)	Dartmouth Ferry	(777)	752	(25)
(618)	Employment Estates	(1,221)	429	(792)
(70)	Pannier Markets	(114)	36	(78)
(16)	Salcombe Harbour	(828)	774	(54)
(111)	Trade Refuse	(815)	809	(6)
(2,565)	Net surplus on trading units	(6,410)	3,953	(2,457)

Car & Boat Parking

The Council provides off-street parking at an appropriate level according to demand and environmental impact. Charges are made where it is economic to do so and at a level which will ensure that the provision and management are not a cost burden to local Council Tax payers.

Dartmouth Ferry

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

Employment Estates

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

Pannier Markets

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

Salcombe Harbour

The Council aims to improve, maintain and manage the whole of the Salcombe-Kingsbridge Estuary for the benefit of users, who include commercial fishermen, local residents and visitors, on a self-financing basis.

Trade Refuse

The Council operates a trade refuse collection service.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

3. Financial assistance to organisations and individuals

Service Area	2006/2007 £000s	2007/2008 £000s
Environmental projects, including land management grants under the EU funded Area of Outstanding Natural Beauty programme	228	105
Housing enabling grants	9	34
Citizens Advice Bureau	37	39
Economic promotion grants	16	495
Grants to town/parish councils, village halls and local organisations through the Community Grants Reserve	60	24
Support to the arts	12	12
Beach and Water safety	5	0
Public transport	11	23
Other welfare payments	39	39
Sports development	4	5
Miscellaneous	26	35
Total	447	811

4. Expenditure on publicity

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

	2006/07 £000	2007/08 £000
Recruitment advertising	129	94
Other advertising	103	54
Publicity	342	260
Total	574	408

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

5. Building Control Trading Account

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

Total Building Control 2006/2007 £000s		Chargeable 2007/2008 £000s	Non – Chargeable 2007/2008 £000s	Total Building Control 2007/2008 £000s
	Expenditure			
358	Employee expenses	369	63	432
7	Premises	7	1	8
33	Transport	31	4	35
127	Supplies and Services	29	19	48
66	Support Services	71	8	79
591	Total Expenditure	507	95	602
	Income			
(470)	Building Regulations Charges	(457)		(457)
(45)	Other Income	(58)		(58)
(515)	Total Income	(515)	0	(515)
76	(Surplus)/ Deficit for Year	(8)	95	87

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

6. Agency arrangements

Certain statutory powers allow the Council to undertake work on behalf of other public bodies. The main arrangement under these powers is the collection of land charge search fees on behalf of Devon County Council. These fees are included within the standard search fee and reimbursed to the County Council on a periodic basis. The amount collected was £45,000 in 2007/2008 (£44,000 in 2006/2007).

7. Local Authority (Goods and Services) Act 1970

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

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

	2006/07 £000	2007/08 £000
Provision of professional services to local Councils (payroll, internal audit, health & safety etc.)	43	34
Lease of accommodation to the Devon County Council Registration service, Citizens Advice Bureau and Teignbridge Enterprise Agency etc.	37	48
Provision of printing services (to local housing associations, parish councils etc.)	10	12
Provision of building maintenance services (to parish & town councils etc.)	18	35
Provision of grounds maintenance services (to Devon County Council, parish & town councils etc.)	51	57
Total	159	186

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

8. Local Area Agreements

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

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

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

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

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

During 2007/08 this Council received £71,000 via Devon County Council (the accountable body) under the Waste Performance & Efficiency Grant, as part of the Safer & Stronger Communities pooled funding stream from round 2 of the Local Area Agreement.

9. Members allowances

The total of Members' Allowances paid in the year was £259,000 (2006/2007: £246,000).

