



**South Hams District Council  
Audited Statement of Accounts  
2019/20**



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### **Statement of Accounts 2019/20**

*The Statement of Accounts 2019/20 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 2019/20 Statement of Accounts by Councillor Pearce, Leader of South Hams District Council**



I am very pleased to welcome you to the 2019/20 Statement of Accounts for South Hams District Council. It has undoubtedly been a year that will remain in all of our memories for a very long time.

Our communities, our businesses and our residents have all been impacted in a way that none of us could have imagined with the Coronavirus pandemic. In March 2020, the Council rapidly changed its operations, to provide much needed support to our community groups, our businesses and offering assistance to our most vulnerable residents through our community response.

The Council has handed out essential Government funding of £42 million of business grants to 3,764 businesses within the matter of a few weeks, as we recognised this money was providing a crucial lifeline to our businesses. I am truly proud of the way that we have all united together, in the most difficult of times, to be there for each other. The pandemic has brought about a profound rethink of the way we live and work.

It is important that we take a strategic approach to recovery, to ensure that we learn from the response, understand the new challenges we face and emerge as an organisation that is fit for purpose and financially sustainable. The Council will follow the principle of 'Build Back Better' in our Recovery Plan, so that the opportunities to learn and become more efficient and effective are realised wherever possible.

In May, the Council declared a climate change and biodiversity emergency. The Council has agreed an ambitious plan to support its aim to be a carbon neutral organisation by 2030 and to help the whole District reach net-zero carbon by 2050 by joining forces with the Devon Climate Emergency Response Group to support the creation of a Devon-wide plan. In addition, the Council has set aside £400,000 of funding to implement projects to help achieve its aim.

As the Local Planning Authority we have a key role to play in setting the local strategy for development in our area. A major success for us this year has been the commencement of our new Waste and Recycling contract (jointly with West Devon) which went live on 1<sup>st</sup> April 2019. This new partnership with FCC will save us around £3m during the lifetime of the contract. We also held our local elections in May, following which we welcomed 15 new District Councillors with 16 returning Councillors. A comprehensive induction programme was held.

In such a testing time, I am pleased to report the surplus for the 2019/20 year of £112,000 (1.3% of the net budget of £8.83m). Strong financial management across the Council has meant we are underspent against our budget for 2019/20, which has aided our financial resilience. The future won't be without its challenges but the pandemic has shown us what is achievable within a very short space of time. We are beginning to turn the corner and there is now an opportunity to restart, regrow and reset our economy to emerge stronger and more sustainable.

**Councillor Pearce, Leader of the Council**

## Foreword by the Chief Executive



I am delighted to take up my new post as Chief Executive of both South Hams District Council and West Devon Borough Council. I joined in June 2020, at a time when the Councils were focused on supporting our businesses, residents and communities through the Coronavirus pandemic.

I am incredibly impressed at the speed at which both Councils have adapted to support the delivery of government support schemes such as the business grants, emergency food parcels for shielding residents and processing emergency welfare grants. The Coronavirus pandemic has impacted the lives of everybody in our District.

The response has, by necessity, been large-scale and complex, involving all sectors of the community, from the Government through to individual volunteers. The Leader, the Executive and the wider membership have been at the fore front of the response, working with their communities to provide support to the most vulnerable and local businesses.

The Council has played a vital role in responding to the global pandemic, by continuing to deliver core services, whilst also re-aligning staff and resources to respond to the emerging needs of the community and Government initiatives. The agile operating model established over the last few years has enabled the vast majority of staff to work efficiently and safely from home, whilst the ability and willingness of staff to take on new challenges has delivered support where it has been urgently needed.

The main priority for the Council for 2020 will be to formulate and start delivering on the Council's Recovery Plan. This also provides an opportunity to assess the potential 'benefits' arising from the pandemic in terms of how we work and in the delivery of services, for example reduced air pollution/emissions, reduced car travel, increased physical activity, focus on local food chains, healthier eating, a reduction in rough sleeping and embed them in long term recovery/renewal. We continue to play a significant role in our region, working with other local authorities and partners through the Heart of the South West Joint Committee, with the Local Enterprise Partnership and agencies such as Homes England to improve infrastructure, facilitate economic growth and support the building of affordable housing in our area.

The Council will also focus on re-setting its 2020/21 Budget by September, to take account of the financial impacts of the pandemic and the Government support package recently announced around the loss of key income streams, which we are awaiting the detail on. I am extremely pleased that the benchmarking of our customer experience has shown significant improvements in just the second year. We have undertaken a huge amount of work to refocus our officers on activities that will improve our customer perception. We will continue to make improvements in how we interact with our customers. I would like to take this opportunity to pay tribute to all of the Members and staff whose tireless commitment and dedication to public service has shone through in the Council's response to the pandemic. We look ahead to the future with ambition for our communities.

**Andy Bates, Chief Executive**

## **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 2020 and how the Council has performed against the budget set for 2019/20
- 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. It is very important to us to provide residents and other stakeholders with the confidence that the public money for which we are responsible has been properly accounted for. We have embedded financial management disciplines, processes and procedures.

Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. Since 2010, we have had to redesign our services to balance the books. We have done this by sharing a single workforce with West Devon Borough Council, generating an ongoing annual saving of £3.9 million for South Hams and by reducing our staffing levels by 30% through our Transformation Programme. The decisions that Councillors took in the past are securing benefits to meet the financial challenges of the future.

When Councillors set the Budget for 2020/21 in February 2020, no-one could have foreseen how our future finances and everyday lives were about to be impacted. Significant proportions of the Council's income ceased for a number of months and there was potential for these levels not to return to normal levels for many months to come. The Government has stated that they will stand 'shoulder to shoulder' with local Councils in our Covid19 response. We eagerly await further details of the Government's comprehensive financial package to ensure Councils can focus on their Recovery Plans, with confidence that there will be Government support underpinning their finances. The situation continues to evolve and we are continuing to assess the impacts on our finances and our communities, but we know that this will be a long term recovery. Whilst we are still awaiting clarity over the full package of support, we have commenced our recovery planning and an Amended Budget for 2020/21 will be set by Councillors in September 2020.

The financial standing of the Council is secure in the immediate future, but there is still much work to do to ensure the long term financial sustainability of the Council. The next few years will be challenging as the Council moves into the Recovery phase and the Government's Fair Funding Review and the reset of the Business Rates baseline will be introduced, coupled with receiving no Government Grant and the cessation of the current New Homes Bonus scheme.

**Mrs Lisa Buckle BSc (Hons), ACA**  
**Corporate Director for Strategic Finance (S151 Officer)**

## **NARRATIVE STATEMENT – INTRODUCTION**

- 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**

- The 2019/20 budget for South Hams was £8.83 million. A surplus of £112,000 means that the actual spend was 1.3% less than the budget. This saving will go into the Council's Unearmarked Reserves which now stand at £2 million.* The main components of the General Fund budget for 2019/20 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)	6,552	6,773	221
Parish Precepts	2,464	2,464	-
Interest and Investment income	(183)	(372)	(189)
<b>Amount to be met from Government grants and taxation including parish precepts</b>	<b>8,833</b>	<b>8,865</b>	<b>32</b>
<i>Financed from:</i>			
Business Rates	(1,897)	(1,897)	-
Business Rates Pooling Gain for 2019/20	(100)	(238)	(138)
Council Tax (including parish precepts)	(6,316)	(6,316)	-
Surplus on Collection Fund	(112)	(112)	-
Rural Services Delivery Grant	(408)	(408)	-
Business Rates Levy Surplus Grant	-	(6)	(6)
<b>SURPLUS FOR 2019/20</b>	<b>-</b>	<b>(112)</b>	<b>(112)</b>

## SECTION 1 – NARRATIVE STATEMENT

3. The movement in the General Fund Balance is shown in the Movement In Reserves Statement in Section 2B and can be summarised as follows:

	£000
General Fund Balance (un-earmarked revenue reserve) at 1 April 2019	(1,898)
<b>Surplus for the 2019/20 financial year</b>	<b>(112)</b>
General Fund Balance (un-earmarked revenue reserve) at 31 March 2020	(2,010)

\*On including the earmarked reserves, the General Fund Balance is £16 million.

4. The surplus on the General Fund of £112,000 is essentially a break-even position and represents less than 0.2% of the Council's gross turnover in 2019/20 of £67 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 2019/20 financial year.

	£000
<b>Total Comprehensive Income and Expenditure Statement</b>	<b>1,175</b>
Surplus on the revaluation of Property, Plant and Equipment	5,557
Deficit on the revaluation of Financial Instruments	(338)
Remeasurements of the net defined benefit pension liability	(350)
Transfers to earmarked reserves	705
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	(6,929)
Adjustments primarily involving the Capital Grants Unapplied Account	96
Adjustments primarily involving the Capital Receipts Reserve	432
Adjustments primarily involving the Pensions Reserve	415
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	(78)
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	(789)
Adjustments primarily involving the Accumulated Absences Account	(8)
<b>Surplus for the 2019/20 financial year</b>	<b>(112)</b>

- 6.



## SECTION 1 – NARRATIVE STATEMENT

7. A summary of the main variances to budget in 2019/20 is provided below:

<b>ANALYSIS OF VARIATIONS</b> (% column shows variation against budget)	<b>£000</b>	<b>% variation</b>
<b>Increases in expenditure/reduction in income</b>		
<b>Customer First</b>		
Shortfall in Housing Benefit overpayment recoveries including an increase in the bad debt provision for Covid-19 of £53,000 (budgeted recovery of overpayments of £0.245 million – actual expenditure for Housing Benefit in 2019/20 was £16.9 million).	256	104.5%
Homelessness – mainly due to additional repairs and maintenance on Council owned properties and bad debts written off (budgeted costs £0.406m)	52	12.8%
<b>Commercial Services</b>		
Haulage and processing of waste and recyclable materials – mainly due to contamination of recycling and the suppressed market continuing to affect income for recyclable materials. This also takes into account a reduction in haulage costs combined with an increase in costs for processing recycling (net position, budgeted income £0.520m)	153	29.4%
Dartmouth Ferry additional costs mainly due to the fleet refurbishment and a management recharge from Salcombe Harbour of £18,000 – offset by additional income below (budgeted costs £0.812m)	105	12.9%
Fly tip collections (budgeted costs £20,000)	29	145.0%
Pannier Markets – shortfall in income (budgeted income £0.110m)	29	26.4%
<b>Other Comprehensive Income and Expenditure</b>		
<b>Other small variances</b>	10	-
<b>Reductions in expenditure/additional income</b>		
<b>Customer First</b>		
Extra planning income (budgeted income £0.898m) – including a large application received in Quarter 4 of £0.178m	(263)	29.3%
Additional income from processing Disabled Facilities Grants on behalf of Torridge District Council (budgeted income £20,000)	(10)	50.0%
Net salary savings from vacancies (budgeted salaries of £4.29m)	(15)	0.0%
<b>Commercial Services</b>		
Dartmouth Ferry income (budgeted income £0.807m) – offset by additional costs (see above)	(109)	13.5%
Car Parking net additional income (budgeted income £3.078m)	(52)	1.7%
<b>Financing and Investment income and expenditure</b>		
Additional investment income (budgeted income £0.183m).	(189)	103.3%
<b>Taxation and non-specific grant income</b>		
Business Rates Pooling Gain (budgeted income £0.100m)	(138)	138.0%
<b>Sub Total:</b>	<b>(142)</b>	
Less: Transfer of extra planning income to the Planning Earmarked Reserve	30	-
<b>TOTAL SURPLUS FOR 2019/20</b>	<b>(112)</b>	<b>1.3%</b>

The 2019/20 budget for South Hams was £8.83 million but the actual spend was 1.3% lower, providing a surplus of £112,000 as shown above.

## **KEY AREAS TO NOTE FROM THE 2019/20 STATEMENT OF ACCOUNTS**

### **Pension Liability**

8. 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.
9. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2020 of £48.5 million. This compares to £48.6 million as at 31 March 2019. The deficit is derived by calculating the pension assets and liabilities at 31 March 2019. See Note 35 for further information.

### **Business Rates**

10. 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, with effect 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 a Council's income from business rates falls due to successful business rates appeals.
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 2019/20 there has been a £436,000 increase in the provision for appeals within the Collection Fund. The balance on the Business Rates Collection Fund at 31 March 2020 is a small surplus of £63,000 (£2.035m surplus in 2018/19). South Hams District Council's share of the surplus is 40% (£25,000).
13. The significant reduction in the surplus on the Business Rates Collection Fund relates to the unwinding of the business rates appeals provision made in previous years. This income was released to the Council's General Fund in 2018/19. Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income. The balance on this reserve is £6.19m at 31 March 2020 (£5.11m as at 31 March 2019).
14. Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income. In 2019/20 the balance of the Business Rates Retention Scheme (BRRS) earmarked reserve increased by £1.08m to £6.19m as at 31 March 2020 (£5.11m at 31 March 2019). This reflects the additional Business Rates income generated for the District in 2019/20 following the closure of the Business Rates Collection Fund at the year end.
15. In 2019/20 budgeted income for Business Rates was £1.9m, however income generated amounted to £2.98m. This additional income was transferred to the BRRS earmarked reserve, which is held to address any future volatility in funding from the complex accounting arrangements for Business Rates. Some of this additional business rates income is due to

## **SECTION 1 – NARRATIVE STATEMENT**

timing differences in the way the Collection Fund operates and part of the funding will be needed to meet future years' budgets for business rates, in particular when business rates baselines are due to be re-set in the future.

### **Trading Company**

16. 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 2019/20 and a set of statutory dormant Accounts will be filed with Companies House for the period 1 April 2019 to 31 March 2020. The future of Servaco Limited will be reviewed during 2020/21.

### **Sherford Community Land Trust**

17. As part of the conditions of the S106 agreement for the new town of Sherford a limited company was created on 13<sup>th</sup> July 2018 to handle the various requirements of the S106 agreement. The company is limited by guarantee without share capital and has seven directors, made up of one representative from each of the Local Authorities (South Hams District Council, Plymouth City Council and Devon County Council) and one representative from each of the developers. Group accounts are not required to be prepared as the Council's interest is below 20% and therefore does not have enough influence to be an associate.

### **Housing Company**

18. In February 2020, the Council agreed to set up a Housing Company in the form of a Community Benefit Society (CBS), to support the Council own and manage rented housing stock. The CBS would be capable of holding the affordable housing developed by the community housing programme and also that purchased from developers. On 21 March 2019, Council approved (Minute CM 74/18) community housing development expenditure of up to £8.5million, to build out four community housing schemes, delivering 55 residential units.

### **Borrowing**

19. In 2019/20 the long term borrowing of the Council increased from £5,490,000 (18/19) to £14,475,000. Short term borrowing increased from nil to £92,000. Borrowing increased to fund the capital programme over the next two years.

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### **Capital spending**

20. The Council spent £9.7m on capital projects in 2019/20. The main areas of expenditure were as follows:
- Purchase of investment property (£5.0m)
  - residential renovation grants including disabled facilities grants (£1.8m)
  - new industrial units (£0.8m)
  - scheduled replacement of plant, vehicles and marine infrastructure (£0.6m)
  - new play areas (£0.4m)
  - affordable housing and investments in the community (£0.3m)
  - coastal defence schemes (£0.2m)
  - land purchase (£0.2m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 32).

### **Financial Instruments – IFRS9 Election to treat Equity Instruments as Fair Value through Other Comprehensive Income**

21. At 31 March 2020 the Council had investments of £1.5 million with the CCLA Property Fund and £2 million with the CCLA Diversified Income Fund.
22. Upon transition to IFRS 9 – Financial Instruments on 1 April 2018, and in accordance with paragraphs 5.7.5 and 7.2.8 (b) of IFRS9, South Hams District Council makes an irrevocable election to present in other comprehensive income, changes in the fair values of its equity instruments. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds these investments as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

## SECTION 1 – NARRATIVE STATEMENT

23. A summary of the position of these equity instruments as at 31 March 2020 is shown below:

	Purchase cost	Fair Value at 31 March 2020	Movement in Financial Instruments Revaluation Reserve 2019/20
	£000	£000	£000
<b>Equity Instrument</b>			
CCLA Local Authorities Property	1,500	1,347	(153)
CCLA Diversified Income Fund	2,000	1,792	(208)
<b>TOTAL</b>	<b>3,500</b>	<b>3,139</b>	<b>(338)</b>

## FINANCIAL NEEDS AND RESOURCES

24. 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.
25. General Fund reserves (which include earmarked reserves) have increased by £817,000 from the preceding year and stand at £16.0 million at 31 March 2020.
26. The General Fund Balance (un-earmarked reserve) has increased by £112,000 in 2019/20 and totals £2.010 million. 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 2020 amounts to £3.4 million compared to £4.4 million 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. In addition the Financial Instruments Revaluation Unusable Reserve has been created in 2018/19 following the implementation of IFRS9 Financial Instruments on 1 April 2018.
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 £48.5 million at 31 March 2020. 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.

