



**South Hams District Council
Audited Statement of Accounts
2017/2018**



**South Hams
District Council**

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Statement of Accounts 2017/18

The Statement of Accounts 2017/18 can be made available in large print, Braille, tape format or other languages upon request.

South Hams District Council is committed to reflecting the full diversity of our community and to promoting equality of opportunity for everyone.

Section 1

Narrative Statement

Introduction to the 2017/18 Statement of Accounts by Councillor Tucker, Leader of South Hams District Council



I am very pleased to welcome you to the 2017/18 Statement of Accounts for South Hams District Council.

It has undoubtedly been a challenging year for us as a rural District Council, with our main central government funding coming to an end on 1st April 2018. South Hams has continued to work in partnership with West Devon Borough Council which has allowed South Hams District Council to achieve annual savings of £3.9 million and more importantly protect all statutory front line services.

During the year, we have been unrelenting in seeking and attempting to deliver efficiencies and improving services. The year 2018 has seen the completion of the Joint Transformation Programme (T18) with West Devon Borough Council. Services are being provided in a completely new way by adopting innovative IT solutions which have been re-designed in line with our customers' requirements and as far as possible future proofed.

The digital services, that the Council offers as an option, have given our residents and customers more choice on how and when they access our services. Our staff continue to strive for positive change and they, together with the Councillors, are proud of what we have achieved in 2017/18.

Whilst we were disappointed that the proposed merger into a single local authority with West Devon did not go ahead, the year has seen the Council make good progress with the Joint Local Plan, by working together with West Devon Borough and Plymouth City Councils. The Joint Local Plan is a strategic planning document which sets out development and growth up until 2034 and will set home building and job targets for all three Councils.

Affordable housing continues to be of great concern to many of our residents and communities, and I, along with the majority of the Councillors, are committed to taking action. One of the key priorities over the coming year will be to research the possible building of Council houses, to support the need of affordable housing for the residents of South Hams.

The surplus for the 2017/18 year of £84,000 (1% of the net budget of £8.35m) demonstrates the Council's prudent management of our finances. Our strategic financial planning enables the Council to make fully informed decisions and to deliver the quality of services that our residents, visitors and businesses have every right to expect. The Council continues to do everything it can to ensure that residents, businesses and front-line services come first. The financial standing of the Council remains secure, for what will undoubtedly be, very challenging times ahead.

Councillor Tucker, Leader of the Council

Foreword by the Executive Director & Head of Paid Service



The Council continues to scrutinise budgets as part of our annual budget setting process to ensure that we target our spending where it is needed most. During 2016/17, the Council applied and was accepted for the four year Government funding agreement. From 2018/19 onwards, we will no longer receive any Revenue Support Grant (RSG) from the Government and the Council will need to be self-financing. Although the four year settlement offered no RSG, it did guarantee the Council its allocations of Rural Services Delivery Grant, e.g. £0.33 million in 2019/20.

District Councils such as South Hams have also suffered a large reduction in New Homes Bonus funding (£0.5 million in 2017/18) due to the number of payment years being reduced from six to four.

The Government is undertaking a “fair funding review” (due to be implemented in 2020/21), which will set new baseline funding allocations for Councils, based on an assessment of needs and resources. The move towards Councils retaining 75% of business rates growth is expected to be in place by 2020.

The Council has responded to the consultations on these initiatives and continues to monitor proposals so that we can protect the Council’s position as far as possible and continue to provide our full range of services to our communities. We were thrilled to be chosen as one of the pilot areas for business rates growth retention for 2018/19, allowing the Council to retain a higher share of business rates growth income for 2018/19.

There is still much more to be done and the Council is establishing a solid base to be more commercial in our approach to meeting the forecast budget gap of £0.6 million for next year (cumulative budget gap of £2.45 million by 2022/23), whilst protecting its much valued services. In this financial climate, income generation becomes a key priority area.

Using our Medium Term Financial Strategy, the Council will continue to maximise its sources of income in order to maintain and improve services for our residents, businesses and visitors. Some of the various options being progressed by the Council include a review of the Council’s Assets including development opportunities, reviewing discretionary services and partnership funding and market testing the Council’s waste, street cleansing and public conveniences services through competitive dialogue.

The finance team have accomplished the significant challenge of publishing the Council’s Statement of Accounts for 2017/18 one month earlier than usual (due to the new statutory deadline) and I would like to thank them for their continued drive, enthusiasm and commitment.

Sophie Hosking, Executive Director & Head of Paid Service

Message from the Section 151 Officer & Strategic Finance Lead - Lisa Buckle



The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Accounts is to enable members of the public, Council Members, partners, stakeholders and other interested parties to:

- Understand the financial position of the Council as at 31 March 2018 and how the Council has performed against the budget set for 2017/18.
- Be assured that the financial position of the Council is secure, with a degree of resilience.

This Narrative Statement provides information about South Hams District Council, including the key issues affecting the Council and its Accounts.

The Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund.

Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance. Service costs shown in the CIES are shown by Group Manager area (Strategy and Commissioning, Customer First, Commercial Services and Support Services) and are on the same basis used in the management accounts.

Providing residents and other stakeholders with the confidence that the public money for which we are responsible has been properly accounted for remains very important to us. We have embedded financial management disciplines, processes and procedures.

The financial standing of the Council is secure in the short to medium term, but there is still much work to do to ensure the long-term financial sustainability of the Council. The next four years will be challenging as the Government's fair funding review and reset of the Business Rates baseline are introduced, coupled with no Government Grant (Revenue Support Grant) and reduced funding from New Homes Bonus.

Mrs Lisa Buckle BSc (Hons), ACA
Section 151 Officer & Strategic Finance Lead

NARRATIVE STATEMENT – 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. The Statement of Accounting Policies summarises the framework within which the Council’s accounts are prepared and published.

REVIEW OF THE YEAR – THE REVENUE BUDGET

2. *The 2017/18 budget for South Hams was £8.35 million. A surplus of £84,000 means that the actual spend was 1.0% less than the budget. This saving will go into the Council’s Unearmarked Reserves which stand at £1.8 million.* The main components of the General Fund budget for 2017/18 and how these compare with actual income and expenditure are set out below:

	Estimate £000	Actual £000	Difference Cost/ (Saving) £000
Cost of services (after allowing for income and reserve contributions)	8,469	8,408	(61)
Parish Precepts	2,095	2,095	-
Interest and Investment income	(123)	(141)	(18)
Amount to be met from Government grants and taxation including parish precepts	10,441	10,362	(79)
<i>Financed from:</i>			
Revenue Support Grant	(245)	(250)	(5)
Business Rates	(1,765)	(1,765)	-
Council Tax (including parish precepts)	(7,905)	(7,905)	-
Surplus on Collection Fund	(143)	(143)	-
Transition Grant	(56)	(56)	-
Rural Services Delivery Grant	(327)	(327)	-
SURPLUS FOR 2017/18	-	(84)	(84)

Appendix B

3. This surplus is shown in the Movement In Reserves Statement in Section 2C and can be summarised as follows:

	£000
General Fund Balance (un-earmarked revenue reserve) at 1 April 2017	(1,765)
Surplus for the 2017/18 financial year	(84)
General Fund Balance (un-earmarked revenue reserve) at 31 March 2018	(1,849)*

*On including the earmarked reserves, the General Fund Balance is £1.5 million. This is further explained in Note 8 Earmarked Reserves.

4. The surplus on the General Fund of £84,000 is essentially a break-even position and represents 0.1% of the Council's gross turnover in 2017/18 of £80 million.
5. The table below shows a reconciliation of the position shown on the bottom of the Comprehensive Income and Expenditure Statement and the reported surplus for the 2017/18 financial year.

	£000
Total Comprehensive Income and Expenditure Statement	(523)
Surplus on the revaluation of Property, Plant and Equipment	95
Remeasurements of the net defined benefit pension liability	6,995
Transfers from earmarked reserves	(13,394)
The detail of the items below are shown in Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations' in the General Fund Balance column.	
Adjustments primarily involving the Capital Adjustment Account	(2,148)
Adjustments primarily involving the Capital Grants Unapplied Account	233
Adjustments primarily involving the Capital Receipts Reserve	495
Adjustments primarily involving the Pensions Reserve	(5,057)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	(25)
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	13,245
Surplus for the 2017/18 financial year	(84)

Appendix B

6. A summary of the main variances to budget in 2017/18 is provided below:

ANALYSIS OF VARIATIONS (% column shows variation against budget)	£'000	% variation
Increases in expenditure/reduction in income		
Customer First		
Additional salary costs, partly funded by extra licensing income (budgeted £3.44m)	59	1.7%
Extra planning costs including legal fees, appeal costs and advertising costs (budgeted £0.086m)	50	58.1%
Additional Follaton House premises costs including repairs and maintenance and furniture (budgeted £0.34m)	30	8.8%
Shortfall in letting income from Follaton House (budgeted £0.3m)	20	6.6%
Reduction in Housing Benefit subsidy (budgeted £19.9m subsidy)	27	0.1%
Leisure Centre legal fees (one-off costs for new leisure contract)	20	-
Commercial Services		
Repairs & Maintenance additional costs e.g. public conveniences (budgeted £0.08m)	50	62.5%
Shortfall in trade waste income for business rated domestic properties (budgeted £0.075m)	45	60.0%
Extra car parking costs following lease renewal & collection fees	35	27.3%
Support Services		
Extra ICT support contract costs e.g. IEG4 software (budgeted £0.3m)	90	30.0%
Other small variances	39	-
Reductions in expenditure/additional income		
Customer First		
Extra planning income (budgeted £0.56m), in part due to customers submitting applications before the 20% fee increase set nationally in Jan 2018. Councils have committed to investing the extra 20% (from Jan) in their planning departments, following the Housing White Paper.	(370)	(66.1)%
Extra licensing income (budgeted £0.195m income)	(31)	(15.9)%
Commercial Services		
Dartmouth Ferry – review of terms and conditions of staff following an external business review in 2015 (budgeted £0.569m staff costs)	(61)	(10.7)%
Dartmouth Ferry – additional income (budgeted £0.8m income)	(34)	(4.2)%
Additional car parking income (budgeted £2.83m income)	(20)	(0.7)%
Strategy and Commissioning		
Additional investment income (budgeted £0.123m)	(18)	(14.6)%
Saving on Members' training, travel & subsistence (budgeted £0.052m)	(15)	(28.8)%
TOTAL SURPLUS FOR 2017/18	(84)	(1.0)%

The 2017/18 budget for South Hams was £8.35 million but the actual spend was 1.0% lower, providing a surplus of £84,000 as shown above.

KEY AREAS TO NOTE FROM THE 2017/18 STATEMENT OF ACCOUNTS

Pension Liability

7. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The overall impact on the General Fund of the IAS 19 entries is neutral.
8. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2018 of £51.5 million. This compares to £53.4million as at 31 March 2017. The deficit is derived by calculating the pension assets and liabilities at 31 March 2018. See Note 34 for further information.

Business Rates and the Earmarked Reserves position for 2017/18

9. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the business rates generated in their area from 1 April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline or if income from business rates falls due to successful business rates appeals.
10. The Council took a decision to withdraw from the Devon-wide Business Rates Pool for 2015/16, 2016/17 and 2017/18 due to the risk of some large Business Rates appeals. If the Council had remained in the Pool, the Council would not receive a safety net payment from the Government if its Business Rate income fell by more than 7.5%. This financial burden would have fallen on all of the Devon Councils if South Hams had remained in the Pool and this financial risk was deemed too high.
11. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value.
12. In 2015/16 there was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals. In 2016/17 a large part of these outstanding appeals were settled and the significant appeals risk did not materialise.
13. The Local Government Accounting Regulations for Business Rates and the operation of the Collection Fund are set by the Government. These national regulations mean there is a two year timing delay between a business rates appeals provision being released back into the Collection Fund and in turn to the General Fund.

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14. The Business Rates Retention Earmarked Reserve in 2017/18 shows a deficit position of £8.641 million at 31 March 2018. However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also need to be taken into account. The aggregated Earmarked Revenue Reserves position, incorporating the Council's share of the Business Rates Collection Fund surplus is £13.157 million at 31 March 2018.
15. The £13 million of funds held in the Business Rates Collection Fund are being released back into the General Fund of the Council during 2018/19. Therefore this is a short term timing issue which has occurred due to the way that the Local Government Accounting Regulations for Business Rates operate. In 2018/19, the Business Rates Retention Earmarked Reserve will be back to a positive balance in excess of £4 million. This reserve, alongside the appeals provisions created in 2017/18, are in place to protect the Council's financial position against business rates volatility and has placed the Council in a better position in future years.
16. South Hams District Council's share of the Business Rates Collection Fund has increased from a surplus of £232,000 in 2016/17, to a surplus of £13.477 million in 2017/18. This reflects the additional business rate income that is held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income will be released to the Council's General Fund in 2018/19.
17. On an annual basis, monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of business rates income volatility in future years.

Business Rates Pilot status for 2018/19

18. The move towards 75% Business Rate Retention of business rates growth is expected to be in place by 2020. Devon has been selected as one of 10 areas to take part in a national pilot allowing Councils to retain a higher share of business rates growth. The Council is very pleased to be given this opportunity by Central Government. The pilot is for one year, 2018/19 and will inform whether 75% of business rates retention can be rolled out nationally. The Council is very pleased to be given this opportunity by Central Government and it's currently predicted that the Council will retain an extra £575,000 of business rate income from the pilot.

Trading Company

19. South Hams District Council and West Devon Borough Council set up a trading company, Servaco Limited, on 4th September 2014. This is a company limited by shares. The company has not traded in 2017/18 and a set of statutory dormant Accounts will be filed with Companies House for the period 1 April 2017 to 31 March 2018. The future of Servaco Limited will be reviewed during 2018/19.

Borrowing

20. As at 31 March 2018 the Council had no external borrowing. On 29 March 2018 Council approved to externally borrow from the Public Works Loan Board (PWLB) for investment in the Council's leisure centres of £6.3 million. The Council is being reimbursed by the leisure contractor for the borrowing costs of the leisure investment. By borrowing from the PWLB at a fixed rate, this protected against future interest rate rises over the next 23 years and ensured that leisure is a self-financing stand alone investment project.
21. Due to the timing difference, as at 31 March 2018 the Council has internally borrowed £744,000 for the leisure investment. See Note 13 – Financial Instruments, for more detail. This temporary internal borrowing has now been replaced by external borrowing from the PWLB, which was taken out in May 2018.

Capital spending

22. The Council spent £4.2m on capital projects in 2017/18. The main areas of expenditure were as follows:
 - new industrial units (£1.3m)
 - investment in leisure facilities (£1.1m)*
 - residential renovation grants including disabled facilities grants (£0.6m)
 - affordable housing and investments in the community (£0.4m)
 - scheduled replacement of plant and vehicles (£0.2m)
 - coastal defence schemes (£0.2m)

*Of this £1.1 million, £744,000 is funded by internal borrowing and the remainder is funded from capital receipts.

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 31).

FINANCIAL NEEDS AND RESOURCES

23. 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.
24. General Fund reserves (which include earmarked reserves) have reduced by £13.3m from the preceding year and stand at £1.5m at 31 March 2018. This reflects the £13.2 million reduction in the Business Rates Retention Reserve (as explained in paragraphs 9 to 17 above). However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also need to be taken into account.
25. The £13 million of funds held in the Business Rates Collection Fund are being released back into the General Fund of the Council during 2018/19. Therefore this is a short term timing issue which has occurred due to the way that the Local Government Accounting Regulations for Business Rates operate. In 2018/19, the Business Rates Retention Earmarked Reserve will be back to a positive balance in excess of £4 million. This reserve, alongside the appeals provisions created in 2017/18, are in place to protect the Council's financial position against business rates volatility and has placed the Council in a better position in future years.
26. The General Fund Balance (un-earmarked reserve) has increased by £84,000 in 2017/18 and totals £1.849m. Revenue reserves may be used to finance capital or revenue spending plans. The level of Reserves are assessed as adequate for the Council's operations.
27. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2018 amounts to £3.4m compared to £4.0m at the end of the previous year.
28. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance capital or revenue expenditure.
29. 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 £51.5 million at 31 March 2018. This disclosure follows the implementation of the

International Accounting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.

