

# South Hams Audit and Governance Committee



<b>Title:</b>	<b>Agenda</b>						
<b>Date:</b>	<b>Thursday, 24th November, 2022</b>						
<b>Time:</b>	<b>2.00 pm</b>						
<b>Venue:</b>	<b>Council Chamber - Follaton House</b>						
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Austen</p> <p style="text-align: center;"><b>Vice Chairman</b> Cllr Spencer</p> <p><i>Members:</i></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">Cllr Brazil</td> <td style="width: 33%;">Cllr Rowe</td> </tr> <tr> <td>Cllr McKay</td> <td>Cllr Taylor</td> </tr> <tr> <td>Cllr Pennington</td> <td></td> </tr> </table>	Cllr Brazil	Cllr Rowe	Cllr McKay	Cllr Taylor	Cllr Pennington	
Cllr Brazil	Cllr Rowe						
Cllr McKay	Cllr Taylor						
Cllr Pennington							
<b>Interests – Declaration and Restriction on Participation:</b>	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.						
<b>Committee administrator:</b>	Democratic.Services@swdevon.gov.uk						

<b>1. Minutes</b>	<b>1 - 4</b>
To approve as a correct record the minutes of the Audit Committee held on 20 October 2022:	
<b>2. Urgent Business</b>	
Brought forward at the discretion of the Chairman;	
<b>3. Division of Agenda</b>	
To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;	
<b>4. Declarations of Interest</b>	
In accordance with the Code of Conduct, Members are invited to declare any Disclosable Pecuniary Interests, Other Registerable Interests and Non-Registerable Interests including the nature and extent of such interests they may have in any items to be considered at this meeting;	
<b>5. Grant Thornton Audit Findings Report</b>	<b>5 - 34</b>
<b>6. Annual Statement of Accounts 2021/2022</b>	<b>35 - 204</b>
<b>7. Update on Progress on the 2022-23 Internal Audit Plan</b>	<b>205 - 220</b>
<b>8. Audit Committee Workplan 2022/23</b>	<b>221 - 222</b>

**MINUTES OF A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE  
 HELD IN THE COUNCIL CHAMBER, FOLLATON HOUSE, PLYMOUTH ROAD,  
 TOTNES ON THURSDAY, 20 OCTOBER 2022**

<b>Members in attendance</b>			
* Denotes attendance			
∅ Denotes apology for absence			
*	Cllr L Austen (Chairman)	*	Cllr R Rowe
*	Cllr J Brazil	*	Cllr B Spencer (Vice-Chairman)
*	Cllr J McKay	*	Cllr B Taylor
∅	Cllr J T Pennington		

<b>Member(s) also in attendance:</b>
Cllrs H D Bastone; N Hopwood (via Teams) and J Pearce

<b>Item No</b>	<b>Minute Ref No below refers</b>	<b>Officers and Visitors in attendance</b>
All Items		Director of Strategy and Governance; Section 151 Officer; Head of Finance; Democratic Services Manager (via Teams); Audit Specialist (via Teams), External Auditor (via Teams) and Senior Case Manager (Democratic Services).

**AG.19/22 MINUTES**

The minutes of the Audit and Governance Committee meeting held on 8 September 2022 were confirmed as a true and correct record.

**AG.20/22 DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

**AG.21/22 GRANT THORNTON AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The Committee considered a paper from Grant Thornton that provided a progress update on delivering their responsibilities as the Council's External Auditors.

In discussion, a Member sought clarification on the Auditing, Reporting and Governance Authority (ARGA) and it was reported that following the Redmond review ARGA's aim was to simplify the auditing framework. It was further reported that there was a requirement for Audit Committees to include one independent member when the new regulations were adopted.

It was then:

**RESOLVED**

That the contents of the Grant Thornton Audit Progress Report and Sector Update be noted.

AG.22/22 **IVYBRIDGE REGENERATION SCHEME - PROJECT CLOSURE REPORT**

Members considered a closure report that reviewed the chronology of the reporting, internal governance, stakeholder engagement and planning undertaken during the Ivybridge Regeneration Project.

In discussion, a Member queried if there was an opportunity for future high streets funding and it was reported that the bid for high street funding was unsuccessful. Members then debated how decisions were made in relation to this project and that a report was only presented to the Audit Committee on one previous occasion. Members also discussed that at the start of this project there was majority community support but when the plans were published, support turned into objections. Members also felt that rising costs in construction would have impacted on the project if planning permission had been granted by the Development Management Committee.

Members felt that public engagement on major projects was crucial and **PROPOSED** and **SECONDED** to include a timeframe on recommendation two.

It was then

**RESOLVED**

- 1) that the project closure report be noted; and
- 2) that a planning protocol be adopted for major projects, with a final draft of the protocol being presented to the Committee within the next six months for approval..

AG.23/22 **OMBUDSMAN ANNUAL REVIEW LETTER**

A report was considered that presented the Ombudsman Annual Review Letter for 2021.

It was then:

**RESOLVED**

1. That the Ombudsman's Annual Letter for 2021 as attached at Appendix A of the presented report, has been reviewed; and
2. That the steps set out to ensure that the Council continued to address complaints fairly and in line with best practice, be noted



**AG.24/22 SUNDRY DEBT**

Consideration was given to a report that provided Members with an update of the position with regard to Sundry Debt.

In discussion, a Member raised the substantial amount of debt which was over 4 years old and it was reported that the Asset Team were making every effort to recover remaining debts with payment plans. Members raised whether some of these debts were economical to pursue and requested for further reports to be provided to the Committee in January and March.

It was then:

**RESOLVED**

That the position in relation to Sundry Debt be noted.

**AG.25/22 AUDIT & GOVERNANCE COMMITTEE WORKPLAN 2022-23**

Members were presented with the latest version of the Committee Work Programme and noted its contents.

**RESOLVED**

That a report on Sundry Debt be added to the workplan for January 2023 and March 2023 and that the Planning Protocol for Major Projects be added to the workplan for March 2023

(Meeting commenced at 2:00pm and concluded at 3.25 pm)

---

Chairman

This page is intentionally left blank

# The Audit Findings for South Hams District Council

**Year ended 31 March 2022**

November 2022

Page 5



# Contents



**Your key Grant Thornton team members are:**

## Jackson Murray

Key Audit Partner

T 0117 305 7859

E Jackson.Murray@uk.gt.com

## Oliver Durbin

Manager

T 0117 305 7785

E Oliver.J.Durbin@uk.gt.com

## Section

1. Headlines
2. Financial statements
3. Value for money arrangements
4. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

## Page

- 03  
05  
19  
21  
  
23  
25  
26  
28

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit and Governance Committee.

## Jackson Murray

Name : Jackson Murray

For Grant Thornton UK LLP

Date: November 2022

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Hams District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Page 7

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed in a hybrid manner, with a mixture of on-site and remote during July-November. Our findings are summarised on pages 7 to 15. We have identified non-trivial adjustments to the draft financial statements that were provided to audit, which have been adjusted in the final version of the financial statements. These are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion subject to the following outstanding matters;

- final testing of the Movement In Reserves Statement and the Expenditure and Funding Analysis;
- concluding procedures performed on the valuation of land and buildings with management co-operation;
- receipt of assurances from the Devon Pension Fund auditor; and
- satisfactory completion of final quality reviews and any resultant queries.

A national accounting issue has been identified for Local Government bodies who have significant infrastructure asset balances, which is the case for South Hams District Council. The Government and CIPFA have consulted on a proposed statutory override for some aspects of this issue. This statutory override will not be laid before Parliament in time to allow it to come into effect prior to 30 November 2022, which is the date in legislation for audited 2021/22 financial statements. For this reason, we will not be able to issue our audit opinion until after the statutory override is enacted. We anticipate that our audit opinion will therefore be issued in early 2023, subject to the final content of the proposed statutory override.

Following the satisfactory completion of all of the above, we will then be in a position to conclude the audit and issue our audit opinion following our:

- receipt of the signed management representation letter; and
- receipt and review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion at the date of drafting this report will be unmodified.

# 1. Headlines

## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- improving economy, efficiency and effectiveness;
- financial sustainability; and
- governance.

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Audit and Governance Committee in September 2022. We currently expect to issue our Auditor's Annual Report in February 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any risks of significant weakness. Our work on VFM is underway and an update is set out in the value for money arrangements section of this report.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report in February 2023.

## Significant Matters

We did not encounter any significant difficulties during our work.

# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ("the Code"). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We did not significantly alter our audit approach to that reported in our Audit Plan.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, and conclusion of the national infrastructure accounting issue, we anticipate issuing an unqualified audit opinion. Outstanding items are included on page 3.

We have identified a number of adjustments to the draft financial statements as reported in appendix C.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

For the first time since the start of the COVID-19 Pandemic, we completed some of our audit testing on site meeting with officers face to face as well as working remotely.

As in previous years, significant time has been invested in the audit by Council and audit staff and a good professional working relationship has been maintained.

## 2. Financial Statements



### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 29 June 2022.

We detail in the table opposite our determination of materiality for South Hams District Council.

### Council Amount Qualitative factors considered

Materiality for the financial statements	£1,060k	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year and monitors spend against this, therefore gross expenditure was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 2% was an appropriate rate to apply to the expenditure benchmark.
Performance materiality	£795k	The Council does not have a history of significant deficiencies so 75% is considered a reasonable percentage for performance materiality.
Trivial matters	£53k	Calculated as a percentage of headline materiality and in accordance with auditing standards.
Materiality for senior officer remuneration	£20k	Based on the public sensitivity surrounding the disclosure of senior officer pay.





## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

### Risks identified in our Audit Plan

### Commentary

#### Management override of controls

Under ISA (UK) 240 there is a non rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

In the 2020/21 audit, we identified that there was significant manual intervention required from the finance team to reconcile the transaction reports to the financial statements which are indicative of the conditions which create this risk. This was due to the ability of the team to run IT reports from the finance ledger which are large in size due to the number of financial transactions.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.

Our sample testing of journal entries posted in the year did not identify any indication of management override of controls.

We did not identify any significant changes in estimation techniques adopted between years (more information on our work on the Council's key estimates can be found on pages 11 to 14).

We are pleased to note that the transaction report issues we reported in 2020/21 have been resolved.

During our work, we identified control weaknesses relating to journal system user rights which we have detailed in the internal controls findings in Appendix A. In response to those findings, we increased the risk associated which doubled our planned substantive testing sample. As above, we found no errors or evidence of override.



# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

The revenue cycle includes fraudulent revenue transactions (ISA240)

No changes were made to our assessment reported in the audit plan, and this risk was rebutted as per justification below: Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the Council revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including that of South Hams District Council, mean that all forms of fraud are seen as unacceptable.

Risk of fraud related to expenditure recognition (PAF Practice Note 10)

No changes to our assessment reported in the audit plan, this risk was rebutted as per justification below:

The risk of material fraud arising from expenditure recognition can be rebutted because, per Practice note 10, misstatements may arise where the audited body is under pressure to meet externally set targets. This environment does not exist at the Council.

## Valuation of Investment Property

The Council has investment properties which must be valued annually at 31st March. At 31 March 2022 the portfolio was worth £19m.

As with other land and buildings, the valuation for these properties is sensitive to changes in key assumptions. We will consider the key assumptions used in the valuation;

- Rental yield; and
- Annual income.

Due to the estimation and judgements involved, we consider this to be a significant risk.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation. This included testing to rental or lease contracts to check the annual income for properties; and
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register.

Our audit work has not identified any issues in respect of the valuation of Investment Property.

# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### Valuation of land and buildings

The Council revalues its land and buildings on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our key findings from this testing are:

- corroborating evidence for the gross internal area data used in the valuation calculations for 5 of our 24 properties sampled is to be taken from external sources but internal records from measured surveys was not available. Further detail is available on p11 and appendix A.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£53m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 3% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

During the course of our audit procedures we have:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated, and assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;
- reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation, and gain an understanding of the basis on which the valuation is carried out;
- reviewed of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary; and
- undertaken procedures to confirm the reasonableness of actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested by their report.

Planned procedures under our audit approach which at the date of writing remain in progress include:

- procedures upon receipt of assurance responses from the Devon Pension Fund auditor.

At the date of writing, there are no other issues arising from our work in respect of this risk which require reporting to the Audit and Governance Committee as those charged with governance. We will update this position to the date of issuing our auditor's report.

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £66.9m	<p>Other land and buildings comprises £22.2m of specialised assets such as leisure centres and bus stations, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£44.7m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its internal valuation experts to complete the valuation of properties as at 31 March 2022 in line with their five yearly cyclical basis. 25% of total assets were revalued during 2021/22.</p> <p>Management place reliance on the work of the valuation experts and review and challenge the work of the valuer when it is reported back to them. The valuation experts are independent from the finance team which ensures that they maintain objectivity when undertaking their valuations.</p> <p>The total year end valuation of land and buildings was £66.9m, a net £0.3m change from 2020/21 (£66.6m) when valuation and other movements were taken into account, such as capital additions and depreciation.</p>	<p>We assessed management's expert and found them to be competent, capable and objective.</p> <p>We corroborated the completeness and accuracy of underlying data used in the valuations, such as lease contracts, to source data.</p> <p>We challenged and corroborated key assumptions adopted within a sample of valuations, considering their relevance when compared to alternatives, including those used by close neighbours.</p> <p>We have not identified any significant changes in valuation method in year, nor have we identified any significant incorrect assumptions in respect of alternative site assumptions for DRC valuations.</p> <p>As part of our testing methodology we formed an expectation of value of assets not formally revalued in year using information provided to auditors by Gerald Eve. This allowed us to project the valuation of those assets to the Balance Sheet date (31 March 2022). We were satisfied that no material difference arose between our expected value and the carrying value recorded in the financial statements.</p> <p>As at reporting date we are still concluding the work on land and buildings valuations.</p> <p>Of 24 assets that were sampled, for 5 of them, gross internal area workings from floor plans are to be corroborated to external data from the Valuation Office Agency but not from internal measured surveys. Data used in calculations was from brought forward schedules that the valuer had access to but the internal records had not been kept. A finding has been raised in appendix A.</p>	<p>A finding has been raised in respect of the work completed</p> <p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £18.6m	<p>Investment Properties comprise £18.6m of assets held to generate rental income such as office blocks, which are required to be valued at Fair Value (FV) at year end, reflecting the market value, i.e. the price that would be received to sell the asset.</p> <p>The Council has engaged an external valuer to complete the valuation of properties as at 31 March 2022.</p> <p>The valuation changes in fair value were (£0.05)m in 2021/22.</p>	<p>We assessed management's expert and found them to be competent, capable and objective.</p> <p>The revaluation methodology and assumptions are considered reasonable. There are no indicators of material misstatement.</p> <p>From our review of the source data provided to the valuer and challenge of the assumptions adopted we did not identify any issues regarding the rental agreements and inputs into the valuation.</p> <p>No issues were identified following this work and our follow up queries to management's expert.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

# 2. Financial Statements - key judgements and estimates

## Significant judgement or estimate

## Summary of management's approach

## Audit Comments

## Assessment

Net pension liability – £52.6m

The Council's net pension liability at 31 March 2022 is £52.6m (PY £61.3m) comprising the Devon Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £12.6m net actuarial gain during 2021/22.