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

10. Officers' emoluments

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

2006/2007 Total	Remuneration Band	2007/2008 Total
4	£50,000 - £59,999	3
2	£60,000 - £69,999	-
-	£70,000 - £79,999	3
1	£80,000 - £89,999	-
-	£90,000 - £99,999	1
-	£100,000 - £109,999	1

11. Related party transactions

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

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

The Council is a member of Tor Homes which is a company limited by guarantee and a registered charity which was set up to own and manage the stock previously owned by the Council. The Council's voting rights as a member of the Company amount to (and are limited by the Company's constitution to) 33.3 per cent. The Council also has the right to appoint four of the Company's twelve trustees (who are the company's board of directors), and four of its Councillors currently serve in this capacity. Their membership of the board does not constitute a controlling interest and indeed these individuals are unable to vote on issues which involve the interests of the District Council.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

12. External Audit Costs

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

	2006/07	2007/08
	£ 000	£ 000
Audit Code Responsibilities	63	
Statutory Performance	24	
Grant Claims and Returns	31	
Other Services	6	
TOTAL	124	TBA

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

13. Summary of capital expenditure and fixed asset disposals

Movement on fixed assets

	Land and Buildings £000s	Vehicles, plant furniture & Equipment £000s	Infra-structure assets £000s	Community Assets £000s	Non-operational assets £000s	Total £000s
Certified valuation at 31 March 2007	48,915	5,775	3,754	321	1,094	59,859
Accumulated depreciation and impairment	(1,574)	(2,934)	(1,055)	-	(13)	(5,576)
Net book value of assets at 31 March 2007	47,341	2,841	2,699	321	1,081	54,283
Movements in 2007/08						
- Additions	355	447	380	23	707	1,912
- Disposals	-	(23)	-	-	-	(23)
- Reclassifications	-	-	-	-	-	-
- Revaluations	2,746	-	-	-	-	2,746
- Depreciation	(674)	(483)	(132)	-	(11)	(1,300)
- Impairment	(63)	(28)	-	-	-	(91)
Net book value of fixed assets as at 31 March 2008	49,705	2,754	2,947	344	1,777	57,527
Accumulated depreciation / impairment at 31 March 2008	1,963	2,820	1,189	-	23	5,995

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:

	2006/07	2007/08
	£000s	£000s
Capital Investment		
Operational Assets	1,414	1,206
Non-operational assets	76	707
Intangible Fixed Assets	185	109
Deferred Charges	1,230	2,537
Loans	22	0
Total expenditure	2,927	4,559
Sources of Finance		
Capital receipts	1,300	1,407
Capital grants and external contributions	1,174	2,372
Earmarked reserves	453	780
Total funding	2,927	4,559

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Analysis of Capital Expenditure by Service

2006/07 £000s		2007/08 £000s
	Central Services	
226	Vehicle replacement programme	429
15	Follaton House (repairs, access, drainage works etc.)	21
208	IT hardware and software	109
	Cultural and Related Services	
128	Leisure centre new facilities / refurbishments	103
139	Outdoor facilities	191
41	Disability Discrimination Act Works	0
	Environmental Services	
58	Refurbishment of public conveniences	12
0	Waste Management	0
70	Coast and Flood Protection etc.	0
	Highways, Roads and Transport Services	
1	Car and boat park enhancements	0
5	Salcombe Harbour - Harbour office, watercraft and infrastructure	355
30	Dartmouth Ferry - workshop	72
	Housing Services	
475	Renovation grants, etc.	700
558	Purchase of properties for temporary accommodation	15
368	New housing in partnership with housing associations	1,070
	Planning and Development	
82	Industrial units	538
114	Community development / grant aid	701
52	Totnes Southern Area	147
285	Environmental Schemes (HLF Programme etc.)	23
72	Other	73
2,927	TOTAL	4,559

14. Commitments under capital contracts

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

Project	£000s
Admiral's Court Phase 3 – The Council is in the process of building the 3 rd phase of employment units at Admiral's Court, Dartmouth. These units will be let to local business, following completion in 2008/09. The total identified project cost is £632,000.	
Total	632

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

15. Information on assets held

31.3.2007 Number		31.3.2008 Number
	Operational Assets	
	Land and buildings	
24	<i>Dwellings used for housing the homeless</i>	24
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
6	<i>Skate parks</i>	8
4	<i>BMX tracks</i>	4
94	Children's play areas	94
49	Off street car parks / park and ride	49
164	Industrial Units	165
46	Public conveniences	46
	Vehicles, plant, furniture and equipment	
13	Watercraft / vessels	13
88	Vehicles and plant	86
	Community assets	
	including: -	
16	<i>Parks / Ornamental Gardens (23 hectares)</i>	16
	<i>Informal parks / Open spaces (105.4 hectares)</i>	
	Non operational land and buildings - including	
8	café, shops and land awaiting development	8