30. It is important to gain 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.

Fixed Assets – Reclassification of land at Lee Mill to Investment Properties

31. During 2017/18, officers undertook a review of existing assets which has resulted in the Council reclassifying the site at Lee Mill as an Investment Property, with effect from 31 December 2017. The land is currently leased to a supermarket. The Section 151 Officer and the Assets Community of Practice Lead were of the view that the site is now held solely to earn rentals and as such should be reclassified as an Investment Property.
32. The commercial objective is the reason the land is held at 31 December 2017, rather than other objectives (e.g. economic regeneration), which was an objective when the land was purchased and held in prior years. This decision was also informed by external advice which was obtained independently. This reclassification has no impact on the valuation of the site, it is just shown within a different category of Long Term Assets (Investment Properties) in the Balance Sheet (see Section 2D). The movement is shown in Note 13 to the Accounts.

Transformation Programme 2018 (T18)

33. In 2013, South Hams District Council and West Devon Borough Council embarked on an ambitious and challenging Transformation Programme (T18), to remodel how the Councils worked. This was in light of the acute funding gap (£4.7 million) the Councils were facing.
34. The T18 Closedown report was presented to the Overview and Scrutiny Panel on 3rd May 2018. Attached below is a link to the full report:-
<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=134&MId=507&Ver=4>
35. The predicted final spend for South Hams District Council (£4.556 million) is £58,000 less than the budget of £4.614 million. The total annual savings realised from the T18 Transformation Programme for South Hams were £2.93 million per year. The largest element of these savings were staffing savings. Between 2014 and 2015, the majority of employees at both Councils went through a rigorous recruitment process

and the workforce was reduced by 30%. The payback period of the Transformation Programme was 2 years and 11 months.

Senior Leadership Team Interim arrangements

36. In February 2018, the Executive Director for Strategy and Commissioning and Head of Paid Service left the employment of the Council. Due to the scale of the challenges ahead for the Council, Members felt that it was important that the Council retained stability and continuity in its strategic leadership and senior management capacity.
37. At a Council meeting in December 2017, Council approved that the Executive Director for Service Delivery and Commercial Development be designated the Head of Paid Service for an interim period of up to 18 months. It was also agreed to allocate additional responsibilities to members of the senior and extended leadership team on an interim basis.

Annual Governance Statement (AGS)

38. The Council's Annual Governance Statement sets out the arrangements for governance which the Council has in place. The AGS is published alongside the Accounts for 2017/18.

LOOKING FORWARD TO THE FUTURE AND NEXT STEPS

39. During the next 12 months, we will continue to review how we interact with our customers, focusing on offering easy to use online solutions and keeping our customers informed. We will provide support to those customers with no or limited access to digital channels and to manage complex enquiries or problems.

Review of key services

40. Over the next 12 months we will be benchmarking our services and performance against others and have invited the Local Government Association to carry out a 'Peer Review'. The review is scheduled for September and the review team will be made up of senior members and officers from other leading and comparable Councils, and their remit is as follows:
 - Review the various options to secure the financial sustainability of the Council
 - Consider the resource pressures for the Council and the implication for the delivery of non-statutory services and how the Council may manage these services in the future
 - Review the proposed plans for investment and commercial delivery

- Review the extent that the Council has embraced organisational change and the use of e-technology
 - Review economic growth and housing and how the Council might deliver this
41. In addition we will be working with key stakeholders and current contractors to ensure that front line services continue to perform at a high level and can be developed in the future. Recycling, waste collection, street cleansing and grounds maintenance services will all be market tested for quality, environmental suitability, cost and performance.

Partnership working

42. We will continue to develop our existing partnerships and create new ones to improve our support to individuals and communities, ensuring that we offer joined up services and customers have a clear understanding of where they can get guidance and support. Through the continued development of our Locality teams, we aim to make a real difference on the ground, this could be through signposting services or through enabling access to grants to support local initiatives.

Our financial future

43. With the withdrawal of Government funding, we will need to generate additional income to be able to carry on delivering our current range of services. Over the course of the year, we will be considering and implementing proposals to meet this financial challenge; these are likely to include developing investment opportunities and income generating Services, as well as finding further efficiencies and smarter ways of doing things.

Summary

44. Overall, the Council's finances remain secure in the short to medium term, but there is still much work to do to ensure the long-term financial sustainability of the Council, to meet the challenges ahead.
45. The financial year 2017/18 has seen significant change both in the way the Council is funded and the way in which its services are delivered. The significant Transformation Programme (T18), which the Council has embedded since its introduction in 2013, will give the Authority the best possible foundation from which to meet the future challenges facing Local Government and to maintain those services which are much needed and appreciated by our communities.

Issue of the Accounts

46. The Section 151 Officer & Strategic Finance Lead authorised the Statement of Accounts 2017/18 for issue on 26 July 2018. Events taking place after this date are not reflected in the financial statements or notes.

ACHIEVEMENTS FOR 2017/18

The following pages set out the achievements of the Council for 2017/18 by each of the Themes within its Corporate Strategy:

COUNCIL - Delivering efficient and effective services

Action	17/18 Progress
Customer Service	Proactive use of social media, roadshows and simple to use IT systems, has led to a significant reduction in call volumes and a drop in the number of people visiting our offices. Thanks to agile IT provision and improved business continuity and emergency response planning the recent severe weather events made little impact on our usual service delivery.
Value for Money	As part of the budget setting process for 2018/19, we have agreed to reduce funding or seek efficiencies to ensure statutory delivery outcomes are prioritised. During the year, by working collaboratively with other Devon districts, we have reviewed our insurance contract which has resulted in a £100,000 saving.
Lobbying	Participated in a number of consultations during the year, including capital investment and borrowing; business rate retention; the formation of the Heart of the South West Productivity Strategy and Joint Committee and the Fair Funding Review. The Council has also been accepted as one of only 10 new business rate retention pilots in England for 2018/19.
Investment	We are actively seeking opportunities to enhance economic growth in the area, using funds derived from the business rate growth pilot and have created an economic regeneration projects earmarked reserve for this purpose. We are also undertaking research with the LGA (Local Government Association) into investment in housing, affordable housing and the private rented sector.

COMMUNITIES - Council and residents working together to create strong empowered communities

Action	17/18 Progress
Sustainable Community Locality Fund	Councillors awarded £46,370 to 130+ projects in their communities - including community orchards, sporting equipment and community events.
Town and Parish (TAP) Funding	£74,561 given to 49 projects including community youth projects, village maintenance schemes and Community history projects.
Community Reinvestment Fund	£153,900 awarded to 8 projects including skate parks, community shops and a cinema.
Seamoor Community Lotto	Agreement secured to proceed with a Council led lottery in partnership with West Devon Borough Council and Gatherwell Ltd. to support good causes locally.
Community Asset Transfers	Progress has been made on five asset transfers this year, including; amenity land, parks and playing fields, areas of woodland and Public Toilets. Communities involved include Dartmouth, Wembury, Aveton Gifford, Stoke Gabriel and Totnes.

HOMES - Enabling homes that meet the needs of all

Action	17/18 Progress
Affordable housing	S106 funding provided to Ivybridge Town Council to purchase land to build 6 units of accommodation for people with learning disabilities, plus a 3 bed learning/training house. Construction also underway on 13 sites within the district which will deliver a total of 366 affordable homes. Schemes completed this year include Newton Ferrers Village Housing Initiative, Totnes Riverside Extra Care scheme, Knighton Road Wembury, Moorview Marldon, Palm Cross, Modbury and Palstone Meadow South Brent, which have provided 134 new affordable homes.

HOMES - Enabling homes that meet the needs of all

Action	17/18 Progress
Disabled facility grants	Awarded over £502,900 to 93 projects to facilitate independent living through adaptation of homes including level shower access, stair lifts and rails.
Community Housing Initiative	£1.88m Community Housing Fund targeting homes for those with local connection where the cost of market housing is beyond their reach. Internal resource in place and standardised delivery processes being adopted to bring forward a growing number of projects across South Hams.
Sherford	During the year the first residents moved in to Sherford. Work also commenced on a primary school which is set to accommodate 200 plus pupils.

ENVIRONMENT - Protecting, conserving and enhancing our built and natural environment

Action	17/18 Progress
Joint Local Plan	Conducted 16 community engagement events, and invited formal representations on the pre-submission plan. Those representations have been considered by the Inspector.
Waste and Recycling	In-cab technology installed in collection vehicles allowing for streamlined routes, improved health and safety checks and in future, the ability to respond instantly to missed bin reports. Work has also commenced on considering better ways to deliver our recycling and waste services in line with the Waste and Resource Management Strategy for Devon.
Coastal Repair Programme	Delivered in excess of £800,000 of works along the South Hams coast and attracted an additional £½ million Environment Agency funding.

ENTERPRISE - Creating places for enterprise to thrive and business to grow

Action	17/18 Progress
South Devon Coastal Local Action Group	£317,897 funding awarded to 9 projects in the past 12 months. Projects are expected to provide 6.5 FTE jobs.
Greater Dartmoor Local Action Group	£180,227 funding awarded to 4 projects in the past 12 months. Projects are expected to provide 13.3 FTE jobs.
Business Support	Funded a business support package which has delivered advice to over 60 businesses, hosted 5 workshops and assisted businesses to recruit over 70 employees.
New business units	Construction completed on 7 business units at Admirals Court Dartmouth and 5 units at Burkes Road in Totnes creating 720m ² in business space and over £1.3 million investment.
Council owned premises	Achieved an average of 94% occupancy rate for all Council owned employment premises.
Sherford Training & Skills Centre	Planning permission approved for a dedicated Training and Skills Centre which will provide facilities for over 50 trainee construction workers.
Sub Regional Productivity Plan	Worked with the Heart of the South West LEP authorities on the draft productivity plan through a series of workshops, consultations and research phases. A joint committee has now been formed to formulate a delivery plan to underpin the strategy. This work is expected to continue through 2018/19.

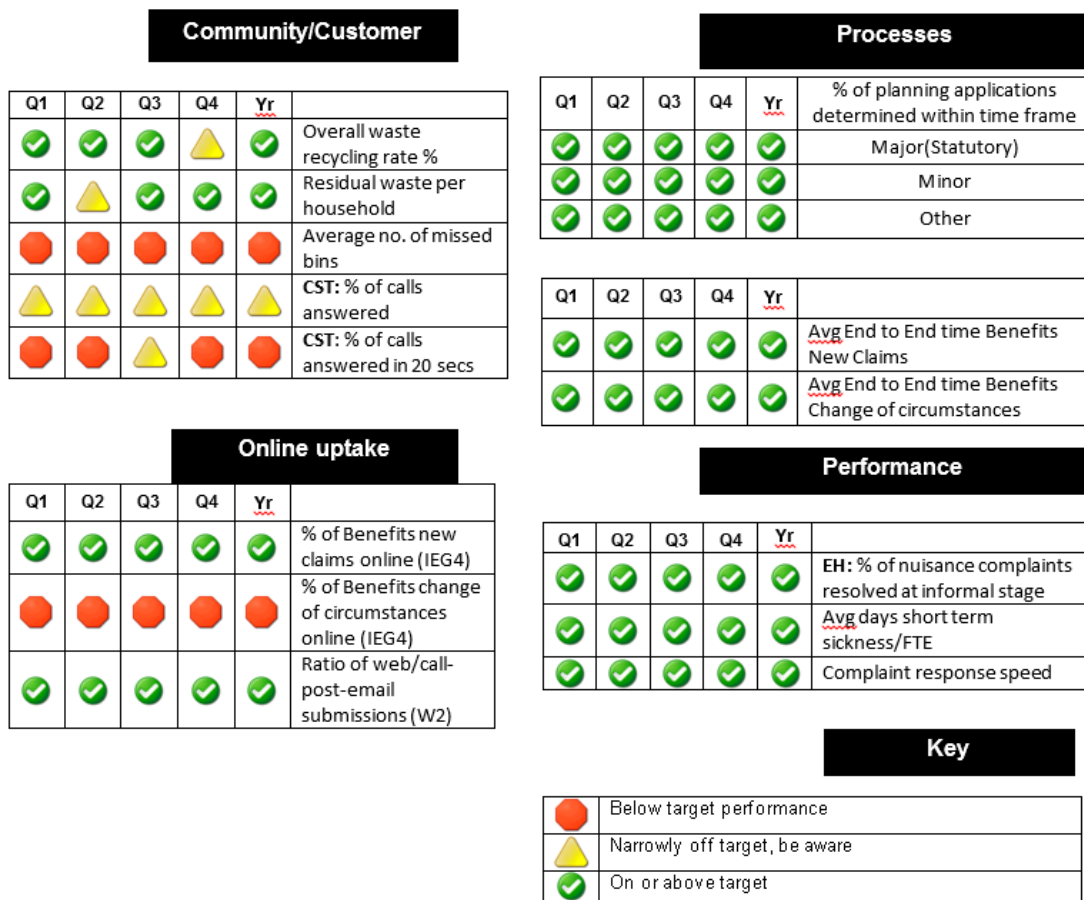
WELLBEING - Supporting positive, safe and healthy lifestyles and helping those most in need

Action	17/18 Progress
Community Safety Partnership	Part funded the Fire Service Phoenix Project and worked with a dozen hard to reach young people. Held quarterly workshops with 5 secondary schools. Worked with 4 schools on the Run, Hide, Tell campaign. Trained 139 taxi drivers on safeguarding and child sexual exploitation issues. Created a Drug Awareness Task and Finish Group.
Junior Life Skills	Worked with 8 partners including the Police, RNLI, Fire Service, Dog Trust and Western Power Distribution to present workshops to 802 children year 6 students on safety, wellbeing and responsible citizenship.
Refugees	Honoured our pledge to resettle 6 families as part of the Syrian vulnerable person resettlement scheme.
Leisure Centres	A successful first year for our partners Fusion Lifestyle – ½ million user sessions at 4 centres, plus 1,875 swim school members. Capital improvements completed at Dartmouth and works underway at Quayside and Ivybridge, with planning approved for a new swimming pool. Plans at Totnes to be developed shortly.

PERFORMANCE INDICATORS FOR 2017/18

Throughout the year we have continued to improve performance to meet the needs of our customers. We have systematically reviewed areas of poor performance, streamlined processes, embedded new IT solutions and delivered staff training. As a result we have seen a further reduction in call volumes, an increase in transactions online and quicker turnaround times for planning and benefits.

Corporate Balanced Scorecard



Missed bins – Target of less than 75 per 100,000 collections. The target was not met in 2017/18. A new team leadership structure has been introduced focussed on reducing average number of missed bins.

% of calls answered in 20 seconds – Performance was below target in three of the four quarters in 2017/18. New initiatives such as Web Chat are being trialled to reduce call volumes.

% of benefit change of circumstances online – Performance was below the stretching target of 25% in 2017/18. A high level of new claims are being submitted on line (over 60%) but there hasn't been the same uptake for the change of circumstances. The Council is looking to advertise on social media to increase this rate and numbers are increasing naturally as more customers become aware of the service on line.