## **SECTION 1 – NARRATIVE STATEMENT**

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.

### **Newly Elected Council**

31. Following the Elections in May 2019, the Council welcomed 15 new Members and 16 returning Members. An intensive 4 week induction programme was held with a key focus on ensuring that all Members were provided with an in-depth understanding of the Councils financial position and corporate priorities.

### **Senior & Extended Leadership Team Restructure**

32. Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements. A report was presented to Council on 21 February 2019 (Council Minute 55/18) that outlined a review of the Staffing Establishment.

33. Following a restructure and recruitment process, the Senior Leadership Team was finalised in September 2019 to include the following posts:

- Chief Executive & Head of Paid Service
- Director of Customer Service and Delivery
- Director of Place and Enterprise
- Director of Governance & Assurance
- Director of Strategic Finance

34. This year South Hams and West Devon Councils have concluded a restructure of their Senior Leadership Team and Extended Leadership Team, to ensure that we are aligned to best deliver our corporate priorities.

35. This resulted in the following changes to the establishment:-

#### Deletion of the following posts

- Specialist Manager: Customer First
- Specialist Manager: Support Services
- Case Management Manager: Customer First
- Case management Manager: Support Services
- Commissioning Manager

#### Creation of the following posts

- Head of Strategy & Projects
- Business Manager: Specialists
- Business manager: Case Management
- Customer Improvement Manager

36. This restructure concluded in December 2019 resulting in a saving of £60,000 a year for South Hams District Council.

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### **Annual Governance Statement (AGS)**

37. 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 2019/20.

### **Peer Challenge**

38. In 2018, the Council requested that the Local Government Association ("LGA") undertake a Peer Challenge of South Hams District Council, jointly with West Devon Borough Council in order to identify their strengths and any areas for improvement.
39. Significant progress has been made in progressing the action plan and a follow-up progress review will be made by the LGA in 2020.

## **LOOKING FORWARD TO THE FUTURE AND NEXT STEPS**

40. The Council has a proud tradition of innovation. We will continue to strive to achieve this whilst implementing the Peer Review recommendations, the customer satisfaction improvement plan and of course working with local communities to deliver against the Council's key corporate themes.

### **New Chief Executive**

41. Following the departure of Sophie Hosking as our Chief Executive in March 2020, the Council, jointly with West Devon Borough Council, has undertaken a national recruitment to appoint a replacement.
42. Andy Bates, currently South West Principal Adviser for the Local Government Association, has taken up the Chief Executive post from June 2020.

### **Climate Emergency Response**

43. In May, the Council declared a climate change and biodiversity emergency. The Council has agreed an ambitious plan to support its aim to be a carbon neutral organisation by 2030 and to help the whole District reach net-zero carbon by 2050 by joining forces with the Devon Climate Emergency Response Group to support the creation of a Devon-wide plan.
44. In addition, the Council has set aside £400,000 of funding to implement projects to help achieve its aim.
45. The Council has approved a temporary 12 month Climate Change Officer post to take forward the development of our Climate Strategy and action plan.
46. We will be working closely with our communities and partner agencies to ensure that this funding is used for maximum impact

## **SECTION 1 – NARRATIVE STATEMENT**

### **Covid-19 Community Leadership**

47. A key focus for the Council in 2020/21 will be ensuring we continue to support our communities in responding to the Covid-19 pandemic.
48. The Council has handed out essential Government funding of £42 million of business grants to 3,764 businesses within the matter of a few weeks, as we recognised this money was providing a crucial lifeline to our businesses.
49. We have already restructured large parts of the Council to focus on our community response which will have an impact on service performance over the coming months.
50. We know that the broader impacts of this pandemic will be felt for many years both locally and nationally and we continue to assess the impact of the Councils finances and our communities.

### **Customer Satisfaction**

51. In 2019 we undertook a Customer Satisfaction Survey for the second year. This demonstrated a significant improvement of satisfaction with an 11.8% increase in our 'Getting it right first time' score which is encouraging during a year where across all industries, average satisfaction scores have decreased.
52. While we are extremely pleased with the improvements demonstrated in our Customer Satisfaction rating in 2019/20, we will continue to focus on making improvements to our customer experience. In November we held all staff away days which focused on further improving the customer experience and identifying steps we can take to make our customers interaction with us easier.
53. During 2020/21 we will be implementing new technology platforms for the majority of our customer online and back-office functions. Based on Low-Code technology, we will aim to review every online process to ensure a seamless customer interaction.

### **Working with communities**

54. We will continue our work with Town and Parish Councils and Neighbourhood Planning Groups to prepare Town Centre Strategies. These will identify priorities and provide the basis for coordinated action to ensure the role town centres play in meeting the needs of communities and their hinterland are maintained and enhanced.
55. Covid-19 has enhanced our relationship with Town and Parish Council as well as wider community groups, some of which have formed specifically to help the most vulnerable through the pandemic.
56. Through our recovery planning we will look to further develop on these relationships and identify opportunities to support our communities.



## **SECTION 1 – NARRATIVE STATEMENT**

### **Our financial future**

57. The situation continues to evolve and we are continuing to assess the impacts on our finances and our communities of the pandemic, but we know that this will be a **long term recovery** and we have commenced our recovery planning.
58. The financial standing of the Council is secure in the immediate future, but there is still much work to do to ensure the long term financial sustainability of the Council. The next few years will be challenging as the Council moves into the Recovery phase and the Government's Fair Funding Review and the reset of the Business Rates baseline will be introduced, coupled with receiving no Government Grant and the cessation of the current New Homes Bonus scheme.

### **Going Concern**

59. There is a high degree of uncertainty about future levels of funding for local government. The Council is awaiting the announcement from the Government on the Comprehensive Spending Review for 2021-22 to 2023-24. The other areas adding to the uncertainty are the postponement of the implementation of the Fair Funding Review, the future resetting of business rates baselines, the impact of the COVID19 pandemic on major income streams and the future of the New Homes Bonus scheme. South West Councils are lobbying Government for an extension into 2021-22, to the current 'income backed guarantee scheme' announced by the Government for losses on major income streams due to COVID.
60. In 2020-21 a shortfall of £1.3million has been projected due to the impact of the COVID pandemic on the Council's financial position. At Council on 24th September 2020, Members approved an Amended Budget for 2020-21 which addressed this shortfall. In October 2020, the Executive will consider the Medium Term Financial Strategy and draft Budget Proposals for 2021-22 will be considered by the Executive on 3rd December 2020.
61. Based on the S151 Officer's management assessment (which has included consideration of the Government support available, the Council's current level of reserves, the level of working capital including cash and investments, a sensitivity analysis on forecast cashflows, income from local taxation and borrowing headroom etc.), there is no material uncertainty and as a result the Accounts for 2019-20 are prepared on a going concern basis.

### **Issue of the Accounts**

62. The Corporate Director for Strategic Finance authorised the Statement of Accounts 2019/20 for issue on 15 October 2020. Events taking place after this date are not reflected in the financial statements or notes.

## ACHIEVEMENTS FOR 2019/20

The following pages set out the achievements of the Council for 2019/20 by each of the Themes within its Corporate Strategy:

### COUNCIL - Delivering efficient and effective services

Action	Progress 2019/20
<b>Improved the efficiency of our IT systems</b>	<p>This year we have made investments in our IT system, firstly by implementing a new Benefits platform that enables users to sign in to an account to see the progress of their benefits claims.</p> <p>We have also committed to investing £1.5m in improving our other customer facing IT systems by replacing our current technology with new state of the art platforms. The new system will enable us to be much more responsive to customer needs and ensure a better overall customer experience. This will be a significant project to be delivered in 2020/21</p>
<b>Positive progress on our Customer Improvement programme</b>	<p>In 2018 we joined the Institute of Customer Service and undertook our first Customer Satisfaction benchmarking. Following the results, we started a programme of improvements to improve our customer experience. This year we undertook a follow up survey which showed a real improvement including an 11.8% improvement in our 'Getting it right first time' score. This is a real achievement at a time when across all sectors, the average customer satisfaction levels are decreasing. Our benchmarking score is now 4.1 times higher than the national local council average.</p> <p>Calls to our call centre reduced by 14,110 on last year, along with a reduction in our online contact. We see this as a positive indication that we're getting more right first time.</p>
<b>Elections &amp; Member Induction</b>	<p>In May 2019 we held District Council as well as Town and Parish Council elections followed by the General Election in December. An incredibly busy year for the elections team.</p> <p>District Councillors undertook a comprehensive Induction programme with over 40 hours of induction and training offered to each Councillor.</p>
<b>New Waste and Recycling Contract</b>	<p>The new Waste and Recycling contract went live in April 2019 which has already seen an improvement in the number of missed collections.</p>
<b>Restructure of Management team</b>	<p>It important that the Council remains efficient in deployment of its staff. A recommendation of the Peer Challenge in 2018 was that we should look to realign our management team to better support our future priorities. As a result, the Senior and Extended Leadership Teams and Management functions of the Council were restructured with the new team in place for January 2020. This not only enables us to focus on our priorities, but has also reduced our management costs by £120,000 across the two Councils (£60,000 for South Hams).</p>

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

Action	Progress 2019/20
<b>Agreed 3 year funding to partner agencies</b>	A three year funding arrangement with partner organisations was agreed, rather than agreeing it annually. This will provide those organisation providing vital frontline support to our communities with medium term certainty over their finances
<b>Support to community schemes</b>	Our Members each have a locality fund which support local community initiatives. During 2019/20, grant payments of £40,000 were made supporting 107 community activities including planting trees, social hubs, sustainable transport plans and many more
<b>Community Lottery</b>	Enabled community groups to raise £25,000 for specific causes through the Seamoor Lotto <a href="http://www.seamoorlotto.co.uk">www.seamoorlotto.co.uk</a>
<b>Covid-19 Community Response</b>	<p>In March, the Council acted quickly to establish a Community Response Team to assist community groups and residents with responding to the Covid-19 pandemic. 35 employees we quickly re-tasked to providing frontline support, working closely to support the work of our Members.</p> <p>The Council has worked closely with voluntary sector and partner organisations, developing a support website and dedicated telephone support line offering emergency food and welfare grants, signposting to mental health support amongst many other support functions.</p>
<b>Neighbourhood Plans</b>	During the year we supported four neighbourhood plan referendums for Brixton, South Milton, Salcombe and Stoke Fleming

## HOMES - Enabling homes that meet the needs of all

Action	Progress 2019/20
<b>Homelessness prevention</b>	During 19/20, we supported 348 households, preventing them from becoming homeless
<b>Disabled Facilities Grants</b>	In the last 12 months we have completed 104 Disabled Facilities Grants which enable people to continue to live more independently in their own homes
<b>Rough Sleeper support</b>	<p>In 2019 the Council adopted a Rough Sleeper Strategy as part of its overall Homelessness Strategy with the aim to reduce the number of people sleeping rough by 50% by the end of 2022.</p> <p>Working with West Devon Borough Council and Teignbridge District Council, we have secured £150,000 to work in partnership to continue the work of three outreach workers to help rough sleepers. This work has developed accommodation strategies and support plans for vulnerable residents as well as sharing best practice.</p>
<b>Affordable Housing</b>	<p>This year South Hams District Council began working in close partnership with a number of local community housing schemes around the District to deliver a mix of affordable, rented and discounted purchase, sustainable homes.</p> <p>£1.88 million of funding is being used by the Council to bring forward, through the planning process, high quality affordable homes for local people. The homes are in South Brent, St Anne's Chapel, Brixton, Dartmouth and Kingsbridge, with other projects in the pipeline.</p> <p>All of the homes will be built using innovative energy saving techniques which will be kind to the environment and to the pocket. All of the housing schemes will also include electric car charging points as standard.</p>

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

Action	Progress 2019/20
<b>New Waste and Recycling Contract</b>	In April 2019, our new partnership with FCC for recycling, waste and street cleansing services went live. Over the lifetime of the contract, we will save around £3m compared with the previous in-house service. The contract includes key objectives such as increasing the amount of waste we recycle and minimising carbon emissions, as well as improving customer satisfaction.
<b>Fusion Leisure reduced CO2 output</b>	Our Leisure partners, Fusion Leisure, have implemented a range of energy saving measures which has reduced the CO2 emissions from the centres by 58 tonnes compared to 2018
<b>Net-zero Carbon emissions by 2030</b>	The Council have agreed an ambitious plan to support its aim to be a carbon neutral organisation by 2030 and to help the whole District reach net-zero carbon by 2050. In addition, the Council has set aside £400,000 of funding to implement projects to help achieve its aim.
<b>Excellent Water Quality</b>	16 of South Hams 17 beaches were rated as having 'Excellent' water quality by DEFRA
<b>Electric charging points for car parks</b>	Working with other Devon Councils (who have collectively secured a £817,712 grant) we have commenced a project to install electric charging points in key car parks in Totnes, Ivybridge, Kingsbridge, Dartmouth and Salcombe
<b>Launched an Electric Car Scheme for our staff</b>	We have already taken massive steps in reducing the Councils carbon footprint by enabling our staff to work from home (which saves approximately 1million miles a year) but during 2019 we've gone further and launched a scheme which enables our staff to lease electric vehicles through salary sacrifice – 6 staff have already signed up to the scheme.

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

Action	Progress 2019/20
<b>Investing in the South Hams</b>	To support regeneration and the economic activity of the District, this year the council invested in 12,575 square foot of retail space in Dartmouth. The primary driver is to support the economy by ensuring that valuable assets remain in use. As an ancillary benefit, this scheme will also generate an annual income of around £60,000 which will contribute to the cost of running Council services.
<b>Supporting our businesses</b>	Through our partnership with Business Information Point, we have provided 60.5 hours 1-to-1 support to 20 businesses (4 of which were looking to set up new businesses in South Hams)  Workshops and a Small Business Day were also delivered during the year and attended by 11 small businesses.
<b>Supporting our town centres</b>	In January we commenced a public consultation to understand public opinion on a development to support Ivybridge Town Centre. Around 2,000 responses were received through post and online, with 69% of respondents in support of developing a supermarket on Council land in order to encourage people in to the town centre.  We have also commenced work on developing a proposal to develop Council land within Kingsbridge. Public consultation of this will be undertaken in 2020.
<b>South Devon Coastal LAG</b>	£109,600 awarded in the last 12 months to 12 projects which are expecting to create 12.0 FTE jobs.  Projects include introducing cutting edge new technology, helping farmers get new equipment, building new workspace and community facilities and expanding food and drink businesses.  To date, 28 FTE jobs have been created in the South Hams through this fund.  As a positive endorsement of the schemes success so far, additional funding of £72k has been awarded by Defra to extend the programme during 2019-2020
<b>Greater Dartmoor LEAF</b>	£48,500 has been awarded in last 12 months to a project that will the development and modernisation of a farm.  Since the commencement of the LEAF scheme, 16 new FTE jobs have been created in the South Hams through this fund.  Additional funding of £153k has been awarded by Defra to extend the programme during 2019-2020