With the use of the consulting actuary as an auditor's expert, we have confirmed that management's actuary are competent, capable and objective.

We considered that the significant risk in respect of pension fund valuation related to the assumptions used in the calculation, rather than the methodology used with is standard and in accordance with the requirements of the CIPFA Code and accounting standards. We make use of the consulting actuary (PwC) to assess the reasonableness of the assumptions adopted and set out below our consideration of these assumptions.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.60%	2.55%-2.60%	●
Pension increase rate	3.20%	3.05% - 3.45%	●
Salary growth	4.20%	3.70% - 5.20%	●
Life expectancy – Males currently aged 45 / 65	23.2 / 21.8	21.9-24.4 / 20.5-23.1	●
Life expectancy – Females currently aged 45 / 65	25.2 / 24.2	24.9-26.4 / 23.4-25.0	●

Our work includes procedures to ensure the completeness and accuracy of the underlying information used to determine the estimate. We review the data provided by the Council and the Pension Fund and corroborate this to supporting payroll data used elsewhere in our audit procedures. We also obtain assurances from the auditor of the Devon Pension Fund over the processes and controls in place, and we currently awaiting these assurances.

Through our procedures to date, we are satisfied that the estimate is reasonable and that the disclosures within the financial statements are adequate. We await receipt of assurances from the Devon Pension Fund auditor to allow us to conclude our work.

We consider management's process is appropriate and key assumptions are neither optimistic or cautious, subject to receipt of pension fund auditor assurances.



## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £0.5m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The Council calculates the MRP charge in accordance with the stated policy in the Treasury Management Strategy approved by members prior to the beginning of the financial year, using the asset life method as is allowed under the regulations.</p>	<p>We assessed that the Council's policy on MRP complies with the Statutory guidance and noted no changes in policy from last year.</p> <p>In considering the MRP charge, we benchmarked the Council's MRP charge as a percentage of its Capital Financing Requirement. The 2021/22 MRP charge is considered appropriate as it was above 2% of the CFR at 2.41%.</p> <p>Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>



# 2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
<p><b>Infrastructure Assets</b> Following recent regulatory reviews and discussion between firms at a national level, it appears that some local authorities may be accounting for Infrastructure assets incorrectly. There are a number of aspects to this, but in particular capital spend on replacing components has been added without derecognition of the previous component and hence has potentially materially enhanced the value of infrastructure assets in error.</p>	<p>During the audit fieldwork, CIPFA have been working on a mechanism for updating the disclosure of infrastructure assets.</p> <p>The audit team have obtained evidence for the gross book value of assets and challenged management on the useful economic lives assumptions used for the calculation of depreciation.</p> <p>The draft financial statements included a depreciation charge of £457k for infrastructure assets in 2021/22, compared to a charge of £439k in 2020/21. We confirmed that this had been calculated using the adopted useful lives of between 15 to 50 years depending on the type of asset.</p>	<p>The audit team await the outcome of the CIPFA wide statutory override before we can complete the audit. This will not be possible until 2023 given the current planned Government timetable.</p> <p>The audit team will wait until the Override is in force before considering whether any recommendations are needed in this area</p> <p><b>Management response</b></p> <p>We await the final audit conclusion on this matter</p>

## 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Page 20

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A standard letter of representation has been requested from the Council which is included in the Audit and Governance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and institutions the Council had year end investments and borrowings with. This permission was granted, the requests were sent and returned with positive confirmations.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. On review, we requested that management included a policy for prior period adjustments.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

# 2. Financial Statements - other communication requirements



## Our responsibility

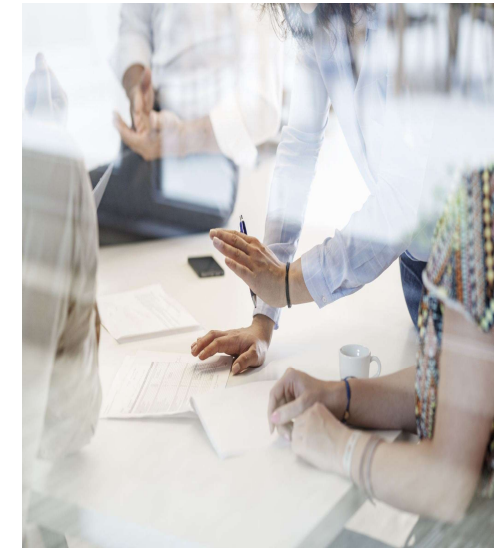
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Page 21

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Council and the environment in which it operates;</li> <li>the Council’s financial reporting framework;</li> <li>the Council’s system of internal control for identifying events or conditions relevant to going concern; and</li> <li>management’s going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified; and</li> <li>management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit;</li> <li>• if we have applied any of our statutory powers or duties; and</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that has not yet begun as the WGA group audit instructions for 2021/22 has yet to be issued. As such we will be unable to issue our audit certificate alongside the audit opinion.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of South Hams District Council in the audit report due to incomplete VFM and WGA work.</p>



# 3. Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Page 23



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

---

## 3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was provided to the Chair of the Audit and Governance Committee in September 2022. We expect to issue our Auditor's Annual Report in February 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness.

# 4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	Proposed fees	Threats identified	Safeguards
Audit related			
Agreed upon procedures on the Council's Housing Benefit subsidy return	£11,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £11,500 in comparison to the total planned fee for the audit of £56,709 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

# Appendices



# A. Action plan – Audit of Financial Statements

We have identified the recommendations below for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these during the course of the 2022/23 audit. The matters reported here are limited to deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 27</p> <p>Medium</p>	<p><b>Journal system controls</b></p> <p>Audit identified 6 members of the finance team who have 'level 9' access rights in the Civica system which allows them to edit and delete journals. One of these officers also has the access rights to edit and delete other people's journals as well as create new users. From an audit perspective therefore, journals entry user access rights did not have appropriate segregation of duties in 2021/22.</p> <p>We are aware of mitigating control that another user downloads a monthly report showing changes in user access rights including whether new users are created. There are also regular budget reviews to detect unusual posting.</p> <p>We have previously reported that the journal system uses retrospective authorisation of journals over £25k. We note that this only applies to journals with individual debit transactions over £25k, for example if a journal was made up of 26 lines of £1k, or credit balances over £25k, it would not be picked up in the authorisation reports. Management and Those Charged with Governance should note the risk of the unreviewed journals that do not meet this threshold.</p> <p>In response to this finding, the audit team increased the risk associated with journal entries, which doubled the size of the journals substantive testing sample, asked all journal posters whether they were asked to post anything unusual, reviewed the authorisation records of journals over £25k and obtained evidence of the monthly check by management on system user changes.</p>	<ul style="list-style-type: none"> <li>It should be considered whether individuals with system administration rights should also be finance team members who can post journals</li> <li>There should be a review of users with 'level 9' access rights to ensure that this access is appropriate</li> <li>It should be considered whether the out of system journal approval reports should also include journals with a total value greater than £25k should be reviewed as well as those with individual debit lines over £25k</li> </ul> <p><b>Management response</b></p> <p>The Head of Finance and the S151 Officer have reviewed this risk and are happy that there are mitigating controls in place to address it. A review of users with 'level 9' access will be undertaken but it is not appropriate for officers with system administration rights to sit outside the finance team given our current structure and resourcing levels. We are happy with the mitigating control that an Accountant downloads a monthly report of changes in user access rights and new users.</p> <p>In terms of increasing the journal checks to all journals that total over £25k rather than individual debits over £25k this would create significant extra work for the team given the volume of journals input which would not be possible with the current resourcing levels. We have looked at the risk and the mitigating controls in place and feel that the position is robust enough to not warrant this extra work. The Council would have to employ at least one extra accountant to implement this recommendation and this is a low risk area and in the Council's view, the extra resource would not constitute value for money for local taxpayers. There are already compensating controls in place. In addition to the £25k journal checks by the Principal Accountants the Head of Finance reviews all cost centre balances over £30k once a quarter to ensure there are no rogue entries in the ledger both in terms of the detail of the spend but also compared to the budget. In addition the Accountants complete a mini closedown exercise at the end of September and December each year looking at the detail in every ledger code.</p>

# A. Action plan – Audit of Financial Statements

We have identified the recommendations below for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these during the course of the 2022/23 audit. The matters reported here are limited to deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>Low</p> <p>Page 28</p>	<p>Input data for valuations</p> <p>In five out of twenty four cases for sampled properties revalued in the year, evidence supporting the gross internal floor area (GIA) used in valuation calculations was obtained externally from the Valuation Office Agency or from third party advertising brochures.</p> <p>Currently, the only internal record we could be provided of measured surveys for certain assets is a value recorded within a spreadsheet. The assets team do not hold a record of who these measurements were taken by or when they were recorded, or other records such as drawings or floorplans to support this value. This would be best practice.</p>	<ul style="list-style-type: none"> <li>• Management should consider whether the valuations for other land and buildings should be completed by an external expert in 2022/23</li> <li>• Management should schedule a plan to complete measured surveys for all properties where GIA is a key input in valuation calculations</li> <li>• The surveys should be saved in a way that is accessible for corroboration and dated so that it is possible to check whether changes have taken place since the survey or need to be re-considered.</li> </ul> <p><b>Management response</b></p> <p>The Council will consider whether the valuations for other land and buildings should be completed by an external expert in 2022/23.</p> <p>There would be a cost to this so this would be part of the overall consideration.</p> <p>The Council has measured surveys for all of its properties.</p> <p>We will ensure measured surveys are kept up to date by linking in with when properties are re-let and if any modifications take place and the Council will also schedule periodic measurements to confirm the existing data.</p>

## B. Follow up of prior year recommendations

We identified the following issue in the audit of South Hams District Council's 2020/21 financial statements, which resulted in 1 recommendation being reported in our 2020/21 Audit findings report. We are pleased to report that management have responded to this finding and that the issue is now closed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Ledger production of transaction reports</p> <p>Significant manual intervention has been required in previous years to produce transaction reports which reconcile to the trial balance and accounts rather than being able to pull these directly from the system</p>	<p>Management invested time before the fieldwork of the audit to ensure that the system reports were reconciled to the financial statements and ensuring that system reports could be obtained demonstrating how the ledger generates the accounts.</p>

### Assessment

- ✓ Action completed
- X Not yet addressed

# C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Issue	Adjusted?
Note 1 – disclosure added to explain uncertainty relating to useful lives for assets	✓
Note 13 - detail added clarifying observable inputs for level 2 fair value hierarchy measurement approach	✓
Note 12 - when agreeing the fixed asset register to the accounts, it was identified that costs relating to expenditure on the housing development at St Anne’s Chapel were included in land and building additions but as the projects are not complete these should be classified as assets under construction additions (£327k)	✓
Various small wording and typo adjustments in the narrative statement and accounting policies	✓

# C. Audit Adjustments



## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement	Balance Sheet	Reason for not adjusting
As we have reported in previous years, the Council's investments with CCLA are designated as Fair Value through Other Comprehensive Income (FVOCI). The terms of the agreement allow redemption on demand and in our view the investment does not therefore meet the designation criteria to be held as FVOCI under IFRS 9. At 31 March 2022 the CCLA investments total £3.6m.	<u>In year</u>	No change to total usable or unusable reserves	Individually and cumulatively not material  No impact on GF
	Dr Other Comprehensive Income and Expenditure £325k		
In our view, the investment should be classified as Fair Value through Profit and Loss. The annual gain in value of £325k has been incorrectly credited to Other Comprehensive Income rather than the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. There is currently a Statutory Override in place that allows Fair Value movements to be reversed to an unusable reserve so there would continue to be no impact on the General Fund from this reclassification.	Cr (Surplus) of Deficit on Provision of Services £325k		
	<u>Cumulative</u>		
	Dr Other Comprehensive Income and Expenditure £105k		
	Cr (Surplus) of Deficit on Provision of Services £105k		

## Unadjusted misclassification and disclosure changes

We discussed with management how the remuneration expense reported includes the full South Hams District Council pay expenditure and also the amounts re-charged from West Devon Borough Council. As the Council does not net off the portion of SHDC remuneration recharged to WDBC, the employee costs are inflated. This is not an error because it is showing gross cost, with income for the recharge recognised on a separate line. However, a note or explanation could be added to show what the actual employee remuneration expense is once the recharges are taken into account.

# D. Fees

We confirm below our expected fees charged for the audit and provision of non-audit services.