A few things we spent your money on in 2017/18



Performance for the year 2017/18



Housing benefit claims processing times 4 days faster than the national average



Online transactions increased by 120% to 45,000 transactions



Missed waste collections equate to 179 in every 100,000



Non major planning determinations delivered on time 94%



Call volume decreased by 14%

PRINCIPAL RISKS AND UNCERTAINTIES

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. A Statutory Officers' Panel was set up in 2015/16 and a key role of this Panel is strategic risk management. This Panel consists of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer.

A risk report is presented to the Council's Audit Committee every six months. Below is an extract from the Risk report to the Audit Committee in March 2018.

Risk	Uncertainties	Mitigation
Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government policy and/or income streams	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/ liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. The Council is part of the Devon Business Rate Pilot for 2018/19.	Robust horizon scanning to monitor changes in Government policy. Strategic Leadership Team (SLT) awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council is not intending to rely heavily on sources of income which may not be sustainable. SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT engaged in the development of the MTFS. Latest budget reports approved by both Councils in February 2018 after Member workshops in October 2017 and the result of the 2018/19 Local Government Finance Settlement being announced.
Data Protection	To manage the risk of non-compliance with Cabinet Office PSN CoCo, PCI DSS, GDPR, Data Protection Act, RIPA, Human Rights Act.	Work underway in respect of data protection / GDPR readiness and audit completed. Data Protection Officer (DPO) now named and is a member of SLT. Information Security Policy; All employees responsible for adequacy of data security arrangements within their control. Access to electronic data is only available via Council managed devices. Look out for advice from the Information Commissioners office. Compliance with relevant PSN CoCo through implementation of security changes required. All staff have been and new starters will be completing a data protection awareness course in via the Council's new eLearning tool.

Appendix B

Risk	Uncertainties	Mitigation
<p>Governance: Adherence to Council policies & processes and Government guidelines</p>	<p>To maintain effective Member standards and develop revised Council Constitution. To continue to raise awareness of the risk of fraud and the implications of the Bribery Act 2010. To ensure that there is on-going review and self-assessment of the effectiveness of governance arrangements within the Council. T18 programme rollout saw service levels reduce but these have now recovered</p>	<p>Promotion of necessary policies via staff intranet. Reviewed and implemented revised Council constitution. To provide necessary Annual Governance self-assessment review by the Senior Leadership Team. Audit Committee established with wider terms of reference. External reviews including the Council's external auditors. Appropriate committee monitoring. Service based risk assessments and action plans, with a particular focus on high risk service activity. Training & Development plans being developed. Policies for Health & Safety and wellbeing and lone working all being updated. Statutory Officer Panel set up and meeting Quarterly. Internal Audit programme of work confirmed for 2017/18.</p>
<p>Political commitment for change</p>	<p>Considerable external change with Devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.</p>	<p>Regular Leader & Deputy Leader meetings. Regular surgery and informal sessions for wider membership.</p>
<p>Service Performance</p>	<p>Lack of appropriate resources due to current interim vacancies; ongoing transformation programme specifically IT and process implementation is not yet complete. These two combined have affected our ability to deliver appropriately on occasion. This pressure was increased due to county and general elections in 2017</p>	<p>Getting it right the first time, getting back to people appropriately and more timely. Better channel recognition to clear responses. Keep better records. Appropriate resources in the right places. Plan to commence measuring customer satisfaction during 18/19. Increased customer engagement; new complaints policy in place. Ongoing review of internal and external policies.</p>
<p>Business Continuity</p>	<p>Processes need to be robust to ensure business continuity in the event of a significant event occurring e.g. failure to ensure the continuous availability of critical IT systems.</p>	<p>Having two HQ locations is main mitigating factor - however an outage of power/ICT at either location would lead to a serious disruption of service. Agile working further reduces reliance on two office buildings. Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. Business Continuity plans have been updated - priority areas - ICT Networking - Payroll & Creditors Payments; other plans need to be made more robust. The recent severe weather events provided good evidence of business continuity arrangements through agile working and the IT systems.</p>

Appendix B

Risk	Uncertainties	Mitigation
Emergency response, e.g. coastal erosion/storm damage/flooding	Support is needed to communities during coastal erosion/storm damage/flooding events as well as engagement in longer term recovery. Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each other's responsibilities and capacity
Inadequate Staffing Resources	Performance being reviewed to understand whether resourcing levels are correct; difficult to assess accurately as organisation continues to experience change effects and processes being embedded / roll-out of new technology and working practices	Transitional resource & monitoring arrangements put in place. Staffing arrangements and GAP analysis completed in 16/17. Staff forum embedded; continued SLT engagement with unions and regular staff comms sessions held. Other comms media under review and several improvements made. Staff satisfaction survey re-run in April '18, actions and review underway. Mechanism in place for ELT to appoint within budget where appropriate without recourse to SLT. Apprenticeship scheme being developed by HR.
Inadequate asset maintenance	To manage the health and safety risks of customers and staff and to ensure budgets are managed effectively to maintain assets to a satisfactory standard, To consider and manage the risk of redundant properties / assets.	Effective budget monitoring, sound management of assets/ buildings including a planned maintenance approach along with planned capital expenditure programme. Risk assessments and regular health and safety inspections.

Section 2

Core Financial Statements

SECTION 2A COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2016/17 Restated*			2017/18			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Segment	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
32,035	*(29,748)	*2,287	Customer First*	34,702	(28,192)	6,510
10,403	(7,166)	3,237	Commercial Services	11,860	(7,283)	4,577
1,814	(973)	841	Strategy and Commissioning	2,273	(536)	1,737
3,188	(1,071)	2,117	Support Services	3,619	(1,323)	2,296
565	(42)	523	Centrally Held Costs	1,055	(23)	1,032
358	(125)	233	Material Items (Note 2)	530	-	530
48,363	*(39,125)	*9,238	Cost of Services**	54,039	(37,357)	16,682
1,895	(142)	1,753	Other operating expenditure (Note 9)	2,165	-	2,165
1,536	(637)	899	Financing and investment income and expenditure (Note 10)	1,518	(798)	720
17,048	*(36,090)	*(19,042)	Taxation and non-specific grant income (Note 11)*	23,726	(36,726)	(13,000)
68,842	(75,994)	(7,152)	(Surplus) or Deficit on Provision of Services	81,448	(74,881)	6,567
		(1,432)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(95)
		10,111	Remeasurements of the net defined benefit liability			(6,995)
		8,679	Other Comprehensive Income and Expenditure			(7,090)
		1,527	Total Comprehensive Income and Expenditure			(523)

*The 2016/17 Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis have been restated in respect of the accounting treatment for REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants. There is no overall impact on the 'surplus on the provision of services'; the 2016/17 balance remains at £7,152,000. The restatement is purely for presentational purposes and has no impact on the Balance Sheet. Please see note 37 – Prior Period Restatement for further information.

** The increase in the Cost of Services is mainly due to accounting adjustments in respect of pensions (IAS19) £3.5m (including £2m Customer First and £1.4m Commercial Services) plus capital accounting adjustments. These are shown in the EFA in Section 2B and further broken down in Note 4 - Note to the EFA. In addition, a Community Housing Fund grant of £1.9m was received in 2016/17 (Customer First), and in 2017/18 a payment was made from the Building Control earmarked reserve of £0.5m (Strategy & Commissioning) following the changes to the hosting arrangement of the Building Control Partnership – see Note 25 – Trading Operations for further information.

SECTION 2B EXPENDITURE AND FUNDING ANALYSIS

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Authority (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Authority's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement in Section 2A.

2017/2018	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis (note 4)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Customer First	1,778	4,732	6,510
Commercial Services	2,210	2,367	4,577
Strategy and Commissioning	1,447	290	1,737
Support Services	2,030	266	2,296
Centrally Held Costs	1,032	-	1,032
Material Items	530	-	530
Net Cost of Services	9,027	7,655	16,682
Other income and expenditure	4,283	(14,398)	(10,115)
(Surplus)/Deficit on Provision of Services	13,310	(6,743)	6,567

	General Fund Balance	Earmarked Reserves**	Total General Fund Reserves
	£000	£000	£000
Opening Balance at 31 March 2017	(1,765)	(13,074)	(14,839)
(Increase)/decrease in year	(84)	13,394	13,310
Closing Balance at 31 March 2018	(1,849)	320	(1,529)

** Earmarked Reserves Position for 2017/18

The Business Rates Retention Earmarked Reserve shows a deficit position of £8.641 million at 31 March 2018 leading to an overall deficit in Earmarked Reserves of £320,000. However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also need to be taken into account as shown below. Further information can be found in Note 8 – Transfers to/from Earmarked Reserves.

The Impact of the Business Rates position on the Earmarked Revenue Reserves	Balance at 31 March 2017	Balance at 31 March 2018
	£000	£000
Total Earmarked Revenue Reserves	(13,074)	320
The Council's share of the Business Rates Collection Fund surplus (see Section 4 for further details)	(232)	(13,477)
Aggregated Earmarked Revenue Reserves incorporating the Council's share of the Business Rates Collection Fund surplus	(13,306)	(13,157)

SECTION 2B EXPENDITURE AND FUNDING ANALYSIS

2016/2017 Comparatives – restated <i>*(please see Note 37 – Prior Period Restatement for further information)</i>	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis* (note 4)	Net Expenditure in the Comprehensive Income and Expenditure Statement*
	£000	£000	£000
Customer First*	505	1,782	2,287
Commercial Services	2,382	855	3,237
Strategy and Commissioning	878	(37)	841
Support Services	2,074	43	2,117
Centrally Held Costs	523	-	523
Material Items	233	-	233
Net Cost of Services*	6,595	2,643	9,238
Other income and expenditure*	(4,161)	(12,229)	(16,390)
(Surplus)/Deficit on Provision of Services	2,434	(9,586)	(7,152)

	General Fund Balance	Earmarked Reserves	Total General Fund Reserves
	£000	£000	£000
Opening Balance at 31 March 2016	(1,810)	(15,463)	(17,273)
(Increase)/decrease in year	45	2,389	2,434
Closing Balance at 31 March 2017	(1,765)	(13,074)	(14,839)

SECTION 2C MOVEMENT IN RESERVES

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Increase/Decrease in Year line shows the statutory General Fund Balance movements in the year following these adjustments.

2017/18	General Fund Balance £000	Earmarked General Fund Reserves* £000	Total General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2017/18 £000
Balance at 31 March 2017 carried forward	1,765	13,074	14,839	3,683	344	18,866	22,973	41,839
Movement in Reserves during 2017/18								
Total Comprehensive Income and Expenditure	(6,567)	-	(6,567)	-	-	(6,567)	7,090	523
Adjustments between accounting basis and funding basis under regulations (Note 7)	(6,743)	-	(6,743)	(716)	69	(7,390)	7,390	-
Transfers to/from Earmarked Reserves (Note 8)	13,394	(13,394)	-	-	-	-	-	-
Increase/ (Decrease) in Year	84	(13,394)	(13,310)	(716)	69	(13,957)	14,480	523
Balance at 31 March 2018 carried forward	1,849	(320)	1,529	2,967	413	4,909	37,453	42,362

* Earmarked General Fund Reserves Position for 2017/18

The Business Rates Retention Earmarked Reserve shows a deficit position of £8.641 million at 31 March 2018 leading to an overall deficit in Earmarked Reserves of £320,000 as shown above. However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also need to be taken into account. A full explanation can be found in Note 8 – Transfers to/from Earmarked Reserves.

SECTION 2C MOVEMENT IN RESERVES

2016/17 Comparatives	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2016/17 £00
Balance at 31 March 2016 carried forward	1,810	15,463	17,273	3,779	377	21,429	21,937	43,366
Movement in Reserves during 2016/17								
Total Comprehensive Income and Expenditure	7,152	-	7,152	-	-	7,152	(8,679)	(1,527)
Adjustments between accounting basis and funding basis under regulations (Note 7)	(9,586)	-	(9,586)	(96)	(33)	(9,715)	9,715	-
Transfers to/from Earmarked Reserves (Note 8)	2,389	(2,389)	-	-	-	-	-	-
Increase/ (Decrease) in Year	(45)	(2,389)	(2,434)	(96)	(33)	(2,563)	1,036	(1,527)
Balance at 31 March 2017 carried forward	1,765	13,074	14,839	3,683	344	18,866	22,973	41,839

SECTION 2D BALANCE SHEET

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

31 March 2017 £000		Notes	31 March 2018 £000
75,392	Property, Plant and Equipment	12	63,021
381	Investment Properties	13	12,675
240	Intangible Assets		164
76	Long Term Debtors	15	19
76,089	Long Term Assets		75,879
17,000	Short Term Investments	14	22,600
-	Assets Held for Sale		220
79	Inventories		63
6,637	Short Term Debtors	15	7,763
12,852	Cash and Cash Equivalents	16	20,669
36,568	Current Assets		51,315
(12,192)	Short Term Creditors	17	(27,155)
(24)	Short Term Revenue Grants in Advance	29	-
(759)	Provisions	18	(1,796)
(12,975)	Current Liabilities		(28,951)
(26)	Long Term Creditors	17	(26)
(4,288)	Long Term Revenue Grants in Advance - Section 106 Deposits	29	(4,296)
(53,397)	Pensions Liability	34	(51,459)
(132)	Capital Grants - Receipts in Advance	29	(100)
(57,843)	Long Term Liabilities		(55,881)
41,839	Net Assets		42,362
18,866	Usable Reserves	19	4,909
22,973	Unusable Reserves	20	37,453
41,839	Total Reserves		42,362

The notes on pages 36 to 113 form part of these financial statements.

The unaudited accounts were issued on 30 May 2018. The audited accounts were issued on 26 July 2018.

SECTION 2E CASH FLOW STATEMENT

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

2016/17 £000		2017/18 £000
(7,152)	Net (surplus) or deficit on the provision of services	6,567
(4,545)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 21)	(7,122)
1,700	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 22)	1,675
(9,997)	Net cash outflows/ (inflow) from Operating Activities	1,120
2,137	Net increase / (decrease) in Investing Activities (Note 23)	6,871
(2,755)	Net cash outflow / (inflow) from Financing Activities (Note 24)	(15,808)
(10,615)	Net (increase) or decrease in cash and cash equivalents	(7,817)
2,237	Cash and cash equivalents at the beginning of the reporting period	12,852
12,852	Cash and cash equivalents at the end of the reporting period (Note 16)	20,669

Section 3

Notes to the

Financial Statements

SECTION 3. NOTES TO THE ACCOUNTS

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SECTION 3. NOTES TO THE ACCOUNTS

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

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

The items in the Authority's Balance Sheet at 31 March 2018 for which there are significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives which are estimated annually. The carrying value of Property, Plant and Equipment as at 31 March 2018 is £63 million.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to reduce by 1 year across all assets, this would have an impact of approximately £160,000 on the Council's finances.
Business Rates Appeals Provision	Estimates have been made for the provision for refunding ratepayers who may successfully appeal against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed. The total appeals provision as at 31 March 2018 is £4.5 million, of which the Council's share is 40% (£1.8 million).	There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation. If the Business Rates appeals provision were to change by 1% this would have an impact of £18,000 on the Council's finances.
Arrears	The Authority makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. For example at 31 March 2018, the Authority had a balance of Sundry Debtors of £0.78million. A review of significant balances suggested that an impairment for doubtful debts of 22% (£175,000) was appropriate.	The impairment for doubtful debts is reviewed annually in order to respond to changes in collection rates. If Council Tax arrears were to change by 1%, this would have an impact of £7,000 on the Council's finances.