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

16. Valuation information

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

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

	Land and Buildings	Vehicles, plant furniture & equipment	Infra- structure assets	Community Assets	Non- operational assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Valued at historical cost	1,282	2,754	2,947	344	993	8,320
New certified valuation included in balance sheet :						
2007/2008	11,192	-	-	-	-	11,192
2006/2007	16,218	-	-	-	655	16,873
2005/2006	12,312	-	-	-	129	12,441
2004/2005	8,688	-	-	-	-	8,688
2003/2004	13	-	-	-	-	13
Total	49,705	2,754	2,947	344	1,777	57,527

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

17. Depreciation methodologies

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

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

18. Movement in intangible assets

	Software purchases £000s
Original Cost	843
Amortisation to 1 April 2007	(231)
Balance at 1 April 2007	612
Expenditure in Year	109
Written off to revenue in year	(243)
Balance at 31 March 2008	478

The balance at the 31 March 2008 represents expenditure on the Land Charges, Financial Management, Document Management, Customer Services and Performance Management Systems. Expenditure is being written off over three years.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

19. Leases

The Authority does not hold any assets under finance leases. The Authority uses certain land and buildings under the terms of an operating lease. The amount paid under these arrangements in 2007/2008 was £85,000 (2006/2007, £97,000).

The Authority is committed to making payments of £85,000 under these leases in 2008/2009, comprising the following elements:

	£000
Leasing expiring in 2008/2009	15
Leasing expiring between 2009/2010 and 2012/2013	70
Leases expiring after 2013/2014	-

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

20. Deferred credits

The District Council has entered into a partnership with Devon County Council (DCC) to construct and operate a waste transfer facility at Torr Quarry. DCC makes an annual contribution to the construction cost which is based on the annual tonnage of throughput. The sum of £29,000 shown as a deferred credit represents the amount owing to the District Council at 31 March 2008 (£105,000 at the 31 March 2007).

In addition, the Council has constructed a new play area in Ivybridge for which it is receiving a contribution from the Ivybridge Youth Action Group. The sum of £30,000 recorded as a deferred credit represents the amount owing to the District Council at 31 March 2008.

21. Stocks

31.3.2007		31.3.2008
£000s		£000s
57	Works Depot	95
3	Drawing Office	4
6	Postage	4
10	Printing Materials	11
76		114

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

22. Debtors

31.3.2007		31.3.2008
£000s		£000s
1,696	Government departments	760
570	Other local authorities	381
2,345	Sundry debtors	2,040
51	Housing Rents	45
354	NNDR Pool Debtor	288
1,118	Council tax payers	1,074
534	Business ratepayers	734
6,668		5,322
	Provision for bad debts:	
(427)	General Fund	(487)
	Collection Fund	
(448)	Council tax	(595)
(195)	Business rates	(243)
5,598	Totals	3,997

23. Temporary Investments

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

31.3.2007		31.3.2008
£000s		£000s
-	Local authorities	-
21,355	Banks and other monetary sector	20,570
21,355	Total	20,570

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

24. Creditors

31.3.2007 £000s		31.3.2008 £000s
261	Inland Revenue	253
542	Other Government departments	947
309	Other local authorities	564
2,438	Sundry creditors	3,175
625	Council taxpayers	407
288	Business ratepayers	111
-	NNDR Pool	-
4,463		5,457

25. Provisions

No provisions were required in 2007/08 or 2006/07.

26. Contingent liabilities

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

all of the information known to them at 4 September 2007, it is unlikely that a Scheme of Arrangement will need to be invoked.