The fees recorded here reconcile to the financial statements.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£56,709	TBC*
<b>Non-audit fees for other services</b>		
	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services		
Certification of Housing Benefits grant	£11,500**	TBC*
<b>Total non-audit fees (excluding VAT)</b>	<b>£11,500</b>	<b>TBC*</b>

\*Final fees are yet to be confirmed as our work on VFM is not yet complete and Government guidance on accounting for infrastructure assets remains unavailable.

\*\* Covers the base cost of this work. Additional errors identified are agreed with the Council and in accordance with the requirements of the DWP, additional testing is undertaken on each error. This additional testing is charged at £1,200 per set of additional tests (a set of additional tests being 40 cases or pro-rata if lower). In 2021/22 we are aware of 1 set of additional testing of a small population that will be required due to issues identified in our 2020/21 work. Further errors identified during our 2021/22 work will result in further additional costs. Therefore, at the planning stage we expect the cost will be roughly £200-£300 over £11,500. This may increase following completion of our work and we will report the final fee to the Audit and Governance Committee following the conclusion of our work.



This page is intentionally left blank



Report to: **Audit and Governance Committee**  
Date: **24 November 2022**  
Title: **Annual Statement of Accounts 2021/2022**  
Portfolio Area: **Finance and Assets – Cllr H Bastone**  
Wards Affected: **All**  
Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **24 November 2022**

Author: **Alexandra Walker** Role: **Finance Business Partner**  
**Pauline Henstock** **Head of Finance Practice and Deputy S.151 Officer**

Contact: **01803 861345** [alexandra.walker@swdevon.gov.uk](mailto:alexandra.walker@swdevon.gov.uk)  
**01803 861377** [pauline.henstock@swdevon.gov.uk](mailto:pauline.henstock@swdevon.gov.uk)

---

## Recommendations:

It is recommended that Members approve:

1. The wording of the Letter of Representation (Appendix A)
2. The audited Statement of Accounts for the financial year ended 31 March 2022 (Appendix B).
3. The Annual Governance Statement post audit (Appendix C)
4. To give delegated authority to the Chairman of the Audit and Governance Committee to sign off the Accounts following any notional changes required from the publication of the infrastructure assets statutory instrument, as detailed in paragraphs 4.1 to 4.5 of this report.

## **1. Executive summary**

- 1.1 This report presents a summary of net revenue and capital expenditure for Members' consideration and seeks approval of the audited Statement of Accounts for 2021/22.
- 1.2 The report recommends to give delegated authority to the Chairman of the Audit and Governance Committee to sign off the Accounts following any notional changes required from the publication of the infrastructure assets statutory instrument, as detailed in paragraphs 4.1 to 4.5 of this report.
- 1.3 **Following approval of the accounts, the Chairman of the Audit Committee is required to sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. Following approval of its wording, the Chairman of the Audit Committee and the Section 151 Officer (Director of Strategic Finance) are required to sign the Letter of Representation.
- 1.4 Apart from a few minor disclosure and misclassification changes the 2021/22 Audit hasn't identified any adjustments to the Draft South Hams Accounts which were considered by the Audit and Governance Committee in September.
- 1.5 **Therefore the Audited Accounts for 2021/22 presented to Members of the Audit and Governance Committee today, are essentially the same set of Accounts which the Audit and Governance Committee considered at their meeting in September.**

## **2. Background**

- 2.1 The Accounts and Audit (England) Regulations 2015 set out the requirements for the production and publication of the local authority's annual Statement of Accounts (SOA). These regulations introduced revised procedures for the approval and publication of accounting statements. In line with common practice in the commercial sector, local authorities are now required to approve the accounts following the completion of the audit.
- 2.2 The statutory timetable relating to the production and publication of the final accounts was brought forward from 2017/18. Since then the Council has been required to publish the draft SOA by 31 May, one month earlier than previously. However, due to the Covid-19 pandemic the 2021/22 statutory timetable was extended. In accordance with statute the draft Accounts for 2021/22 were published by 31 July 2022. The Accounts and Audit (Amendment) Regulations 2021 require that the audited accounts and opinion is published by 30 November 2022.

- 2.3 The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process, since it confirms the availability of reserves and balances for future use.
- 2.4 The attached booklet (Appendix B) contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Statement (CIES), Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow.
- 2.5 The accounts have been prepared in accordance with all relevant and appropriate accounting standards including, International Accounting Standard (IAS) 19 which deals with pension costs. This standard ensures that the full cost of employing people is recognised systematically in the accounts and that creditors reflect the council's liability to pay money into the pension fund. A full explanation of the pension's liability is included in the Council's SOA. Members are advised that the accounting arrangements for IAS 19 are for reporting purposes only. Indeed the required entries are reversed out of the accounts and consequently, IAS 19 has no impact on the Council's surplus for the year.
- 2.6 The Annual Governance Statement (AGS) for 2021/22 shown in Appendix C reflects the reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The requirements include:
- An acknowledgement of responsibility for ensuring there is a sound system of governance.
  - A reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment.
  - An opinion on the level of assurance that the governance arrangements can provide.
  - An agreed action plan.
  - A conclusion.
- 2.7 The CIPFA/SOLACE 2016 Framework recommends that the Council carries out annually a self-assessment of the extent to which it complies with seven core principles of good governance. Examples of the framework the Council adopts to comply with the Code's key principles are included within the AGS, as well as an accompanying assurance statement.

### 3. Outcomes/outputs

#### Revenue Expenditure

- 3.1 Revenue expenditure represents the ongoing costs of carrying out day-to-day operations, and is financed from council tax, business rates, fees and charges, government grants and interest earned on investment activity. The under spend on the General Fund in 2021/2022 of £214,000 is essentially a break-even position. **The 2021/22 Budget was £9.677 million and therefore the saving of £214,000 means that the actual spend was 2.2% less than the budget.** The main variations from budget are shown on Page 9 of the Narrative Statement in the Statement of Accounts. The saving will go into the Council's Unearmarked Reserves which now stand at £2.056 million.

#### Capital Expenditure

- 3.2 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £3.99 million in 2021/22. The main areas of expenditure were as follows:

- residential renovation grants including disabled facilities grants (£1.1m)
- Batson Harbour Depot/Commercial Units (£1.03m)
- scheduled replacement of plant, vehicles and marine infrastructure (£0.38m)
- Dartmouth Health and Wellbeing Hub (£0.35m)
- St Ann's Chapel housing scheme (£0.33m)
- replacement of audio visual equipment and furniture in the Council Chamber (£0.16m)
- purchase of future IT (£0.12m)
- new play areas (£0.10m)
- Affordable Housing (£0.09m)
- purchase of IT replacement hardware (£0.08m)
- purchase of payroll/HR system (£0.04m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (see Note 32 of the Statement of Accounts for 2021/22)

## **Audit of Accounts**

- 3.3 The Draft Statement of Accounts was considered by the Audit and Governance Committee on 8 September 2022. These accounts are required to be audited by the Council's external auditors Grant Thornton, who give their opinion on the draft accounts. The annual audit commenced at the beginning of July 2022 and was completed in November 2022. A hybrid approach was taken for 2021/22 with some of the audit being undertaken face to face and some work being carried out remotely again this year.

***In essence, the audited accounts are the same set of accounts that were considered by the Audit and Governance Committee in September.***

- 3.4 Grant Thornton have substantially completed their audit of the financial statements for 2021/22 and subject to outstanding queries being resolved and the conclusion of the national infrastructure accounting issue, **Grant Thornton anticipate issuing an unqualified audit opinion for 2021/22.**

### **3.5 Value for Money (VFM) arrangements**

Grant Thornton's Value for Money work will provide a commentary on the work Grant Thornton have undertaken to address the key elements of governance, financial sustainability and how to improve economy, efficiency and effectiveness.

Grant Thornton have not yet completed all of their VFM work and so are not in a position to issue their Auditor's Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Audit and Governance Committee in September 2022. **Grant Thornton currently expect to issue their Auditor's Annual Report in February 2023.** This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

#### 4. Other items within the Final Accounts for 2021/22

##### Infrastructure Assets – Delay in Signing the 2021/22 Accounts

- 4.1 In recent years, some local audits have been held up over auditor concerns that authorities are not providing sufficient evidence for repairs to infrastructure assets, due to a lack of historical data.
- 4.2 The Department for Levelling up, Housing and Communities launched a consultation late last month that proposed allowing local authorities to assign no value to parts replaced on infrastructure assets, up to and including 2024/25. The override would also mean that authorities will not need to retrospectively change their assessment of infrastructure asset values from previous years.
- 4.3 In May, CIPFA/LASAAC proposed temporary amendments to the Code of Practice on Local Authority Accounting, allowing authorities to remove the need to record gross historical cost and accumulated depreciation of assets. The government consultation said that “Despite every effort being made to find a solution through the code, an accounting solution has not been found that satisfies all stakeholders.”
- 4.4 The Department for Levelling up, Housing and Communities said the override will give the government time to work with auditors and local authorities to find a permanent long-term solution. Grant Thornton are awaiting the outcome of the proposed statutory override before they can complete the Council’s audit. **Therefore there will be a delay in signing off the 2021/22 Accounts. This is a national issue for all Local Authorities with infrastructure assets and relates to circumstances outside of the Council’s control.** The Council’s infrastructure assets had a net book value of £6.57 million at 31 March 2022 and include various assets such as Salcombe Fish Quay, Dartmouth Ferry Slipways and Kingsbridge Quay Walls.
- 4.5 Therefore it is proposed that delegated authority is given to the Chairman of the Audit and Governance Committee to sign off the Accounts following any changes required from the publication of the infrastructure assets statutory instrument. **These changes are purely in respect of notional capital accounting for infrastructure assets and will have no impact on the Council’s resources or outturn position for 2021/22.**

## Earmarked Reserves

- 4.6 Earmarked Reserves have reduced by £0.655 million in 2021/22 and total £20.839 million at 31 March 2022. This follows the application of some of the S31 Business Rates compensation grant received in 2020/21 which was held in the S31 Compensation Grant Business Rates Reserve.
- 4.7 The total Earmarked Reserves balance at 31 March 2022 of £20.839 million includes £4.26 million held in the Business Rates S31 Compensation Grant Reserve.
- 4.8 This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the S31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2022/23 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

## 5. Proposed Way Forward

- 5.1 The Council Constitution delegates approval of the Accounts to the Audit and Governance Committee. The Council is also required to sign a Letter of Representation every year, which gives representations to the Council's external auditors. The Chairman of the Audit and Governance Committee and the Section 151 Officer (Director of Strategic Finance) are required to sign the Letter of Representation. The letter is attached at Appendix A. It is recommended that Members approve the wording of the Letter of Representation.

## 6. Implications

Legal/Governance		<p>The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015.</p> <p>The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS).</p> <p>The Council Constitution delegates approval of the Accounts to the Audit Committee.</p>
------------------	--	---

Financial implications to include reference to value for money		<p>The financial implications to this report are that an under spend of £214,000 was generated in 2021/2022. This means that the Council's actual spend for 2021/2022 was 2.2% less than the budget set for the year.</p> <p>As part of Grant Thornton's value for money work, they will assess the arrangements the Council has in place for:-</p> <ul style="list-style-type: none"> <li>• Improving economy, efficiency and effectiveness</li> <li>• Financial Sustainability</li> <li>• Governance</li> </ul> <p>This work will be concluded by Spring 2023 in their Auditor's Annual Report.</p>
Risk		<p><b>Public Accountability</b> – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is recognised by statute as representing proper accounting practice.</p> <p><b>Resource Planning</b> – the Council takes into account any significant issues when developing the Council's Medium Term Financial Strategy.</p>
Supporting Corporate Strategy		The Annual Statement of Accounts and Annual Governance Statement support all of the Delivery Plans within the Council's strategic vision, 'Better Lives for All'.
Climate Change - Carbon / Biodiversity Impact		None directly arising from this report.
Consultation and Engagement Strategy		
<b>Comprehensive Impact Assessment Implications</b>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.



## **Supporting Information**

**Appendix A – Letter of Representation**

**Appendix B – Audited Statement of Accounts 2021/22**

**Appendix C – Annual Governance Statement (post –audit)  
2021/22**

### **Background Papers:**

None.

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/A</b>

This page is intentionally left blank



Direct telephone: 01803 861413  
E-Mail: [lisabuckle@swdevon.gov.uk](mailto:lisabuckle@swdevon.gov.uk)

Grant Thornton UK LLP  
2 Glass Wharf  
Temple Quay  
Bristol  
BS2 0EL

Our ref: Letter of Representation  
24 November 2022

Dear Sirs

**South Hams District Council**  
**Financial Statements for the year ended 31 March 2022**

This representation letter is provided in connection with the audit of the financial statements of South Hams District Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the

valuation of land, buildings and investment properties and the net defined benefit pension liability, depreciation, provisions, accruals and the disclosure of the fair value of loans. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

- a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

### **Information Provided**

- xv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## **Annual Governance Statement**

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

## **Narrative Report**

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

## **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 24 November 2022.

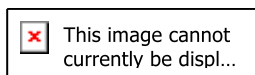
Yours faithfully

Name: Councillor L Austen

Position: Chairman of Audit Committee

Date: 24 November 2022

Name: Mrs L Buckle



Position: Corporate Director for Strategic Finance

Date: 24 November 2022

**Signed on behalf of the Council**



**South Hams District Council  
Audited Statement of Accounts  
2021/22**



**South Hams  
District Council**

## Contents

	<i>Page</i>
<b>Section 1 – Narrative Statement</b>	3 - 31
• Introduction	
• Review of the Year – the Revenue Budget	
• Key areas to note from the 2021/22 Statement of Accounts	
• Financial needs and resources	
• Looking forward to the future and next steps	
• Corporate Performance for 2021/22	
• Principal risks and uncertainties	
<b>Section 2 - Core Financial Statements</b>	32 - 37
• A. Comprehensive Income and Expenditure Statement	
• B. Movement in Reserves Statement	
• C. Balance Sheet	
• D. Cash Flow Statement	
<b>Section 3 - Notes to the Financial Statements</b>	38 - 122
<b>Section 4 - Collection Fund</b>	123 - 127
<b>Section 5 - Statement of Responsibilities/Approval of the Accounts</b>	128 - 129
<b>Section 6 - Auditors' Report</b>	130 - 135
<b>Section 7 - Glossary of Terms</b>	136 – 138

### **Statement of Accounts 2021/22**

*The Statement of Accounts 2021/22 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 2021/22 Statement of Accounts by Councillor Pearce, Leader of South Hams District Council**



I am very pleased to welcome you to the 2021/22 Statement of Accounts for South Hams District Council. One of the significant achievements this year has been the development and adoption of our Better Lives for All Strategy which sets clear and measurable actions that the Council will take over the next few years. This report includes many examples of actions we have delivered through the strategy that will make a positive impact on lives across the District.