SECTION 3. NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>The value of pension assets is estimated based upon information available at the Balance Sheet date, although these valuations could be earlier. The actual valuations at the Balance Sheet date, which may not be available until sometime later, may give a different value of pension assets, but this difference is not considered to be material.</p> <p>The Pensions Fund’s Actuary has provided updated figures for the year based on the last valuation in 2016. This valuation is based upon cashflow and assets values as at 31 March 2018.</p> <p>The carrying value of the Pensions Liability as at 31 March 2018 is £51.5 million.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2.6 million.</p> <p>The assumptions interact in complex ways. For example, in 2017/18, the Authority’s actuaries advised that the pension liability has reduced by £5 million as a result of a change in “financial assumptions”.</p> <p>Please refer to Note 34 for further information about the assumptions used by the actuaries.</p>

SECTION 3. NOTES TO THE ACCOUNTS

2. MATERIAL ITEMS OF INCOME AND EXPENSE

The following material item has been included on the face of the Comprehensive Income and Expenditure Statement (CIES) since 2014/15. This expenditure relates to the upfront investment costs for the Council's Transformation Programme (T18). This is explained in the Narrative Statement to the Accounts.

Transformation Programme (T18) Investment Costs	2016/17			2017/18		
	Direct £000	Recharges £000	Total £000	Direct £000	Recharges £000	Total £000
GROSS REVENUE EXPENDITURE						
Implementation and design of the future operating model	140	-	140	-	-	-
Redundancy and Pension Strain payments	559	3	562	530	-	530
Pension Strain (capitalised cost reversal)	(344)	-	(344)	-	-	-
Sub Total	355	3	358	530	-	530
GROSS REVENUE INCOME						
Shared Service Recharge to West Devon BC	-	(125)	(125)	-	-	-
Sub Total	-	(125)	(125)	-	-	-
NET REVENUE EXPENDITURE/ (INCOME) (as shown in the CIES)	355	(122)	233	530	-	530

3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2017/18 was approved for issue by the Section 151 Officer & Strategic Finance Lead on 30 May 2018. The Statement of Accounts were then reviewed by the Audit Committee on 21 June 2018 and the audited accounts were authorised for issue on 26 July 2018. This is also the date up to which events after the reporting period have been considered. There are no events which took place after 31 March 2018 which require disclosure.

SECTION 3. NOTES TO THE ACCOUNTS

4. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This note explains the main adjustments from the net expenditure chargeable to the general fund balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement (CIES).

Adjustments between Funding and Accounting Basis				
2017/18	Adjustments for capital purposes	Net change for the pensions adjustments	Other Differences	Total adjustments
	(Note A)	(Note B)	(Note C)	
	£000	£000	£000	£000
Customer First	2,951	1,781	-	4,732
Commercial Services	1,105	1,262	-	2,367
Strategy and Commissioning	4	286	-	290
Support Services	85	181	-	266
Net Cost of Services	4,145	3,510	-	7,655
Other income and expenditure from the Expenditure & Funding Analysis	(2,725)	1,547	(13,220)	(14,398)
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	1,420	5,057	(13,220)	(6,743)

Adjustments between Funding and Accounting Basis				
2016/2017 Comparatives – restated <i>*(see note 37 – Prior Period Restatement for further information)</i>	Adjustments for capital purposes*	Net change for the pensions adjustments	Other Differences	Total adjustments*
	(Note A)	(Note B)	(Note C)	
	£000	£000	£000	£000
Customer First*	1,952	(170)	-	1,782
Commercial Services	976	(121)	-	855
Strategy and Commissioning	4	(41)	-	(37)
Support Services	55	(17)	5	43
Net Cost of Services*	2,987	(349)	5	2,643
Other income and expenditure from the Expenditure & Funding Analysis*	(2,852)	1,181	(10,558)	(12,229)
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	135	832	(10,553)	(9,586)

SECTION 3. NOTES TO THE ACCOUNTS

Note A: Adjustments for Capital Purposes

Adjustments for capital purposes reflect:

For services this column adds in depreciation and impairment and adjusts for revenue expenditure funded from capital under statute.

Other income and expenditure from the Expenditure and Funding Analysis – this adjusts for statutory charges for capital financing and other capital contributions are deducted. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written-off.

Note B: Net Change for the Pensions Adjustments

Net changes for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.

For other income and expenditure from the Expenditure and Funding Analysis – the net interest on the defined benefit liability is charged to the CIES.

Note C: Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For services reflects the change in the annual leave accrual when compared with the previous year.

For other income and expenditure from the Expenditure and Funding Analysis represents the timing difference between what is chargeable under statutory regulations for Council Tax and Business Rates that was projected to be received at the start of the financial year, and the income recognised under generally accepted accounting practices.

SECTION 3. NOTES TO THE ACCOUNTS

5. SEGMENT REPORTING

The net expenditure figures in the Expenditure and Funding Analysis include the following particular amounts of income and expenditure:

2017/18	Customer First £000	Commercial Services £000	Strategy and Commissioning £000	Support Services £000	Total £000
Expenditure					
Housing Benefit Payments	21,155	-	-	-	21,155
Depreciation	1,428	933	4	3	2,368
Income					
Housing Benefit Subsidy	(20,851)	-	-	-	(20,851)
Dartmouth Lower Ferry Income	-	(824)	-	-	(824)
Car Parking Income	-	(2,144)	-	-	(2,144)
Planning Fee Income	(879)	-	-	-	(879)
Income from other external sources	(666)	(660)	-	-	(1,326)

* On 1 December 2016 the Council entered into a long term Contract (25 years) for the provision of Leisure Services. Due to the new management arrangements, Leisure Contract Payments are no longer applicable.

2016/17 comparatives	Customer First £000	Commercial Services £000	Strategy and Commissioning £000	Support Services £000	Total £000
Expenditure					
Housing Benefit Payments	21,412	-	-	-	21,412
Leisure Contract Payments *	609	-	-	-	609
Depreciation	1,390	901	4	3	2,298
Income					
Housing Benefit Subsidy	(21,298)	-	-	-	(21,298)
Dartmouth Lower Ferry Income	-	(833)	-	-	(833)
Car Parking Income	-	(2,109)	-	-	(2,109)
Planning Fee Income	(647)	-	-	-	(647)
Income from other external sources	(770)	(578)	-	-	(1,348)

SECTION 3. NOTES TO THE ACCOUNTS

6. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Expenditure and Income Analysed by Nature note shows the amounts that make up the surplus or deficit on the provision of services on the CIES, but here they are categorised by nature instead of by service segment.

Expenditure and Income Analysed by Nature	2016/17 Restated* £000	2017/18 £000
Employee Benefits Expenses	14,221	18,010
Other Service Expenses	31,211	31,959
Depreciation, Amortisation and Impairment	2,992	4,098
Interest Payments	1	1
Pension Fund Administration Expenses	50	49
Net Interest on the net defined benefit liability	1,476	1,487
Total Expenditure	49,951	55,604
Fees, Charges and Other Service Income	(13,342)	(13,493)
Interest and Investment Income	(149)	(155)
Income from Council Tax and Business Rates**	(11,604)	(5,788)
Revenue Grants and Contributions*	(30,341)	(28,012)
Capital Grants and Contributions*	(1,133)	(1,148)
(Gains)/losses on disposal of non-current assets	(142)	21
Other Income	(392)	(462)
Total Income	(57,103)	(49,037)
(Surplus) or Deficit on Provision of Services	(7,152)	6,567

*The 2016/17 revenue grants and capital grants have been restated in respect of the accounting treatment for REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants. In the 2016/17 Statement of Accounts revenue grants were overstated by £923,000 with a corresponding reduction in capital grants. This is further explained in Note 37 – Prior Period Restatement.

**The figure for Council Tax and Business Rates in this statement is shown net of expenditure (precepts to other bodies). The expenditure detail is shown in Note 11 – Taxation and Non-Specific Grant Income.

The movement in 'Income from Council Tax and Business Rates' between 2016/17 and 2017/18 is due to the unwinding of the Business Rates appeals provision from 2015/16. This is explained in detail in the Narrative Statement.

SECTION 3. NOTES TO THE ACCOUNTS

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2017/18	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account (CAA):				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i>				
Charges for depreciation and impairment of non-current assets	2,368			(2,368)
Revaluation losses/(gains) on Property Plant and Equipment	439			(439)
Movements in the market value of Investment Properties	6			(6)
Amortisation of Intangible Assets	132			(132)
Capital grants and contributions applied	(915)			915
Revenue expenditure funded from capital under statute (REFCUS)	1,208			(1,208)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	54			(54)
Repayment of mortgage and parish loans		1		(1)
<i>Insertion of items not debited or credited to the CIES:</i>				
Capital expenditure charged against the General Fund	(1,144)			1,144
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(233)		233	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(164)	164
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(33)	33		-
Transfer of unattached capital receipts	(462)	462		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,212)		1,212

SECTION 3. NOTES TO THE ACCOUNTS

2017/18	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 34)	6,631			(6,631)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,574)			1,574
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	25			(25)
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account*:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements*	(13,245)			13,245
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2017/18	(6,743)	(716)	69	7,390

*This large adjustment involving the Business Rates Collection Fund Adjustment Account is due to the unwinding of the Business Rates appeals provision from 2015/16. A full explanation is provided in the Narrative Statement.

SECTION 3. NOTES TO THE ACCOUNTS

	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
2016/17 Comparatives				
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	2,298			(2,298)
Revaluation losses/(gains) on Property Plant and Equipment	(448)			448
Movements in the market value of Investment Properties	5			(5)
Amortisation of Intangible Assets	64			(64)
Capital grants and contributions applied	(1,133)			1,133
Revenue expenditure funded from capital under statute (REFCUS)	1,073			(1,073)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	35			(35)
Repayment of mortgage and parish loans		2		(2)
Insertion of items not debited or credited to the CIES:				
Capital expenditure charged against the General Fund	(1,192)			1,192
Adjustments primarily involving the Capital Grants Unapplied Account:				
Application of grants to capital financing transferred to the CAA			(33)	33
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(175)	175		-
Transfer of unattached capital receipts	(392)	392		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(665)		665

SECTION 3. NOTES TO THE ACCOUNTS

2016/17 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 34)	2,892			(2,892)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,060)			2,060
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	106			(106)
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	(10,664)			10,664
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	5			(5)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2016/17	(9,586)	(96)	(33)	9,715

SECTION 3. NOTES TO THE ACCOUNTS

8. TRANSFERS TO/ FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18. The purpose of some of the more significant earmarked reserves are shown below:

Vehicles and Plant Renewals - This reserve is used to purchase vehicles and heavy plant to maintain a modern and efficient Council fleet, and to ensure Contract conditions are met.

Capital Programme – This reserve helps to support the funding of the Capital Programme.

New Homes Bonus – This reserve was established to show how New Homes Bonus funding has been used on an annual basis.

Business Rates Retention Scheme - The Business Rates Retention Earmarked reserve covers any possible funding issues from the new accounting arrangements. On an annual basis, monies are set aside in this reserve to mitigate the impact of business rates income volatility in future years. A full explanation of the movement in this reserve in 2017/18 is provided at the bottom of the Earmarked Reserves table.

Affordable Housing – This reserve helps to support the funding of affordable housing.

16/17 Budget Surplus Contingency – This reserve was created from a one off surplus from the 2016/17 Budget process.

Community Housing Fund – This reserve was set up to hold the Community Housing Fund Grant. We are working on developing a community housing initiative, which is designed to help local residents to determine and deliver appropriate and affordable housing for their communities.

During 2017/18 the balance of the **Building Control earmarked reserve** (£436,000) was paid to Teignbridge District Council following new hosting arrangements for the Building Control Partnership. Please see Note 25 – Trading Operations for more information.

The table overleaf shows the earmarked reserve balances at 31 March 2018 and the movement during 2017/18.

SECTION 3. NOTES TO THE ACCOUNTS

2017/18 EARMARKED RESERVES	Balance at 31 March 2017 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2018 £000
General Fund				
Affordable Housing	770	(2)	230	998
Community Parks and Open Spaces	97	(3)	17	111
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	403	(309)	155	249
Members Sustainable Community	41	-	12	53
Marine Infrastructure Reserve	94	-	58	152
Land and Development	205	(255)	117	67
Ferry Repairs and Renewals	400	(28)	87	459
Economic Initiatives	77	(28)	-	49
Vehicles and Plant Renewals	489	-	534	1,023
Pay and Display Equipment	81	-	21	102
On-Street Parking	44	-	-	44
ICT Development	122	(32)	50	140
Sustainable Waste Management	3	(24)	25	4
District Elections	58	-	10	68
Beach Safety	14	-	-	14
Planning Policy & Major Developments	147	(44)	125	228
Building Control	436	(436)	-	-
Section 106 Agreements (no conditions)	38	-	-	38
Revenue Grants	316	(125)	181	372
Capital Programme	1,116	(507)	182	791
New Homes Bonus	474	(1,053)	1,448	869
Renovation Grant Reserve	7	-	-	7
Business Rates Retention – see Note **	4,527	(13,168)	-	(8,641)
Homelessness Prevention Reserve	25	-	57	82
Strategic Change	-	(285)	285	-
16/17 Budget Surplus Contingency	559	(534)	-	25
Innovation Fund (Invest to Earn)	279	(254)	-	25
Community Housing Fund	1,881	(210)	-	1,671
Leisure Services Reserve	-	-	87	87
Support Services Trading Reserve	-	-	20	20
Environmental Health Initiatives Reserve	-	-	20	20
S106 Monitoring Reserve	-	-	137	137
Sub Total	12,703	(17,396)	3,957	(736)
Specific Reserves – Salcombe Harbour				
Pontoons	130	(30)	62	162
Harbour Renewals	85	(8)	34	111
General Reserve	156	(47)	34	143
Sub Total	371	(85)	130	416
TOTAL EARMARKED REVENUE RESERVES – See Note **	13,074	(17,481)	4,087	(320)

SECTION 3. NOTES TO THE ACCOUNTS

**The Impact of the Business Rates position on the Earmarked Revenue Reserves	Balance at 31 March 2017 £000	Balance at 31 March 2018 £000
Total Earmarked Revenue Reserves	13,074	(320)
The Council's share of the Business Rates Collection Fund surplus (see Section 4 for further details)	232	13,477
Aggregated Earmarked Revenue Reserves incorporating the Council's share of the Business Rates Collection Fund surplus	13,306	13,157

Note - Earmarked Reserves position for 2017/18 (including the Business Rates Retention Earmarked Reserve)**

In 2015/16 there was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals. In 2016/17 a large part of these outstanding appeals were settled and the significant appeals risk did not materialise.

The Local Government Accounting Regulations for Business Rates and the operation of the Collection Fund are set by the Government. These national regulations mean there is a two year timing delay between a business rates appeals provision being released back into the Collection Fund and in turn into the General Fund.

The Business Rates Retention Earmarked Reserve in 2017/18 shows a deficit position of £8.641 million at 31 March 2018. However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also need to be taken into account (as shown in the table above). The aggregated Earmarked Revenue Reserves position, incorporating the Council's share of the Business Rates Collection Fund surplus is £13.157 million at 31 March 2018.

The £13 million of funds held in the Business Rates Collection Fund are being released back into the General Fund of the Council during 2018/19. Therefore this is a short term timing issue which has occurred due to the way that the Local Government Accounting Regulations for Business Rates operate. In 2018/19, the Business Rates Retention Earmarked Reserve will be back to a positive balance in excess of £4 million. This reserve, alongside the appeals provisions created in 2017/18, are in place to protect the Council's financial position against business rates volatility and has placed the Council in a better position in future years.

South Hams District Council's share of the Business Rates Collection Fund has increased from a surplus of £232,000 in 2016/17, to a surplus of £13.477 million in 2017/18. This reflects the additional business rate income that is held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income will be released to the Council's General Fund in 2018/19.