- 3) The Council is currently undertaking an Equal Pay Review by way of Job Evaluation in order to meet its Single Status obligation as part of the 2004 National Implementation Agreement. A 3-year Pay Protection Arrangement for staff down-graded through Single Status has been jointly agreed with the trade union bodies party to the negotiations. Conversely, a budget reserve has been established to fund staff that are up-graded or protected through Single Status and the implementation of new terms and conditions. The Council has set aside £1.05M over three years to meet its Single Status obligation. This is an estimated figure based on 3% of the 2006 salary budget. Subject to the satisfactory conclusion of negotiations with trade union bodies the Council reserves its position to review its funding strategy for Single Status. Employees whose pay is evaluated as being higher than what they currently receive will be paid arrears of pay as from 1st April 2007. Subject to the satisfactory conclusion of negotiations with trade union bodies the budgetary figure set aside will accommodate this level of back pay. As far as is reasonable to do so, the Council has assessed its level of liability in relation to potential Equal Pay Claims. It is difficult to foresee whether, and what, equal pay claims may emerge and they will have to be dealt with case by case.
- 4) The possible appeal against the Council's decision on the Sherford application. The Council has granted consent for the application in principle, but the applicant appears to believe that the Council's requirements from a Section 106 Agreement (S106) could make the development unviable. The applicants have recently submitted a duplicate application, which they could appeal. Their approach is likely to be for negotiations on the S106 for one application to continue with the appealed application running in tandem. The appeal has not yet been made and therefore the costs are unknown, but the complex nature of the scheme is likely to involve significant costs of professional and legal advice to defend the Council's position. The timing and potential financial implications are at this stage difficult to determine, but could have a major impact on the Local Plan Reserve. Without taking account of this potential liability, profiling of anticipated expenditure suggests that the reserve could be fully committed by March 2011.
- 5) The potential legal costs exposure on relating to the Sherford development comprise (a) legal challenge and (b) legal fees on the S106 agreement. The risk of challenge has abated somewhat with the decision to grant planning permission, subject to resolution of outstanding details, and the completion of a planning agreement (though the small risk of Judicial Review from objectors remains for a few weeks more) and the developer has agreed to pay the Council's costs in completing the S106; however if those costs escalate there remains a possible contingent exposure to liability for the excess legal fees over £80K. Judicial Review or any other challenge is increasing unlikely. The risk of costs over-

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

running is covered by clear instructions to the solicitors and planned monitoring internally

27. Analysis of net assets employed

31.3.2007		31.3.2008
£000s		£000s
62,513	General Fund	67,496
950	Collection Fund	551
63,463	Total	68,047

28. Post balance sheet events

None.

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

29. Summary introduction to movements on Reserves

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

	Balance 1 April 2006 £000s	Net Movement in Year £000s	Balance 31 March 2007 £000s	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	-	2,746	2,746	Store of gains on revaluation of fixed assets not yet realised through sales	See note 30
Capital Adjustment Account	50,952	346	51,298	Store of capital resources set aside to meet past expenditure	See note 31
Usable Capital Receipts	10,124	(1,319)	8,805	Proceeds of fixed asset sales available to meet future capital investment	See note 32
Deferred Capital Receipts	2	(1)	1	Principal outstanding on mortgages	See note 32
Pensions Reserve	(7,680)	3,440	(4,240)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	See note 38
Earmarked Reserves	6,327	(234)	6,093	Set up to provide funds for future liabilities and expenditure in specific service areas.	See note 33
Balances	2,788	5	2,793	Available to meet contingencies and other budget pressures in any service area	See note 33

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

30. Revaluation Reserve

The 2006 SORP set out changes to come into effect on 1 April 2007 (i.e. 2007/08) which would implement a Revaluation Reserve and Capital Adjustment Account that would replace the Fixed Asset Restatement Account and Capital Financing Account. These provisions have been consolidated fully into the 2007 SORP.