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

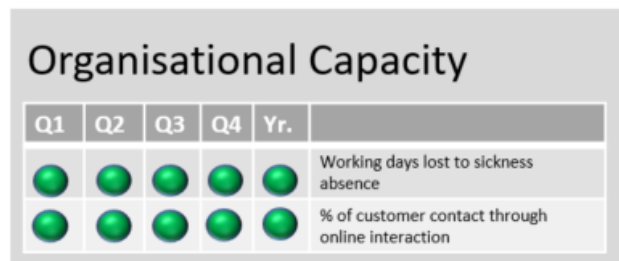
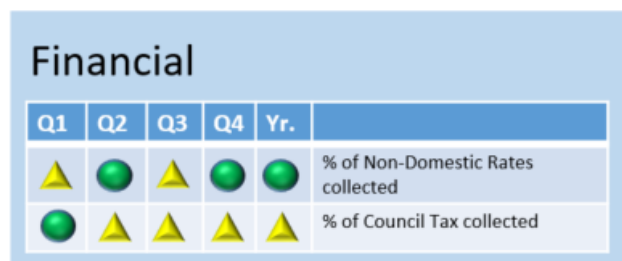
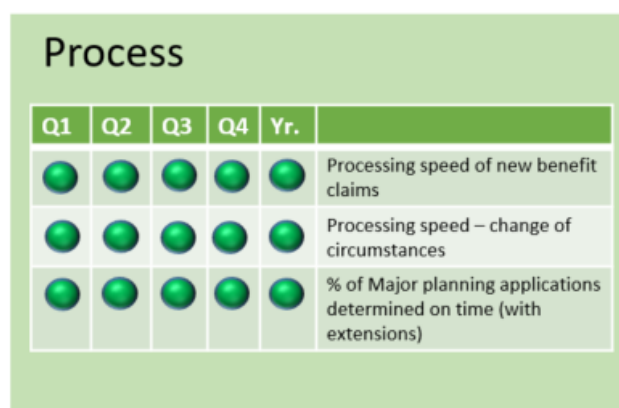
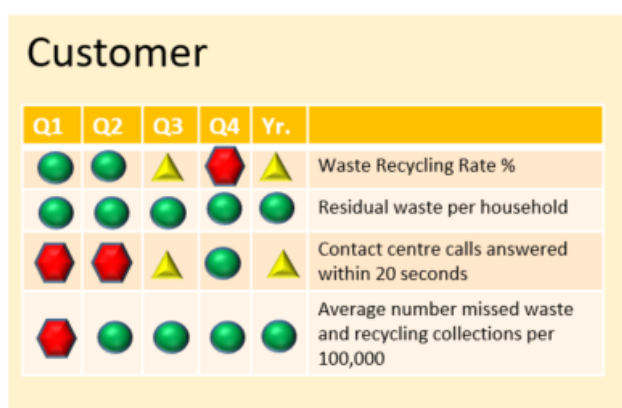
Action	Progress 2019/20
<b>Dementia Friendly Council</b>	The Council this year agreed that it will work towards being a Dementia Friendly Council, recognising that around 25% of the South Hams community are aged 65+ and dementia risk increases with age
<b>Investing in Leisure</b>	<p>In partnership with our leisure contractor, Fusion, a £5.9million investment in Ivybridge Leisure Centre was completed which includes a new six lane swimming pool with retractable roof and sun deck, new changing facilities and steam room and sauna along with a number of upgrades to the other facilities.</p> <p>They have also undertaking improvement works at all other Leisure centres in the District.</p> <p>During 19/20 we saw a 22% increase in Leisure Centre Membership which is really encouraging sign that the investment is paying off.</p>
<b>Community Safety Partnership Schemes</b>	<p>Through our partnership with the Community Safety Partnership we have delivered a number of community safety activities including:-</p> <ul style="list-style-type: none"> <li>• Outreach and diversionary activities in Totnes and Dartmouth</li> <li>• Worked with Ivybridge Street pastors and the Town Council to solve local issues</li> <li>• Provided parent support through the Turning Corners programme – identifying and diverting vulnerable young people away from youth gang culture</li> </ul>
<b>Play Park upgrades</b>	In 2019/20 we agreed to set aside £140,000 for upgrading play areas across the South Hams, designing and delivering attractive, imaginative and low maintenance new play spaces at eight sites. This will commence in 2020/21.
<b>Employee wellbeing</b>	This year we have reviewed our management structures to ensure we continue to improve the support provided to employees. Regular team meetings and all staff briefings have been held throughout the year and we're pleased to have launched schemes to enable employees to purchase additional annual leave and take career breaks.

## PERFORMANCE INDICATORS FOR 2019/20

Performance has continued the multi-year trend and been maintained at a high, and generally improving, level. It is encouraging to see a continuing decline in the volumes of calls to the contact centre and a continued trend in a move to online interaction. Work is planned to review performance measures in line with the Councils Corporate Strategy with a new approach to reporting performance through Overview and Scrutiny so that performance is reported by each theme rather than all performance measures being included in a single report.

### Balanced Scorecard

	Below target performance
	Narrowly off target, be aware
	On or above target



**New Housing Benefit claims processed 9.8 days faster than national target**



**Non-Major Planning Applications determined on time – 91.47%**



**Call volumes reduced by 14,110 in last 12 months**



**Missed waste collections equate to 75 in every 100,000**



A FEW THINGS WE SPENT YOUR MONEY ON IN 2019/20



**£666,271**  
Disabled facility grants



**1878** Play Park Inspections  
undertaken



**3.5m**

individual  
household  
waste  
collections  
per annum



**£40,000**

Community  
Grant Funding



**104,386**  
calls handled

**348**

households  
where  
homelessness  
was prevented



**109**

abandoned vehicles  
investigated



**17,560**  
TONNES

household  
recycling  
collected

## **PRINCIPAL RISKS AND UNCERTAINTIES**

A risk and opportunity 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. Due to the impact of Covid-19 on our ability to hold committee meetings, this was delayed by three months from March 2020. Below is an extract from the Risk report to the Audit Committee in June 2020.

<b>Risk Title</b>	<b>What is (or are the) Uncertainties</b>	<b>Latest Note (as at June 2020)</b>
<b>Adherence to Medium Term Financial Strategy</b>	<p>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.</p> <p>The latest forecast for the Devon Business Rates Pooling gain is over £7 million for 2019/20, with the SHDC share of the pooling gain being around £300,000.</p>	<p>The Budget for 2020-21 was approved by Council in February 2020. Waste contract procurement has delivered significant financial savings. Grounds maintenance business review and ICT review to be carried out to deliver either growth opportunity or efficiencies in working methods.</p> <p>Since the budget was set in February, the impact of Covid-19 has begun impacting on the Council's finances. The gross service expenditure budget for 2020/21 was set at £40 million (£9.411 million net). There is forecast to be a budget shortfall of £2.588 million (May 2020 position) when compared against the total budget set for 2020/21, due mainly to the impact of the Covid 19 pandemic.</p> <p>The significant extent of these predicted losses present imminent funding challenges for the Council. With income falling, unemployment expected to rise and a lack of certainty around funding, there are going to be difficult decisions to be made. A Members’ Budget Workshop will be arranged for August 2020.</p> <p><b>Council will be asked to consider a revised budget for 2020-21 at the September 2020 cycle of meetings.</b></p>

**SECTION 1 – NARRATIVE STATEMENT**

Risk Title	What is (or are the) Uncertainties	Latest Note (as at June 2020)
<p><b>Covid-19 (Coronavirus) impact on services</b></p>	<p>The situation evolves on a daily basis and there are many uncertainties at this stage</p>	<p>The Councils Management Team undertook planning of a 'Pandemic Flu' scenario in February 2020 to prepare for the Covid-19 pandemic.</p> <p>We have also made many changes to the services that are being delivered, stopping some and changing others to align to our response.</p> <p>As a result of Covid-19, the Council will need to reconsider its budget for this current year and make plans for future years to address the financial impacts.</p> <p>There are likely to be direct impacts on:-</p> <ul style="list-style-type: none"> <li>- Housing and Benefits - Increased service demand as the economic impact is realised</li> <li>- Environmental Health - support to businesses as well as enforcement of government policy around reopenings</li> <li>- our Corporate Strategy which may no longer reflect our priorities</li> <li>- Delivery of current projects such as the Future IT Project and Waste Service Changes</li> </ul>
<p><b>Service Performance</b></p>	<p>Process implementation is now complete. Uncertainties could be due to a lack of appropriate resources. In the past, a lack of appropriate resource and the T18 transformation and change in processes combined to affect our ability to deliver appropriately on occasion. This pressure was increased due to county and general elections in 2017.</p>	<p>The Customer Satisfaction survey undertaken in 2019 shows an encouraging improvement in overall customer satisfaction levels. We will continue to ensure that progress is made to further improve satisfaction. In December 2019, as part of the Extended Leadership restructure, we created a Customer Improvement Manager post to lead these improvements.</p> <p>Covid-19 has impacted service performance, with some services having to stop delivering services to ensure that we comply with Government guidance to ensure our employees were kept safe. That said, it must be noted that the vast majority of office based employees have been able to continue undertaking their work from home from day 1 of the lockdown.</p> <p><b>Business Managers have been asked to undertake a review of service performance across the Council during the past 3 months to inform future planning.</b></p>

**SECTION 1 – NARRATIVE STATEMENT**

Risk Title	What is (or are the) Uncertainties	Latest Note (as at June 2020)
<p><b>Inadequate Staffing Resource</b></p>	<p>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</p>	<p>The Council quickly moved to a 'Working at Home' scheme for all employees that could work from home in order to ensure that we minimised any risks to staff, and in turn, ensure that we did not experience any significant reductions in staff numbers.</p> <p>So far, we have not experienced levels of unplanned absences above what we would normally see at this time of year. A staff survey was undertaken to 'check-in' on staff which on the whole saw positive responses. Managers are regularly catching up with staff over skype and SLT are holding frequent staff briefings to keep them updated.</p>
<p><b>Political Commitment for Change</b></p>	<p>Considerable external change with devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.</p>	<p>We continue to keep Members informed on policy changes which has become even more crucial during the Covid-19 pandemic. SLT continue to attend Member briefings. Despite Covid-19, the Council has continued to hold key meetings via Skype and has so far held two Full Council meetings and an Overview &amp; Scrutiny Meeting.</p> <p><b>All-Member workshops will be held during the summer to develop the Councils Covid-19 recovery plan which will be considered by Full Council in September 2020.</b></p>
<p><b>Health and Wellbeing Service Provision</b></p>	<p>There are many uncertainties:-</p> <ul style="list-style-type: none"> <li>- When leisure centres may reopen</li> <li>- When they do open, what will the customer appetite be</li> <li>- How long any measures that reduce capacity will have to remain in place</li> </ul>	<p>Discussions continue with our Leisure Services provider who will continue to develop plans for the safe reopening following the latest Government announcement. Measures will include signage, pre-booking to limit numbers etc</p> <p>The Council has been successful in securing a Sport England grant (Lottery Funding of £4,560 across both Councils) for external support to ensure that the impact on the contract is minimised and the Centres are in the best position to adapt and react to the future environment, delivering services for customers which enhance key outcomes (such as increased health and wellbeing). The work will result in a remobilisation action plan and a check and challenge of the current arrangements.</p>

**SECTION 1 – NARRATIVE STATEMENT**

Risk Title	What is (or are the) Uncertainties	Latest Note (as at June 2020)
<b>Business Continuity</b>	Following the event, how quickly will certain systems and processes be able to be back on-line	<p>The last few months have been the most significant test of the Councils Business Continuity plans in many years. We continue to keep Members informed on policy changes which has become even more crucial during the Covid-19 pandemic.</p> <p>Officers have implemented weekly Business Continuity Management meetings to continually monitor the impact on the Council and rapidly respond to issues. This has been effective in ensuring an effective response.</p> <p><b>Weekly BCP meetings will continue to be held (although reducing to once a week) with recovery meetings now also being scheduled weekly</b></p>
<b>Delivery of waste &amp; recycling service changes</b>	<p>Date of introduction has been put back due to various C-19 effects on suppliers. Earliest date of new service introduction is now likely to be March 2021. Additional costs are not clear at this point. Increased reputational damage risk due to timing of public communications.</p> <p>Ivybridge Build timescales are also uncertain given the C19 impacts</p>	<p>Date of introduction has been put back due to various C-19 effects on suppliers. Earliest date of new service introduction is now likely to be March 2021. Officers continue to work with contractor to assess additional costs as a result of the delay although they are not clear at this point.</p> <p>We continue to work to minimise reputational damage due to the delay and are reviewing timing of public communications about changes</p>
<b>Emergency Response</b>	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	<p>The Council has demonstrated, along with partners and community groups, that it can quickly adapt to support our local communities during an emergency.</p> <p>The concern is that the Covid-19 pandemic will continue for some time which may impact on the Councils ability to respond to other emergencies such as floods.</p> <p><b>The Council continues to be an active member of the Local Resilience Forum and will continue to keep its Emergency Response plans updated as the current pandemic progresses.</b></p>

## **Section 2**

# **Core Financial Statements**

## SECTION 1 – NARRATIVE 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 (Note 4) and the Movement in Reserves Statement (Section 2B).

Gross Expenditure 2018/19 £000	Gross Income 2018/19 £000	Net Expenditure 2018/19 £000	Segment	Gross Expenditure 2019/20 £000	Gross Income 2019/20 £000	Net Expenditure 2019/20 £000
32,292	(26,568)	5,724	Customer First*	28,840	(23,448)	5,392
11,715	(7,132)	4,583	Commercial Services**	9,953	(7,173)	2,780
1,382	(248)	1,134	Strategy and Commissioning	1,437	(565)	872
3,762	(1,304)	2,458	Support Services	3,679	(1,349)	2,330
907	(32)	875	Centrally Held Costs	1,316	(83)	1,233
336	-	336	Material Items (Note 2)	45	-	45
<b>50,394</b>	<b>(35,284)</b>	<b>15,110</b>	<b>Cost of Services</b>	<b>45,270</b>	<b>(32,618)</b>	<b>12,652</b>
		3,301	Other operating expenditure (Note 9)			2,599
		(1,257)	Financing and investment income and expenditure (Note 10)			130
		(14,803)	Taxation and non-specific grant income (Note 11)			(14,608)
		<b>2,351</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>773</b>
		(10,885)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(137)
		(5,848)	Remeasurements of the net defined benefit liability			350
		23	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income			338
		<b>(16,710)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>551</b>
		<b>(14,359)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>1,324</b>

\*Gross income and gross expenditure in Customer First have both decreased by approximately £3m due to a reduction in Housing Benefit payments and subsidy following the transition to Universal Credit.

\*\* The reduction in the gross expenditure for Commercial Services of £1.8 million is mainly due to a decrease in the accounting adjustment for pensions (IAS 19), following the implementation of the Waste Collection Contract on 1 April 2019.

**SECTION 2B MOVEMENT IN RESERVES STATEMENT**

## 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.

<b>2019/20</b>	General Fund Balance £000	Earmarked General Fund Reserves £000	<b>Total General Fund Reserves £000</b>	Capital Receipts Reserve £000	Capital Grants Unapplied £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Authority Reserves 2019/20 £000</b>
<b>Balance at 31 March 2019 carried forward</b>	<b>1,898</b>	<b>13,293</b>	<b>15,191</b>	<b>3,537</b>	<b>828</b>	<b>19,556</b>	<b>37,165</b>	<b>56,721</b>
<b>Movement in Reserves during 2019/20</b>								
Total Comprehensive Income and Expenditure	(773)	-	<b>(773)</b>	-	-	<b>(773)</b>	(551)	<b>(1,324)</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	1,590	-	<b>1,590</b>	(478)	(487)	<b>625</b>	(625)	-
Transfers to/from Earmarked Reserves (Note 8)	(705)	705	-	-	-	-	-	-
<b>Increase/ (Decrease) in Year</b>	<b>112</b>	<b>705</b>	<b>817</b>	<b>(478)</b>	<b>(487)</b>	<b>(148)</b>	<b>(1,176)</b>	<b>(1,324)</b>
<b>Balance at 31 March 2020 carried forward</b>	<b>2,010</b>	<b>13,998</b>	<b>16,008</b>	<b>3,059</b>	<b>341</b>	<b>19,408</b>	<b>35,989</b>	<b>55,397</b>



**SECTION 2B MOVEMENT IN RESERVES STATEMENT**

<b>2018/19 Comparatives</b>	General Fund Balance £000	Earmarked General Fund Reserves £000	<b>Total General Fund Reserves £000</b>	Capital Receipts Reserve £000	Capital Grants Unapplied £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Authority Reserves 2018/19 £00</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>1,849</b>	<b>(320)</b>	<b>1,529</b>	<b>2,967</b>	<b>413</b>	<b>4,909</b>	<b>37,453</b>	<b>42,362</b>
<b>Movement in Reserves during 2018/19</b>								
Total Comprehensive Income and Expenditure	(2,351)	-	<b>(2,351)</b>	-	-	<b>(2,351)</b>	16,710	<b>14,359</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	16,013	-	<b>16,013</b>	570	415	<b>16,998</b>	(16,998)	-
Transfers to/from Earmarked Reserves (Note 8)	(13,613)	13,613	-	-	-	-	-	-
<b><i>Increase/ (Decrease) in Year</i></b>	<b>49</b>	<b>13,613</b>	<b>13,662</b>	<b>570</b>	<b>415</b>	<b>14,647</b>	<b>(288)</b>	<b>14,359</b>
<b>Balance at 31 March 2019 carried forward</b>	<b>1,898</b>	<b>13,293</b>	<b>15,191</b>	<b>3,537</b>	<b>828</b>	<b>19,556</b>	<b>37,165</b>	<b>56,721</b>

## SECTION 2C 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'.

<b>31 March 2019 £000</b>		<b>Notes</b>	<b>31 March 2020 £000</b>
76,968	Property, Plant and Equipment	12	76,768
14,150	Investment Properties	13	19,156
134	Intangible Assets		52
1,477	Long Term Investments	14	3,139
1	Long Term Debtors	15	-
<b>92,730</b>	<b>Long Term Assets</b>		<b>99,115</b>
14,500	Short Term Investments	14	15,500
-	Assets Held for Sale		452
75	Inventories		69
6,454	Short Term Debtors	15	6,135
11,929	Cash and Cash Equivalents	17	16,819
<b>32,958</b>	<b>Current Assets</b>		<b>38,975</b>
(8,222)	Short Term Creditors	18	(9,193)
-	Short Term Borrowing	14	(92)
-	Revenue Grants in Advance	30	(2,950)
(1,436)	Provisions	19	(1,611)
<b>(9,658)</b>	<b>Current Liabilities</b>		<b>(13,846)</b>
(51)	Long Term Creditors	18	(61)
(5,099)	Long Term Revenue Grants in Advance - Section 106 Deposits	30	(5,707)
(5,490)	Long Term Borrowing	14	(14,475)
(48,569)	Pensions Liability	35	(48,504)
(100)	Capital Grants - Receipts in Advance	30	(100)
<b>(59,309)</b>	<b>Long Term Liabilities</b>		<b>(68,847)</b>
<b>56,721</b>	<b>Net Assets</b>		<b>55,397</b>
19,556	Usable Reserves	20	19,408
37,165	Unusable Reserves	21	35,989
<b>56,721</b>	<b>Total Reserves</b>		<b>55,397</b>

***SECTION 2C BALANCE SHEET***

The notes on pages 37 to 121 form part of these financial statements. The unaudited accounts were issued on 23 July 2020. The audited accounts were issued on 15 October 2020.