Having a decent, safe home is essential for the wellbeing of all residents. This year the Council has declared a Housing Crisis, to highlight the significant shortage of homes within the District. The Council has taken steps to develop a detailed action plan in response, agreeing twelve individual actions. We know it will take time but we have a clear way forward to tackle the issues.

We have continued to be on the forefront of offering vital support to businesses impacted by the Covid-19 pandemic with a total of £85m in grants processed to date. Working with Plymouth City Council and Devon County Council, we have progressed plans for the Freeport which have now been approved by the Government. The scheme will result in the creation of 3,500 jobs and £311million investment to the areas. It will secure significant investment in innovation, skills, research and development. In September, Sherford hosted the kick-off of the second stage of the Tour of Britain, the event also acted as a brilliant showcase to the nation of just how stunning our area is and of course promotes cycling and active travel.

The Council is making good progress in delivering against our climate and biodiversity action plan. District wide tree planting schemes are underway, we've had almost unanimous support from the public for our plans to increase biodiversity on Council land and had our progress recognised at a national level.

Of course this year has not been without its challenges. The ongoing issues with our waste and recycling service continue to be a significant cause of frustration for residents. The Council and FCC Environment have reached a mutual agreement to end the contract for waste, recycling, street and toilet cleaning services. Both parties agree that the past few years have presented a number of extremely challenging circumstances. In the best interest of the residents of the South Hams, it has been agreed that services will be operated by the Council from 3 October 2022.

Looking ahead, our focus is on ensuring that we continue to deliver on our strategic priorities, making a positive impact for communities across the South Hams. I am pleased to report a surplus for the 21/22 year of £214,000 (2.2% of the net budget of £9.677m). This demonstrates the Council's financial resilience and actions taken to maintain longer term stability in service delivery going forward. This surplus will go into the Council's unearmarked reserves, with a view to it being reinvested in our core services and our 'Better Lives for All' strategy.

**Councillor J Pearce, Leader of the Council**

## Foreword by the Chief Executive



I have been incredibly impressed by the efforts of staff across the Council to support our residents and communities. We began the year continuing with our response to the global pandemic and as we ended the year, teams from across the Council were stepping up to support the Homes for Ukraine scheme. While our staff have continued to work from home throughout the pandemic, we have started to see a return to a form of normality, bringing our office staff together and working face to face.

I have to say, personally it has been fantastic to begin meeting colleagues in the office for the first time in over two years! I've also been pleased to have been able to begin joining local Members in their Towns and Parishes, experiencing first hand the incredibly positive work being delivered across the District. I look forward to being able to carry out many more of these insightful visits in the coming year.

It is a great achievement that South Hams District Council and West Devon Borough Council won the Gold award at the iESE Public Sector Transformation Awards in 2022. The Councils installed software called Liberty Create which enabled both Councils to quickly set up an online system for businesses to apply for emergency Government business grants. The software saved the Councils time and money (£450,000) and also helped us to respond to the needs of our business community when they needed us most.

For the first time in a generation, the Council is building its own affordable homes for local people. This is another step in the plan to tackle the housing crisis in the South Hams.

This year we were recognised as one of the top 20 District Councils nationally for our Climate Change Action Plan by Climate Emergency UK, independent validation that we're taking the crisis seriously.

Yet again, the Council has managed to balance its budget exceptionally well while continuing to provide a level of good service to residents of the District. Time and again, our staff have impressed me with their efforts to support the people and communities of South Hams.

We're responding to new challenges that continue to appear, like making sure we offer adequate support to our Ukrainian guests through the Homes for Ukraine scheme, but I have no doubt that our teams will continue to rise to those challenges.

We know that the year ahead will be challenging for many across the District, as the cost of living continues to provide day to day challenges. We will do all we can to support our residents and businesses by delivering the essential support you need.

**Andy Bates, Chief Executive**

## Message from the Section 151 Officer and Corporate Director for Strategic Finance - 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 2022 and how the Council has performed against the budget set for 2021/22
- 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.

Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. 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. The pandemic has also changed the world we operate in. Across the Council, staff have been called upon to continue the efforts to help local communities against the impact of the pandemic.

The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response. Key to the authority's financial resilience are our reserves, which are at a prudent level. As part of the 2022/23 Budget process, a new reserve 'Financial Stability Earmarked Reserve' for £280,000 was set up, to be available for any future financial pressures from local government funding reforms and any other budget pressures.

The recent challenges presented by the war in Ukraine with its broader implications along with the current 'cost of living crisis' will have an impact on the Council's finances as well as the finances of the residents of the District. The Council's approach to delivering services remains steadfast.

There is no indication of the detailed local government funding levels for 2023/24 and beyond and therefore there are many uncertainties in preparing for the challenges we know we will face in the near future. These include the review of local authority funding as part of the Government's fair funding review, the business rates baseline reset and changes to the New Homes Bonus scheme. We will continue to assess the impacts on our finances and our communities through embedded long term strategic financial planning.

**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 2021/22 budget for South Hams was £9.677 million. A surplus of £214,000 means that the actual spend was 2.2% less than the budget. This saving of £214,000 will go into the Council's Unearmarked Reserves which now stand at £2.06 million. The main components of the General Fund budget for 2021/22 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)	9,881	9,778	(103)
Parish Precepts	2,960	2,960	-
Interest and Investment income	(203)	(140)	63
<b>Amount to be met from Government grants and taxation including parish precepts</b>	<b>12,638</b>	<b>12,598</b>	<b>(40)</b>
Financed from:			
Business Rates (baseline funding level)	(1,928)	(1,928)	-
Business Rates (achieved over baseline funding level)	(426)	(426)	-
Business Rates Pooling Gain	(125)	(299)	(174)
Council Tax (including parish precepts)	(9,679)	(9,679)	-
Deficit on Collection Fund	30	30	-
Rural Services Delivery Grant	(428)	(428)	-
Lower Tier Services Grant	(82)	(82)	-
<b>SURPLUS FOR 2021/22</b>	<b>-</b>	<b>(214)</b>	<b>(214)</b>

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 2021	(2,122)
<b>Surplus for the 2021/22 financial year</b>	<b>(214)</b>
Transfer from the General Fund Balance to earmarked reserves	280
General Fund Balance (un-earmarked revenue reserve) at 31 March 2022	(2,056)

\*On including the earmarked reserves, Total General Fund Reserves are £22.9 million.

4. The surplus on the General Fund of £214,000 is essentially a break-even position, representing 0.5% of the Council's gross turnover in 2021/22 of £41 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 2021/22 financial year.

	£000
<b>Total Comprehensive Income and Expenditure Statement</b>	<b>(14,157)</b>
Surplus on the revaluation of Property, Plant and Equipment	1,633
Deficit on the revaluation of Financial Instruments	325
Remeasurements of the net defined benefit pension liability	12,608
Transfers to earmarked reserves	(935)
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	(1,868)
Adjustments primarily involving the Capital Grants Unapplied Account	260
Adjustments primarily involving the Capital Receipts Reserve	775
Adjustments primarily involving the Pensions Reserve	(3,878)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	328
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	4,702
Adjustments primarily involving the Accumulated Absences Account	(7)
<b>Surplus for the 2021/22 financial year</b>	<b>(214)</b>

6. A summary of the main variances to budget in 2021/22 is provided below:

<b>ANALYSIS OF VARIATIONS 2021/22</b> (% column shows variation against budget)	<b>£000</b>	<b>% variation</b>
<b>Reductions in expenditure/additional income</b>		
Car parking – additional income from extra usage, especially in the coastal car parks	(420)	13.3%
Planning – additional income - £70k was utilised to pay for extra planning salaries and £320k was transferred into the planning earmarked reserve	(390)	42.4%
Dartmouth Lower Ferry – additional income – this was in part offset by additional costs as shown below	(280)	33.9%
Trade Waste – Mainly savings on tipping fees and extra income on recycling sacks, due to more trade waste being recycled. This also includes additional income from CWR (Controlled Waste Regulation) properties of an extra £20k.	(190)	48.7%
Business Rates pooling gain – Actual pooling gain for 2021/22 was £299k, which was £174k higher than the estimate of £125k	(174)	139.2%
Employment estates – additional income	(160)	18.0%
<b>Increases in expenditure/reduction in income</b>		
COVID 19 expenditure – extra housing costs, ICT and remote working, waste, cleaning costs and community support costs.	225	-
Dartmouth Lower Ferry – fleet refurbishment, equipment costs and professional fees – offset by additional ferry income as shown above	190	475.0%
ICT software and support contracts – additional costs from above inflation increases, increased number of users on the Council's network, increase in remote working and disability access legislation compliance.	90	16.8%
Salaries – additional planning salaries – financed by additional planning income	70	7.6%
Waste & Recycling – delay to the September 2020 go live date for Devon Aligned Service for all properties. Some costs are associated with continuing to supply single use sacks for recycling and the reprocessing of the recyclable materials in the current global market. The savings from the green waste element of the waste contract reduced the cost of the service overall in 2021/22 and a one-off amount of £200,000 was transferred into a community composting earmarked reserve as shown below.	65	2.5%
Investment income – shortfall in treasury management investment income due to low base rates	63	31.0%
Additional repairs and maintenance costs	40	6.2%
Joint Local Plan contribution	25	-
Council Tax Collection – shortfall in budgeted income from summons costs	25	16.1%
Other small variances	87	
<b>Add: Transfer of additional planning income into the planning earmarked reserve – Minute CM 81 (Council 31<sup>st</sup> March 2022)</b>	320	-
<b>Add: Transfer of a one-off amount of £200,000 into a community composting earmarked reserve. This was aligned to the savings in the green waste element of the waste contract in 2021/22 – Minute CM63 (Council 10<sup>th</sup> February 2022)</b>	200	-
<b>TOTAL SURPLUS FOR 2021/22</b>	<b>(214)</b>	<b>(2.2%)</b>

The 2021/22 Budget for South Hams was £9.677 million but the actual spend was 2.2% lower, providing a surplus of £214,000 as shown above.

## **KEY AREAS TO NOTE FROM THE 2021/22 STATEMENT OF ACCOUNTS**

### **Pension Liability**

7. International Accounting Standard 19 (IAS19) requires local authorities to recognise pension assets and liabilities within their accounts. The overall impact on the General Fund of the IAS 19 entries is neutral.
8. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2022 of £52.6 million. This compares to £61.4 million as at 31 March 2021. The deficit is derived by calculating the pension assets and liabilities at 31 March 2022. See Note 35 for further information.

### **Business Rates**

9. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the business rates generated in their area, 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.
10. 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.
11. In 2021/22 there has been a £354,000 decrease in the provision for appeals within the Collection Fund. The balance on the Business Rates Collection Fund at 31 March 2022 is a deficit of £6,351,000 (£18,106,000 deficit in 2021/22). South Hams District Council's share of the surplus is 40% (£2,540,000).
12. Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income due to the complex accounting arrangements for Business Rates. In 2021/22 the balance of the Business Rates Retention Scheme (BRRS) earmarked reserve reduced by £2.56m to £4.55m as at 31 March 2022. This included a transfer of £450,000 from the Business Rates Retention Earmarked Reserve to a new earmarked reserve called the Recovery and Renewal Reserve to support the costs of the Recovery and Renewal Plan and the Council's 20 year vision 'Better Lives for All'. Some of this additional business rates income is due to 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 as business rates baselines are due to be re-set in the future.



13. In 2020/21 a new earmarked reserve was created called the S31 Compensation Grant (Business Rates) Reserve to hold the S31 grant (£5.49m) received in 2020/21 to offset the business rate reliefs given to businesses during the pandemic and the Tax Income Guarantee S31 grant for Business Rates (£0.79m). The balance on this reserve as at 31 March 2021 was £6.28m. Under current Collection Fund accounting rules, the S31 grants received will not be discharged against the Collection Fund deficit until the following year. In 2021/22 further S31 grants were transferred to the S31 Compensation Grant (Business Rates) Reserve (£3.23m) and S31 grant received in 2020/21 was discharged to the Business Rates Collection Fund (£5.25m). This compensation grant will continue to be applied to the Collection Fund over the next three years to smooth the impact of the Business Rates deficit. The balance on this reserve as at 31 March 2022 is £4.26m.

### **Waste, recycling, street and toilet cleaning services**

14. Throughout 2021/22, the Council had a significant focus on trying to resolve issues with its waste and recycling service.
15. On 12 July 2022, Executive considered a report, with advice from the Council's Waste Working Group. The Waste Working Group advised that the Council and FCC Environment have reached a mutual agreement to end their contract for waste, recycling, street and toilet cleaning services.
16. Both parties agree that the past few years have presented a number of extremely challenging circumstances.
17. In the best interests of the residents of the South Hams, it was proposed that the services will be operated by the Council from Monday 3 October 2022. This decision was subsequently approved by Full Council on 14 July 2022. The Council and FCC Environment will work closely together to ensure a smooth transfer of the services.
18. At the point of preparing the Statement of Accounts, planning continues and a further update will be considered by the Executive and Council in September, ahead of the transfer of services in-house in October.