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 has 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 2007/2008 are shown below:

	2007/08 £000s
Gains/(losses) on revaluation and restatement of fixed assets	2,746
Amounts written off fixed asset balances for disposals	-
Net movement in year	2,746

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

31. Capital Adjustment Account

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

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

	2007/2008 £000s
Contributions to the Capital Adjustment Account	
Capital expenditure financed from capital receipts	1,406
Capital expenditure financed from revenue	759
Deferred grants written down	411
Contributions from the Capital Adjustment Account	
Depreciation charged to revenue accounts	(1,300)
Impairments	(91)
Amortisation of intangible fixed assets	(242)
Commutation adjustment	(36)
Disposal of fixed assets	(23)
Parish loans written down	(3)
Deferred charges (net of capital grant)	(535)
Net movement in year	346

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

32. Capital Receipts/Deferred Capital Receipts

Usable capital receipts

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

Deferred capital receipts

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

	Usable capital receipts	Deferred capital receipts
	£000s	£000s
Amounts received in 2007/2008	89	(1)
Principal repaid in 2007/2008	-	-
Contribution to housing capital receipts pool	(1)	-
Amounts applied to finance new capital investment in 2007/08	(1,407)	-
Net movement in year	(1,319)	(1)

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

33. 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:

	31.03.07	Applications	Contributions	31.03.08
	£ 000	£ 000	£ 000	£ 000
EARMARKED RESERVES				
General Fund				
Affordable Housing	632	-	205	837
Drawing Office	10	-	-	10
Strategic Issues	229	(316)	560	473
Community Parks and Open Spaces	67	(30)	17	54
Economic Regeneration & anti-social behaviour	38	(12)	24	50
Pension Fund Strain	-	(135)	135	-
Repairs and Maintenance	272	(99)	85	258
Land and Development	355	-	121	476
Ferry Repairs and Renewals	398	(107)	25	316
Economic Initiatives	450	(65)	-	385
Vehicles and Plant Renewals	441	(429)	292	304
Pay and Display Equipment	65	-	21	86
Print Equipment	111	(40)	3	74
ICT Development	627	(106)	53	574
Sustainable Waste Management	271	-	60	331
Community Grants	61	(31)	25	55
District Elections	49	(52)	10	7
Beach Safety	26	-	-	26
Planning (Local Plans)	1,804	(338)	-	1,466
Building Control	22	-	8	30
Section 106 agreements	45	(14)	-	31
Sub Total	5,973	(1,774)	1,644	5,843
Specific Reserves – Salcombe Harbour				
Pontoons	29	-	11	40
Harbour Renewals	166	(132)	36	70
General Reserve	154	(73)	54	135
Sub Total	349	(205)	101	245
Trust and Bequest	5	-	-	5
TOTAL - Earmarked Revenue Reserves	6,327	(1,979)	1,745	6,093
GENERAL RESERVES				
General Fund – Working Balance	750	-	-	750
General Fund – Contingency (see note)	118	-	-	118
General Fund – Accumulated Surplus	1,870	(335)	390	1,925
Trading Account Surpluses	50	(50)	-	-
TOTAL – General Reserve	2,788	(385)	390	2,793
TOTAL REVENUE RESERVES	9,115	(2,364)	2,135	8,886

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

34. 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 1.4.07 £	Balance 31.3.08 £
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

35. Capital Contributions Unapplied

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

	2007/2008 £000s
Amounts received	1,193
Amounts applied to finance new capital investment	(2,373)
Net movement in year	(1,180)

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

36. 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 only spent in accordance with the agreement concluded with the developer. Any unspent capital amounts are held in the Balance Sheet in the Capital Contributions Unapplied Account whereas revenue receipts are treated as "receipts in advance" (creditors).

Site	31.03.2007 £000s	Income £000s	Expenditure £000s	31.03.2008 £000s
Langage Energy Centre	605	322	(36)	891
Lee Mill	239	-	(205)	34
Dartmouth Supermarkets	-	494	(4)	490
Other	846	68	(459)	455
TOTAL	1,690	884	(704)	1,870

37. 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.

	2007/2008 £000s
Grants applied to finance capital investment	392
Amounts written-down to the Income and Expenditure Account	(412)
Net movement in year	(20)

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

38. Retirement Benefits

The Pension Scheme

The disclosures below relate to the Devon County Council Pension Fund (the Fund) which is part of the Local Government Pension Scheme and certain unfunded arrangements where indicated. South Hams District Council participates in the Fund which provides defined benefits, based on members' final pensionable salary.

The contribution rate in any one year is determined by the Fund's actuary based on triennial actuarial valuations. The rate of 9.6% applicable for 2007/2008 is based on the actuarial valuation of the fund as at 31 March 2004.