## SECTION 2D 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.

<b>2018/19 £000</b>		<b>2019/20 £000</b>
<b>2,351</b>	<b>Net (surplus) or deficit on the provision of services</b>	<b>773</b>
(7,814)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 22)	(3,992)
2,312	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23)	2,205
<b>(3,151)</b>	<b>Net cash outflows/ (inflow) from Operating Activities</b>	<b>(1,014)</b>
(1,623)	Net increase/(decrease) in Investing Activities (Note 24)	8,693
13,514	Net cash outflow/(inflow) from Financing Activities (Note 25)	(12,569)
<b>8,740</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>(4,890)</b>
20,669	Cash and cash equivalents at the beginning of the reporting period	11,929
<b>11,929</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 17)</b>	<b>16,819</b>

# **Section 3**

## **Notes to the**

### **Financial Statements**

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

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## 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 2020 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
<p><b>Property, Plant and Equipment</b></p>	<p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS (Royal Institution of Chartered Surveyors) Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p> <p>Assets are depreciated over useful lives which are estimated annually. The carrying value of Property, Plant and Equipment as at 31 March 2020 is £77 million.</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in an impact on the financial statements of approximately £7.7m.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> <p>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 £149,000 on the Council's finances.</p>

**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p><b>Fair value measurement of investment property</b></p>	<p>The Council’s external valuers use recognised valuation techniques to determine the fair value of Investment Property each year. This involves making assumptions and estimates in terms of how market participants would price the property. The fair value of Investment Properties as at 31 March 2020 is £19 million.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per the RICS (Royal Institution of Chartered Surveyors) Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p>	<p>The valuations for our Investment Properties are subject to the same uncertainties as those described above.</p> <p>In addition, the fair value estimates may differ from the actual prices that could be achieved in an arm’s length transaction. If the fair value estimates were to change by 2%, this would have a £380,000 impact on the Council’s finances.</p>
<p><b>Business Rates Appeals Provision</b></p>	<p>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 2020 is £4 million, of which the Council’s share is 40% (£1.6 million).</p> <p>Due to the uncertain impact of Covid-19 on businesses and potential rateable value appeals it is possible that current assumptions may not be fully accurate.</p>	<p>Whilst the uncertainty around Covid-19 means any estimate of the impact would be highly uncertain, the impact would feed through in to the collection fund balance which would then be taken account of in future years’ budgets.</p>



**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p><b>Pensions Liability</b></p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements 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 Pension Fund’s Actuary has provided updated figures for the year based on the valuation in 2019. This valuation is based upon cash flow and assets values as at 31 March 2020.</p> <p>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 during 2022/23 (as at 31 March 2022) and will set contributions for the period from 1 April 2023 to 31 March 2026.</p> <p>The carrying value of the pensions liability as at 31 March 2020 is £48.5 million.</p> <p>Movements in the value of investments due to current economic uncertainty will affect the valuation of the pension liability. This will include the impact on the value of Investment Properties held by the Local Government Pension Scheme on behalf of South Hams District Council.</p> <p>A material uncertainty has been identified on the valuations of a number of pooled property investment funds held by Devon Pension Fund for 2019/20 as a result of the COVID-19 pandemic. These assets are material to the Devon Pension Fund as at 31 March 2020.</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 £2.5 million.</p> <p>The assumptions interact in complex ways. For example, in 2019/20, the Authority’s actuaries advised that the pension liability has reduced by £1 million as a result of a change in “demographic assumptions” and decreased by £12 million as a result of a change in “financial assumptions”.</p> <p>Please refer to Note 35 for further information about the assumptions used by the actuaries.</p> <p>If the value of investments is found to have changed from the estimates used by the actuaries, it will impact the overall value of the pension liability. For instance, a 5% increase in the pension liability would have an impact of £2.4m on the financial statements.</p> <p>The Council’s share of these Pension Fund property investments would be material to the Council’s net liability, this would also present a material uncertainty on the valuation of the Council’s pension assets and liabilities as at 31 March 2020.</p>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

## 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).

	2018/19			2019/20		
	Direct £000	Recharges £000	Total £000	Direct £000	Recharges £000	Total £000
<b>Transformation Programme (T18) Investment Costs</b>						
<b>GROSS REVENUE EXPENDITURE</b>						
Redundancy and Pension Strain payments	336	-	336	45	-	45
<b>Sub Total</b>	<b>336</b>	<b>-</b>	<b>336</b>	<b>45</b>	<b>-</b>	<b>45</b>
<b>GROSS REVENUE INCOME</b>						
Shared Service Recharge to West Devon BC	-	-	-	-	-	-
<b>Sub Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET REVENUE EXPENDITURE/ (INCOME)</b> (as shown in the CIES)	<b>336</b>	<b>-</b>	<b>336</b>	<b>45</b>	<b>-</b>	<b>45</b>

## 3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2019/20 was approved for issue by the Section 151 Officer & Strategic Finance Lead on 23 July 2020. The Statement of Accounts were then reviewed by the Audit Committee on 30 July 2020. The audited accounts were authorised for issue on 15 October 2020. 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 2020 which require disclosure.

## 4. 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. The Expenditure and Funding Analysis also fulfils the requirement to report by segments.

**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

<b>2019/20</b>	<b>Net Expenditure Chargeable to the General Fund £000</b>	<b>Adjustments between Funding and Accounting Basis (Note 5) £000</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement £000</b>
Customer First	2,782	2,610	5,392
Commercial Services	2,485	295	2,780
Strategy and Commissioning	1,053	(181)	872
Support Services	2,361	(31)	2,330
Centrally Held Costs	1,233	-	1,233
Material Items	45	-	45
<b>Net Cost of Services</b>	<b>9,959</b>	<b>2,693</b>	<b>12,652</b>
Other income and expenditure	(10,776)	(1,103)	(11,879)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(817)</b>	<b>1,590</b>	<b>773</b>

	<b>General Fund Balance £000</b>	<b>Earmarked Reserves £000</b>	<b>Total General Fund Reserves £000</b>
<b>Opening Balance at 31 March 2019</b>	<b>(1,898)</b>	<b>(13,293)</b>	<b>(15,191)</b>
(Increase)/decrease in year	(112)	(705)	(817)
<b>Closing Balance at 31 March 2020</b>	<b>(2,010)</b>	<b>(13,998)</b>	<b>(16,008)</b>

<b>2018/19 Comparatives</b>	<b>Net Expenditure Chargeable to the General Fund £000</b>	<b>Adjustments between Funding and Accounting Basis (Note 5) £000</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement £000</b>
Customer First	2,170	3,554	5,724
Commercial Services	2,968	1,615	4,583
Strategy and Commissioning	945	189	1,134
Support Services	2,338	120	2,458
Centrally Held Costs	875	-	875
Material Items	336	-	336
<b>Net Cost of Services</b>	<b>9,632</b>	<b>5,478</b>	<b>15,110</b>
Other income and expenditure	(23,294)	10,535	(12,759)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(13,662)</b>	<b>16,013</b>	<b>2,351</b>

	<b>General Fund Balance £000</b>	<b>Earmarked Reserves £000</b>	<b>Total General Fund Reserves £000</b>
<b>Opening Balance at 31 March 2018</b>	<b>(1,849)</b>	<b>320</b>	<b>(1,529)</b>
(Increase)/decrease in year	(49)	(13,613)	(13,662)
<b>Closing Balance at 31 March 2019</b>	<b>(1,898)</b>	<b>(13,293)</b>	<b>(15,191)</b>

## 5. 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

2019/20	Adjustments for capital purposes (Note A) £000	Net change for the pensions adjustments (Note B) £000	Other Differences (Note C) £000	Total adjustments £000
Customer First	3,365	(755)	-	2,610
Commercial Services	831	(536)	-	295
Strategy and Commissioning	-	(181)	-	(181)
Support Services	38	(77)	8	(31)
<b>Net Cost of Services</b>	<b>4,234</b>	<b>(1,549)</b>	<b>8</b>	<b>2,693</b>
<b>Other income and expenditure from the Expenditure &amp; Funding Analysis</b>	<b>(3,104)</b>	<b>1,134</b>	<b>867</b>	<b>(1,103)</b>
<b>Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES</b>	<b>1,130</b>	<b>(415)</b>	<b>875</b>	<b>1,590</b>

### Adjustments between Funding and Accounting Basis

2019/20	Adjustments for capital purposes (Note A) £000	Net change for the pensions adjustments (Note B) £000	Other Differences (Note C) £000	Total adjustments £000
Customer First	2,776	778	-	3,554
Commercial Services	1,063	552	-	1,615
Strategy and Commissioning	2	187	-	189
Support Services	31	79	10	120
<b>Net Cost of Services</b>	<b>3,872</b>	<b>1,596</b>	<b>10</b>	<b>5,478</b>
<b>Other income and expenditure from the Expenditure &amp; Funding Analysis</b>	<b>(3,497)</b>	<b>1,362</b>	<b>12,670</b>	<b>10,535</b>
<b>Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES</b>	<b>375</b>	<b>2,958</b>	<b>12,680</b>	<b>16,013</b>

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

#### **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.

## 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	2018/19	2019/20
	£000	£000
Employee Benefits Expenses*	16,557	10,949
Other Service Expenses	29,998	30,153
Depreciation, Amortisation and Impairment	2,322	4,223
Interest Payments	120	177
Pension Fund Administration Expenses	68	71
Net Interest on the net defined benefit liability	1,290	1,067
Losses/(Gains) on disposal of non current assets**	1,037	64
<b>Total Expenditure</b>	<b>51,392</b>	<b>46,704</b>
Fees, Charges and Other Service Income	(14,173)	(14,264)
Interest and Investment Income	(292)	(385)
Income from Council Tax and Business Rates***	(7,796)	(5,963)
Revenue Grants and Contributions	(25,061)	(23,473)
Capital Grants and Contributions	(1,482)	(1,774)
Other Income	(237)	(72)
<b>Total Income</b>	<b>(49,041)</b>	<b>(45,931)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>2,351</b>	<b>773</b>

\* The reduction in Employee Benefit Expenses is mainly due to a decrease in the accounting adjustment for pensions (IAS19) of £3.2m. This is shown in Note 5 - Note to the Expenditure and Funding Analysis. In addition, there are significant reductions of £2.4m following the implementation of the Waste Collection contract.

\*\* The £1 million loss on disposal of non current assets in 2018/19 mainly relates to assets transfers carried out in the year.

\*\*\* 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.

## 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.

2019/20	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account (CAA):</b>				
<b><i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i></b>				
Charges for depreciation and impairment of non-current assets	2,308			(2,308)
Revaluation losses/(gains) on Property, Plant and Equipment	45			(45)
Movements in the market value of Investment Properties	(10)			10
Amortisation of Intangible Assets	92			(92)
Capital grants and contributions applied	(1,677)			1,677
Revenue expenditure funded from capital under statute (REFCUS)	1,788			(1,788)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	424			(424)
Repayment of mortgage and parish loans		1		(1)
<b><i>Insertion of items not debited or credited to the CIES:</i></b>				
Statutory provision for the financing of capital investment	(34)			34
Capital expenditure charged against the General Fund	(1,278)			1,278
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the CIES	(96)		96	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(583)	583

**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

2019/20	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(364)	364		-
Costs of disposal funded from capital receipts	4	(4)		-
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of unattached capital receipts	(72)	72		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(911)		911
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	1,097			(1,097)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,512)			1,512
<b>Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:</b>				
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	78			(78)
<b>Adjustments primarily involving the Business Rates Collection Fund Adjustment Account*:</b>				
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	789			(789)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
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	8			(8)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2019/20</b>	<b>1,590</b>	<b>(478)</b>	<b>(487)</b>	<b>625</b>



**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

2018/19 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account (CAA):</b>				
<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	490			(490)
Movements in the market value of Investment Properties	(1,550)			1,550
Amortisation of Intangible Assets	84			(84)
Capital grants and contributions applied	(869)			869
Revenue expenditure funded from capital under statute (REFCUS)	930			(930)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,628			(1,628)
Write down of bank investment	50			(50)
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	(1,314)			1,314
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the CIES	(613)		613	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(198)	198
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(591)	591		-
Transfer of unattached capital receipts	(238)	238		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(260)		260

**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

2018/19 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	4,688			(4,688)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,730)			1,730
<b>Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:</b>				
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	7			(7)
<b>Adjustments primarily involving the Business Rates Collection Fund Adjustment Account*:</b>				
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*	12,663			(12,663)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
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			(10)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2018/19</b>	<b>16,013</b>	<b>570</b>	<b>415</b>	<b>(16,998)</b>

\*The large adjustment in 2018/19 regarding the Business Rates Collection Fund Adjustment Account is due to the unwinding of the Business Rates appeals provision from 2015/16.

## **8. TRANSFERS TO/ FROM EARMARKED RESERVES**

This note details 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 2019/20. 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.

**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.

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

**Community Housing Fund** – This reserve was set up to hold the Community Housing Fund Grant.

**Revenue Grants Reserve** – This reserve holds revenue grants with no repayment conditions that have not been used during the year.

The table overleaf shows the earmarked reserve balances at 31 March 2020 and the movement during 2019/20.