### **Trading Company**

19. South Hams District Council and West Devon Borough Council set up a trading company, Servaco Limited, on 4th September 2014. This is a company limited by shares. The company has not traded in 2021/22 and a set of statutory dormant Accounts will be filed with Companies House for the period 1 April 2021 to 31 March 2022. The future of Servaco Limited will be reviewed during 2022/23.

## **Sherford Community Land Trust**

20. 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. It 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**

21. For the first time in a generation, South Hams District Council is building its own affordable homes for local people. This is another step in the plan to tackle the housing crisis facing residents in the South Hams. To mark the start of the building works, Councillors attended the official turf cutting event in St Ann's Chapel, near Bigbury on 3<sup>rd</sup> May 2022, where 8 affordable homes will be built, with 3 open market units and 2 serviced plots. The severe shortage of affordable rented and shared ownership accommodation, particularly in coastal areas like St Ann's Chapel, resulted in the Council declaring a housing crisis. They will be high quality, energy efficient homes and will be low cost to heat and run. Air source heat pumps and low water use fittings form part of the design, along with electric car charging points. With the current energy crisis, this will be great news for future tenants to keep their bills low and manageable.
22. The Council's determination to do everything in its power to ease the area's housing crisis is paying off, with hundreds of new affordable homes being built over the last four years. Since 2018/19, 419 new affordable homes have been built in the South Hams. These include 39 new homes in Ivybridge and 12 specialist homes at Elmhurst Lodge in Dartington. Elmhurst Lodge offers local people with learning difficulties their very first taste of independent living.
23. These 419 homes are requirements of Section 106 agreements; these planning obligations with a landowner are made as part of the Council granting planning permission. S106 agreements are one of the strongest tools that the Council has to make new housing developments deliver on affordable housing. This is the District's main source of new affordable housing, which is providing incredibly high numbers of new homes for local people.

24. Homes England Strategic Partnership funding has led to an additional 54 properties being delivered during 2021-22, over and above what the Council was expecting. This funding allows a Registered Provider to purchase open market homes and convert them to affordable properties.
25. The numbers of affordable homes being built are tracking well above what the Joint Local Plan requirements would be at this point in time.

### **Ivybridge Regeneration Project**

26. Over the last few years, South Hams District Council has considered proposals to bring more shoppers to the market town of Ivybridge by developing the Leonards Road car park including a discount food store. Before starting this journey, the Council carried out a public consultation, which showed that 66% (of nearly 2,000) respondents felt a new supermarket would improve footfall into the town centre and supported the proposals.
27. An independent economic assessment commissioned by South Hams District Council, called the CACI Report, carried out at the same time as the residents' public survey in 2020, forecast that the new store would see 13,000 additional trips made to the high street boosting footfall within the town centre. The report estimated that this would result in 16% more money being spent in the high street. The economic study reported that residents were still shown to support their local independent shops through 'cross shopping'. The project was envisaged to meet the aims of the town's Neighbourhood Plan, to ensure retail growth within the town centre to increase the town's economy and anchor other retailers to the centre. It would have also created local employment opportunities of around 30-40 new jobs.
28. As a result of public support, the Council took a decision to proceed in February 2021. Council approved the progress of the Ivybridge Regeneration project through to planning, tender, construction and lease (subject but not limited to the regulatory statutory planning process and the total scheme cost being within the £9million financial envelope).
29. The initial spend of up to £450,000 was approved, recognising these will be abortive costs and funded from the Business Rates Retention earmarked reserve, if the project did not proceed at any given stage pre-construction.
30. At its meeting on 7 July 2022, the Executive agreed to stop work permanently on the discount food store proposal in Ivybridge. The decision came after the South Hams' Development Management Committee, having considered all of the relevant planning matters, unanimously refused the planning application on 6 July 2022. It was

refused for a number of reasons. Firstly, it failed to show how the development would not have a harmful impact on town centre businesses. Secondly, the loss of trees and the loss of biodiversity. Finally, it considered that the design and the scale of the proposal would not fit in with its surroundings.

## **Borrowing**

31. In 2021/22 the long term borrowing of the Council reduced from £14,380,000 (20/21) to £14,284,000. Short term borrowing increased from £94,000 to £96,000. No further external borrowing took place during 2021/22.

## **Capital spending**

32. The Council spent £3.99m on capital projects in 2021/22. The main areas of expenditure were as follows:

- residential renovation grants including disabled facilities grants (£1.11m)
- Batson Harbour Depot/Commercial Units (£1.03m)
- Scheduled replacement of plant, vehicles and marine infrastructure (£0.38m)
- Dartmouth Health and Wellbeing Hub (£0.35m)
- St Ann's Chapel housing scheme (£0.33m)
- replacement of audio visual equipment and furniture in the Council Chamber (£0.16m)
- purchase of future IT (£0.12m)
- new play areas (£0.10m)
- Affordable Housing (£0.09m)
- purchase of IT replacement hardware (£0.08m)
- purchase of payroll/HR system (£0.04m)

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

33. At 31 March 2022 the Council had investments of £1.5 million with the CCLA Property Fund and £2 million with the CCLA Diversified Income Fund.
34. 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.
35. A summary of the position of these equity instruments as at 31 March 2022 is shown below:

	<b>Purchase cost</b>	<b>Fair Value at 31 March 2022</b>	<b>Movement in Financial Instruments Revaluation Reserve 2021/22</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Equity Instrument</b>			
CCLA Local Authorities Property Fund	1,500	1,573	73
CCLA Diversified Income Fund	2,000	2,032	32
<b>TOTAL</b>	<b>3,500</b>	<b>3,605</b>	<b>105</b>

## FINANCIAL NEEDS AND RESOURCES

36. The Council 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.
37. General Fund reserves (which include earmarked reserves) have decreased by £0.721m from the preceding year and stand at £22.895 million at 31 March 2022. This is mainly due to a reduction in Earmarked Reserves of £0.655m. This follows the application of some of the S31 Business Rates compensation grant received in 2020/21 which was held in the S31 Compensation Grant Business Rates Reserve.
38. The total Earmarked Reserves balance at 31 March 2022 of £20.839m includes £4.26m held in the Business Rates s31 Compensation Grant Reserve. This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the S31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2022/23 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.
39. The General Fund Balance (un-earmarked reserve) has reduced by £66,000 in 2021/22 and totals £2.056 million. This reflects the underspend from 2021/22 of £214,000 offset by a transfer of £280,000 from the General Fund Balance to the Financial Stability Earmarked Reserve. This is a new reserve set up in 2021/22 as part of the 2022/23 Budget process to be available for any future financial pressures from local government funding reforms and any other budget pressures. 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.
40. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2022 amounts to £3.45 million compared to £3.27 million at the end of the previous year.
41. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account, Financial Instruments Revaluation Reserve 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.

42. 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 £52.6 million at 31 March 2022. 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.
43. 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.

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

44. 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 2021/22.

### **COVID-19 Response**

45. The COVID-19 pandemic undoubtedly continued to have an impact on the Council. The pandemic required us to refocus officer effort to deliver support to our residents, businesses and communities while maintaining the majority of our core services. We continued to process business grants and launched a grant scheme for community groups that work to support the Health and Wellbeing of our residents.

### **Better Lives for All**

46. During the year we continued the development of a new corporate strategy for the Council, now known as Better Lives for All. Better Lives for All was developed over 12 months in response to the impacts of Covid-19 and a post-Brexit UK. A series of workshops were held with our Councillors and a wide range of partner organisations were consulted to shape our focus for the next three years.
47. The strategy is underpinned by a detailed delivery plan setting out specific actions that we will undertake in each of the years. Each meeting of the Overview and Scrutiny committee now considers a detailed update

on one of the themes. Furthermore, we have implemented a quarterly 'Integrated Performance Management Report' process to highlight progress and key risks related to the strategy to our Executive.

## Achieving our Vision

These themes set out our key deliverables for the next three year period to May 2024.



### Adapting & mitigating climate change and increasing biodiversity

An environment where people and nature thrive together



### Improving homes

Better homes enabling better lives for all



### Protecting, conserving & enhancing our built and natural environment

Planning for our future, celebrating our past



### Stimulating a thriving economy

A district that attracts high quality employment opportunities and space for business to grow



### Strengthening community wellbeing

Strong and prosperous communities where residents live healthy lives and are empowered to make a positive impact



### Delivering quality Council services

Delivering quality services to our residents and communities





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

### **Continuing to respond to the housing crisis**

50. A significant focus for us during 2022/23 will be on delivering our action plan to address the Housing Crisis in South Hams. We will be pressing ahead with our action plan while continuing to deliver on our longer-term housing strategy.
51. We have already committed to increasing capacity within the Housing Team and recruitment to these roles will be carried out in the coming year.

### **Climate Emergency Response**

52. This year we will be in the third year of delivering our Climate and Biodiversity Emergency Action Plan. We will be continuing to deliver on those actions including ensuring the Council delivers on commitments including progressing plans for an electric vehicle fleet and continuing with our wild flowering on Council land.

### **Homes for Ukraine**

53. As the conflict in Ukraine continues, we will be ensuring that the District Council develops a package of support for our Ukrainian guests and those residents stepping up to offer them a safe space to live. We'll be working closely with the voluntary sector to ensure wrap-around support and to ensure that as many host/sponsor placements as possible are maintained as they come towards the end of the initial 6-month term.

### **Levelling up**

54. A significant focus for the Council in the coming 12 months will be submitting bids for Levelling Up funding and the Shared Prosperity Fund. We'll be identifying and working up bids for projects that can make a positive difference to the lives of our communities and businesses in the future.

### **Plymouth and South Devon Freeport**

55. Working with Plymouth City Council and Devon County Council, we have progressed the submission of a full business case to the Government in April this year. It is fantastic news that the Plymouth and South Devon Freeport has now been approved by the Government.
56. We are only one of eight areas to get Freeport status and we see this as a brilliant catalyst to build back better and drive economic growth. It is also a chance to showcase our strengths in the marine and defence sectors to the rest of the country, the world, and to support the growing space sector. We have the commitment of some of our largest local

employers, including Babcock and Princess Yachts, as key partners in the Freeport.

57. Additionally, the Freeport is also about the long term prospects for up-skilling our future workers, making sure there are great job prospects for tomorrow's workforce. The three key sites in and around Plymouth will form part of the Freeport these being, Langage, Sherford and South Yard.
58. The Freeport is expected to see over 3,500 direct jobs created and total capital investment in the Freeport is predicted to reach £311million. This is made up of £25m in Government seed capital grant and matched locally with £29m. A further £10m will be raised through Levelling Up grant income and it is anticipated that total private sector investment will be close to £247 million.

### **Our financial future**

59. 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. In his speech to the Local Government Association (LGA) conference on 28 June 2022, the Secretary of State, Michael Gove MP, promised to give local authorities greater "financial certainty". It was confirmed that a 2-year financial settlement will be introduced. The proposal for a 2-year settlement suggests that there will be rollover settlements in both 2023/24 and 2024/25, meaning financial settlements that are broadly similar to 2022/23. The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2025/26. It also suggests that the 2021 Census might not be reflected in funding allocations until 2025/26. In addition the timing of the cessation of the current New Homes Bonus scheme is not clear, but if it does continue, it will be smaller in value with no historic legacy payments.
60. Pushing these major changes back to 2025/26 means that they can be aligned with the next spending review period (the current spending review runs to 2024/25). 2025/26 now looks like it is shaping up to be a very significant financial year for local government, incorporating a new spending review, the 2021 Census, and funding reforms.

### **Going Concern**

61. As highlighted above there is a high degree of uncertainty about future levels of funding for local government. However, the S151 Officer is keeping a close watch on developments and planning for this longer-term uncertainty. The Council has a strong track record of financial prudence and as a result has set aside Reserves. For example, at Council on 10 February 2022 Members approved the creation of a new earmarked reserve, the Financial Stability reserve. It was resolved that £280,000 be transferred from Unearmarked Reserves to a Financial

Stability Earmarked Reserve as part of the process of closing the 2021/22 Accounts, to be available for any future financial pressures from future local government funding reforms and any other budget pressures.

62. 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 2021/22 are prepared on a going concern basis.

### **Issue of the Accounts**

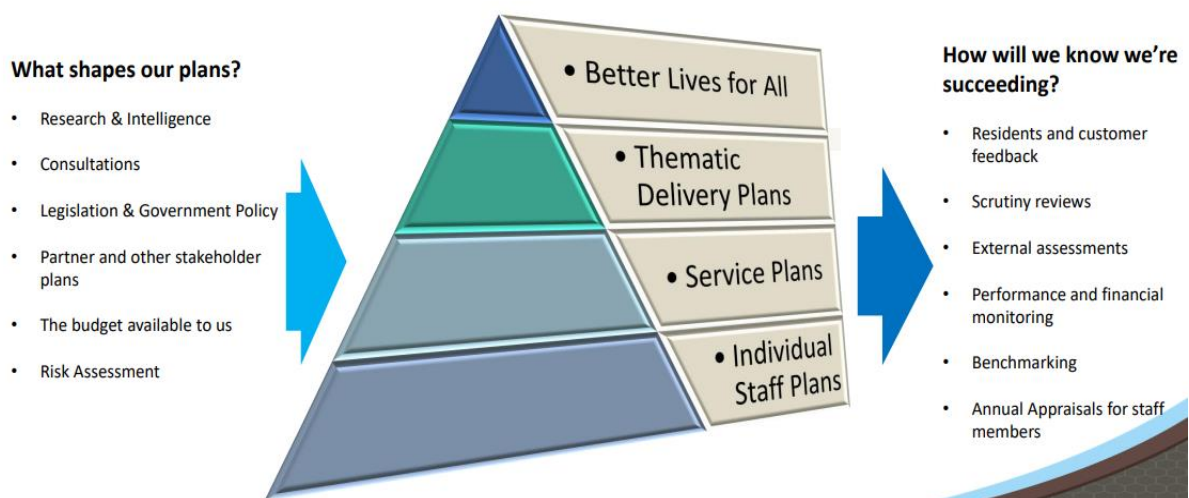
63. The Corporate Director for Strategic Finance authorised the audited Statement of Accounts 2021/22 for issue on 24 November 2022. Events taking place after this date are not reflected in the financial statements or notes.