In 2007/2008, the Council paid an employers' normal contribution of £850,000 (£870,000 in 2006/2007) into the pension fund.

In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2007/2008 these amounted to £320,000 (£360,000 in 2006/2007).

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

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Transactions Relating to Retirement Benefits

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.

	2006/07 £000s	2007/08 £000s
Net Cost of Services		
current service cost	1,800	1,700
past service costs	160	640
Net Operating Expenditure		
interest cost	3,330	3,790
expected return on assets in the scheme	(3,930)	(4,430)
Net Charge to the Income and Expenditure Account	1,360	1,700
Statement of Movement in the General Fund Balance		
reversal of net charges made for retirement benefits in accordance with FRS 17	(1,360)	(1,700)
Actual amounts charged against the General Fund Balance for pensions in the year		
employer's contributions payable to scheme	1,230	1,170

Pension fund 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:

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Main financial assumptions

	31.3.07	31.3.08
	% pa	% pa
Inflation	3.2	3.7
Rate of increase in salaries	4.7	5.2
Rate of increase to pensions	3.2	3.7
Discount rate for scheme liabilities	3.2	3.7
Discount rate for pension cost	5.3	6.8

The mid market value of the assets of the Devon County Council Pension Fund at 29 February 2008 was assessed at £2,170.6m (only a proportion of these assets are allocated to South Hams District Council). The assets as at 31 March 2008 have been estimated using index returns appropriate to the mix of assets between 29 February 2008 and 31 March 2008. The asset values used as at the accounting date are set out below:

	Long-term rate of return expected at 31 March 2007 (% p.a.)	Value at 31 March 2007 (£ M)	Long-term rate of return expected at 31 March 2008 (% p.a.)	Value at 31 March 2008 (£ M)
Equities	7.7	1,493.5	7.6	1,396.0
Property	6.7	216.9	6.6	191.9
Government bonds	4.7	299.0	4.6	340.5
Corporate bonds	5.3	17.5	6.8	22.3
Other	5.6	152.6	6.0	202.7*
Total	7.0	2,179.5	6.9	2,153.5

* This includes £25.3M invested in international infrastructure

Funding Position for South Hams District Council (SHDC)

	As at 31.3.07 Value (£m)	As at 31.3.08 Value (£m)
Share of assets	63.79	63.51
Estimated funded liabilities	(68.35)	(64.76)
Estimated unfunded liabilities (see note)	(3.12)	(2.99)
SHDC surplus/ (deficit) in the scheme	(7.68)	(4.24)

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

majority of assets of the Fund are invested in equities. This will lead to volatility in the net pension asset on the balance sheet.

Analysis of movement in deficit during the year

	For year ending 31 March 2008 (£m)
Surplus (deficit) in scheme at beginning of the year	(7.68)
Contributions	1.17
Current service cost	(1.70)
Past service costs	(0.64)
Curtailments/settlements	-
Other finance income	0.64
Actuarial gain (loss)	3.97
Surplus (deficit) in scheme at year end	(4.24)

39. Pensions reserve – actuarial gains & losses

The actuarial gain identified as movements on the Pensions Reserve in 2007/08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2008.

	2003/04		2004/05		2005/06		2006/07		2007/08	
	£m	%	£m	%	£m	%	£m	%	£m	%
Differences between the expected and actual return on assets	5.390	14.2%	2.130	4.3%	8.47	14.0%	0.58	0.9%	(4.18)	(6.6)%
Differences between actuarial assumptions about liabilities and actual experience	(0.04)	(0.1%)	(1.00)	(1.7%)	(0.01)	(0.0%)	(0.16)	(0.2%)	(1.01)	(1.5)%
Changes in the demographic and financial assumptions used to estimate liabilities	0.10	0.2%	(12.48)	(20.8%)	(4.61)	(6.8%)	(0.47)	(0.7%)	9.16	13.5%
TOTAL ACTUARIAL GAIN/(LOSS)	5.45		(11.35)		3.85		(0.05)		3.97	