**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

<b>2019/20</b>	<b>Balance at</b>	<b>Transfers</b>	<b>Transfers</b>	<b>Balance at</b>
<b>EARMARKED RESERVES</b>	<b>31.3.2019</b>	<b>Out</b>	<b>In</b>	<b>31.3.2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>General Fund</b>				
Affordable Housing	988	(282)	-	706
Community Parks and Open Spaces	107	(86)	17	38
Pension Fund Strain	-	(70)	99	29
Repairs and Maintenance	45	(39)	197	203
Members Sustainable Community	6	-	22	28
Marine Infrastructure Reserve	210	-	58	268
Land and Development	94	(5)	121	210
Ferry Repairs and Renewals	455	(96)	87	446
Economic Initiatives	27	(21)	-	6
Vehicles and Plant Renewals	1,264	(669)	588	1,183
Pay and Display Equipment	123	-	21	144
On-Street Parking	44	-	-	44
ICT Development	126	(54)	50	122
Sustainable Waste Management	29	-	25	54
District Elections	78	(88)	10	-
Beach Safety	14	-	-	14
Planning Policy & Major Developments	125	(18)	80	187
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	578	(183)	212	607
Capital Programme	84	(328)	270	26
New Homes Bonus	1,155	(685)	1,227	1,697
Renovation Grant Reserve	7	-	-	7
Business Rates Retention	5,114	(30)	1,108	6,192
Homelessness Prevention Reserve	112	-	-	112
Strategic Change	-	(30)	60	30
Innovation Fund (Invest to Earn)	17	(8)	-	9
Community Housing Fund	1,285	(792)	-	493
Leisure Services Reserve	57	-	-	57
Support Services Trading Reserve	43	-	-	43
Environmental Health Initiatives Reserve	20	-	-	20
S106 Monitoring Reserve	124	(22)	31	133
Economic Regeneration Reserve	379	(60)	-	319
Joint Local Plan Reserve	31	(10)	-	21
S106 Technical Support Reserve	20	(4)	-	16
Maintenance, Management and Risk Management Reserve	-	-	8	8
<b>Sub Total</b>	<b>12,799</b>	<b>(3,580)</b>	<b>4,291</b>	<b>13,510</b>
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	213	(114)	63	162
Harbour Renewals	117	(16)	35	136
General Reserve	164	(23)	49	190
<b>Sub Total</b>	<b>494</b>	<b>(153)</b>	<b>147</b>	<b>488</b>
<b>TOTAL EARMARKED REVENUE RESERVES</b>	<b>13,293</b>	<b>(3,733)</b>	<b>4,438</b>	<b>13,998</b>

**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

<b>2018/19 Comparatives</b>	<b>Balance at</b>	<b>Transfers</b>	<b>Transfers</b>	<b>Balance at</b>
<b>EARMARKED RESERVES</b>	<b>31.3.2018</b>	<b>Out</b>	<b>In</b>	<b>31.3.2019</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>General Fund</b>				
Affordable Housing	998	(10)	-	988
Community Parks and Open Spaces	111	(21)	17	107
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	249	(316)	112	45
Members Sustainable Community	53	(47)	-	6
Marine Infrastructure Reserve	152	-	58	210
Land and Development	67	(36)	63	94
Ferry Repairs and Renewals	459	(91)	87	455
Economic Initiatives	49	(22)	-	27
Vehicles and Plant Renewals	1,023	(249)	490	1,264
Pay and Display Equipment	102	-	21	123
On-Street Parking	44	-	-	44
ICT Development	140	(64)	50	126
Sustainable Waste Management	4	-	25	29
District Elections	68	-	10	78
Beach Safety	14	-	-	14
Planning Policy & Major Developments	228	(153)	50	125
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	372	(119)	325	578
Capital Programme	791	(888)	181	84
New Homes Bonus	869	(991)	1,277	1,155
Renovation Grant Reserve	7	-	-	7
Business Rates Retention-Note * overleaf	(8,641)	-	13,755	5,114
Homelessness Prevention Reserve	82	-	30	112
Strategic Change	-	(210)	210	-
16/17 Budget Surplus Contingency	25	(25)	-	-
Innovation Fund (Invest to Earn)	25	(8)	-	17
Community Housing Fund	1,671	(386)	-	1,285
Leisure Services Reserve	87	(30)	-	57
Support Services Trading Reserve	20	-	23	43
Environmental Health Initiatives Reserve	20	-	-	20
S106 Monitoring Reserve	137	(13)	-	124
Economic Regeneration Reserve	-	(96)	475	379
Joint Local Plan Reserve	-	(136)	167	31
S106 Technical Support Reserve	-	-	20	20
<b>Sub Total</b>	<b>(736)</b>	<b>(4,010)</b>	<b>17,545</b>	<b>12,799</b>
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	162	-	51	213
Harbour Renewals	111	(35)	41	117
General Reserve	143	-	21	164
<b>Sub Total</b>	<b>416</b>	<b>(35)</b>	<b>113</b>	<b>494</b>
<b>TOTAL EARMARKED REVENUE RESERVES – See Note * overleaf</b>	<b>(320)</b>	<b>(4,045)</b>	<b>17,658</b>	<b>13,293</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### Note\* - Earmarked Reserves position as at 31 March 2018 (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 showed 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 needed to be taken into account. The aggregated Earmarked Revenue Reserves position, incorporating the Council's share of the Business Rates Collection Fund surplus was £13.157 million at 31 March 2018.

The funds held in the Business Rates Collection Fund were released back into the General Fund of the Council during 2018/19 and the balance in the Business Rates Retention Earmarked Reserve was restored to a surplus position (£5.1 million at 31 March 2019 increasing to £6.2 million at 31 March 2020).

## 9. OTHER OPERATING EXPENDITURE

2018/19 £000		2019/20 £000
2,196	Parish council precepts	2,464
1,037	(Gains)/losses on the disposal of non-current assets	64
68	Pension administration expenses	71
<b>3,301</b>	<b>Total</b>	<b>2,599</b>

## 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2018/19 £000		2019/20 £000
120	Interest payable and similar charges	177
(328)	Interest receivable and similar income	(372)
(237)	Other investment income	(72)
50	Investment (gains)/losses	-
1,290	Net interest on the net defined benefit liability	1,067
(2,152)	Investment properties (Note 13)	(670)
<b>(1,257)</b>	<b>Total</b>	<b>130</b>

## 11. TAXATION AND NON-SPECIFIC GRANT INCOME

2018/19 £000		2019/20 £000
	Council Tax	
(8,269)	• Income	(8,779)
7	• Collection Fund adjustment	79
(73)	• Collection Fund - distribution of surplus	(112)
83	• Support grant to parishes	74
	Business Rates	
(11,190)	• Income	(11,085)
10,619	• Tariff*	11,280
29	• Levy payment	160
1	• Pooling administration costs	1
25	• Pilot contribution	-
-	• Pooling benefit	(238)
(1,224)	• Transfer of Collection Fund deficit/(surplus)	193
	Non ring - fenced Government Grants :	
(2,191)	• Small Business Rate Relief Grant	(2,766)
(1,109)	• New Homes Bonus Grant	(1,227)
-	• Rural Services Delivery Grant*	(408)
(29)	• Levy Account Surplus Grant	(6)
(1,482)	Capital grants and contributions	(1,774)
<b>(14,803)</b>	<b>Total</b>	<b>(14,608)</b>

**Rural Services Delivery Grant**

\*There is no direct 2018/19 comparator for the Rural Services Delivery Grant shown above due to the mechanism of how this grant was allocated to Councils with business rates pilot status. In 2018/19 the Council's business rates baseline was increased to reflect the Rural Services Delivery Grant of £408,055. This is reflected in the reduced Tariff figure for 2018/19. However in 2019/20 the Council was no longer part of a business rates pilot and therefore the Rural Services Delivery Grant was paid direct as shown above.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

## 12. PROPERTY, PLANT AND EQUIPMENT

Movements in 2019/20	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
<b>Cost or Valuation</b>						
<b>At 1 April 2019</b>	<b>62,616</b>	<b>9,356</b>	<b>10,662</b>	<b>454</b>	<b>5,624</b>	<b>88,712</b>
Additions	1,203	1,068	250		371	2,892
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(914)					(914)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(270)					(270)
Derecognition – disposals	(127)	(625)				(752)
Assets reclassified (to)/from Held for Sale	(792)					(792)
Other movements in cost/ valuation - reclassification	5,598				(5,598)	-
<b>At 31 March 2020</b>	<b>67,314</b>	<b>9,799</b>	<b>10,912</b>	<b>454</b>	<b>397</b>	<b>88,876</b>
<b>Accumulated Depreciation &amp; Impairment at 1 April 2019</b>	<b>1,661</b>	<b>6,604</b>	<b>3,479</b>	<b>-</b>	<b>-</b>	<b>11,744</b>
Charge for 2019/20	1,251	637	420			2,308
Depreciation written out to the Revaluation Reserve	(1,051)					(1,051)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(225)					(225)
Derecognition – disposals	(48)	(620)				(668)
Other movements in depreciation - reclassification						
<b>At 31 March 2020</b>	<b>1,588</b>	<b>6,621</b>	<b>3,899</b>	<b>-</b>	<b>-</b>	<b>12,108</b>
<b>Balance Sheet amount at 31 March 2020</b>	<b>65,726</b>	<b>3,178</b>	<b>7,013</b>	<b>454</b>	<b>397</b>	<b>76,768</b>
<b>Balance Sheet amount at 31 March 2019</b>	<b>60,955</b>	<b>2,752</b>	<b>7,183</b>	<b>454</b>	<b>5,624</b>	<b>76,968</b>



**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

<b>Comparative Movements in 2018/19</b>	<b>Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture &amp; Equipment £000</b>	<b>Infra-structure Assets £000</b>	<b>Community Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total Property, Plant &amp; Equipment £000</b>
<b>Cost or Valuation</b>						
<b>At 1 April 2018</b>	<b>51,301</b>	<b>9,449</b>	<b>9,910</b>	<b>737</b>	<b>2,874</b>	<b>74,271</b>
Additions	956	288	963	-	5,045	7,252
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	9,842	-	-	-	-	9,842
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(690)	-	-	-	-	(690)
Derecognition – disposals	(983)	(486)	(211)	(283)	-	(1,963)
Other movements in cost/ valuation - reclassification	2,190	105	-	-	(2,295)	-
<b>At 31 March 2019</b>	<b>62,616</b>	<b>9,356</b>	<b>10,662</b>	<b>454</b>	<b>5,624</b>	<b>88,712</b>
<b>Accumulated Depreciation &amp; Impairment at 1 April 2018</b>	<b>1,737</b>	<b>6,317</b>	<b>3,196</b>	-	-	<b>11,250</b>
Charge for 2018/19	1,289	688	391	-	-	2,368
Depreciation written out to the Revaluation Reserve	(1,043)	-	-	-	-	(1,043)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(200)	-	-	-	-	(200)
Derecognition – disposals	(122)	(401)	(108)	-	-	(631)
Other movements in depreciation - reclassification		-	-	-	-	
<b>At 31 March 2019</b>	<b>1,661</b>	<b>6,604</b>	<b>3,479</b>	-	-	<b>11,744</b>
<b>Balance Sheet amount at 31 March 2019</b>	<b>60,955</b>	<b>2,752</b>	<b>7,183</b>	<b>454</b>	<b>5,624</b>	<b>76,968</b>
<b>Balance Sheet amount at 31 March 2018</b>	<b>49,564</b>	<b>3,132</b>	<b>6,714</b>	<b>737</b>	<b>2,874</b>	<b>63,021</b>

## 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.

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.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### Capital Commitments

As at 31 March 2020 the Authority has entered into the following contract for the construction or enhancement of Property, Plant and Equipment. This commitment relates to:

- New depot, Ivybridge £1,200,000

As a comparison, as at 31 March 2019 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 £200,000
- New units, Ermington £750,000

#### 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.

See Note 1 for uncertainty arising from the impact of the Covid-19 pandemic.

	<b>Land and buildings £000</b>	<b>Vehicles, plant, furniture &amp; equipment £000</b>	<b>Total £000</b>
<b>Valued at historical cost</b>	-	<b>3,178</b>	<b>3,178</b>
<b>Valued at current value in:</b>			
2019/2020	23,528		23,528
2018/2019	41,032		41,032
2017/2018	82		82
2016/2017	-		-
2015/2016	1,084		1,084
<b>Total</b>	<b>65,726</b>	<b>3,178</b>	<b>68,904</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### 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.

## 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:

<b>A. Income &amp; Expenditure Account</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Rental income from investment properties	(637)	(725)
Direct operating expenses arising from investment properties*	(1,515)	55
<b>Net (gain)/ loss</b>	<b>(2,152)</b>	<b>(670)</b>

\* The negative expenditure on Investment Properties in 2018/19 is due to an upward revaluation of the site at Lee Mill of £1.55 million shown in table B below.

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

<b>B. Movement in fair value</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
<b>Balance at start of the year</b>	<b>12,675</b>	<b>14,150</b>
Purchases	-	4,996
Disposals	(75)	-
Net gains/(losses) from fair value adjustments*	1,550	10
Transfers (to)/from Property, Plant and Equipment	-	-
<b>Balance at end of the year</b>	<b>14,150</b>	<b>19,156</b>

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.

During 2019/20 the Council incurred capital expenditure totalling £5 million for the purchase of an Investment Property. This amount equated to the purchase price of the commercial property plus transaction costs (e.g. stamp duty land tax) and directly attributable expenditure

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

(costs incurred in successfully negotiating the sale terms and price and relevant professional fees e.g. legal costs) which were also capitalised in accordance with the Code.

The Code requires that Investment Properties are measured annually at fair value. The fair value valuation was £19.16 million at 31 March 2020. The Code confirms that movements in fair value are debited to the provision of services and are not proper charges to the General Fund. They are reversed out to the Capital Adjustment Account in the Movement in Reserves Statement. Therefore this change in valuation does not impact on the Council's 'bottom line' of the Income and Expenditure account, as it is reversed out through the Capital Adjustment Account.

## **14. FINANCIAL INSTRUMENTS**

### **Categories of Financial Instruments**

Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cash flow characteristics.

### **Financial Liabilities**

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus outstanding interest payable).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

### **Financial Assets**

To meet the code requirements, financial assets are now classified into one of three categories:

- **Financial assets held at amortised cost** – These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specific amounts. The figure presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the Comprehensive Income and Expenditure Statement (CIES) is the amount receivable as per the loan agreement.
- **Fair Value Through Other Comprehensive Income (FVOCI)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- **Fair Value Through Profit and Loss (FVTPL)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit loss method. Changes in loss allowances (including balances outstanding at the date of recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES. Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

The value of debtors and creditors reported in the table overleaf are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the Balance Sheet and Notes 15 and 18 also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

#### Summary of Financial Instruments

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

	Long-term		Current	
	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
<b>Financial Assets at Amortised Cost</b>				
Investments	-	-	14,500	15,500
Cash and Cash Equivalents	-	-	11,929	16,819
Debtors	1	-	2,776	2,685
<b>Fair Value through Other Comprehensive Income – Financial Assets</b>				
Investments – CCLA Local Authorities’ Property Fund	468	1,347	-	-
Investments – CCLA Diversified Income Fund	1,009	1,792	-	-
<b>Total Financial Assets</b>	<b>1,478</b>	<b>3,139</b>	<b>29,205</b>	<b>35,004</b>
<b>Financial Liabilities at Amortised Cost</b>				
Borrowing	(5,490)	(14,475)	-	(92)
Creditors	(51)	(61)	(2,066)	(3,082)
<b>Total Financial Liabilities</b>	<b>(5,541)</b>	<b>(14,536)</b>	<b>(2,066)</b>	<b>(3,174)</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### Designated to Fair Value Through Other Comprehensive Income

At 31 March 2020 the Council had investments of £1.5 million with the CCLA Property Fund and £2.0 million with the CCLA Diversified Income Fund.

Following the adoption of accounting standard IFRS 9 Financial Instruments in 2018/19, investments in equity are to be classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income.

The Council elected to designate the CCLA investments as fair value through other comprehensive income. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds these investments as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

This election means that there is no impact on the revenue budget. Any gains or losses on the valuation of the CCLA investments will therefore be transferred to a Financial Instruments Revaluation Reserve until they are realised.

#### Statutory Override on Pooled Investments

As a result of the change in accounting standards for 2018/19 under IFRS 9, the Ministry for Housing, Communities and Local Government (MHCLG) agreed a temporary override to allow English Local Authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from April 2018. The Council will use the statutory override to account for any changes in the fair value on its pooled investments. For the Council's Money Market Fund investments the change in fair value was immaterial in 2019/20.

#### Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income

The Council had the following investments in equity instruments at 31 March 2020:

Investment	Nominal	Fair Value	Change in Fair Value during 2019/20
	£000	£000	£000
CCLA Property Fund	1,500	1,347	(153)
CCLA Diversified Income Fund	2,000	1,792	(208)
<b>Total</b>	<b>3,500</b>	<b>3,139</b>	<b>(361)</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### Net Gains and Losses on Financial Instruments

The following gains and losses have been recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments:

	2018/19 £000	2019/2 £000
Net gains/losses on: Financial Assets measured at fair value through other comprehensive income	(23)	(338)
<b>Total Net Gains/(Losses)</b>	<b>(23)</b>	<b>(338)</b>

#### Fair Value of Financial Instruments

The following financial asset is measured in the Balance Sheet at fair value on a recurring basis:

Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation Technique Used to Measure Fair Value	31 March 2019 Fair Value £000	31 March 2020 Fair Value £000
<b>Fair Value Through Other Comprehensive Income</b> CCLA Property Fund and CCLA Diversified Income Fund	Level 2	Inputs other than quoted market prices that are observable for the asset or liability	1,477	3,139
<b>TOTAL</b>			<b>1,477</b>	<b>3,139</b>

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented are carried forward on the Balance Sheet at amortised cost. Their fair values are as follows:

	31 March 2019		31 March 2020	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
PWLB Debt – Maturity	(5,490)	(5,791)	(5,490)	(5,649)
PWLB Debt – Annuity	-	-	(9,076)	(9,080)
Long Term Debtors	1	1	-	-
Long Term Creditors	(51)	(51)	(61)	(61)

#### Heritable Bank

At the 31 March 2020 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

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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.