SECTION 3. NOTES TO THE ACCOUNTS

2016/17 Comparatives EARMARKED RESERVES	Balance at 31 March 2016 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2017 £000
General Fund				
Affordable Housing	540	-	230	770
Community Parks and Open Spaces	98	(17)	16	97
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	420	(72)	55	403
Members Sustainable Community	45	(4)	-	41
Marine Infrastructure Reserve	47	-	47	94
Land and Development	226	(76)	55	205
Ferry Repairs and Renewals	313	-	87	400
Economic Initiatives	98	(21)	-	77
Vehicles and Plant Renewals	318	(370)	541	489
Pay and Display Equipment	61	-	20	81
On-Street Parking	44	-	-	44
Print Equipment	8	(8)	-	-
ICT Development	195	(81)	8	122
Sustainable Waste Management	3	-	-	3
District Elections	48	-	10	58
Beach Safety	14	-	-	14
Planning Policy & Major Developments	331	(184)	-	147
Building Control	395	(31)	72	436
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	368	(130)	78	316
Capital Programme	1,089	(300)	327	1,116
New Homes Bonus	480	(2,086)	2,080	474
Renovation Grant Reserve	7	-	-	7
Business Rates Retention	9,916	(5,389)	-	4,527
T18 Investment Reserve	70	(70)	-	-
Homelessness Prevention Reserve	25	-	-	25
Strategic Change	-	(219)	219	-
16/17 Budget Surplus Contingency	-	(209)	768	559
Innovation Fund (Invest to Earn)	-	(498)	777	279
Community Housing Fund	-	-	1,881	1,881
Sub Total	15,197	(9,864)	7,370	12,703
Specific Reserves – Salcombe Harbour				
Pontoons	68	-	62	130
Harbour Renewals	58	(8)	35	85
General Reserve	140	(30)	46	156
Sub Total	266	(38)	143	371
TOTAL EARMARKED REVENUE RESERVES	15,463	(9,902)	7,513	13,074

SECTION 3. NOTES TO THE ACCOUNTS

9. OTHER OPERATING EXPENDITURE

2016/17 £000		2017/18 £000
1,845	Parish council precepts	2,095
(142)	(Gains)/losses on the disposal of non-current assets	21
50	Pension administration expenses	49
1,753	Total	2,165

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2016/17 £000		2017/18 £000
1	Interest payable and similar charges	1
(134)	Interest receivable and similar income	(141)
(392)	Other investment income	(462)
1,476	Net interest on the net defined benefit liability	1,487
(52)	Investment properties*	(165)
899	Total	720

*The increase in income in investment properties reflects the reclassification of a site in Lee Mill from Property Plant and Equipment to Investment Properties with effect from 31 December 2017. Please see note 13 – Investment Properties for further information.

SECTION 3. NOTES TO THE ACCOUNTS

11. TAXATION AND NON-SPECIFIC GRANT INCOME

2016/17 Restated* £000		2017/18 £000
	Council Tax	
(7,411)	• Income	(7,905)
106	• Collection Fund adjustment	25
(210)	• Collection Fund - distribution of surplus	(143)
102	• Support grant to parishes	92
	Business Rates**	
(12,212)	• Income	(9,659)
11,350	• Tariff	11,363
-	• Top up adjustment	(657)
5,257	• Levy payment	13
(10,431)	• Transfer of Collection Fund deficit/(surplus)	(1,012)
	Non ring - fenced Government grants :	
(1,164)	• Small Business Rate Relief Grant	(1,888)
(754)	• Revenue Support Grant	(250)
(2,080)	• New Homes Bonus Grant	(1,448)
(406)	• Rural Services Delivery Grant	(327)
(56)	• Transition Grant	(56)
(1,133)	Capital grants and contributions *	(1,148)
(19,042)	Total	(13,000)

*The 2016/17 'Capital grants and contributions' in Taxation and Non-Specific Grant Income have been restated in respect of the accounting treatment for REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants. Please see note 37 – Prior Period Restatement for further information.

** The movement in the Business Rates position between 2016/17 and 2017/18 is due to the unwinding of the Business Rates appeals provision from 2015/16. A full explanation is provided in the Narrative Statement.

SECTION 3. NOTES TO THE ACCOUNTS

12. PROPERTY, PLANT AND EQUIPMENT

Movements in 2017/18	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuation						
At 1 April 2017	66,707	9,437	9,722	737	345	86,948
Additions	57	141	188	-	2,529	2,915
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(2,071)	-	-	-	-	(2,071)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(810)	-	-	-	-	(810)
Derecognition – disposals	(52)	(129)	-	-	-	(181)
Other movements in cost/ valuation - reclassification*	(12,530)	-	-	-	-	(12,530)
At 31 March 2018	51,301	9,449	9,910	737	2,874	74,271
Accumulated Depreciation & Impairment at 1 April 2017	3,085	5,649	2,822	-	-	11,556
Charge for 2017/18	1,202	792	374	-	-	2,368
Depreciation written out to the Revaluation Reserve	(2,166)	-	-	-	-	(2,166)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(372)	-	-	-	-	(372)
Derecognition - disposals	(3)	(124)	-	-	-	(127)
Other movements in depreciation - reclassification	(9)	-	-	-	-	(9)
At 31 March 2018	1,737	6,317	3,196	-	-	11,250
Balance Sheet amount at 31 March 2018	49,564	3,132	6,714	737	2,874	63,021
Balance Sheet amount at 31 March 2017	63,622	3,788	6,900	737	345	75,392

*** Reclassification of land at Lee Mill**

During 2017/18, officers undertook a review of existing assets which has resulted in the Council reclassifying the site at Lee Mill as an Investment Property, with effect from 31 December 2017. The land is currently leased to a supermarket. The Section 151 Officer and the Assets Community of Practice Lead were of the view that the site is now held solely to earn rentals and as such should be reclassified as an Investment Property. The commercial objective is the reason the land is held at 31 December 2017, rather than other objectives (e.g. economic regeneration), which was an objective when the land was purchased and held in prior years. This decision was also informed by external advice which was obtained independently. This reclassification has no impact on the valuation of the site, it is just shown within a different category of Long Term Assets (Investment Properties) in the Balance Sheet (see Section 2D).

SECTION 3. NOTES TO THE ACCOUNTS

Comparative Movements in 2016/17	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Community Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2016	65,253	9,119	9,293	737	25	84,427
Additions	643	461	429	-	320	1,853
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	582	-	-	-	-	582
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	265	-	-	-	-	265
Derecognition – disposals	(36)	(143)	-	-	-	(179)
At 31 March 2017	66,707	9,437	9,722	737	345	86,948
Accumulated Depreciation and Impairment at 1 April 2016	2,943	5,031	2,462	-	-	10,436
Charge for 2016/17	1,178	759	360	-	-	2,297
Depreciation written out to the Revaluation Reserve	(849)	-	-	-	-	(849)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(184)	(141)	-	-	-	(325)
Derecognition - disposals	(3)	-	-	-	-	(3)
At 31 March 2017	3,085	5,649	2,822	-	-	11,556
Balance Sheet amount at 31 March 2017	63,622	3,788	6,900	737	345	75,392
Balance Sheet amount at 31 March 2016	62,310	4,088	6,831	737	25	73,991

Depreciation

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

SECTION 3. NOTES TO THE ACCOUNTS

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

Capital Commitments

As at 31 March 2018 the Authority has entered into the following contracts for the construction or enhancement of Property, Plant and Equipment. These commitments relate to:

- Leisure centre investment £5.8 million
- New units, Ermington £500,000
- New walls, Kingsbridge Quay £500,000.

As a comparison, as at 31 March 2017 the Authority had entered into the following contracts for the construction or enhancement of Property, Plant and Equipment. These commitments related to:

- Leisure centre investment £6.7 million
- New units, Burke Road, Totnes £600,000
- New units, Admiral Court, Dartmouth £700,000

Revaluations

All material freehold land and buildings which comprise the Authority's property portfolio are revalued by the Council's Valuer on a rolling basis.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Assets are valued in accordance with a five year rolling programme (with ad hoc valuations taking place, for example where assets have been enhanced). In addition, a formal impairment review of the entire holding of land and buildings is undertaken at the end of each financial year, to ensure the carrying value reflects the fair value at the Balance Sheet date. The basis of valuation is set out in the Statement of Accounting policies in Note 38.

Of particular note during 2017/18, officers undertook a review of existing assets which has resulted in the Council reclassifying the site at Lee Mill as an Investment Property, with effect from 31 December 2017. The land is currently leased to a supermarket. The Section 151 Officer and the Assets Community of Practice Lead were of the view that the site is now held solely to earn rentals and as such should be reclassified as an Investment Property. The commercial objective is the reason the land is held at 31 December 2017, rather than other objectives (e.g. economic regeneration), which was an objective when the land was purchased and held in prior years. This decision was also informed by external advice which was obtained independently.

SECTION 3. NOTES TO THE ACCOUNTS

	Land and buildings £000	Vehicles, plant furniture & equipment £000	Total £000
Valued at historical cost	-	3,132	3,132
Valued at current value in:			
2017/2018	15,369	-	15,369
2016/2017	8,933	-	8,933
2015/2016	24,269	-	24,269
2014/2015	993	-	993
2013/2014	-	-	-
Total	49,564	3,132	52,696

Impairment Losses

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

SECTION 3. NOTES TO THE ACCOUNTS

13. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

A. Income & Expenditure Account	2016/17 £000	2017/18 £000
Rental income from investment properties*	(111)	(195)
Direct operating expenses arising from investment properties	59	30
Net (gain)/ loss*	(52)	(165)

* Reclassification of land at Lee Mill

During 2017/18, officers undertook a review of existing assets which has resulted in the Council reclassifying the site at Lee Mill as an Investment Property, with effect from 31 December 2017. The land is currently leased to a supermarket. The Section 151 Officer and the Assets Community of Practice Lead were of the view that the site is now held solely to earn rentals and as such should be reclassified as an Investment Property. The commercial objective is the reason the land is held at 31 December 2017, rather than other objectives (e.g. economic regeneration), which was an objective when the land was purchased and held in prior years. This decision was also informed by external advice which was obtained independently. This reclassification has no impact on the valuation of the site, it is just shown within a different category of Long Term Assets (Investment Properties) in the Balance Sheet (see Section 2D).

The following table summarises the movement in the fair value of investment properties over the year:

B. Movement in fair value	2016/17 £000	2017/18 £000
Balance at start of the year	386	381
Net gains/(losses) from fair value adjustments	(5)	(6)
Transfers (to)/from Property, Plant and Equipment*	-	12,300
Balance at end of the year*	381	12,675

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal.

SECTION 3. NOTES TO THE ACCOUNTS

14. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

Liabilities

- trade payables and other payables
- borrowings
- financial guarantees

Assets

- bank deposits
- trade receivables
- loans receivables
- investments

Derivatives

- swaps
- forwards
- options

The carrying amount for investments at 31 March 2018 are shown in the following table:

Investment Type	Carrying Amount (net of interest)	Interest due at year end	Gross carrying Amount
	£000	£000	£000
Short term	22,600	24	22,624

Fair Value of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

In addition for financial assets or liabilities not being carried at fair value (e.g. amortised cost) the Code of Practice requires disclosure of these fair values by each class of assets and liabilities.

SECTION 3. NOTES TO THE ACCOUNTS

Heritable Bank

At the 31 March 2018 the Council had £22,483 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that was affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank, Landsbanki.

The Council placed a deposit of £1,250,000 on 25th September 2008 with the Heritable Bank. Of this amount £1,227,517 (98%) has already been repaid to the Council by the Administrators.

The balance outstanding at 31 March 2014 (£72,368) was impaired (written out of the Balance Sheet) in the 2013/14 Accounts.

At the time the deposit was placed, the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits). Both ratings indicated low risk and were within the deposit policy approved by the Council.

Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators have paid fifteen dividends amounting to 98% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

Capitalisation of Borrowing Costs

The Council had no external borrowing at 31 March 2018. However, on 29 March 2018, Council approved to borrow from the Public Works Loan Board (PWLB) for investment in the Council's leisure centres of £6.3 million. The Council is being reimbursed by the leisure contractor for the borrowing costs of the investment.

Due to the timing difference, as at 31 March 2018 the Council has internally borrowed £744,000. This temporary borrowing has now been replaced by external borrowing from the PWLB, which was taken out in May 2018.

The Minimum Revenue Provision is not required in 2017/18 as the leisure investment was not operational during this year and will be funded from external borrowing in 2018/19.

Summary of Financial Instruments

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

SECTION 3. NOTES TO THE ACCOUNTS

	Long-term		Current	
	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000
Cash and cash equivalents	-	-	12,852	20,669
Investments	-	-	17,000	22,600
Debtors				
Loans and receivables	76	19	-	-
Financial assets carried at contract amount	-	-	3,664	3,545
Total Debtors	76	19	3,664	3,545
Creditors				
Financial liabilities at amortised cost	(26)	(26)	-	-
Financial liabilities carried at contract amount	-	-	(2,866)	(2,227)
Total Creditors	(26)	(26)	(2,866)	(2,227)

15. DEBTORS

31.3.2017 £000		31.3.2018 £000
	Short Term	
669	Central Government bodies*	1,665
1,965	Other Local Authorities**	901
	Other debtors	
568	Council Tax	897
799	Business Rates***	1,682
2,636	Other entities and individuals	2,618
6,637	Total	7,763
	Long Term	
73	Other Local Authorities	17
3	Other entities and individuals	2
76	Total	19

*The 'Central Government bodies' debtor has increased substantially in 2017/18 due to the end of year position for the Housing Benefit subsidy claim. At 31 March 2018 £1.1m was due from Central Government following completion of the final claim.

**The reduction in 'Other Local Authorities' short term debtors is mainly due to the timing of shared services recharges with West Devon Borough Council and changes to the hosting agreement of the Building Control Partnership – see

SECTION 3. NOTES TO THE ACCOUNTS

note 25 Trading Operations for further information. There is a similar reduction in 'Other Local Authorities' creditors shown in Note 17.

***The 'Business Rates' debtor for 2017/18 includes payments due from Central Government in respect of the top up adjustment (£657,000), and Section 31 grant (£595,000) relating to reliefs such as small business rate relief.

16. CASH AND CASH EQUIVALENTS

31.3.2017 £000		31.3.2018 £000
677	Cash held by the Authority	529
12,175	Money Market Funds	20,140
12,852	Total Cash and Cash Equivalents	20,669

17. CREDITORS

31.3.2017 £000		31.3.2018 £000
	Short Term	
(519)	Central Government bodies	(436)
(1,543)	Other local Authorities*	(778)
	Other Creditors	
(72)	Council Tax	(75)
(6,952)	Business Rates**	(22,932)
(3,106)	Other entities and individuals	(2,934)
(12,192)	Total	(27,155)
	Long Term	
(4)	Other Local Authorities	-
(22)	Other entities and individuals	(26)
(26)	Total	(26)

*The reduction in 'Other Local Authorities' short term creditors is partly due to the timing of shared services recharges with West Devon Borough Council. There is a similar reduction in 'Other Local Authorities' debtors in Note 15. In addition the balance at 31 March 2017 included some Section 106 deposits due to Devon County Council, which were paid during 2017/18.

**The Business Rates creditor for 2017/18 includes the amounts due to the Preceptors as at 31 March 2018 – Central Government £18.9m, Devon County Council £3.4m and Devon and Somerset Fire Authority £0.4m. This represents all the balances due to the Preceptors as at 31 March 2018 including the Business Rates Collection Fund surplus. See Section 4 – Collection Fund for

SECTION 3. NOTES TO THE ACCOUNTS

further information. In 2017/18 there are complexities around the unwinding of a large part of the Business Rates appeal provision from 2015/16. A full explanation is provided in the Narrative Statement.