## CORPORATE PERFORMANCE FOR 2021/22









The Council adopted its 'Better Lives for All' strategy in September 2021 and regularly reports on the performance of the delivery plan to both Overview and Scrutiny and the Executive. At the end of the year, the performance for the priorities within the strategy is as set out below. Overall, positive progress has been made across all themes. Each theme has a lead officer and lead Executive Member who meet regularly to monitor progress.

### Performance Management: The Golden Thread

From Strategic priorities to individual targets







The following update is from the Quarter 4 Performance Management Update considered by Executive on 7<sup>th</sup> April 2022.

Overall Performance Against Actions				
Status		Total Actions Within Category	% of overall actions	Compared to previous Quarter
	This action is on track with good progress being made. There are no significant risks which require action and we are on track to deliver as planned	<b>35</b>	<b>78%</b>	
	There are some issues or risks which are requiring management but a plan is in place to bring back on track	<b>9</b>	<b>20%</b>	
	There is a significant risk that we cannot deliver this activity as planned. Regular monitoring and support from Lead Member and Senior Leadership Team is required	-	-	
	This activity is not yet due to start in the current year	<b>1</b>	<b>2%</b>	
Totals		<b>45</b>	<b>100%</b>	

The performance by theme is as set out below.





### Adapting and Mitigating Climate Change

Back in 2019, we declared a Climate and Biodiversity Crisis in response to global warming and a decline in biodiversity. During the past year we have continued to make good progress in delivering against our climate and biodiversity action plan, District wide tree planting schemes are underway, we've had almost unanimous support from the public for our plans to increase biodiversity on Council land and had our progress recognised at a national level.

Focus Area	Total Actions 2021/22	 On Track	 Slightly off track but plan in place	 Risk that unable to deliver	 Not yet due to commence
Reducing our carbon footprint	<b>2</b>	<b>1</b> (AM1.2)	<b>1</b> (AM1.1)		
Working towards net zero	<b>4</b>	<b>1</b> (AM1.6)	<b>2</b> (AM1.4 & 1.5)		<b>1</b> (AM1.3)





### Strengthening Community Wellbeing

From awarding funding to support community schemes to ensuring we've continued to deliver leisure facilities within the district.

Focus Area	Total Actions 2021/22	 On Track	 Slightly off track but plan in place	 Risk that unable to deliver	 Not yet due to commence
Reducing Health Inequalities & rural poverty	<b>4</b>	<b>3</b>	<b>1</b> (CW1.1)		
Improving Open Space, Sport and Recreation	<b>1</b>	<b>1</b>			
Support the voluntary sector	<b>1</b>	<b>1</b>			


### Improving Homes

We know that having a decent, safe home is essential for the wellbeing of all residents. This year we've taken the step of declaring a Housing Crisis in South Hams to highlight the significant shortage of homes within the District.

Focus Area	Total Actions 2021/22	 On Track	 Slightly off track but plan in place	 Risk that unable to deliver	 Not yet due to commence
Housing for Place	<b>3</b>	<b>3</b>			
Housing for People	<b>4</b>	<b>3</b>	<b>1</b> (IH1.6)		





### Thriving Economy

2021/22 continued to see sectors within our economy impacted by the Covid-19 pandemic, but we've taken positive steps to support South Hams businesses into the future.

Focus Area	Total Actions 2021/22	 On Track	 Slightly off track but plan in place	 Risk that unable to deliver	 Not yet due to commence
Promote South Hams Coastal and Visitor Economy	<b>3</b>	<b>2</b>	<b>1</b> (TE1.3)		
Supporting Towns & Businesses	<b>6</b>	<b>6</b>			
Strategic Employment & Infrastructure	<b>3</b>	<b>3</b>			

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

During the year we have taken many steps to ensure that our built and natural environment is protected, conserved and enhanced. We've simplified our planning process and supported neighbourhoods to shape their own futures through neighbourhood plans.





Focus Area	Total Actions 2021/22	 On Track	 Slightly off track but plan in place	 Risk that unable to deliver	 Not yet due to commence
Make best use of development land, green space and coastal places	<b>5</b>	<b>5</b>			
Celebrate and protect our heritage	<b>2</b>	<b>1</b>	<b>1</b> (BN1.7)		

### Quality Council Services

2021/22 has been another incredibly busy year for our core services. As Councillors we were able to return to our Chamber for the first time in over two years, our achievements on customer focused processes were recognised nationally and we continued to process a range of support packages for businesses and residents impacted by Covid-19.



We of course know that one service that we have not delivered to the required standard has been our waste contract. Resolving this has been a top priority for the past year and will continue to be in the coming months. In July 2022, the Council and FCC Environment have reached a mutual agreement to end the contract for waste, recycling, street and toilet cleaning services. Both parties agree that the past few years have presented a number of extremely challenging circumstances. In the best interest of the residents of the South Hams, it has been agreed that services will be operated by the Council from 3 October 2022.

Focus Area	Total Actions 2021/22	 On Track	 Slightly off track but plan in place	 Risk that unable to deliver	 Not yet due to commence
Being Digital First	<b>2</b>	<b>1</b>	<b>1</b> (QS1.1)		
Being Inclusive & Accessible	<b>2</b>	<b>2</b>			
Making the best use of our resources	<b>3</b>	<b>2</b>	<b>1</b> (QS1.5)		

## 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. The latest update was presented to the Audit Committee on 9<sup>th</sup> December 2021 and a high-level summary considered by Executive as part of the quarterly Integrated Performance Management Reports.

# Our Risk Management Objectives


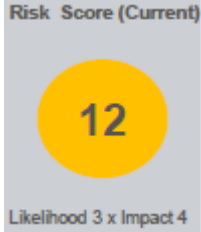
We have 6 key objectives that guide our approach to Risk Management




1. Adopt a strategic approach to risk management in order to make well informed decisions
2. Integrate risk management into how we run Council services and deliver key projects.
3. Support a culture of well-measured risk taking throughout the Council including setting risk ownership and accountabilities.
4. Accept that even with good risk management and our best endeavours, things can go wrong. We will learn lessons where this happens.
5. Ensure that the Council continues to meet all statutory and best practice requirements in relation to risk management
6. Ensure that risk management continues to be a key and effective element of our Corporate Governance


**Benefits of Effective Risk Management**

-  **Improved Strategic Management**
  - Greater Ability to deliver against our corporate objectives and targets
  - Improved decision making, planning and prioritisation
-  **Improved Operational Management**
  - Plans in place to response to incidents when they occur
  - Better service delivery
-  **Improved Financial Management**
  - Better informed financial decision making
  - Greater financial control
  - Minimising waste and improving Value for Money
-  **Improved Customer Service**
  - Service disruption to customer minimized

The following sets out the key strategic risks for the Council as at the last report to Audit Committee. This will be updated to reflect the next update which will be considered by Audit Committee in September 2022.

Risk Title	Description	Note at last Audit Committee Report – December 2021
<p>Delivery of waste &amp; recycling service changes</p> 	<p>The risk is that the contractor, FCC, lacks the capacity or ability to rectify the issues being experienced by residents at this stage resulting in further delays, increased reputational damage and overall significant frustration for our residents.</p>	<p>Issues with the service continue to be experienced at the time of this update. The Council is working with FCC Environment to resolve ongoing issues.</p> <p>The Executive continue to meet regularly with FCC Senior Management. The Council continues to use contractual mechanisms to improve service performance.</p> <p>The contractor was not able to rectify issues with the collection by the end of July 2021 as previously updated on the risk register.</p> <p>To alleviate the pressure on the service, the decision has been taken to temporarily suspend garden waste collections, enabling the contractor to focus available resources on collection of waste and household recycling.</p> <p>The Executive have asked that FCC provide a detailed plan to the Council by 31<sup>st</sup> December 2021 for resuming the service by 31<sup>st</sup> March 2022 (or sooner)</p> <p>(See paragraphs 14 to 18 in the Narrative Statement for an update on the Council's waste service).</p>
<p>Adherence to Medium Term Financial Strategy</p> 	<p>Failure to sustain a robust on-going medium term financial strategy in SHDC with adequate reserves to meet unforeseen circumstances, due to cost pressures and reduced income targets, council decisions, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFs, particularly if national/regional businesses successfully appeal against business rate valuations or litigation</p>	<p>Due to the volatility of Business Rates income, Council on 23 September 2021 approved the use of funding from the Business Rates Retention Earmarked Reserve to smooth the volatility in business rates income over the next three years. The volatility is due to the business rates baseline reset anticipated in 2023/24 (this will mean the Council will have negative revenue support grant in 23/24) and the predicted reduction in business rates pooling gains at the same time in 23/24. There is a risk that the Government may introduce a more aggressive business rates tariff in 22/23 to account for the fact that the baseline reset is highly likely to be delayed until at least 23/24. If this happens, it would be recommended that a higher amount of funding from the business rates retention reserve is used in 22/23, to offset the higher tariff rate and the ensuing lower business rates income. More will be known on this when details of the Local Government Finance Settlement are announced around mid December. The forecast budget gap for 2022/23 is currently £28,500, 0.3% of the Net Budget of 2021/22 of £9.7 million. A cumulative budget gap of £349,925</p>

Risk Title	Description	Note at last Audit Committee Report – December 2021
	proceedings / legal challenges / planning appeals, etc.	is predicted for 2023/24 (the £349,925 assumes that the 22/23 budget gap of £28,500 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.1 million, if no action has been taken in each individual year to close the budget gap annually. The Council awaits the details of the Local Government Finance Settlement announcement in mid December, which will enable the Council to further firm up some of the assumptions within the Budget for 2022/23 onwards.
<p>Covid-19 Impact on in-house Services</p> 	<p>The risk is that Covid-19 (Coronavirus) will impact on the ability for the Council to deliver its in-house services leading to a drop in operational performance and customer satisfaction. There is the potential for additional financial implications due to increased demand for services or a reduction in income.</p>	<p>Our office based staff continue to work from home in order to mitigate the risk of spreading Covid 19 and in turn reducing the capacity of our workforce. Our frontline staff continue to employ safety measures to reduce the risk of transmission of Covid with risk assessments continually being updated.</p> <p>Member meetings have resumed face to face for many months and with the exception of wearing facemasks when moving around the building and maintaining social distancing, other safety measures have been removed. This has not so far resulted in any significant outbreaks.</p> <p>We will continue to monitor the impact on our in-house services (particularly given Omicron variant developments) over the winter and if required, instigate our incident management approach</p>
<p>Health and Wellbeing Service Provision</p> 	<p>Covid-19 has a significant impact on Leisure provision given the nature of activities and hygiene requirements. The risk is that as leisure centres make adjustments to reduce the risk of Covid-19 to both staff and customers, the capacity of the centres is significantly reduced while many overheads and operating costs remain the same.</p>	<p>At their meeting in March 2022, the Executive will consider an update from Fusion Leisure which will set out the impact Covid-19 continues to have on participation and what steps they are taking to encourage a return to pre-pandemic levels.</p> <p>The Councils lead for Fusion continue to promote the available activities within the centres.</p>
<p>Business Continuity</p> 	<p>The risk is that we do not develop and keep maintained robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems leading to inability to deliver key council services.</p>	<p>While we still find ourselves in the 'response' phase of the pandemic however focus is now changing to refining our broader business continuity plans to cover other scenarios. Our ability to work online is fundamental to our ongoing delivery of services and this is therefore a key focus for our Business Continuity Planning. We are aware of rising incidents of cyber attacks on local authorities and are monitoring their learning closely in order to refine our own response plans.</p>

Risk Title	Description	Note at last Audit Committee Report – December 2021
		<p>Where cyber attacks on those have been successful (i.e. not prevented by their systems and processes) they have been without core operating systems for many months and with the cost of recovery being in the several millions of pounds. As a result of this learning we have increased the financial impact score to 5. Additionally, our contracted waste collection services continue to be under significant pressure triggered in part by the national HGV driver shortage which could be compounded as we enter the typical flu season and also the added covid-19 infection and isolation risk.</p> <p>We have commissioned external advice to support us in updating our ICT Business Continuity Plans with this work aiming to complete in January 2022. Following this we can update our other service business continuity plans.</p> <p>A group of core officers will be recommending a dedicated work stream to reduce this risk to acceptable levels</p>
<p>Emergency Response</p> 	<p>The risk is that the council fails to meet the high public expectation in relation to supporting communities during storm damage/flooding/ other events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and expectations during an event.</p>	<p>The Council continues to engage with the Local Resilience Forum and is keeping its emergency response plans up to date. Winter plans are developed and in place.</p> <p>Most of our emergency response support will be provided by the Environmental Health Team who are also the team that are involved in supporting any requirements to respond to Covid-19. To support their ability to respond to any other emergencies through the winter, we have extended the contract of the covid-19 support officers until end of March 2022.</p>

## ***Section 2***

# ***Core Financial Statements***

## SECTION 2A COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis (Note 4) and the Movement in Reserves Statement (Section 2B).