## 15. DEBTORS

<b>31.3.2019</b> <b>£000</b>		<b>31.3.2020</b> <b>£000</b>
	<b>Short Term</b>	
1,069	Central Government bodies	1,258
710	Other Local Authorities	765
	Other debtors	
889	Council Tax	1,036
1,144	Business Rates*	711
2,642	Other entities and individuals	2,365
<b>6,454</b>	<b>Total</b>	<b>6,135</b>
	<b>Long Term</b>	
1	Other entities and individuals	-
<b>1</b>	<b>Total</b>	<b>-</b>

\*There is a net reduction in the 'Business Rates' debtor between 31 March 2019 and 31 March 2020 of £433,000. The 31 March 2019 'Business Rates' debtor included a payment due from Central Government of £512,000 relating to their share of the difference between the actual surplus at 31 March 2018 (£33.7m) and the estimated surplus calculated in the 2018/19 NNDR1 Return (£34.7m). Unlike the other Business Rates Preceptors, Central Government's debtor was not offset by a share of the 2018/19 surplus following the Devon Authorities successful bid for Pilot status in 2018/19.



## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 16. DEBTORS FOR LOCAL TAXATION

The past due but not impaired amount for local taxation (council tax and business rates) can be analysed by age as follows:

<b>31.3.2019</b> <b>£000</b>		<b>31.3.2020</b> <b>£000</b>
559	Up to one year	559
450	One to three years	406
139	Over three years	154
<b>1,148</b>	<b>Total Debtors for Local Taxation</b>	<b>1,119</b>

### 17. CASH AND CASH EQUIVALENTS

<b>31.3.2019</b> <b>£000</b>		<b>31.3.2020</b> <b>£000</b>
609	Cash held by the Authority	719
11,320	Money Market Funds	16,100
<b>11,929</b>	<b>Total Cash and Cash Equivalents</b>	<b>16,819</b>

### 18. CREDITORS

<b>31.3.2019</b> <b>£000</b>		<b>31.3.2020</b> <b>£000</b>
	<b>Short Term</b>	
(395)	Central Government bodies	(418)
(990)	Other local Authorities	(1,000)
	Other Creditors	
(95)	Council Tax	(105)
(3,722)	Business Rates	(3,793)
(3,020)	Other entities and individuals*	(3,877)
<b>(8,222)</b>	<b>Total</b>	<b>(9,193)</b>
	<b>Long Term</b>	
(51)	Other entities and individuals	(61)
<b>(51)</b>	<b>Total</b>	<b>(61)</b>

\*The increase in 'Other entities and individuals' as at 31 March 2020 relates to payments due in relation to the new Waste Collection Contract for quarter 4 of 2019/20.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

## 19. 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 2019/20 or 2018/19. The breakdown of the 2019/20 provision is shown in the following table:

	<b>Business Rates Appeals £000</b>
<b>Balance at 1 April 2019</b>	<b>1,436</b>
Provisions made in year	446
Amounts used in year	(271)
<b>Balance at 31 March 2020</b>	<b>1,611</b>

### 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 2019/20 there has been a £436,000 increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £175,000).

## 20. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement in Section 2B. 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 2019/20 Earmarked Reserves balance is explained in detail in the Narrative Statement.

**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.

## 21. UNUSABLE RESERVES

<b>31.3.2019</b>		<b>31.3.2020</b>
<b>£000</b>		<b>£000</b>
30,649	Revaluation Reserve	30,278
54,312	Capital Adjustment Account	54,655
(48,569)	Pensions Reserve	(48,504)
117	Council Tax Collection Fund Adjustment Account	39
814	Business Rates Collection Fund Adjustment Account	25
(23)	Financial Instruments Revaluation Reserve	(361)
(135)	Accumulated Absences Account	(143)
<b>37,165</b>	<b>Total Unusable Reserves</b>	<b>35,989</b>

### 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.

The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.

Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS (Royal Institution of Chartered Surveyors) Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid. For further information please see Note 1.

**SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

<b>31.3.2019</b>	<b>31.3.2019</b>		<b>31.3.2020</b>	<b>31.3.2020</b>
<b>£000</b>	<b>£000</b>	<b>Revaluation Reserve</b>	<b>£000</b>	<b>£000</b>
	<b>20,656</b>	<b>Balance at 1 April</b>		<b>30,649</b>
11,456		Upward revaluation of assets	1,921	
(571)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(1,784)	
	<b>10,885</b>	<b>Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		<b>137</b>
(409)		Difference between fair value depreciation and historical cost depreciation	(367)	
(483)		Accumulated gains on assets sold or scrapped	(141)	
	<b>(892)</b>	<b>Amount written off to the Capital Adjustment Account</b>		<b>(508)</b>
	<b>30,649</b>	<b>Balance at 31 March</b>		<b>30,278</b>

**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 FINANCIAL STATEMENTS**

<b>2018/19 £000</b>	<b>2018/19 £000</b>	<b>Capital Adjustment Account</b>	<b>2019/20 £000</b>	<b>2019/20 £000</b>
	<b>54,780</b>	<b>Balance at 1 April</b>		<b>54,312</b>
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(2,368)		▪ Charges for depreciation of non-current assets	(2,308)	
(490)		▪ Revaluation losses on Property, Plant and Equipment (PPE)	(45)	
1,550		▪ Revaluation gains/(losses) on Investment Properties	10	
(84)		▪ Amortisation of Intangible Assets	(92)	
(930)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,788)	
(1,628)		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(424)	
<u>(50)</u>		▪ Write down of bank investment	-	
	<b>(4,000)</b>	<b>Total</b>		<b>(4,647)</b>
483		Amounts of Revaluation Reserve balance written off on disposal or sale of PPE	141	
<u>409</u>		Adjusting amounts written out of the Revaluation Reserve	<u>367</u>	
	<b>892</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>508</b>
		Capital financing applied in the year:		
260		• Use of the Capital Receipts Reserve to finance new capital expenditure	911	
869		• Capital grants and contributions credited to the CIES that have been applied to capital financing	1,677	
198		• Application of grants to capital financing from the Capitals Grants Unapplied Account	583	
-		• Statutory provision for the financing of capital investment charged against the General Fund	34	
1,314		• Capital expenditure charged against the General Fund	1,278	
<u>(1)</u>		• Repayment of parish loans	<u>(1)</u>	
	<b>2,640</b>	<b>Total</b>		<b>4,482</b>
	<b>54,312</b>	<b>Balance at 31 March</b>		<b>54,655</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### 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.

<b>31.3.2019 £000</b>	<b>Pensions Reserve</b>	<b>31.3.2020 £000</b>
<b>(51,459)</b>	<b>Balance at 1 April</b>	<b>(48,569)</b>
5,848	Actuarial gains or (losses) on pension assets and liabilities	(350)
(4,688)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(1,097)
1,730	Employer's pensions contributions and direct payments to pensioners payable in the year	1,512
<b>(48,569)</b>	<b>Balance at 31 March</b>	<b>(48,504)</b>

#### 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.

<b>31.3.2019 £000</b>	<b>Council Tax Collection Fund Adjustment Account</b>	<b>31.3.2020 £000</b>
<b>124</b>	<b>Balance at 1 April</b>	<b>117</b>
(7)	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	(78)
<b>117</b>	<b>Balance at 31 March</b>	<b>39</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### 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.

<b>31.3.2019 £000</b>	<b>Business Rates Collection Fund Adjustment Account</b>	<b>31.3.2020 £000</b>
<b>13,477</b>	<b>Balance at 1 April</b>	<b>814</b>
(12,663)	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*	(789)
<b>814</b>	<b>Balance at 31 March</b>	<b>25</b>

\*The large movement in the 2018/19 Business Rates Collection Fund Adjustment Account reflects the unwinding of the business rates appeals provision made in previous years. This income was released to the Council's General Fund in 2018/19.

#### Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

<b>31.3.2019 £000</b>	<b>Financial Instruments Revaluation Reserve</b>	<b>31.3.2020 £000</b>
-	<b>Balance at 1 April</b>	<b>(23)</b>
(23)	Upward/(downward) revaluation of assets	(338)
<b>(23)</b>	<b>Balance at 31 March</b>	<b>(361)</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### 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.

31.3.2019		Accumulated Absences Account	31.3.2020	
£000	£000		£000	£000
	(125)	<b>Balance at 1 April</b>		(135)
125		Settlement or cancellation of accrual made at the end of the preceding year	135	
(135)		Amounts accrued at the end of the current year	(143)	
	(10)	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		(8)
	(135)	<b>Balance at 31 March</b>		(143)

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

2018/19		2019/20
£000		£000
(2,368)	Depreciation	(2,308)
(490)	Impairment and downward valuations	(45)
1,550	Movement in market value of investment properties	10
(84)	Amortisation	(92)
(763)	Increase/(decrease) in Debtors	(33)
(1,085)	Increase/(decrease) in Creditors	(1,508)
12	Increase/(decrease) in Inventories	(7)
(2,958)	Movement in pension liability	415
(1,628)	Carrying amount of non-current assets held for sale, sold or derecognised	(424)
<b>(7,814)</b>	<b>Total</b>	<b>(3,992)</b>



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

2018/19 £000		2019/20 £000
830	Proceeds from the sale of non-current assets	432
1,482	Other non-cash items charges to the net surplus or deficit on the provision of services	1,773
<b>2,312</b>	<b>Net cash flows from investing activities</b>	<b>2,205</b>

## 24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2018/19 £000		2019/20 £000
7,306	Purchase of Property, Plant and Equipment, Investment Properties and Intangible Assets	7,899
(6,600)	Increase/(decrease) in investments	3,000
(829)	Proceeds from the sale of Property, Plant and Equipment, Investment Properties and Intangible Assets	(432)
(1,500)	Other receipts from investing activities (capital grants and contributions)	(1,774)
<b>(1,623)</b>	<b>Net cash flows from investing activities</b>	<b>8,693</b>

## 25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2018/19 £000		2019/20 £000
(5,490)	Cash receipts of short term and long term borrowing	(9,077)
19,004	Other payments for financing activities*	(3,492)
<b>13,514</b>	<b>Total</b>	<b>(12,569)</b>

\*The large movement in 'other payments for financing activities' between 2018/19 and 2019/20 is due to the unwinding of the Business Rates appeals provision from 2015/16.

## **26. 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 DBCP Accounts, which can be found on Teignbridge District Council's Website under the Devon Building Control Partnership Committee 2019-2020.

## **27. 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 under 'Your Council' in the 'Councillors and Committees' section.

<b>2018/19 £000</b>		<b>2019/20 £000</b>
239	Allowances	240
20	Expenses	24
<b>259</b>	<b>Total</b>	<b>264</b>

## **28. 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.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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:

Post	Year	Salary, Fees and Allowances £	Expenses £	Pension Contribution £	Total £
Chief Executive and Head of Paid Service (Post vacant from 15/03/20 - Note D)	18/19	110,800	1,600	16,200	128,600
	19/20	111,900	800	16,300	129,000
Group Manager for Customer First and Support Services (Post transferred to West Devon BC from 01/04/19 – Note C)	18/19	82,300	1,300	12,000	95,600
	19/20	0	0	0	0
Corporate Director of Governance & Assurance (New post, start date 09/09/19)	18/19	0	0	0	0
	19/20	39,400	400	5,700	45,500
Head of Finance (Deputy S.151 Officer) – regraded from 01/12/19	18/19	49,700	100	7,300	57,100
	19/20	55,100	100	8,000	63,200
Head of Maritime – regraded from 01/12/19	18/19	44,500	1,200	6,800	52,500
	19/20	50,400	1,300	7,400	59,100
Head of IT – regraded from 01/12/19	18/19	48,000	200	7,000	55,200
	19/20	50,300	200	7,300	57,800
Head of Place Making – regraded from 01/12/19	18/19	45,700	600	6,700	53,000
	19/20	47,800	700	7,000	55,500
Head of Human Resources – regraded from 01/12/19	18/19	48,000	200	7,000	55,200
	19/20	48,900	100	7,100	56,100
Customer First Specialist Manager (Post holder moved to Corporate Director of Governance & Assurance 09/09/19)	18/19	56,800	800	8,300	65,900
	19/20	23,500	600	3,400	27,500

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

No other officers earned over £50,000 during 2019/20 or 2018/19.

#### **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 2019/20 South Hams District Council reimbursed costs amounting to £429,700 (2018/19 £367,200) in respect of some members of the Senior Leadership Team (SLT) and the Extended Leadership Team (ELT) who are employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2019/20 from West Devon Borough Council of £216,400 (2018/19 £181,800) 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. Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements. A report was presented to Council on 21 February 2019 (Council Minute 55/18) that outlined a review of the Staffing Establishment.

The Review Panel, consisting of the Leaders of each Council and senior Members recommended that the previous structure incorporating two Executive Directors was replaced with a Chief Executive Officer. The Panel also recommended that once in post, the Chief Executive brings forward a proposed new senior leadership structure that builds upon the recommendations of the Peer Review and will be along the lines of:

- Director of Customer Service and Delivery
- Director of Place and Enterprise
- Director of Governance
- Director of Strategic Finance

It was resolved that with effect from 21 February 2019, the Executive Director for Service Delivery and Head of Paid Service be appointed to the role of Chief Executive and that agreement be given to extending the interim senior management arrangements with a report being brought to Council recommending a new structure within six months of the 2019 Council elections, with the objective of finding cost reductions.

Following a restructure and recruitment process, the Senior Leadership Team was finalised in September 2019 to include the following posts across both South Hams District Council and West Devon Borough Council:

- Chief Executive & Head of Paid Service (South Hams)
- Director of Customer Service and Delivery (West Devon)
- Director of Place and Enterprise (West Devon)
- Director of Governance & Assurance (South Hams)
- Director of Strategic Finance (West Devon)

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

Following the Senior Leadership Team restructure, the Extended Leadership Team and Team Leader structure was reviewed to ensure that resources were aligned to delivering the Council's corporate priorities. This resulted in the following changes to the establishment:-

#### Deletion of the following posts

- Specialist Manager: Customer First (South Hams)
- Specialist Manager: Support Services (West Devon)
- Case Management Manager: Customer First (South Hams)
- Case Management Manager: Support Services (West Devon)
- Commissioning Manager (West Devon)

#### Creation of the following posts

- Head of Strategy & Projects (West Devon)
- Business Manager: Specialists (West Devon)
- Business manager: Case Management (West Devon)
- Customer Improvement Manager (West Devon)

This restructure concluded in December 2019 resulting in a saving of £60,000 per annum for South Hams District Council.

#### **Note C: Group Manager for Customer First and Support Services**

The Group Manager post for Customer First and Support Services was transferred from South Hams District Council to West Devon Borough Council on 1<sup>st</sup> April 2019 to allow the post holder to undertake the Returning Officer duties for the Borough Council. Therefore the equivalent salary figures for 2019/20 are shown in West Devon Borough Council's Remuneration note. The post holder's job title was changed to Strategic Director of Customer Service Delivery on 1<sup>st</sup> September 2019. In addition this post holder also holds the responsibility of Deputy Chief Executive.

#### **Note D: Chief Executive and Head of Paid Service**

The Chief Executive and Head of Paid Service left the Council on 15<sup>th</sup> March 2020. This post was covered on an interim basis by the Strategic Director of Customer Service employed by West Devon Borough Council (see note C above). South Hams District Council successfully recruited to this post in June 2020.

## **29. 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:

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	2018/19 £000	2019/20 £000
<b>Fees payable with regard to external audit services</b>	<b>38</b>	<b>46</b>
Core Audit Fees	38	40
Audit of Grants and Returns*	-	6
<b>Rebate from Public Sector Audit Appointments Ltd</b>	<b>-</b>	<b>(4)</b>
<b>Total</b>	<b>38</b>	<b>42</b>

\*The Housing Benefit Audit was provided by a separate accountancy firm in 2018/19 who were not the Council's external auditors for 2018/19.