18. PROVISIONS

Provisions payable within twelve months of the Balance Sheet date are classified as current liabilities; provisions payable more than twelve months from the Balance Sheet date are classified as long term liabilities. No long term provisions were created in 2017/18 or 2016/17. The breakdown of the 2017/18 provision is shown in the following table:

	Business Rates Appeals £000
Balance at 1 April 2017	759
Provisions made in year	1,353
Amounts used in year	(316)
Balance at 31 March 2018	1,796

Short term – Business Rates Appeals:

Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment is made about the likely success rate of appeals and their value. In 2017/18 there has been a £2.6 million increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £1.04 million). The 2017/18 position for Business Rates is explained in detail in the Narrative Statement.

19. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement in Section 2C. The Council has the following usable reserves:

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

Earmarked Reserves - The Council has set aside monies for specific purposes e.g. vehicle and plant replacement and the funding of strategic issues. In addition, on an annual basis monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of business rates income volatility in future years. The movements in the 2017/18 Earmarked Reserves balance is explained in detail in the Narrative Statement.

SECTION 3. NOTES TO THE ACCOUNTS

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

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

20. UNUSABLE RESERVES

31.3.2017 £000		31.3.2018 £000
25,468	Revaluation Reserve	20,656
50,646	Capital Adjustment Account	54,780
(53,397)	Pensions Reserve	(51,459)
149	Council Tax Collection Fund Adjustment Account	124
232	Business Rates Collection Fund Adjustment Account*	13,477
(125)	Accumulated Absences Account	(125)
22,973	Total Unusable Reserves	37,453

*South Hams District Council's share of the Business Rates Collection Fund has increased from a surplus of £232,000 in 2016/17, to a surplus of £13.477 million in 2017/18. This reflects the additional business rate income that is held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income will be released to the Council's General Fund in 2018/19. For further information please see the Narrative Statement.

Revaluation Reserve

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

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

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

**Of particular note in the following table is the accumulated gains on assets reclassified as Investment Properties of £4.572 million. This relates to the reclassification of a site in Lee Mill. Please see note 13 – Investment Properties for further information.

SECTION 3. NOTES TO THE ACCOUNTS

31.3.2017 £000	31.3.2017 £000	Revaluation Reserve	31.3.2018 £000	31.3.2018 £000
	24,318	Balance at 1 April		25,468
2,544		Upward revaluation of assets	2,645	
(1,112)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(2,550)	
	1,432	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		95
(263)		Difference between fair value depreciation and historical cost depreciation	(295)	
(19)		Accumulated gains on assets sold or scrapped	(40)	
=		Accumulated gains on assets reclassified as Investment Properties**	(4,572)	
	(282)	Amount written off to the Capital Adjustment Account		(4,907)
	25,468	Balance at 31 March		20,656

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to an historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

SECTION 3. NOTES TO THE ACCOUNTS

*As shown in the table below, during 2017/18 a site at Lee Mill was reclassified from Property Plant and Equipment to an Investment Property. This led to an adjustment in the Revaluation Reserve of £4.572 million, reflected in the Capital Adjustment Account. Further information regarding this reclassification can be found in Note 13 – Investment Properties.

2016/17 £000	2016/17 £000	Capital Adjustment Account	2017/18 £000	2017/18 £000
	50,370	Balance at 1 April		50,646
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(2,298)		▪ Charges for depreciation of non-current assets	(2,368)	
448		▪ Revaluation losses on Property, Plant and Equipment (PPE)	(439)	
(5)		▪ Revaluation gains/(losses) on Investment Properties	(6)	
(64)		▪ Amortisation of Intangible Assets	(132)	
(1,073)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,208)	
<u>(35)</u>		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	<u>(54)</u>	
	(3,027)	Total		(4,207)
19		Amounts of Revaluation Reserve balance written off on disposal or sale of PPE	40	
-		Amounts of Revaluation Reserve written off on reclassification of PPE to Investment Properties*	4,572	
<u>263</u>		Adjusting amounts written out of the Revaluation Reserve	<u>295</u>	
	282	Net written out amount of the cost of non-current assets consumed in the year*		4,907
		Capital financing applied in the year:		
665		• Use of the Capital Receipts Reserve to finance new capital expenditure	1,212	
1,133		• Capital grants and contributions credited to the CIES that have been applied to capital financing	915	
33		• Application of grants to capital financing from the Capitals Grants Unapplied Account	164	
1,192		• Capital expenditure charged against the General Fund	1,144	
<u>(2)</u>		• Repayment of parish loans	<u>(1)</u>	
	3,021	Total		3,434
	50,646	Balance at 31 March		54,780

SECTION 3. NOTES TO THE ACCOUNTS

Pensions Reserve

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

31.3.2017 £000	Pensions Reserve	31.3.2018 £000
(42,454)	Balance at 1 April	(53,397)
(10,111)	Actuarial gains or (losses) on pension assets and liabilities	6,995
(3,236)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(6,631)
2,060	Employer's pensions contributions and direct payments to pensioners payable in the year	1,574
344	Reversal of accrued strain payments (see Note 2 – Material Items of Income and Expense))	-
(53,397)	Balance at 31 March	(51,459)

Council Tax Collection Fund Adjustment Account

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

31.3.2017 £000	Council Tax Collection Fund Adjustment Account	31.3.2018 £000
255	Balance at 1 April	149
(106)	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(25)
149	Balance at 31 March	124

SECTION 3. NOTES TO THE ACCOUNTS

Business Rates Collection Fund Adjustment Account

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

31.3.2017 £000	Business Rates Collection Fund Adjustment Account	31.3.2018 £000
(10,432)	Balance at 1 April	232
10,664	Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	13,245
232	Balance at 31 March *	13,477

*South Hams District Council's share of the Business Rates Collection Fund has increased from a surplus of £232,000 in 2016/17, to a surplus of £13.477 million in 2017/18. This reflects the additional business rate income that is held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income will be released to the Council's General Fund in 2018/19. A full explanation is provided in the Narrative Statement.

Accumulated Absences Account

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

31.3.2017 £000	Accumulated Absences Account	31.3.2018 £000
(120)	Balance at 1 April	(125)
120	Settlement or cancellation of accrual made at the end of the preceding year	125
(125)	Amounts accrued at the end of the current year	(125)
(5)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-
(125)	Balance at 31 March	(125)

SECTION 3. NOTES TO THE ACCOUNTS

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

2016/17 £000		2017/18 £000
(2,298)	Depreciation	(2,368)
448	Impairment and downward valuations	(439)
(5)	Movement in market value of investment properties	(6)
(64)	Amortisation	(132)
40	Increase/(decrease) in Debtors	(86)
(1,812)	Increase/(decrease) in Creditors	1,036
13	Increase/(decrease) in Inventories	(16)
(832)	Movement in pension liability	(5,057)
(35)	Carrying amount of non-current assets held for sale, sold or derecognised	(54)
(4,545)	Total	(7,122)

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

2016/17 £000		2017/18 £000
567	Proceeds from the sale of Property, Plant and Equipment and Investment Properties	495
1,133	Other non-cash items charged to the net surplus or deficit on the provision of services	1,180
1,700	Total	1,675

23. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2016/17 £000		2017/18 £000
1,949	Purchase of Property, Plant and Equipment, Investment Properties and Intangible Assets	2,971
2,000	Increase/(decrease) in investments	5,600
(567)	Proceeds from the sale of Property, Plant and Equipment, Investment Properties and Intangible Assets	(495)
(1,245)	Other receipts from investing activities (capital grants and contributions)	(1,205)
2,137	Net cash flows from investing activities	6,871

SECTION 3. NOTES TO THE ACCOUNTS

24. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2016/17 £000		2017/18 £000
(2,755)	Other receipts from financing activity*	(15,808)
(2,755)	Total	(15,808)

*This large movement between 2016/17 and 2017/18 is due to the unwinding of the Business Rates appeals provision from 2015/16. A full explanation is provided in the Narrative Statement.

25. TRADING OPERATIONS – BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the Building Control function. Building Regulations Control Services operate as a separate trading unit.

As of 1 April 2017, South Hams District Council (SHDC), West Devon Borough Council (WDBC) and Teignbridge District Council (TDC) entered into an updated partnership agreement and a new hosting agreement with respect to the staff and functions delivered by Devon Building Control Partnership (DBCp) to the three Council areas. This agreement saw the transfer of all staff who had DBCp responsibilities from SHDC or WDBC to TDC. As a result of this change, operational arrangements such as the delivery and management of support service functions, including holding the DBCp financial reserve, passed to TDC. Consequently the balance of the Building Control earmarked reserve was paid over to TDC during 2017/18 (£436,000). SHDC & WDBC retain control over the operation of this reserve and the DBCp by virtue of the partnership and hosting agreement, along with active participation in the controlling Devon Building Control Partnership Committee.

The Summary Accounts for the year will be detailed in the Devon Building Control Partnership Accounts, which can be found at the following website under the Devon Building Control Partnership Committee 2018-2019:

<https://www.teignbridge.gov.uk/committee-meetings-and-agendas/devon-building-control-partnership-committee/devon-building-control-partnership-committee-2018-2019>

SECTION 3. NOTES TO THE ACCOUNTS

26. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Council during the year. Members allowances are published on the Council's website at:

<https://www.southhams.gov.uk/article/3489/Councillor-Allowances>

2016/17 £000		2017/18 £000
228	Allowances	235
21	Expenses	20
249	Total	255

27. OFFICERS' REMUNERATION

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

Post	Year	Salary, Fees and Allowances £	Expenses £	Pension Contribution £	Total £
Executive Director and Head of Paid Service w.e.f. Feb 18 – Note B	17/18	97,200	2,100	14,200	113,500
	16/17	94,800	500	14,000	109,300
Group Manager for Customer First and Support Services	17/18	73,600	800	10,700	85,100
	16/17	72,500	800	10,700	84,000
Finance Community of Practice Lead (Deputy S.151 Officer) w.e.f July 2017	17/18	50,000	200	7,100	57,300
	16/17	-	-	-	-

No other officers earned over £50,000 during 2017/18 or 2016/17.

Note A: Shared Services with West Devon Borough Council

The total cost of senior employees employed by West Devon Borough Council has been included in the equivalent note of West Devon Borough Council's Accounts in accordance with the accounting requirements and is therefore excluded from the table above. In 2017/18 South Hams District Council reimbursed costs amounting to £282,000 (2016/17 £224,000) in respect of some members of the Senior Leadership Team and the Monitoring Officer who are employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2017/18 from West Devon Borough Council of £133,000 (2016/17 £107,000) in respect of the above shared senior employees.

Note B: Senior Leadership Team Interim arrangements

South Hams District Council is in a shared services arrangement with West Devon Borough Council and the two Councils have a shared senior leadership team and a shared non-manual workforce. In February 2018, the Executive Director for Strategy and Commissioning and Head of Paid Service left the employment of West Devon Borough Council. Due to the scale of the challenges ahead for the Council, Members felt that it was important that the Council retained stability and continuity in its strategic leadership and senior management capacity.

At a Council meeting in December 2017, Council approved that the Executive Director for Service Delivery and Commercial Development (employed by South Hams District Council) be designated the Head of Paid Service for an interim period of up to 18 months. It was also agreed to allocate additional responsibilities to members of the senior and extended leadership team on an interim basis.

SECTION 3. NOTES TO THE ACCOUNTS

28. PAYMENTS TO EXTERNAL AUDITORS

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

	2016/17 £000	2017/18 £000
Fees payable with regard to external audit services	51	51
Core Audit Fees	43	43
Audit of Grants and Returns	8	8
Fees payable in respect of other services	1	-
Rebate from Public Sector Audit Appointments Ltd	-	(6)
Total	52	45

SECTION 3. NOTES TO THE ACCOUNTS

29. GRANT INCOME

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

	2016/17 Restated* £000	2017/18 £000
Credited to Taxation and Non-Specific Grant Income*		
Capital grants and contributions*:		
Environment Agency - Coastal Recovery Grant*	(253)	(94)
MHCLG – Disabled Facilities Grants*	(698)	(835)
Capital Section 106 deposits*	(120)	(199)
Devon County Council – second homes funding*	(60)	-
Other capital grants and contributions	(2)	(20)
Non ring - fenced Government grants and contributions:		
Revenue Support Grant	(754)	(250)
New Homes Bonus Grant	(2,080)	(1,448)
Small Business Rate Relief	(1,164)	(1,888)
Rural Services Delivery Grant	(406)	(327)
Transition Grant	(56)	(56)
Total	(5,593)	(5,117)
Credited to Services*		
Rent Allowance subsidy	(21,298)	(20,851)
Housing Benefit administration subsidy	(246)	(226)
Rent rebate subsidy	(38)	(60)
Discretionary housing payments	(107)	(132)
Council Tax benefit administration subsidy	(89)	(84)
Business Rates cost of collection allowance	(208)	(206)
MHCLG - Community Housing Fund	(1,881)	-
REFCUS grants applied*	-	-
Recycling credits	(461)	(472)
Devon County Council - Torr Quarry Transfer Station	(298)	(279)
Revenue Section 106 deposits	(291)	(789)
Electoral Commission – Elections and Referendum	(266)	(149)
Devon County Council – County Council Elections	-	(142)
Other grants	(698)	(653)
Total	(25,881)	(24,043)

*The 2016/17 revenue grants and capital grants have been restated in respect of the accounting treatment for REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants. Please see note 37 – Prior Period Restatement for further information.

SECTION 3. NOTES TO THE ACCOUNTS

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have repayment conditions attached to them. Until these conditions are met these grants are held as receipts in advance. Should these conditions not be met the monies would need to be returned to the grantor. The balances at the year-end are as follows:

Capital Grants Receipts in Advance	31 March 2017 £000	31 March 2018 £000
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(48)	(16)
Total	(132)	(100)

Short Term Revenue Grants Receipts in Advance	31 March 2017 £000	31 March 2018 £000
MHCLG – Custom Self Build Grant	(15)	-
Devon County Council – Public Health Grant	(7)	-
Other grants	(2)	-
Total	(24)	-

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	31 March 2017 £000	31 March 2018 £000
Langage Energy Centre	(1,868)	(1,740)
Leyford Close, Wembury	(183)	(156)
Riverside, Totnes	(459)	(225)
Gara Rock, East Portlemouth	(341)	(323)
Bonfire Hill, Salcombe	(194)	(194)
Former Old Chapel Inn, Bigbury	(110)	(104)
Trennels, Herbert Road, Salcombe	(107)	(93)
Sawmills Field, Dartington	(150)	(149)
Follaton Oak, Totnes	(105)	(37)
Plot 2 Godwell Lane, Ivybridge	(142)	(2)
Land at Moorview, Marldon	-	(170)
Land at Fairfield, South Brent	-	(92)
Land South East of Torhill Farm, Ivybridge	-	(85)
Land at Woodland Road, Ivybridge	-	(80)
Various other sites	(629)	(846)
Total	(4,288)	(4,296)

SECTION 3. NOTES TO THE ACCOUNTS

30. RELATED PARTIES

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

Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are detailed in Note 29.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 26.

SECTION 3. NOTES TO THE ACCOUNTS

31. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it, giving rise to the movement in the Council's Capital Financing Requirement.