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

2006/2007 £000s		2007/2008 £000s
1,754	Net deficit on the Income and Expenditure Account	1,733
(1,593)	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance for the year	(2,123)
161	(Increase)/decrease in General Fund Balance	(390)
	Add: investment gains (not reversed)	146
(229)	(Surplus)/deficit per Collection Fund	399
1,318	Add: Investment income received	1,359
	Non cash transactions	
362	Contributions to/ (from) reserves	344
	Items accounted for on an accruals basis	
288	Increase/(decrease) in Debtors	(1,525)
(301)	Decrease/(Increase) in Creditors	(1,070)
(23)	(Decrease)/Increase in Stock	38
1,576	Net cash outflow from revenue activities	(699)

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

41. Analysis of Cash

	31.3.2007 £000s	31.3.2008 £000s	Movement £000s
Cash/(Overdraft)	55	168	113

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

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

2006/2007 £000s		2007/2008 £000s
Revenue - DWP Grant for Benefits		
13,724	Re. Rent Allowance Payments (Private Dwellings)	16,363
439	Re. Non HRA Rent Rebates (Leased Properties)	421
14,163	Sub total:	16,784
Revenue - Other		
4,817	DWP - council tax benefit	4,985
636	DWP - benefits administration allowance	634
202	DWP - benefits technical projects	130
182	DCLG - NNDR Administration Grant	186
72	European grants - environmental initiatives etc.	142
179	Other benefit and Housing Grants	113
42	Home Office Grant – Community Safety	-
69	DEFRA - environmental funding	112
58	DCLG - re. loan charges etc.	53
594	DCLG - Devon Improvement Programme	-
378	DCLG – Planning Delivery etc.	230
8	Dept. of Constitutional Affairs – elections	7
7	Dept. of Health – “Smoke Free” regulations	35
-	Ministry of Transport – travel concession	70
49	Devon County Council	185
7	Other	169
7,300	Sub total:	7,051
Capital Grants		
202	DCLG - Disabled Facilities Grants	206
25	DCLG - Planning Delivery	-
553	DCLG - Regional Housing Pot	490
491	Devon County Council	573
63	ERDF – Admirals Court	197
163	Life into Landscape – HLF/BTCV etc	-
19	Other	-
1,516	Sub total:	1,466
22,979	Total	25,301

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

44. Financial Instruments

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

Liabilities

- trade payables and other payables
- borrowings
- financial guarantees

Assets

- bank deposits
- trade receivables
- loans receivables
- investments

Derivatives

- swaps
- forwards
- options

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

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

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

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

Recognition and measurement of financial instruments

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

Financial Instrument	Basis of Measurement	Note
Investments – Fixed Rate	Amortised cost	All existing investments mature within 12 months of the balance sheet date. As a result, the carrying value is deemed to be a reasonable approximation of fair value.
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

Forward Deposits

The Council has invested £7.5m in “Forward Deposits” which are included as derivatives in the Balance Sheet i.e. at “fair value through profit and loss”. As the fair value has risen these forward contracts are classified as assets and the gain has been taken to the I & E Account.

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 31 st March 2008	5.23%	5.28%
Duration (years)	3.0	2.0
Deposit Value – amortised cost	£2,562,524	£5,083,688
NPV Gain to I & E Year 1	£62,524	£83,688

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

Nature and extent of risks arising from financial instruments

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

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

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

Credit risk

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

Liquidity risk

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

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

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

Market Risk

Interest rate risk

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

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

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

SECTION 4. NOTES TO THE CORE FINANCIAL STATEMENTS

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

If all interest rates had been 1% higher with all other variables held constant the financial effect would be:

	£000s
Increase in interest receivable on variable rate investments	(32)
Increase in Government grant receivable for financing costs	0
Impact on Income and Expenditure Account	(32)
Decrease in fair value of fixed rate investment assets	50
Impact on STRGL	50

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

Price risk

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

Foreign exchange risk

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

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.