## 30. GRANT INCOME

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

	2018/19 £000	2019/20 £000
<b>Credited to Taxation and Non-Specific Grant Income</b>		
<b>Capital grants and contributions:</b>		
European Maritime & Fisheries Fund – Salcombe Fishquay	(200)	-
Disabled Facilities Grants	(955)	(1,081)
Capital Section 106 deposits	(263)	(638)
Other capital grants and contributions	(64)	(55)
<b>Non ring - fenced Government grants and contributions:</b>		
New Homes Bonus Grant	(1,109)	(1,227)
Small Business Rate Relief	(2,191)	(2,766)
Levy Account Surplus Grant	(29)	(6)
Rural Services Delivery Grant*	-	(408)
<b>Total</b>	<b>(4,811)</b>	<b>(6,181)</b>
<b>Credited to Services</b>		
Rent Allowance subsidy**	(19,481)	(16,628)
Housing Benefit administration subsidy	(211)	(190)
Rent rebate subsidy	(58)	(84)
Discretionary housing payments	(125)	(111)
Council Tax benefit administration subsidy	(81)	(79)
Business Rates cost of collection allowance	(205)	(204)
Recycling credits	(478)	(434)
Devon County Council - Torr Quarry Transfer Station	(117)	-
Revenue Section 106 deposits	(191)	(382)
Electoral Commission – General Elections and European Elections	-	(283)
Other grants	(785)	(669)
<b>Total</b>	<b>(21,732)</b>	<b>(19,064)</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### Rural Services Delivery Grant 2018/19

\* Due to the Council's business rates pilot status in 2018/19 the Rural Services Delivery Grant of £408,055 is included in the lower business rates tariff for 2018/19. Further information can be found in Note 11 – Taxation and Non Specific Grant Income.

#### Rent Allowance Subsidy

\*\* Housing Benefit Payments and Subsidy have reduced significantly between 2019/20 and 2018/19 mainly due to a reduction in caseload.

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:

<b>Capital Grants Receipts in Advance</b>	<b>31 March 2019 £000</b>	<b>31 March 2020 £000</b>
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(16)	(16)
<b>Total</b>	<b>(100)</b>	<b>(100)</b>

<b>Revenue Grants Receipts in Advance</b>	<b>31 March 2019 £000</b>	<b>31 March 2020 £000</b>
MHCLG COVID-19 Business Rate Relief grant	-	(2,941)
Other grants	-	(9)
<b>Total</b>	<b>-</b>	<b>(2,950)</b>

<b>Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)</b>	<b>31 March 2019 £000</b>	<b>31 March 2020 £000</b>
Langage Energy Centre	(1,724)	(1,722)
Gara Rock, East Portlemouth	(523)	(523)
Land South East of Torhill Farm, Ivybridge	(460)	(511)
Land at Woodland Road, Ivybridge	(242)	(202)
Bonfire Hill, Salcombe	(188)	(185)
Land at Moorview, Marldon	(170)	(170)
Riverside, Totnes	(128)	(128)
Former Old Chapel Inn, Bigbury	(110)	(110)
Sawmills Field, Dartington	(149)	(98)
Trennels, Herbert Road, Salcombe	(93)	(93)
Webbers Yard, Dartington	(85)	(85)

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

<b>Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)</b>	<b>31 March 2019 £000</b>	<b>31 March 2020 £000</b>
Venn Farm, Brixton	(110)	(79)
Holywell Stores, Bigbury	(74)	(74)
Former Gas Works, Salcombe	(79)	(69)
Land at Fairfield, South Brent	(48)	(1)
Cornwood Road, Ivybridge	-	(214)
Land off Palm Cross Green, Modbury	-	(202)
Knighton Road, Wembury	-	(111)
Land East of Allern Lane, Tamerton Foliot	-	(105)
Various other sites	(916)	(1,025)
<b>Total</b>	<b>(5,099)</b>	<b>(5,707)</b>

## 31. 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 30.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in Note 27.

## 32. 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.

As at 31 March 2019 the Council had external borrowing of £5.49 million and had internally borrowed (i.e. used its own resources in lieu of external borrowing) £155,000 for the leisure investment. During 2019/20 the Council undertook further investment as part of its Commercial Investment Strategy. £149,000 has been met from internal borrowing and £5.054



### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

million from a loan from the Public Works Loans Board (PWLB). The total borrowing of £5.203 million is reflected in the movement in the Capital Financing Requirement (CFR) below.

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

<b>Summary of Capital Expenditure and Financing (incorporating the Capital Financing Requirement)</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
<b><i>Opening Capital Financing Requirement</i></b>	<b>646</b>	<b>6,291</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	2,207	2,521
Investment Properties	-	4,996
Intangible Assets	54	10
Revenue expenditure funded from capital under statute (REFCUS)	930	1,788
Assets under Construction	5,045	371
Bank investment	50	-
<b>Total expenditure for capital purposes</b>	<b>8,286</b>	<b>9,686</b>
<b>Sources of Finance</b>		
Capital receipts	(260)	(911)
Capital grants and external contributions	(1,067)	(2,260)
Earmarked reserves	(1,314)	(1,278)
<b>Total funding</b>	<b>(2,641)</b>	<b>(4,449)</b>
<b>Minimum Revenue Provision</b>	<b>-</b>	<b>(34)</b>
<b><i>Closing Capital Financing Requirement</i></b>	<b>6,291</b>	<b>11,494</b>
<b><i>Movement in Capital Financing Requirement</i></b>	<b>5,645</b>	<b>5,203</b>
<b>Explained by:</b>		
Increase in underlying need to borrow (supported by government financial assistance)	5,490	5,054
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	155	149
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>5,645</b>	<b>5,203</b>

## 33. LEASES

### *Operating Leases*

#### **Authority as Lessee**

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

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 2019 £000	31 March 2020 £000
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	225	236
Later than one year & not later than five years	817	756
Later than five years	486	400
<b>Total</b>	<b>1,528</b>	<b>1,392</b>

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

	2018/19 £000	2019/20 £000
Minimum lease payments	223	170
<b>Total</b>	<b>223</b>	<b>170</b>

### 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	Investment Properties
The operation of a supermarket and residential accommodation	35 years	24.03.2031	Investment Properties
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

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Detail of lease	Term	Expiry date	Segment in CIES
The rental of office accommodation	10 years	29.09.2026	Customer First

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

	31 March 2019 £000	31 March 2020* £000
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	794	1,004
Later than one year & not later than five years	2,935	4,015
Later than five years	32,476	33,494
<b>Total</b>	<b>36,205</b>	<b>38,513</b>

\*The increase in remaining rent payable as at 31 March 2020 reflects the new lease of a supermarket and residential accommodation.

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.

## 34. 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 (£)	
	18/19	19/20	18/19	19/20	18/19	19/20	18/19	19/20
£0 - £20,000	-	-	1	1	1	1	878	2,636
<b>TOTAL</b>	-	-	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>878</b>	<b>2,636</b>

The exit package amount (£2,636 in 2019/20) is the cost of redundancy payment plus the cost of any pension strain payments.

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

#### **Shared Services with West Devon Borough Council**

Of the £2,636 cost of exit packages in 2019/20 (£878 in 2018/19), West Devon Borough Council (WDBC) made a contribution of £659 in 2019/20 (Nil in 2018/19). In addition, South Hams District Council made a contribution of £76,919 to West Devon Borough Council in respect of their exit package costs in 2019/20 (Nil in 2018/19).

## **35. 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. 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 during 2022/23 (as at 31 March 2022) and will set contributions for the period from 1 April 2023 to 31 March 2026. 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 2021 is £1.216m. The Actuary has estimated the duration of the Employer's liabilities to be 20 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.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement	2018/19 £000	2019/20 £000
<b>Cost of Services</b>		
<i>Service cost comprising</i>		
- Current Service Cost – see note above	3,330	(41)
<i>Financing and Investment Income and Expenditure</i>		
- Net Interest Expense	1,290	1,067
- Administration Expenses	68	71
<b>Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>4,688</b>	<b>1,097</b>
<b>Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement</b>		
<i>Re-measurement of the net defined benefit liability comprising:</i>		
- Change in financial assumptions	5,337	(12,457)
- Change in demographic assumptions	(8,357)	(1,029)
- Experience loss/(gain)	-	3,913
- Return on fund assets in excess of interest	(2,828)	9,543
- Other actuarial gains/(losses) on assets	-	380
<i>Total re-measurement recognised</i>	<i>(5,848)</i>	<i>350</i>
<b>Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(1,160)</b>	<b>1,447</b>
<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	4,688	1,097
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
- Employers contributions payable to scheme	1,730	1,512

### 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:

Net Pension Liability	31 March 2019 £000	31 March 2020 £000
Present value of the defined benefit obligation	144,482	129,835
Fair value of Fund assets	(98,688)	(83,985)
<b>Deficit/(surplus)</b>	<b>45,794</b>	<b>45,850</b>
Present value of unfunded obligation	2,775	2,654
<b>Net defined benefit liability/(asset)</b>	<b>48,569</b>	<b>48,504</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Reconciliation of opening and closing balances of the fair value of Fund assets	31 March 2019 £000	31 March 2020 £000
<b>Opening fair value of Fund assets</b>	<b>95,543</b>	<b>98,688</b>
Interest on assets	2,411	2,230
Return on assets less interest	2,828	(9,543)
Other actuarial gains/(losses)	-	(380)
Administration expenses	(68)	(71)
Contributions by employer including unfunded	1,730	1,512
Contributions by Scheme participants	546	458
Estimated benefits paid plus unfunded net of transfers in	(4,302)	(4,328)
Settlement prices received/(paid)	-	(4,581)
<b>Closing fair value of Fund assets</b>	<b>98,688</b>	<b>83,985</b>

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	31 March 2019 £000	31 March 2020 £000
<b>Opening defined benefit obligation</b>	<b>147,002</b>	<b>147,257</b>
Current service cost	3,330	2,702
Interest cost	3,701	3,297
Change in financial assumptions	5,337	(12,457)
Change in demographic assumptions	(8,357)	(1,029)
Experience loss/(gain) on defined benefit obligation	-	3,913
Liabilities assumed/(extinguished) on settlements	-	(7,938)
Estimated benefits paid net of transfers in	(4,109)	(4,137)
Past service costs, including curtailments	-	614
Contributions by Scheme participants	546	458
Unfunded pension payments	(193)	(191)
<b>Closing defined benefit obligation</b>	<b>147,257</b>	<b>132,489</b>

These figures have allowed for the estimated impact of the recent McCloud judgement as a past service cost. The impact on the total liabilities as at 31 March 2020 has been estimated to be £614,000 (or 0.5% as a percent of total liabilities).

#### 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 2020, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 table below:

Basis for estimating assets and liabilities	31 March 2019	31 March 2020
<b>Mortality assumptions (in years):</b>		
<i>Longevity at 65 for current pensioners</i>		
- Men	22.4	22.9
- Women	24.4	24.1
<i>Longevity at 65 for future pensioners (in 20 years)</i>		
- Men	24.1	24.3
- Women	26.2	25.5
<b>Financial assumptions (in percentages):</b>		
- RPI increases	3.4%	2.7%
- CPI increases	2.4%	1.9%
- Salary increases	3.9%	2.9%
- Pension increases	2.4%	1.9%
- Discount rate	2.4%	2.4%

The financial assumptions summarised in the table above are set with reference to market conditions at 31 March 2020.

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	129,972	132,489	135,057
Projected service cost	2,486	2,553	2,622
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	132,664	132,489	132,316
Projected service cost	2,553	2,553	2,553
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	134,891	132,489	130,133
Projected service cost	2,622	2,553	2,486
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	137,833	132,489	127,364
Projected service cost	2,628	2,553	2,480

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

The estimated asset allocation for South Hams District Council as at 31 March 2020 is as follows:

Employer asset share	31 March 2019		31 March 2020	
	£000	%	£000	%
Gilts	3,389	3%	3,582	4%
UK equities	16,395	17%	11,176	14%
Overseas equities	42,442	43%	36,118	43%
Property	8,723	9%	7,912	10%
Infrastructure	3,624	4%	3,619	4%
Target return portfolio	13,971	14%	11,028	13%
Cash	1,578	1%	978	1%
Other bonds	1,736	2%	4,400	5%
Alternative assets	5,212	5%	5,172	6%
Private equity	1,618	2%	-	-
<b>Total</b>	<b>98,688</b>	<b>100%</b>	<b>83,985</b>	<b>100%</b>

Of the total fund asset at 31 March 2020, 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 2020	
		% Quoted	% Unquoted
<b>Fixed interest government securities</b>	UK	0.2%	-
	Overseas	4.1%	-
<b>Corporate bonds</b>	UK	0.1%	-
	Overseas	2.4%	-
<b>Equities</b>	UK	13.3%	0.0%
	Overseas	43.0%	0.0%
<b>Property</b>	All	-	9.4%
<b>Others</b>	Absolute return portfolio	13.1%	-
	Private equity	-	0.0%
	Infrastructure	-	4.3%
	Multi sector credit fund	6.2%	-
	Private debt	-	2.7%
	Cash/Temporary investments	-	1.1%
<b>Net current assets</b>	Debtors	-	0.1%
<b>Total</b>		<b>82.4%</b>	<b>17.6%</b>



## **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

### **McCloud Judgement**

A judgement in the Court of Appeal about cases involving judges' and firefighters' pensions (the McCloud judgement) has the potential to impact on the Council. The cases concerned possible age discrimination in the arrangements for protecting certain scheme members from the impact of introducing new pensions arrangements. As the Local Government Pension Scheme was restructured in 2014, with protections for those members who were active in the Scheme at 2012 and over the age of 55, the judgement is likely to extend to the Scheme.

The estimated impact of the McCloud Judgement on the total liabilities at 31 March 2020 has been allowed for as a past service cost and has resulted in a slight increase in the defined benefit obligation as at 31 March 2020.

It should be noted that this adjustment is an estimate of the potential impact on the Employer's defined benefit obligation based on analysis carried out by the Government Actuary's Department (GAD) and the Employer's liability profile. It is not yet clear how this judgement may affect LGPS members' past or future service benefits

On the presumption that the remedy is for the Authority to incur costs in extending protections to all members who were active at 31 March 2012 until their retirement, the Pension Fund's Actuary has advised an indicative impact on South Hams District Council of a potential increase in pension liabilities of £614,000 (0.5% of total pension scheme liabilities).

This estimate from the Pension Fund's Actuary is based on the Government Actuary's Department's (GAD) estimate that salaries are assumed to increase at 1.5% each year above CPI in addition to a promotional scale.

To illustrate sensitivity to the assumed rate of salary increases, if the Actuary were to lower the salary increase assumption by 0.5% then the impact of the judgement on the total liabilities at 31 March 2020 would be 0.5% of total liabilities, and the impact of the judgement on the current service cost would be 2.1% of active liabilities.

## **36. 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 LiveWest, previously Livery) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). These warranties were granted for 35 years from 1999. 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).

## 37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Key Risks

Financial Instruments held by the Council are detailed in Note 14. 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 FINANCIAL STATEMENTS**

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

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 21 March 2019 and is available on the Council's website (Minute 67/18).

These policies are implemented by the Finance 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.

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 Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

Institutions are split into colour bandings to determine the maximum level and duration of the investment.

The full Investment Strategy for 2019/20 was approved by Council on 21 March 2019 and is available on the Council's website (Minute 67/18).

The Council's Counterparty limits are as follows:

- £6.0 million for Money Market Funds
- £1.5 million on CCLA Property Investment Fund
- £2.0 million on CCLA Diversified Income Fund
- £6.0 million on term deposits with banks and building societies with the UK (£7.0 million with Lloyds Bank PLC, the Council's bank).

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 2020 and is reflected in the current figure of £585,000. This compares to £503,000 in 2018/19. 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.

The outbreak of Covid-19 has impacted global financial economies and there is an unprecedented set of circumstances on which to base a judgement of the likelihood of debt recovery. These provisions have been calculated using robust methodologies and adjustments have been made to reflect the uncertainties arising as a result of Covid-19.

#### Amounts Arising from Expected Credit Losses

The Council's short term investments have been assessed and the expected credit loss is not material therefore no allowances have been made.

	Balance at 31 March 2020	Historical Experience of Default	Estimated Maximum Exposure to Default and Uncollectability at 31 March 2020
	£000	%	£000
<b>Deposits with Bank and Financial Institutions</b>			
Aberdeen Standard Money Market Fund	6,000	0.000%	-
Blackrock Money Market Fund	4,100	0.000%	-
LGIM Money Market Fund	6,000	0.000%	-
Nationwide Building Society	5,000	0.001%	-
Barclays Bank PLC	3,500	0.002%	-
Nationwide Building Society	1,000	0.002%	-
Lloyds Bank PLC	5,000	0.013%	1
Lloyds Bank PLC	1,000	0.017%	-
<b>Total</b>	<b>31,600</b>		<b>1</b>

#### Liquidity risk

The Authority 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 a comprehensive cash flow management system, as required by the CIPFA Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 17 to the accounts.