Summary of Capital Expenditure and Financing (incorporating the Capital Financing Requirement)	2016/17 £000	2017/18 £000
<i>Opening Capital Financing Requirement</i>	(98)	(98)
Capital Investment		
Property, Plant and Equipment	1,533	386
Intangible Assets	97	56
Revenue expenditure funded from capital under statute (REFCUS)	1,073	1,208
Assets under Construction	320	2,529
Total expenditure for capital purposes	3,023	4,179
Sources of Finance		
Capital receipts	(665)	(1,212)
Capital grants and external contributions	(1,166)	(1,079)
Earmarked reserves	(1,192)	(1,144)
Total funding	(3,023)	(3,435)
<i>Closing Capital Financing Requirement</i>	(98)	646
<i>Movement in Capital Financing Requirement</i>	-	744
Explained by:		
Underlying need to borrow	-	744

Between 2008/09 and 2016/17 the Council's Capital Financing Requirement (CFR) remained unchanged at (£98,000). This negative position reflected the fact that the Authority did not finance any of its capital expenditure by borrowing. However, during 2017/18 the Council invested in its Leisure Facilities which led to internal borrowing of £744,000. This is reflected in the movement in the CFR above. The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. The Minimum Revenue Provision is not required in 2017/18 as the leisure investment was not operational during this year and will be funded from external borrowing in 2018/19.

SECTION 3. NOTES TO THE ACCOUNTS

32. LEASES

Operating Leases

Authority as Lessee

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

Detail of lease	Term	Expiry date	Segment in CIES
A parcel of land for car parking	6 years	30.05.2023	Commercial Services
The fundus of the Salcombe & Kingsbridge Estuary for the provision of harbour activities	21 years	24.03.2028	Commercial Services

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

	31 March 2017* £000	31 March 2018* £000
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	121	228
Later than one year & not later than five years	487	925
Later than five years	765	650
Total	1,373	1,803

*When the 2016/17 Accounts were prepared, renewal of the car parking lease which expired on 9 April 2017 was being negotiated. Therefore the future minimum lease payments as at 31 March 2017 only include amounts due in April 2017 for this particular lease. This lease was renewed during 2017/18 which explains the movement between 31 March 2017 and 31 March 2018.

The expenditure charged to the Commercial Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2016/17 £000	2017/18 £000
Minimum lease payments	205	223
Total	205	223

SECTION 3. NOTES TO THE ACCOUNTS

Authority as Lessor

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

Detail of lease	Term	Expiry date	Segment in CIES
The operation of a supermarket	99 years	20.12.2077	Customer First, reclassified to Investment Properties w.e.f 31/12/17*
The rental of an industrial unit	25 years	31.05.2029	Customer First
The provision of temporary accommodation	10 years	30.03.2021	Customer First
The rental of office accommodation	20 years	24.07.2032	Customer First
The rental of office accommodation	10 years	29.09.2026	Customer First

*During 2017/18 the site in Lee Mill which is currently leased to a supermarket was reclassified from Property Plant and Equipment to Investment Properties, with effect from 31 December 2017. Please see note 13 – Investment Properties for further information.

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

	31 March 2017 £000	31 March 2018 £000
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	772	794
Later than one year & not later than five years	3,095	3,015
Later than five years	33,904	33,190
Total	37,771	36,999

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

SECTION 3. NOTES TO THE ACCOUNTS

33. EXIT PACKAGES AND TERMINATION BENEFITS

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

Exit package cost band (incl. special payments)	Number of voluntary redundancies		Number of compulsory redundancies		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	16/17	17/18	16/17	17/18	16/17	17/18	16/17	17/18
£0 - £20,000	-	-	-	1	-	1	-	1,530
£100,001 - £150,000	1	-	-	-	1	-	103,100	-
TOTAL	1	-	-	1	1	1	103,100	1,530

The exit package amount is the cost of redundancy payment plus the cost of any pension strain payments.

Note 1: Shared Services with West Devon Borough Council

No contributions have been received from West Devon Borough Council (WDBC) towards these exit packages in 2017/18 or 2016/17 because the two employees were solely working for South Hams District Council. WDBC had no exit packages during 2017/18 and 2016/17.

34. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Authority participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

The administering Authority for the Fund is Devon County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering Authority.

SECTION 3. NOTES TO THE ACCOUNTS

Where appropriate some functions are delegated to the Fund's professional advisers.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2019 is £1.372m. The Actuary has estimated the duration of the Employer's liabilities to be 18 years.

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

Transactions Relating to Post-employment Benefits

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

The movement in the pension scheme assets and liabilities together with the treatment of the corresponding transactions in the CIES is summarised in the following tables.

Service Cost

Of particular note is the substantial movement in the service cost from 2016/17. The increase in 2017/18 is due to a combination of factors which include the discount rate used, inflation and the cost of settlements. Firstly, the reduction in the discount rate increases the cost of service as there is an adverse movement between the benefits that members will have accrued compared with the returns that are anticipated at the discount rate. Secondly, the increase in inflation in 2017/18 increases the benefits members will have accrued from their services. Thirdly, the service cost includes the capitalised losses accrued for settlements.

SECTION 3. NOTES TO THE ACCOUNTS

Comprehensive Income and Expenditure Statement	2016/17 £000	2017/18 £000
Cost of Services		
<i>Service cost compromising</i>		
- Current Service Cost – see note above	1,837	3,265
- Past Service Cost	183	-
- Capitalised (gain)/loss on Settlements	(654)	1,830
<i>Financing and Investment Income and Expenditure</i>		
- Net Interest Expense	1,476	1,487
- Administration Expenses	50	49
Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	2,892	6,631
Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement		
<i>Re-measurement of the net defined benefit liability compromising:</i>		
- Change in financial assumptions	28,023	(5,485)
- Change in demographic assumptions	(448)	-
- Experience loss/(gain)	(6,374)	-
- Return on fund assets in excess of interest	(10,867)	(1,510)
- Other actuarial gains/(losses) on assets	(223)	-
<i>Total re-measurement recognised</i>	<i>10,111</i>	<i>(6,995)</i>
Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement	13,003	(364)
<i>Movement in Reserves Statement</i>		
- Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code	2,892	6,631
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
- Employers contributions payable to scheme	2,060	1,574

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

SECTION 3. NOTES TO THE ACCOUNTS

Net Pension Liability	31 March 2017 £000	31 March 2018 £000
Present value of the defined benefit obligation	140,688	144,013
Fair value of Fund assets	(90,451)	(95,543)
Deficit / (surplus)	50,237	48,470
Present value of unfunded obligation	3,160	2,989
Net defined benefit liability / (asset)	53,397	51,459

Reconciliation of opening and closing balances of the fair value of Fund assets	31 March 2017 £000	31 March 2018 £000
Opening fair value of Fund assets	79,294	90,451
Interest on assets	2,811	2,532
Return on assets less interest	10,867	1,510
Other actuarial gains/ (losses)	223	-
Administration expenses	(50)	(49)
Contributions by employer including unfunded	2,060	1,574
Contributions by Scheme participants	493	499
Estimated benefits paid plus unfunded net of transfers in	(4,413)	(4,297)
Settlement prices received / (paid)	(834)	3,323
Closing fair value of Fund assets	90,451	95,543

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	31 March 2017 £000	31 March 2018 £000
Opening defined benefit obligation	121,748	143,848
Current service cost	2,181	3,265
Provision for Strain liability	(344)	-
Interest cost	4,287	4,019
Change in financial assumptions	28,023	(5,485)
Change in demographic assumptions	(448)	-
Experience loss / (gain) on defined benefit obligation	(6,374)	-
Liabilities assumed / (extinguished) on settlements	(1,488)	5,153
Estimated benefits paid net of transfers in	(4,216)	(4,104)
Past service costs, including curtailments	183	-
Contributions by Scheme participants	493	499
Unfunded pension payments	(197)	(193)
Closing defined benefit obligation	143,848	147,002

SECTION 3. NOTES TO THE ACCOUNTS

Basis for estimating assets and liabilities

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

To assess the value of the Employer's liabilities at 31 March 2018, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.

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

The major assumptions are summarised in the following table:

Basis for estimating assets and liabilities	31 March 2017	31 March 2018
Mortality assumptions (in years):		
<u>Longevity at 65 for current pensioners</u>		
- Men	23.4	23.5
- Women	25.5	25.6
<u>Longevity at 65 for future pensioners (in 20 years)</u>		
- Men	25.6	25.7
- Women	27.8	27.9
Financial assumptions (in percentages):		
- RPI increases	3.6%	3.3%
- CPI increases	2.7%	2.3%
- Salary increases	4.2%	3.8%
- Pension increases	2.7%	2.3%
- Discount rate	2.7%	2.55%

The financial assumptions summarised in the table above are set with reference to market conditions at 31 March 2018.

SECTION 3. NOTES TO THE ACCOUNTS

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

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	(0.1%)
Present value of total obligation	144,400	147,002	149,654
Projected service cost	3,001	3,078	3,157
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	147,201	147,002	146,805
Projected service cost	3,078	3,078	3,078
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	149,458	147,002	144,590
Projected service cost	3,157	3,078	3,001
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	152,788	147,002	141,442
Projected service cost	3,176	3,078	2,983

The estimated asset allocation for South Hams District Council as at 31 March 2018 is as follows:

Employer asset share	31 March 2017		31 March 2018	
	£000	%	£000	%
Gilts	2,701	3%	3,000	3%
UK equities	21,750	24%	20,484	22%
Overseas equities	31,453	34%	35,361	37%
Property	7,914	9%	8,890	9%
Infrastructure	3,520	4%	3,427	4%
Target return portfolio	13,429	15%	14,269	15%
Cash	2,415	3%	2,333	2%
Other bonds	2,312	3%	1,953	2%
Alternative assets	4,957	5%	5,190	5%
Private equity	-	-	636	1%
Total	90,451	100%	95,543	100%

SECTION 3. NOTES TO THE ACCOUNTS

Of the total fund asset at 31 March 2018, the following table identifies the split of those assets with a quoted market price and those that do not:

Employer Asset Share – Bid Value		31 March 2018	
		% Quoted	% Unquoted
Fixed interest government securities	UK	0.1%	-
	Overseas	3.1%	-
Corporate bonds	UK	-	-
	Overseas	2.0%	-
Equities	UK	20.7%	0.7%
	Overseas	32.2%	4.8%
Property	All	-	9.3%
Others	Absolute return portfolio	14.9%	-
	Private equity	-	0.7%
	Infrastructure	-	3.6%
	Multi sector credit fund	5.4%	-
	Cash/Temporary investments	-	2.4%
Net current assets	Debtors	-	0.1%
Total		78.4%	21.6%

35. CONTINGENT LIABILITIES

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 Liverty) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). The purpose of these warranties is to safeguard the housing company if any of the main assumptions on which the transfer price was calculated turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Unfortunately, owing to the uncertainties surrounding any potential claim, it is not practicable to make an estimate of the total value of liabilities (if any).

SECTION 3. NOTES TO THE ACCOUNTS

36. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by Full Council on 30 March 2017 and is available on the Council's website.

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures from the Council's customers. An analysis of the Council's investments is provided in Note 14 to the accounts.

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

The full Investment Strategy for 2017/18 was approved by Full Council on 30 March 2017 and is available on the Council's website. The Council's investment priorities are: -

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

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

On 29 March 2018, the Council agreed to widen its Investment Strategy for 2018/19 to include more approved counterparties from countries with a minimum sovereign credit rating of AA-. The Council also made the decision to invest £500,000 in the CCLA Local Authority Property Fund (LAPF) and £1million in the CCLA Diversified Income Fund in the 2018/19 financial year.

SECTION 3. NOTES TO THE ACCOUNTS

The Council's 2017/18 Counterparty limits are as follows:

- £6 million for Money Market Funds
- £6 million on term deposits with banks and building societies with the UK (£7 million with Lloyds Bank – the Council's bank)

No breaches of the Council's counterparty criteria occurred during the reporting period. With the exception of the investment with the Heritable Bank made in September 2008 the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2018 and is reflected in the current figure of £759,000. This compares to £583,000 in 2016/17. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 15 to the accounts.

Liquidity risk

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 CIPFA Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 16 to the accounts.

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

The Authority has ready access to borrowing from the Money Markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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 Comprehensive Income and Expenditure Account will rise.
- Investments at fixed rates – the fair value of the assets will fall.

SECTION 3. NOTES TO THE ACCOUNTS

Changes in interest receivable on variable rate investments are posted to the Comprehensive Income and Expenditure Account and affect the General Fund Balance £ for £.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements.

From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Finance team will monitor markets and forecast interest rates within the year to adjust exposures appropriately.

If all interest rates had been 1% higher, with all other variables held constant, the financial effect would be that an additional £421,000 in interest would have been generated.

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

Price risk

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

Foreign exchange risk

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

Refinancing and Maturity Risk

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

37. PRIOR PERIOD RESTATEMENT

The 2016/17 Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding Analysis (EFA) have been restated to reflect the accounting treatment of REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants under the CIPFA Code. In the 2016/17 Statement of Accounts £923,000 was reflected in the gross income in the Cost of Services (Customer First) with a corresponding reduction in Capital Grants. There is no overall impact on the 'surplus on the provision of services'; the 2016/17 balance remains at £7,152,000. The restatement is purely for presentational purposes and has no impact on the Balance Sheet.

A summary is provided below of the figures affected in the CIES for 2016/17:

CIES – net expenditure	Pre-Restatement Values as at 31 March 17	Impact of 2016/17 Restatement	Restated Values as at 31 March 17
	£000	£000	£000
Customer First	1,364	923	2,287
Cost of Services (sub total)	8,315	923	9,238
Taxation and non specific grant income	(18,119)	(923)	(19,042)
Surplus on Provision of Services	(7,152)	-	(7,152)

The impact of the prior period restatement on the EFA is shown below:

EFA – adjustments between funding and accounting basis	Pre-Restatement Values as at 31 March 17	Impact of 2016/17 Restatement	Restated Values as at 31 March 17
	£000	£000	£000
Customer First	859	923	1,782
Net Cost of Services (sub total)	1,720	923	2,643
Other income and expenditure	(11,306)	(923)	(12,229)
Surplus on Provision of Services	(9,586)	-	(9,586)

The grants note has also been restated for 2016/17 as follows:

Grant Income	Pre-Restatement Values as at 31 March 17	Impact of 2016/17 Restatement	Restated Values as at 31 March 17
	£000	£000	£000
Environment Agency - Coastal Recovery Grant*	(208)	(45)	(253)
MHCLG – Disabled Facilities Grants*	-	(698)	(698)
Capital Section 106 deposits*	-	(120)	(120)
Devon County Council – second homes funding	-	(60)	(60)
Other capital grants	(2)	-	(2)
Total Capital grants	(210)	(923)	(1,133)
Credited to Services - REFCUS grants applied	(923)	923	-

SECTION 3. NOTES TO THE ACCOUNTS

38. ACCOUNTING POLICIES

a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

The accounting policies are applicable to all of the Council's transactions including those of the Collection Fund (council tax and business rates).

b) Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

SECTION 3. NOTES TO THE ACCOUNTS

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Council operates a de minimis policy for accruals. For revenue and capital expenditure the de minimis has remained at £5,000 in 2017/18.

c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Our policy is shown in the following table:

Type of Investment	Settlement Terms	Gain/Loss on Sale	Cash Equivalent
Money Market Fund	T + 0	x	✓
Call Account	T + 0	x	✓
Notice Deposit	Maturity	x	x
Term Deposit	T + 7 days	x	✓
Other Term Deposits	Maturity	x	x

Key: T = trade date

The Council's view is that investments made with an investment period of greater than 7 days would not be classified as cash equivalents because they are not sufficiently liquid to meet short term cash commitments.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

d) Material items of Income and Expense

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

SECTION 3. NOTES TO THE ACCOUNTS

e) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

f) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These changes are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement, for the difference between the two.

g) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu)

SECTION 3. NOTES TO THE ACCOUNTS

earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement, to terminate at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

Post-Employment Benefits

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

The Local Government Scheme

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

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

SECTION 3. NOTES TO THE ACCOUNTS

- Liabilities are discounted to their value at current prices, using a discount rate.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value.