2020/21				2021/22		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Segment	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
33,553	(24,511)	9,042	Customer Service & Delivery	31,625	(22,398)	9,227
737	(199)	538	Strategic Finance	908	(386)	522
12,423	(10,656)	1,767	Place & Enterprise*	11,075	(11,393)	(318)
6,602	(1,419)	5,183	Governance & Assurance	7,236	(2,309)	4,927
<b>53,315</b>	<b>(36,785)</b>	<b>16,530</b>	<b>Cost of Services</b>	<b>50,844</b>	<b>(36,486)</b>	<b>14,358</b>
		2,850	Other operating expenditure (Note 9)			3,023
		636	Financing and investment income and expenditure (Note 10)			61
		(17,647)	Taxation and non-specific grant income (Note 11)			(17,033)
		<b>2,369</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>409</b>
		(451)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(1,418)
		10,490	Remeasurements of the net defined benefit liability			(12,608)
		(141)	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income			(325)
		<b>9,898</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(14,351)</b>
		<b>12,267</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(13,942)</b>

\* The net expenditure in Place and Enterprise has reduced by £2.085 million in 2021/22. This is largely due to increases in Car Parking and Ferry income, amounting to £1.8m. In addition, in 2020/21 both gross expenditure and gross income were higher due to the impact of the payment profile (and receipt) of business grants received and paid out during the pandemic – this has no overall impact on net expenditure.

## 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>2021/22</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 2021/22 £000</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>2,122</b>	<b>21,494</b>	<b>23,616</b>	<b>2,848</b>	<b>423</b>	<b>26,887</b>	<b>16,243</b>	<b>43,130</b>
<b>Movement in Reserves during 2021/22</b>								
Total Comprehensive Income and Expenditure	(409)	-	<b>(409)</b>	-	-	<b>(409)</b>	14,351	<b>13,942</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	(312)	-	<b>(312)</b>	102	81	<b>(129)</b>	129	-
Transfers to/from Earmarked Reserves (Note 8)	655	(655)	-	-	-	-	-	-
<b>Increase/ (Decrease) in Year</b>	<b>(66)</b>	<b>(655)</b>	<b>(721)</b>	<b>102</b>	<b>81</b>	<b>(538)</b>	<b>14,480</b>	<b>13,942</b>
<b>Balance at 31 March 2022 carried forward</b>	<b>2,056</b>	<b>20,839</b>	<b>22,895</b>	<b>2,950</b>	<b>504</b>	<b>26,349</b>	<b>30,723</b>	<b>57,072</b>



## SECTION 2B MOVEMENT IN RESERVES STATEMENT

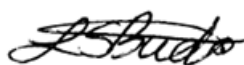
<b>2020/21 Comparatives</b>	General Fund Balance  £000	Earmarked General Fund Reserves  £000	<b>Total General Fund Reserves  £000</b>	Capital Receipts Reserve  £000	Capital Grants Unapplied  £000	<b>Total Usable Reserves  £000</b>	Unusable Reserves  £000	<b>Total Authority Reserves 2020/21 £000</b>
<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>
<b>Movement in Reserves during 2020/21</b>								
Total Comprehensive Income and Expenditure	(2,369)	-	<b>(2,369)</b>	-	-	<b>(2,369)</b>	(9,898)	<b>(12,267)</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	9,977	-	<b>9,977</b>	(211)	82	<b>9,848</b>	(9,848)	-
Transfers to/from Earmarked Reserves (Note 8)	(7,496)	7,496	-	-	-	-	-	-
<b>Increase/ (Decrease) in Year</b>	<b>112</b>	<b>7,496</b>	<b>7,608</b>	<b>(211)</b>	<b>82</b>	<b>7,479</b>	<b>(19,746)</b>	<b>(12,267)</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>2,122</b>	<b>21,494</b>	<b>23,616</b>	<b>2,848</b>	<b>423</b>	<b>26,887</b>	<b>16,243</b>	<b>43,130</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'.

31 March 2021 £000		Notes	31 March 2022 £000
79,149	Property, Plant and Equipment	12	80,245
18,560	Investment Properties	13	18,610
202	Intangible Assets		285
3,280	Long Term Investments	14	3,605
<b>101,191</b>	<b>Long Term Assets</b>		<b>102,745</b>
15,600	Short Term Investments	14	30,500
293	Assets Held for Sale		-
67	Inventories		79
15,321	Short Term Debtors	15	8,862
23,838	Cash and Cash Equivalents	17	22,981
<b>55,119</b>	<b>Current Assets</b>		<b>62,422</b>
(27,542)	Short Term Creditors	18	(32,532)
(94)	Short Term Borrowing	14	(96)
(1,336)	Revenue Grants in Advance	30	(188)
(1,636)	Provisions	19	(1,494)
<b>(30,608)</b>	<b>Current Liabilities</b>		<b>(34,310)</b>
(74)	Long Term Creditors	18	(92)
(5,725)	Long Term Revenue Grants in Advance - Section 106 Deposits	30	(5,717)
(14,380)	Long Term Borrowing	14	(14,284)
(61,351)	Pensions Liability	35	(52,621)
(1,042)	Capital Grants - Receipts in Advance	30	(1,071)
<b>(82,572)</b>	<b>Long Term Liabilities</b>		<b>(73,785)</b>
<b>43,130</b>	<b>Net Assets</b>		<b>57,072</b>
26,887	Usable Reserves	20	26,349
16,243	Unusable Reserves	21	30,723
<b>43,130</b>	<b>Total Reserves</b>		<b>57,072</b>

The notes on pages 38 to 122 form part of these financial statements. The unaudited accounts were issued on 29 July 2022. The audited accounts were issued on 24 November 2022.



**Lisa Buckle BSc (Hons), ACA**  
**Corporate Director of Strategic Finance (Section 151 Officer)**

## SECTION 2D CASHFLOW 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>2020/21 £000</b>		<b>2021/22 £000</b>
<b>2,369</b>	<b>Net (surplus) or deficit on the provision of services</b>	<b>409</b>
(16,653)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 22)	(9,385)
1,716	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23)	2,012
<b>(12,568)</b>	<b>Net cash outflows/ (inflow) from Operating Activities</b>	<b>(6,964)</b>
1,683	Net increase/(decrease) in Investing Activities (Note 24)	15,649
3,866	Net cash outflow/(inflow) from Financing Activities (Note 25)	(7,828)
<b>(7,019)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>857</b>
16,819	Cash and cash equivalents at the beginning of the reporting period	23,838
<b>23,838</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 17)</b>	<b>22,981</b>

***Section 3***

***Notes to the***

***Financial Statements***

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

### **CONTENTS**

1. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
2. Material Items of Income and Expense
3. Events After the Reporting Period
4. Expenditure and Funding Analysis
5. Note to the Expenditure and Funding Analysis
6. Expenditure and Income Analysed by Nature
7. Adjustments between Accounting Basis and Funding Basis under Regulations
8. Transfers to/from Earmarked Reserves
9. Other Operating Expenditure
10. Financing and Investment Income and Expenditure
11. Taxation and Non-Specific Grant Income
12. Property, Plant and Equipment
13. Investment Properties
14. Financial Instruments
15. Debtors
16. Debtors for Local Taxation
17. Cash and Cash Equivalents
18. Creditors
19. Provisions
20. Usable Reserves
21. Unusable Reserves
22. Cash Flow Statement – Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements
23. Cash Flow Statement – Adjustments to Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities
24. Cash Flow Statement - Investing Activities
25. Cash Flow Statement - Financing Activities
26. Trading Operations – Building Control
27. Members' Allowances
28. Officers' Remuneration
29. Payments to External Auditors
30. Grant Income
31. Related Parties
32. Capital Expenditure and Capital Financing
33. Leases
34. Exit Packages and Termination Benefits
35. Defined Benefit Pension Schemes
36. Contingent Liabilities
37. Nature and Extent of Risks Arising from Financial Instruments
38. Accounting Policies
39. Accounting Standards that have been Issued but have not yet been Adopted
40. Critical Judgements in Applying Accounting Policies

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### 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 2022 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>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>The carrying value of Property, Plant and Equipment as at 31 March 2022 is £80 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 £8m.</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 £254,000 on the Council's finances.</p>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p><b>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 2022.</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 2022 is £52.6 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>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 £3 million.</p> <p>The assumptions interact in complex ways. For example, in 2021/22, the Authority's actuaries advised that the pension liability has decreased by £7 million as a result of a change in "financial assumptions" and there had been no change as a result of a change in "demographic 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 £2.6m 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 2022.</p>

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

### **2. MATERIAL ITEMS OF INCOME AND EXPENSE**

There are no material items of income and expense in 2020/21 or 2021/22.

### **3. EVENTS AFTER THE REPORTING PERIOD**

The draft Statement of Accounts (SOA) for 2021/22 was approved for issue by the Section 151 Officer & Corporate Director for Strategic Finance on 29 July 2022. The Statement of Accounts were then reviewed by the Audit Committee on 8 September 2022 and the audited accounts were authorised for issue on 24 November 2022. This is also the date up to which events after the reporting period have been considered.

There is one event after the reporting period for 2021/22. This concerns the Council's Waste and Recycling service. On 12 July 2022 Executive considered a report with advice from the Council's Waste Working Group. The Waste Working Group advised that the Council and FCC Environment have reached a mutual agreement to end their contract for Waste, Recycling, Street and Toilet Cleaning services. In the best interests of the residents in the South Hams, it is proposed that the services will be operated by the Council from Monday 3 October 2022. This decision was subsequently approved by Council on 14 July 2022.

At the point of preparing the Statement of Accounts, planning continues and a further update will be considered by Executive and Council in September ahead of the transfer.

### **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>2021/22 – Expenditure and Funding Analysis</b>	<b>Net Expenditure Chargeable to the General Fund</b>	<b>Adjustments between Funding and Accounting Basis (Note 5)</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Customer Service & Delivery	6,097	3,130	9,227
Strategic Finance	522	-	522
Place & Enterprise	(2,240)	1,922	(318)
Governance & Assurance	3,203	1,724	4,927
<b>Net Cost of Services</b>	<b>7,582</b>	<b>6,776</b>	<b>14,358</b>
Other income and expenditure	(6,861)	(7,088)	(13,949)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>721</b>	<b>(312)</b>	<b>409</b>

	<b>General Fund Balance</b>	<b>Earmarked Reserves</b>	<b>Total General Fund Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Opening Balance at 31 March 2021</b>	<b>(2,122)</b>	<b>(21,494)</b>	<b>(23,616)</b>
(Increase)/decrease in year	66	655	721
<b>Closing Balance at 31 March 2022</b>	<b>(2,056)</b>	<b>(20,839)</b>	<b>(22,895)</b>

<b>2020/21 Comparatives – Expenditure and Funding Analysis</b>	<b>Net Expenditure Chargeable to the General Fund</b>	<b>Adjustments between Funding and Accounting Basis (Note 5)</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Customer Service & Delivery	7,149	1,893	9,042
Strategic Finance	538	-	538
Place & Enterprise	(511)	2,278	1,767
Governance & Assurance	4,378	805	5,183
<b>Net Cost of Services</b>	<b>11,554</b>	<b>4,976</b>	<b>16,530</b>
Other income and expenditure	(19,162)	5,001	(14,161)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(7,608)</b>	<b>9,977</b>	<b>2,369</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	General Fund Balance £000	Earmarked Reserves £000	Total General Fund Reserves £000
<b>Opening Balance at 31 March 2020</b>	<b>(2,010)</b>	<b>(13,998)</b>	<b>(16,008)</b>
(Increase)/decrease in year	(112)	(7,496)	(7,608)
<b>Closing Balance at 31 March 2021</b>	<b>(2,122)</b>	<b>(21,494)</b>	<b>(23,616)</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).

<b>Adjustments between Funding and Accounting Basis</b>				
<b>2021/22</b>	<b>Adjustments for capital purposes  (Note A) £000</b>	<b>Net change for the pensions adjustments (Note B) £000</b>	<b>Other Differences  (Note C) £000</b>	<b>Total adjustments  £000</b>
Customer Service & Delivery	1,280	1,842	7	<b>3,129</b>
Place & Enterprise	1,438	485	-	<b>1,923</b>
Governance & Assurance	1,448	276	-	<b>1,724</b>
<b>Net Cost of Services</b>	<b>4,166</b>	<b>2,603</b>	<b>7</b>	<b>6,776</b>
<b>Other income and expenditure from the Expenditure &amp; Funding Analysis</b>	<b>(3,333)</b>	<b>1,275</b>	<b>(5,030)</b>	<b>(7,088)</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>833</b>	<b>3,878</b>	<b>(5,023)</b>	<b>(312)</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Adjustments between Funding and Accounting Basis				
2020/21 Comparatives	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 Service & Delivery	1,165	723	5	1,893
Place & Enterprise	2,008	270	-	2,278
Governance & Assurance	629	176	-	805
<b>Net Cost of Services</b>	<b>3,802</b>	<b>1,169</b>	<b>5</b>	<b>4,976</b>
<b>Other income and expenditure from the Expenditure &amp; Funding Analysis</b>	<b>(3,490)</b>	<b>1,188</b>	<b>7,303</b>	<b>5,001</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>312</b>	<b>2,357</b>	<b>7,308</b>	<b>9,977</b>

#### Note A: Adjustments for Capital Purposes

Adjustments for capital purposes reflect:

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

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

#### Note B: Net Change for the Pensions Adjustments

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

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

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

#### Note C: Other Differences

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

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

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

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 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	2020/21	2021/22
	£000	£000
Employee Benefits Expenses*	14,342	17,009
Other Service Expenses**	35,234	29,677
Depreciation, Amortisation and Impairment	4,088	4,116
Interest Payments	414	366
Pension Fund Administration Expenses	65	63
Net Interest on the net defined benefit liability	1,123	1,212
Losses/(Gains) on disposal of non current assets	49	-
<b>Total Expenditure</b>	<b>55,315</b>	<b>52,443</b>
Fees, Charges and Other Service Income***	(13,376)	(17,002)
Interest and Investment Income	(220)	(153)
Income from Council Tax and Business Rates****	(59)	(4,744)
Revenue Grants and Contributions*****	(37,758)	(28,481)
Capital Grants and Contributions	(1,420)	(1,237)
Other Income	(113)	(417)
<b>Total Income</b>	<b>(52,946)</b>	<b>(52,034)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>2,369</b>	<b>409</b>

#### \* Employee Benefits Expenses

The increase in Employee Benefit Expenses is mainly due to an increase in the accounting adjustment for pensions (IAS19) of £1.4m. This is shown in Note 5 - Note to the Expenditure and Funding Analysis.