This seeks to ensure that cash is available when needed.

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.

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

#### ***Market Risk***

The Council is exposed to market risk in terms of its exposure that the value of an instrument will fluctuate because of changes in:

- Interest rate risk;
- Price risk; and
- Foreign exchange rate risk.

#### ***Interest rate risk***

The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in fixed interest rates would have the following effects:

- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

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. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

#### ***Price risk***

The Council has an investment of £1.5 million in the CCLA Local Authorities Property Fund and £2.0 million in the CCLA Diversified Income Fund. At the end of each financial year the value of the Local Authority's investments are adjusted to equal the number of units held, multiplied by the published bid price.

The above investments have been elected as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve, therefore there will be no impact on the General Fund until the investment is sold or impaired.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### **Foreign exchange risk**

The Council does not have any financial assets or liabilities denominated in foreign currencies, and thus has no exposure to loss arising from movements in exchange rates.

#### **Refinancing and Maturity Risk**

The Council maintains a debt and investment portfolio. Whilst the cash flow procedures above 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. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

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

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	Approved minimum limits	Approved maximum limits	31 March 2019		31 March 2020	
			£million	%	£million	%
	%	%				
Less than 1 year	0%	10%	-	-	0.092	0.6%
Between 1 and 2 years	0%	10%	-	-	0.094	0.6%
Between 2 and 5 years	0%	30%	-	-	1.016	7.0%
Between 5 and 10 years	0%	50%	2.160	39.3%	2.347	16.1%
More than 10 years	0%	100%	3.330	60.7%	11.017	75.7%
<b>Total</b>			<b>5.490</b>	<b>100.0%</b>	<b>14.566</b>	<b>100.0%</b>

## **38. ACCOUNTING POLICIES**

### **a) General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. 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 2019/20, 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.
- 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.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

The Council operates a de minimis policy for accruals. For revenue and capital expenditure the de minimis has remained at £5,000 in 2019/20.

#### 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	✗	✓
Call Account	T + 0	✗	✓
Notice Deposit	Maturity	✗	✗
Term Deposit	T + 7 days	✗	✓
Other Term Deposits	Maturity	✗	✗

**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 (in excess of £500,000), 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.

#### 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.



### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

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. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. These charges are therefore replaced by the contribution in the General Fund Balance – Minimum Revenue Provision (MRP), 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) 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 Centrally Held Costs line in the Comprehensive Income and Expenditure Statement, to end 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.

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

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.
- 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 35.

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 Centrally Held 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

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

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 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.

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

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 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.

For the borrowings held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

##### ***Financial Assets***

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

The three main classes of financial assets are measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

##### ***Financial Assets Measured at Amortised Cost***

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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 CIES.

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

#### ***Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)***

The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI).

The Council has made an irrevocable election to designate its equity instruments as FVOCI on the basis that it is held for non-contractual benefits, it is not held for trading but for strategic purposes.

The asset is initially measured and carried at fair value.

Dividend income is credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus or Deficit on the Provision of Services.

#### ***Expected Credit Loss Model***

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

#### ***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.

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

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

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.

#### **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.

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

#### **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 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

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **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 relevant line within the 'Cost of Services' or 'Financing and Investment Income' 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 FINANCIAL STATEMENTS**

#### **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 – current 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.

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:

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

- 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.

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

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

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

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.

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

#### **Impairment**

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. This formal impairment review is undertaken by the Council's Valuer. 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:

<b>Asset</b>	<b>Useful life</b>
Buildings	Up to sixty years
Infrastructure	Up to twenty years
Refuse vehicles	Up to ten years
Light vans	Up to seven years
Marine vessels	Up to 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.

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

#### ***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 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

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

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.

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.

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

#### **u) Revenue Recognition**

With the adoption of accounting standard IFRS 15, revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient. Material revenue sources will be disclosed on the face of the Consolidated Income and Expenditure Statement and as part of Note 2, Material Items of Income and Expenditure.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

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. A review will take place each year to identify whether any disclosure is necessary.

Further details of specific revenue recognition are provided in policies b) Accruals of Income and Expenditure and y) Accounting for Local Taxes.

#### **v) 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.

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

#### **x) 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

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

recording. The work carried out includes establishing from the Heads of Practice/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.

#### **y) 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.

#### **z) 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 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.

#### **aa) 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 2020/21 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Authority in the 2020/21 financial statements i.e. from 1 April 2020.

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.

It was originally envisaged that the financial impact of IFRS16 *Leases* would need to be disclosed in the 2019/20 Accounts. This standard will require local authorities that are lessees to recognise leases on their balance sheets as right-of-use assets with corresponding lease liabilities. However, CIPFA/LASAAC have recently deferred implementation of IFRS16 for local government for a further year from 1 April 2020 to 1 April 2021 due to the COVID-19 pandemic.

Following this deferral there are no changes in accounting requirements for 2020/21 that are anticipated to have a material impact on the Council's financial performance or financial position.

## **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:

- There is a high degree of uncertainty about future levels of funding for local government. The Council is awaiting the announcement from the Government on the Comprehensive Spending Review for 2021-22 to 2023-24. The other areas adding to the uncertainty are the postponement of the implementation of the Fair Funding Review, the future resetting of business rates baselines, the impact of the COVID19 pandemic on major income streams and the future of the New Homes Bonus scheme. Based on the S151 Officer's management assessment (which has included consideration of the Government support available, the Council's current level of reserves, the level of working capital including cash and investments, a sensitivity analysis on forecast cashflows, income from local taxation and borrowing headroom etc.), there is no material uncertainty and as a result the Accounts for 2019-20 are prepared on a going concern basis. Further detail is within the Narrative Statement under 'Going Concern'.
- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs. The methodology for the apportionment of costs (predominantly staffing costs) are split on a defined basis which reflects the level of caseload attributable to each individual service. The methodology and mechanisms used to calculate the cost allocations are reviewed and reported to the Audit Committee on an annual basis. The final actual shared services

### **SECTION 3. NOTES TO THE FINANCIAL STATEMENTS**

split formulae are adjusted if they exceed a tolerance level of 3% from the original estimate.

- 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.

**SECTION 9. GLOSSARY OF TERMS**

**COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2020**

This account reflects the statutory requirements for the Council as a billing Authority 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.

<b>2018/19 Business Rates* £000</b>	<b>2018/19 Council Tax £000</b>		<b>2019/20 Business Rates* £000</b>	<b>2019/20 Council Tax £000</b>
		<b>INCOME</b>		
-	(70,123)	Income from Council Tax	-	(74,334)
(30,648)	-	Business Rates Receivable	(29,646)	-
-	-	Interest on Refunds	3	-
99	-	Less: Transitional Relief	1,189	-
<b>(30,549)</b>	<b>(70,123)</b>		<b>(28,454)</b>	<b>(74,334)</b>
		<b>EXPENDITURE</b>		
		<b>Precepts, Demands and Shares*:</b>		
-	-	Central Government	13,856	-
16,505	50,388	Devon County Council	2,494	52,852
-	7,127	Devon & Cornwall Police	-	8,105
280	3,180	Devon & Somerset Fire Authority	277	3,303
11,190	8,269	South Hams District Council (net including Towns/Parishes)	11,085	8,779
209	-	Business Rates written off and change in impairment allowance	585	-
-	602	Council Tax written off and change in impairment allowance	-	1,018
(899)	-	Business Rates increase/(decrease) in provision for appeals	436	-
205	-	Business Rates – Costs of collection	204	-
		<b>Distribution/collection of previous year's estimated surplus/(deficit)**:</b>		
17,358	-	Central Government	(512)	-
3,124	435	Devon County Council	1,390	685
-	60	Devon and Cornwall Police	-	97
347	28	Devon and Somerset Fire Authority	15	43
13,887	73	South Hams District Council	596	112
<b>62,206</b>	<b>70,162</b>		<b>30,426</b>	<b>74,994</b>
<b>31,657</b>	<b>39</b>	<b>MOVEMENT ON BALANCE</b>	<b>1,972</b>	<b>660</b>

## SECTION 9. GLOSSARY OF TERMS

### \*Business Rates Pilot Status 2018/19

Devon was selected as one of 10 areas to take part in a national pilot allowing Councils to retain a higher share of business rates growth in 2018/19. This pilot status is reflected in the Preceptor's Shares above for 2018/19 with no surplus due to Central Government and Devon County Council's share increased from 9% to 59%.

### \*\*Business Rates Position 31 March 2019

Additional business rate income was held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This was released to the Council's General Fund in 2018/19 and is reflected in the previous year's estimated surplus position for 2018/19 as shown in the table above.

## 1. Council Tax and Council Tax Base

In 2019/20, the Council's average Band D Council Tax was £1,913.04 (£1,821.93 in 2018/19). The charge for each band is a ratio of band D. The 2019/20 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	1,062.80
A	6/9	1,275.36
B	7/9	1,487.92
C	8/9	1,700.48
D	1	1,913.04
E	11/9	2,338.16
F	13/9	2,763.28
G	15/9	3,188.40
H	18/9	3,826.08

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 2019/20 was **38,179.72** as calculated below (**37,851.93** in 2018/19).

## SECTION 9. GLOSSARY OF TERMS

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
<b>Disabled A</b>	-	13.50	13.50	5/9	7.50
<b>A</b>	4,991	(841.50)	4,149.50	6/9	2,766.33
<b>B</b>	8,697	(1,016.50)	7,680.50	7/9	5,973.72
<b>C</b>	8,709	(824.25)	7,884.75	8/9	7,008.67
<b>D</b>	8,019	(532.00)	7,487.00	1	7,487.00
<b>E</b>	6,790	(460.00)	6,330.00	11/9	7,736.67
<b>F</b>	3,758	(186.50)	3,571.50	13/9	5,158.83
<b>G</b>	3,039	(172.25)	2,866.75	15/9	4,777.92
<b>H</b>	339	(18.00)	321.00	18/9	642.00
<b>Total</b>	<b>44,342.00</b>	<b>(4,037.50)</b>	<b>40,304.50</b>		<b>41,558.64</b>
Less allowance for non collection					(831.17)
Plus adjustment for armed forces dwellings					69.30
Other adjustments including Council Tax Support					(2,617.05)
<b>Tax base</b>					<b>38,179.72</b>

## 2. Rateable Value

The total business rates rateable value at 31 March 2020 was £86,532,995. This compares to £87,046,425 at 31 March 2019. The standard business rates multiplier was 50.4p in 2019/20 (2018/19:49.3p). Without reliefs this would generate a total income of £43,612,629.48 (2018/19 £42,913,887.52). 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

2018/19 Business Rates* £000	2018/19 Council Tax £000		2019/20 Business Rates* £000	2019/20 Council Tax £000
(33,692)	(1,020)	Fund balance at 1 April	(2,035)	(981)
31,657	39	Deficit/(surplus) for year	1,972	660
<b>(2,035)</b>	<b>(981)</b>	<b>Fund balance as at 31 March – deficit/(surplus)</b>	<b>(63)</b>	<b>(321)</b>

**SECTION 9. GLOSSARY OF TERMS**

**\*Business Rates Position 31 March 2019**

Additional business rate income was held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This was released to the Council's General Fund in 2018/19.

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

<b>2018/19 Business Rates** £000</b>	<b>2018/19 Council Tax £000</b>		<b>2019/20 Business Rates** £000</b>	<b>2019/20 Council Tax £000</b>
512	-	Central Government	242	-
(1,713)	(717)	Devon County Council	(279)	(233)
-	(102)	Devon and Cornwall Police	-	(35)
(20)	(45)	Devon and Somerset Fire Authority	(1)	(14)
<b>(1,221)</b>	<b>(864)</b>	<b>Total deficit/(surplus) due to Preceptors</b>	<b>(38)</b>	<b>(282)</b>
(814)	(117)	South Hams District Council	(25)	(39)
<b>(2,035)</b>	<b>(981)</b>	<b>Fund balance as at 31 March – deficit/(surplus)</b>	<b>(63)</b>	<b>(321)</b>

**\*\*Business Rates Pilot Status 2018/19**

The table above shows Central Government had a deficit balance on the Business Rates Collection Fund as at 31 March 2019 and 31 March 2020. This is due to the Council's Business Rates Pilot Status for 2018/19. Unlike the other Preceptors Central Government's debtor was not offset by a share of the 2018/19 surplus following the Devon Authorities successful bid for Pilot status. The 2018/19 Business Rates figures above also reflect the increase to Devon County Council's share for 2018/19 from 9% to 59% in line with the Pilot status. The pilot was for one year, 2018/19 and generated an extra £575,000 of business rate income for the District Council.

## **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 2020.



.....

**Lisa Buckle BSc (Hons), ACA**

**Corporate Director of Strategic Finance (Section 151 Officer)**

**15 October 2020**

**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 15 October 2020.

Signed on behalf of South Hams District Council



.....

**Councillor T R Holway**

Chairman of the Audit Committee



# **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 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund for the year ended 31 March 2020 and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **The impact of macro-economic uncertainties on our audit**

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Corporate Director of Strategic Finance (Section 151 Officer) and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit

## **SECTION 6 AUDITORS REPORT**

should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Strategic Finance (Section 151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director of Strategic Finance (Section 151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Corporate Director of Strategic Finance (Section 151 Officer)'s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

### **Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and investment properties**

We draw attention to Note 1 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and investment properties as at 31 March 2020. As disclosed in Note 1 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in the both Authority's land and buildings valuer's report and the investment property valuer's report. Our opinion is not modified in respect of this matter.

### **Other information**

The Corporate Director of Strategic Finance (Section 151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Statement and the Annual Governance Statement, other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial

## **SECTION 6 AUDITORS REPORT**

statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report 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; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application 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 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## **Responsibilities of the Authority, the Corporate Director of Strategic Finance (Section 151 Officer) and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Strategic Finance (Section 151 Officer). The Corporate Director of Strategic Finance (Section 151 Officer) is responsible for the preparation of the 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Strategic Finance (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director of Strategic Finance (Section 151 Officer) is responsible for 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 unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion 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 on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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 April 2020, as to whether in all significant respects the Authority had proper arrangements to 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 the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Report on other legal and regulatory requirements - Certificate

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

### Use of our report

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 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members 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

**SECTION 6 AUDITORS REPORT**

accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jackson Murray, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

15 October 2020

## **SECTION 7. GLOSSARY OF TERMS**

<b>Term</b>	<b>Description</b>
<b>ACCRUALS</b>	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.
<b>ACTUARIAL GAINS AND LOSSES</b>	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.
<b>BALANCES</b>	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.
<b>CAPITAL EXPENDITURE</b>	Expenditure on the acquisition of an asset or expenditure which adds to and not merely maintains the value of an existing asset.
<b>CAPITAL RECEIPTS</b>	Income received from sale of assets which is available to finance other capital expenditure or to repay debt on assets financed from loan.
<b>CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)</b>	The governing body responsible for issuing the statement of recommended practice to prepare the accounts.
<b>COLLECTION FUND</b>	A separate fund which must be maintained by a district for the proper administration of council tax and business rates.
<b>CURRENT SERVICE COST</b>	Amount chargeable to Services based on the Actuary's assessment of pension liabilities arising and chargeable to the financial year.
<b>CURTAILMENTS</b>	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**

<b>DEFINED BENEFIT SCHEME</b>	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).
<b>DEMAND</b>	The charging authorities own Demand is, in effect, its precept on the fund.
<b>FAIR VALUE</b>	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.
<b>FEES AND CHARGES</b>	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.
<b>FINANCIAL INSTRUMENTS</b>	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.
<b>GOVERNMENT GRANTS</b>	Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.
<b>IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)</b>	Provisions against income to prudently allow for non collectible amounts.
<b>INTEREST COST</b>	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.
<b>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND THE CODE OF PRACTICE (CODE)</b>	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**

<b>MINIMUM REVENUE PROVISION (MRP)</b>	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.
<b>PAST SERVICE COST</b>	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.
<b>PRECEPT</b>	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.
<b>PROJECTED UNIT METHOD</b>	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.
<b>RATEABLE VALUE</b>	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.
<b>REVENUE EXPENDITURE</b>	Recurring items of day to day expenditure consisting principally of salaries and wages, and general running expenses etc.
<b>SETTLEMENTS</b>	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.
<b>STRAIN ON FUND CONTRIBUTIONS</b>	Additional employers pension contributions as a result of an employee's early retirement.
<b>SUNDRY CREDITORS</b>	Amounts owed by the Council at 31 March.
<b>SUNDRY DEBTORS</b>	Amounts owed to the Council at 31 March.