For further information please refer to Note 34.

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

- **Service cost comprising:**
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- **Re-measurements comprising:**
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - contributions paid to the Devon County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according

SECTION 3. NOTES TO THE ACCOUNTS

to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

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

h) Events after the Reporting Period

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

Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

i) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of

SECTION 3. NOTES TO THE ACCOUNTS

interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments (the Council does not currently hold any available-for-sale financial assets).

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service), or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair Value

The Council measures some of its assets and liabilities at their fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability. The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

Recognition and measurement of financial instruments

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

Financial Instrument	Basis of Measurement	Note
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end	Investments have both fixed term and fixed interest rates
Investments – Other	Held at carrying value on basis of materiality	See also accounting policy on cash equivalents
Operational debtors	Held at invoiced or billed amount less an estimate for non-collection of debts	Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate. The carrying amount has been adjusted for an assessment of bad debts. See Note 36 within 'credit risk' for further information
Operational creditors	Held at invoiced or billed amount	Carrying amount is a reasonable approximation of fair value for these short term liabilities

SECTION 3. NOTES TO THE ACCOUNTS

j) Government Grants and Contributions

General

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

k) Heritage Assets

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge or culture. The Council has reviewed its insurance and assets registers and has not identified any material assets that require disclosure.

l) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service

SECTION 3. NOTES TO THE ACCOUNTS

potential will flow from the intangible asset to the Authority. As with Property, Plant and Equipment a de minimis level of £10,000 has been set for capitalisation.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over 3 years to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation charges are not permitted to have an impact on the General Fund Balance. Therefore, these charges are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

m) Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

n) Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

SECTION 3. NOTES TO THE ACCOUNTS

o) Jointly Controlled Operations

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

p) Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets (i.e. embedded leases).

The Authority as Lessee

Finance Leases

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Where material, charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where material, the rental income is credited on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

SECTION 3. NOTES TO THE ACCOUNTS

q) Overheads and Support Services

Costs of overheads and support services are only recharged to services requiring full cost recovery including Salcombe Harbour. Apart from these exceptions support services are shown in the Comprehensive Income and Expenditure Statement in their own reporting segment, which is in line with the Council's internal reporting method.

r) Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

SECTION 3. NOTES TO THE ACCOUNTS

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but at a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

De minimis policy for capital controls and accounting purposes

CIPFA have not set specified de minimis levels and it is up to authorities to decide for themselves having regard to their particular circumstances.

In order to reduce the administrative burden a general de minimis limit of £10,000 has been set for the recognition of capital expenditure except for:

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

Component Accounting

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

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

The criteria for components to be separately valued are that:

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

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

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

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

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

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

- Plant and equipment and engineering services
- Structure

SECTION 3. NOTES TO THE ACCOUNTS

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

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

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

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation, that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on a straight-line allocation over the useful life of the asset. Useful lives are determined on a case by case basis. Typical useful lives are:

SECTION 3. NOTES TO THE ACCOUNTS

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

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost, being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the

SECTION 3. NOTES TO THE ACCOUNTS

time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The written-off value of disposals is not a charge against council tax, as the cost of assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

s) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Authority.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

SECTION 3. NOTES TO THE ACCOUNTS

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. The Council operates a disclosure de minimis policy for contingent liabilities and assets of £50,000.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

t) Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

u) Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

v) Section 106 Deposits

Where repayment conditions exist, developer contributions are treated as revenue receipts (Long Term Liabilities in the Balance Sheet) unless a clear capital use is identified in the terms of the agreement. In the latter case they are defined as Capital Receipts in Advance. Where no conditions are attached

SECTION 3. NOTES TO THE ACCOUNTS

to the agreement, they are either treated as capital grants unapplied or credited directly to services if revenue in nature.

w) Shared Services

South Hams District Council and West Devon Borough Council have been in a shared services arrangement since 2007. Following the implementation of the joint Transformation Programme (T18), all of the Councils' non-manual workforce are shared across both Councils.

Officers have produced a methodology for recharging the salary costs of shared officers based on the most appropriate cost driver and ratio to best reflect the officer's split of workload between the two Councils. Examples of the cost drivers used are caseloads, call volumes, property numbers, number of claims or cases processed etc, and other methods such as time recording. The work carried out includes establishing from the Community of Practice Leads/Group Managers the relevant recharge requirements for all of the non-manual workforce. On an annual basis, the Audit Committee approve the methodology for recharging the salary cost of shared officers.

x) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

y) Accounting for Local Taxes

Billing authorities act as agents, collecting council tax and business rates on behalf of the major preceptors (including government for business rates) and, as principals, collecting council tax and business rates for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and business rates. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted.

Accounting for Council Tax and Business Rates

The council tax and business rates income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and business rates that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and

SECTION 3. NOTES TO THE ACCOUNTS

included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and business rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

z) Minimum Revenue Provision

The Council is not required to use Council Tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards provision for the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Authority in the 2018/19 financial statements i.e. from 1 April 2018.

The Authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new / amended standard that has been issued, but is not yet required to be adopted by the Authority.

IFRS9 Financial Instruments

IFRS 9 *Financial Instruments* has been adopted by the 2018/19 Accounting Code, with an application date of 1 April 2018. IFRS 9 was devised to correct weaknesses in accounting practices that contributed to the global financial crisis: In particular it:

- changes the default accounting treatment for investments from one where gains and losses in value are not recognised as income or expenditure until an investment matures or is disposed of to one where income or expenditure is recognised as fair value gains and losses arise
- changes the model for impairment loss allowances for financial assets from one based on incurred losses to one based on expected losses.

The first of these changes is not relevant to the Council in 2017/18 as it has no investments that are currently required to be measured at fair value. On 29 March 2018 the Council made the decision to invest £500,000 in the CCLA Local Authority Property Fund (LAPF) and £1 million in the CCLA Diversified Income Fund during 2018/19. Any fair value gains or losses will be credited or debited to the Surplus/Deficit on the Provision of Services in the Consolidated

SECTION 3. NOTES TO THE ACCOUNTS

Income and Expenditure Statement as they arise, however this is not thought to be material for the Council.

The second change relating to impairment losses will require the Council to review the allowances it currently makes for credit risks on debtors and investments to include losses expected to arise in the future rather than just those incurred at the balance sheet date. It is currently estimated that the Council will not have any material impairment losses in 2018/19.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* has been adopted by the 2018/19 Accounting Code, with an application date of 1 April 2018. IFRS 15 introduces a new model for the recognition of contractual income, based on allocating the overall transaction price for the goods and/or services to be provided against the satisfaction of the various performance obligations in the contract. The new model has the potential to change the date at which revenue is recognised compared to the current accounting requirements.

The analysis carried out to date indicates that there will be no material impact on the revenue recognised in relation to the significant contracts entered into by the Council.

40. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 38, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs.
- The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this information an assessment was made about the likely success rate of appeals and their value. In 2017/18 there has been a £2.6 million increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £1.04 million). The 2017/18 position for Business Rates is explained in detail in the Narrative Statement.

SECTION 4. COLLECTION FUND

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

2016/17 Business Rates £000	2016/17 Council Tax £000		2017/18 Business Rates* £000	2017/18 Council Tax £000
		INCOME		
-	(62,744)	Income from Council Tax	-	(66,336)
(30,856)	-	Business Rates Receivable	(29,831)	-
835	-	Less: Transitional Relief	486	-
(30,021)	(62,744)		(29,345)	(66,336)
		EXPENDITURE		
		Precepts, Demands and Shares:		
15,265	-	Central Government	12,074	-
2,748	44,687	Devon County Council	2,173	47,394
-	6,396	Devon & Cornwall Police Authority	-	6,589
305	2,960	Devon & Somerset Fire Authority	241	3,049
12,212	7,411	South Hams District Council (net including Towns/Parishes)	9,659	7,905
341	-	Business Rates written off and change in impairment allowance	(131)	-
-	429	Council Tax written off and change in impairment allowance	-	426
(27,135)	-	Business Rates increase/(decrease) in provision for appeals	2,594	-
208	-	Business Rates – Costs of collection	206	-
		Distribution/collection of previous year's estimated surplus/(deficit):		
(292)	-	Central Government	(15,291)	-
(52)	1,270	Devon County Council	(2,752)	861
-	185	Devon and Cornwall Police	-	123
(6)	85	Devon and Somerset Fire Authority	(306)	57
(233)	210	South Hams District Council	(12,233)	143
3,361	63,633		(3,766)	66,547
(26,660)	889	MOVEMENT ON BALANCE	(33,111)	211

SECTION 4. COLLECTION FUND

*Business Rates position for 2017/18

In 2015/16 there was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals. In 2016/17 a large part of these outstanding appeals were settled and the significant appeals risk did not materialise.

South Hams District Council's share of the Business Rates Collection Fund has increased from a surplus of £232,000 in 2016/17, to a surplus of £13.477 million in 2017/18 as shown in Note 3 below – Collection Fund balance. This reflects the additional business rate income that is held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income will be released to the Council's General Fund in 2018/19. A full explanation is provided in the Narrative Statement.

1. Council Tax and Council Tax Base

In 2017/18, the Council's average Band D Council Tax was £1,737.25 (£1,660.73 in 2016/17). The charge for each band is a ratio of band D. The 2017/18 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	965.14
A	6/9	1,158.17
B	7/9	1,351.19
C	8/9	1,544.22
D	1	1,737.25
E	11/9	2,123.31
F	13/9	2,509.36
G	15/9	2,895.42
H	18/9	3,474.50

These charges are before any appropriate discounts. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2017/18 was **37,379.62** as calculated below (**37,003.99** in 2016/17).

SECTION 4. COLLECTION FUND

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A		11.75	11.75	5/9	6.53
A	4,966	(828.25)	4,137.75	6/9	2,758.50
B	8,575	(939.25)	7,635.75	7/9	5,938.92
C	8,533	(791.00)	7,742.00	8/9	6,881.78
D	7,919	(616.00)	7,303.00	1	7,303.00
E	6,643	(438.00)	6,205.00	11/9	7,583.89
F	3,677	(170.75)	3,506.25	13/9	5,064.58
G	2,995	(158.25)	2,836.75	15/9	4,727.92
H	336	(21.75)	314.25	18/9	628.50
Total	43,644	(3,951.50)	39,692.50		40,893.62
Less allowance for non collection					(817.87)
Plus adjustment for armed forces dwellings					68.40
Other adjustments including Council Tax Support					(2,764.53)
Tax base					37,379.62

2. Rateable Value

The total business rates rateable value at 31 March 2018 was £86,432,453. This compares to £83,760,677 at 31 March 2017. The standard business rates multiplier was 49.3p in 2017/18 (2016/17: 49.7p). Without reliefs this would generate a total income of £42,611,199.33 (2016/17 £41,629,056.47). These figures are a snapshot only and differ from the value of business rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

3. Collection Fund balance

2016/17 Business Rates £000	2016/17 Council Tax £000		2017/18 Business Rates* £000	2017/18 Council Tax £000
26,079	(2,120)	Fund balance at 1 April	(581)	(1,231)
(26,660)	889	Deficit/(surplus) for year	(33,111)*	211
(581)	(1,231)	Fund balance as at 31 March – deficit/(surplus)	(33,692)*	(1,020)

*See Note at the end of Section 4 and the Narrative Statement which explains the Business Rates position for 2017/18 in detail.

SECTION 4. COLLECTION FUND

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

2016/17 Business Rates £000	2016/17 Council Tax £000		2017/18 Business Rates* £000	2017/18 Council Tax £000
(291)	-	Central Government	(16,846)	-
(52)	(895)	Devon County Council	(3,032)	(745)
-	(128)	Devon and Cornwall Police	-	(104)
(6)	(59)	Devon and Somerset Fire Authority	(337)	(47)
(349)	(1,082)	Total deficit/(surplus) due to Preceptors	(20,215)	(896)
(232)	(149)	South Hams District Council	(13,477)*	(124)
(581)	(1,231)	Fund balance as at 31 March – deficit/(surplus)	(33,692)*	(1,020)

*Business Rates position for 2017/18

In 2015/16 there was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals. In 2016/17 a large part of these outstanding appeals were settled and the significant appeals risk did not materialise.

South Hams District Council's share of the Business Rates Collection Fund has increased from a surplus of £232,000 in 2016/17, to a surplus of £13.477 million in 2017/18 as shown in Note 3 above – Collection Fund balance. This reflects the additional business rate income that is held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income will be released to the Council's General Fund in 2018/19. A full explanation is provided in the Narrative Statement.

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

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs. In this Authority, that officer is the Section 151 Officer & Strategic Finance Lead;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error,

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31 March 2018.

.....


**Lisa Buckle BSc (Hons), ACA
Section 151 Officer & Strategic Finance Lead**

26 July 2018

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

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting held on 26 July 2018.

Signed on behalf of South Hams District Council



.....

Councillor J A Pearce

Chairman of the Audit Committee

SECTION 6. AUDITORS' REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of South Hams District Council ('the Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Collection Fund and the related notes, including the accounting policies in note 38.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information published with the financial statements

The Section 151 Officer & Strategic Finance Lead is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

Section 151 Officer & Strategic Finance Lead's responsibilities

As explained more fully in the statement set out on page 118, the Section 151 Officer & Strategic Finance Lead is responsible for: the preparation of the Authority's financial statements in

SECTION 6. AUDITORS' REPORT

accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

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

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, South Hams District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether South Hams District Council had proper arrangements to

SECTION 6. AUDITORS' REPORT

ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether South Hams District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Statutory reporting matters

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

CERTIFICATE OF COMPLETION OF THE AUDIT

We certify that we have completed the audit of the financial statements of South Hams District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.


Rees Batley

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
26 July 2018

SECTION 7. GLOSSARY OF TERMS

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

SECTION 7. GLOSSARY OF TERMS

DEFINED BENEFIT SCHEME	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
DEMAND	The charging authorities own Demand is, in effect, its precept on the fund.
FAIR VALUE	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
FEES AND CHARGES	In addition to the income from charge payers and the Government, Local Authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.
FINANCIAL INSTRUMENTS	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
GOVERNMENT GRANTS	Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.
IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)	Provisions against income to prudently allow for non collectible amounts.
INTEREST COST	For the pension fund this represents the discount rate at the start of the accounting period applied to the liabilities during the year based on the assumptions at the start of the accounting period.
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND THE CODE OF PRACTICE (CODE)	Formal financial reporting standards adopted by the accounting profession and to be applied when dealing with specific topics within its accounting Code. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

SECTION 7. GLOSSARY OF TERMS

MINIMUM REVENUE PROVISION (MRP)	This is a statutory requirement to make an annual calculation of an amount or MRP considered prudent to offset against borrowings made under the Prudential Borrowing rules.
PAST SERVICE COST	These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.
PRECEPT	The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.
PROJECTED UNIT METHOD	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.
RATEABLE VALUE	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
REVENUE EXPENDITURE	Recurring items of day to day expenditure consisting principally of salaries and wages, and general running expenses etc.
SETTLEMENTS	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability.
STRAIN ON FUND CONTRIBUTIONS	Additional employers pension contributions as a result of an employee's early retirement.
SUNDRY CREDITORS	Amounts owed by the Council at 31 March.
SUNDRY DEBTORS	Amounts owed to the Council at 31 March.