2006/2007 £000s	Notes	2007/2008 £000s
Income		
(44,815) Council Tax	1	(46,848)
(4,694) Council Tax Benefits		(4,770)
(18,732) Business Rates	2	(19,015)
904 Less: Transitional Relief / (Surcharge)		492
(67,337)		(70,141)
Expenditure		
Precepts and Demands		
36,237 <i>Devon County Council</i>		38,014
4,654 <i>Devon and Cornwall Police</i>		4,891
2,271 <i>Devon and Somerset Fire Authority</i>		2,356
5,667 <i>South Hams District Council</i>		5,947
Business Rates		
17,476 <i>Payment to national pool</i>		18,247
182 <i>Costs of collection allowance</i>		186
Distribution of previous year's estimated surplus		
223 <i>Devon County Council</i>		447
29 <i>Devon and Cornwall Police</i>		57
14 <i>Devon and Somerset Fire Authority</i>		28
35 <i>South Hams District Council</i>		70
Bad and doubtful debts		
Write Offs		
58 <i>Council Tax</i>		60
164 <i>Business Rates</i>		42
Provisions		
92 <i>Council Tax</i>		147
6 <i>Business Rates</i>		48
67,108		70,540
(229)	MOVEMENT ON FUND BALANCE	399

SECTION 5. COLLECTION FUND

1. Council tax and council tax base

In 2007/2008, the Council's average Band D Council Tax was £1,379.30. The charge for each band is a ratio of band D. The 2007/2008 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	766.28
A	6/9	919.53
B	7/9	1,072.79
C	8/9	1,226.04
D	1	1,379.30
E	11/9	1,685.81
F	13/9	1,992.32
G	15/9	2,298.83
H	18/9	2,758.60

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 2007/2008 was 37,125.93 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	10.50	10.50	5/9	5.83
A	4,783.00	(953.10)	3,829.90	6/9	2,553.27
B	8,268.00	(1,081.05)	7,186.95	7/9	5,589.85
C	8,199.00	(906.20)	7,292.80	8/9	6,482.49
D	7,711.00	(575.40)	7,135.60	1	7,135.60
E	6,083.00	(508.80)	5,574.20	11/9	6,812.91
F	3,417.00	(257.15)	3,159.85	13/9	4,564.23
G	2,809.00	(262.45)	2,546.55	15/9	4,244.25
H	252.00	(36.10)	215.90	18/9	431.80
Total	41,522.00	(4,569.75)	36,952.25		37,820.23
					(756.40)
					62.10
Tax base					37,125.93

SECTION 5. COLLECTION FUND

2. Rateable value

The total non-domestic rateable value at 31 March 2008 was £50,773,910. This compares to £49,972,400 at 31 March 2007. The standard non-domestic rate multiplier was 44.4p in 2007/08 (2006/07: 43.3p). Without reliefs this would generate a total income of £22,543,616.04 (2006/07 £21,638,049.20). 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

2006/2007 £000s		2007/2008 £000s
(721)	Fund balance at 1 April	(950)
(229)	(Surplus) / Deficit for year	399
(950)	Fund balance as at 31 March	(551)

SECTION 6. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS.

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director (Resources)
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts

Responsibilities of the Strategic Director (Resources)

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

In preparing this Statement of Accounts, the Strategic Director (Resources) has:

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

The Strategic Director (Resources) has also:

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

The Statement of Accounts presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

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

26 June 2008

Cllr BF Cane
Chairman of Council

26 June 2008

SECTION 7. ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement is being considered by Council on the 26 June 2008. Following approval and the audit of accounts it will be incorporated within the Statement of Accounts for publication.

SECTION 8. AUDITORS' REPORT

Our external auditors, the Audit Commission, will issue a report following their audit of the Council's 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.

Capital Charges

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

Capital Expenditure

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

Capital Adjustment Account

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

Capital Receipts

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

Capital Receipts Deferred

Money that is due under deferred purchase arrangements. This item consists mainly of Council House sales where the purchasers are buying their house with a mortgage from the Council. As the principal is repaid it becomes a true capital receipt.

Commutation Adjustment

The commutation adjustment is an annual allowance to offset losses from the early repayment of improvement grant loan charges subsidy by the government in 1992/93.

Creditors

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

Debtors

Sums of money due to the Council but unpaid at the end of the year.

Deferred Charges

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 organisations.

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.

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.

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.

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.

SECTION 9. GLOSSARY OF TERMS

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.