#### \*\* Other Service Expenses

Other Service Expenses have reduced by £6.8m in 2021/22. This mainly reflects the reduction in payment of business grants during the pandemic. In addition there has been a reduction in Housing Benefit Payments of £1.3m.

#### \*\*\* Fees, Charges and Other Service Income

The increase in fees and charges income in 2021/22 reflects the detrimental impact of the pandemic on the Council's income in 2020/21. For example, car parking income was almost £1.4m lower in 2020/21.

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

#### **\*\*\*\* Income from Council Tax and Business Rates**

The increase in income from Council Tax and Business Rates in 2021/22 mainly reflects the impact of the accounting treatment of the Business Rates S31 compensation grant. During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 were not discharged against the Collection Fund deficit until 2021/22 onwards. This has resulted in an increase in the total Business Rates Receivable from £15.6m in 2020/21 to £22.9m in 2021/22.

The figure for Council Tax and Business Rates in this statement is shown net of expenditure (precepts to other bodies).

#### **\*\*\*\*\*Revenue Grants and Contributions**

The overall reduction in grant income between 2020/21 and 2021/22 of £9.3m mainly relates to the S31 Business Rate Relief Grants. The larger share of this funding was received in 2020/21. This S31 compensation grant was awarded to local authorities to offset the business rate reliefs given to businesses during the pandemic. In addition there has been a reduction in Housing Benefit Subsidy of £1.3m to offset the reduction in Housing Benefit Payments shown in 'Other Service Expenses' shown above.

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 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.

2021/22	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>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</b>				
Charges for depreciation and impairment of non-current assets	3,100			(3,100)
Revaluation losses/(gains) on Property, Plant and Equipment	(217)			217
Movements in the market value of Investment Properties	(50)			50
Amortisation of Intangible Assets	82			(82)
Capital grants and contributions applied	(977)			977
Revenue expenditure funded from capital under statute (REFCUS)	1,201			(1,201)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	357			(357)
<b>Insertion of items not debited or credited to the CIES:</b>				
Statutory provision for the financing of capital investment	(486)			486
Capital expenditure charged against the General Fund	(1,019)			1,019
Revenue contribution to Capital Outlay – RCCO	(123)			123
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the CIES	(260)		260	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(179)	179
<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	(360)	360		-
Costs of disposal funded from capital receipts	3	(3)		-

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2021/22	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 unattached capital receipts	(418)	418		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(673)		673
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	5,370			(5,370)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,492)			1,492
<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	(328)			328
<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*	(4,702)			4,702
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	7			(7)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2021/22</b>	<b>(312)</b>	<b>102</b>	<b>81</b>	<b>129</b>

\*The large adjustment in 2021/22 regarding the Business Rates Collection Fund Adjustment Account reflects the reduced deficit on the Business Rates Collection Fund at 31 March 2022 (£6.4m compared to £18.1m at 31 March 2021). During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 are being discharged against the Collection Fund deficit in 2021/22 onwards. Further S31 grants were also received in 2021/22 which will have a similar impact on the Business Rates Collection Fund in future years.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2020/21 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>				
<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	2,557			(2,557)
Revaluation losses/(gains) on Property, Plant and Equipment	(188)			188
Movements in the market value of Investment Properties	286			(286)
Amortisation of Intangible Assets	29			(29)
Capital grants and contributions applied	(1,241)			1,241
Revenue expenditure funded from capital under statute (REFCUS)	1,404			(1,404)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	232			(232)
<b><i>Insertion of items not debited or credited to the CIES:</i></b>				
Statutory provision for the financing of capital investment	(344)			344
Capital expenditure charged against the General Fund	(1,798)			1,798
Revenue contribution to Capital Outlay – RCCO	(150)			150
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the CIES	(179)		179	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(97)	97
<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	(184)	184		-
Costs of disposal funded from capital receipts	1	(1)		-



### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>2020/21 Comparatives</b>				
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of unattached capital receipts	(113)	113		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(507)		507
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	3,787			(3,787)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,430)			1,430
<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	36			(36)
<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	7,267			(7,267)
<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	5			(5)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2020/21</b>	<b>9,977</b>	<b>(211)</b>	<b>82</b>	<b>(9,848)</b>

\*The large adjustment in 2020/21 regarding the Business Rates Collection Fund Adjustment Account reflects the deficit position on the Business Rates Collection Fund at 31 March 2021. During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 was not discharged against the Collection Fund deficit until 2021/22 onwards. Therefore there was a deficit of £18.1m on the Business Rates Collection Fund Adjustment Account at 31 March 2021.

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

### **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 2021/22. 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.

**Ferry Repairs and Renewals** – This reserve allows for the financing of major repairs required to the tugs and floats used in the Council’s ferry operation and the renewal of those assets.

**Planning Policy and Major Developments** – This reserve originated to help smooth out annual expenditure on the review and preparation of the Local Plan. In addition it is used to fund one off planning costs and to manage future fluctuations in planning income.

**Sustainable Waste Management** - This reserve makes some provision to enable the Council to develop sustainable waste initiatives in line with the Government’s National Waste Strategy. It is also used to support any unforeseen future waste cost pressures relating to market changes. Additional income from increased recycling credits and dry recycling income has been transferred to this reserve. In addition, the reserve also holds the value of the 2021/22 contractual performance deductions, in order to contribute to the anticipated set up costs of bringing the service back in house in October 2022 and capital outlay.

**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 and to smooth the volatility from business rates income over a period of years.

**Affordable Housing** - To support the funding of affordable housing.

**Emergency Climate Change Projects** - This reserve was set up in 2020/21 for Emergency Climate Change projects in order to give effect to the Council’s Climate Change Action Plan.

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

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

**S31 Compensation Grant (Business Rates) Reserve** - This reserve was set up in 2020/21 to hold the business rates S31 grants received to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 and 2021/22 will not be discharged against the Collection Fund deficit until 2021/22 and 2022/23 onwards respectively.

**Recovery and Renewal Plan** – This is a new reserve set up as part of the 2021/22 Budget process to support the costs of the Recovery and Renewal Plan and the Council's 20 year vision 'Better Lives for All'.

**Financial Stability** – This is a new reserve set up in 2021/22 as part of the 2022/23 Budget process to be available for any future financial pressures from local government funding reforms and any other budget pressures.

\*The total Earmarked Reserves balance at 31 March 2022 of £20.84m includes £4.26m held in the Business Rates s31 Compensation Grant Reserve. This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the S31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2022/23 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

The table below shows the earmarked reserve balances at 31 March 2022 and the movement during 2021/22.

<b>2021/22 EARMARKED RESERVES</b>	<b>Balance at 31.3.2021 £000</b>	<b>Transfers Out £000</b>	<b>Transfers In £000</b>	<b>Balance at 31.3.2022 £000</b>
<b>General Fund</b>				
Affordable Housing	668	(124)	-	544
Community Parks and Open Spaces	49	(20)	17	46
Grounds Maintenance	104	(30)	75	149
Pension Fund Strain	109	-	99	208
Repairs and Maintenance	231	(30)	173	374
Members Sustainable Community	35	-	14	49
Marine Infrastructure	326	(200)	58	184
Land and Development	104	(69)	37	72
Ferry Repairs and Renewals	428	(15)	117	530
Economic Initiatives	23	-	-	23
Salary Savings	120	(120)	-	-
Emergency Climate Change Projects	400	(47)	200	553
Vehicles & Plant Renewals	143	(417)	550	276
COVID-19	100	(272)	381	209
Pay and Display Equipment	165	-	21	186
On-Street Parking	44	-	-	44
ICT Development	82	(43)	50	89
Sustainable Waste Management	246	(80)	899	1,065
District Elections	10	-	10	20
Beach Safety	14	-	-	14
Planning Policy & Major Developments	217	(56)	370	531
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	1,101	(270)	894	1,725
Capital Programme	181	(143)	211	249
New Homes Bonus	1,803	(954)	1,068	1,917
Business Rates Retention	7,103	(2,557)	-	4,546
Homelessness Prevention	166	(22)	90	234
Housing Capital Projects	194	(117)	331	408
Leisure Services	51	(10)	-	41
Support Services Trading	72	(27)	30	75
Environmental Health Initiatives	20	-	-	20
S106 Monitoring	149	(20)	29	158
Economic Regeneration	49	(25)	-	24
S106 Technical Support	34	(20)	-	14
Maintenance, Management & Risk	37	-	29	66
Recovery and Renewal Plan	-	-	500	500
Financial Stability	-	-	280	280
Maintenance Fund	-	-	78	78
Community Composting	-	-	200	200
Tree Maintenance	-	-	60	60
<b>Sub Total General Fund Reserves</b>	<b>14,616</b>	<b>(5,688)</b>	<b>6,871</b>	<b>15,799</b>

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

<b>2021/22 EARMARKED RESERVES</b>	<b>Balance at 31.3.2021 £000</b>	<b>Transfers Out £000</b>	<b>Transfers In £000</b>	<b>Balance at 31.3.2022 £000</b>
Business Rates s31 Compensation Grant*	6,283	(2,023)	-	4,260
<b>Sub Total Specific Reserves Business Rates</b>	<b>6,283</b>	<b>(2,023)</b>	<b>-</b>	<b>4,260</b>
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	227	-	65	292
Harbour Renewals	169	(17)	40	192
General Reserve	199	(23)	120	296
<b>Sub Total Specific Reserves Salcombe Harbour</b>	<b>595</b>	<b>(40)</b>	<b>225</b>	<b>780</b>
<b>TOTAL EARMARKED REVENUE RESERVES*</b> (See Note on the Business Rates s31 Compensation Grant above)	<b>21,494</b>	<b>(7,751)</b>	<b>7,096</b>	<b>20,839</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2020/21 Comparatives EARMARKED RESERVES	Balance at 31.3.2020 £000	Transfers Out £000	Transfers In £000	Balance at 31.3.2021 £000
<b>General Fund</b>				
Affordable Housing	706	(38)	-	668
Community Parks and Open Spaces	38	(6)	17	49
Grounds Maintenance	-	-	104	104
Pension Fund Strain	29	(19)	99	109
Repairs and Maintenance	203	(15)	43	231
Members Sustainable Community	28	-	7	35
Marine Infrastructure	268	-	58	326
Land and Development	210	(113)	7	104
Ferry Repairs and Renewals	446	(135)	117	428
Economic Initiatives	6	(4)	21	23
Salary Savings	-	-	120	120
Emergency Climate Change Projects	-	-	400	400
Vehicles and Plant Renewals	1,183	(1,590)	550	143
COVID-19	-	-	100	100
Pay and Display Equipment	144	-	21	165
On-Street Parking	44	-	-	44
ICT Development	122	(90)	50	82
Sustainable Waste Management	54	-	192	246
District Elections	-	-	10	10
Beach Safety	14	-	-	14
Planning Policy & Major Developments	187	-	30	217
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	607	(190)	684	1,101
Capital Programme	26	(27)	182	181
New Homes Bonus	1,697	(1,093)	1,199	1,803
Renovation Grant	7	(7)	-	-
Business Rates Retention	6,192	(6,894)	7,805	7,103
Homelessness Prevention	112	-	54	166
Strategic Change	30	(30)	-	-
Innovation Fund (Invest to Earn)	9	(9)	-	-
Community Housing Fund	493	(314)	15	194
Leisure Services	57	(6)	-	51
Support Services Trading	43	-	29	72
Environmental Health Initiatives	20	-	-	20
S106 Monitoring	133	(23)	39	149
Economic Regeneration	319	(270)	-	49
Joint Local Plan	21	(21)	-	-
S106 Technical Support	16	(19)	37	34
Maintenance, Management & Risk	8	-	29	37
<b>Sub Total General Fund Reserves</b>	<b>13,510</b>	<b>(10,913)</b>	<b>12,019</b>	<b>14,616</b>
Business Rates s31 Compensation Grant*	-	-	6,283	6,283
<b>Sub Total Specific Reserves Business Rates</b>	<b>-</b>	<b>-</b>	<b>6,283</b>	<b>6,283</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2020/21 EARMARKED RESERVES	Balance at 31.3.2020 £000	Transfers Out £000	Transfers In £000	Balance at 31.3.2021 £000
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	162	0	65	227
Harbour Renewals	136	(7)	40	169
General Reserve	190	(46)	55	199
<b>Sub Total Specific Reserves Salcombe Harbour</b>	<b>488</b>	<b>(53)</b>	<b>160</b>	<b>595</b>
<b>TOTAL EARMARKED REVENUE RESERVES*</b> (See Note on the Business Rates s31 Compensation Grant below)	<b>13,998</b>	<b>(10,966)</b>	<b>18,462</b>	<b>21,494</b>

#### Note\* - Business Rates S31 Compensation Grant Earmarked Reserve

Earmarked Reserves increased by £7.5m in 2020/21. This was mainly due to the creation of a new earmarked reserve in 2020/21 called the S31 Compensation Grant (Business Rates) Reserve. During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown in the retail, hospitality and leisure sectors (business rates holidays). Under current Collection Fund accounting rules, the S31 grants received in 2020/21 are not discharged against the Collection Fund deficit until 2021/22 onwards. Therefore this S31 grant (£5.49m) together with the Tax Income Guarantee S31 grant for Business Rates of £0.79m were transferred to the S31 Compensation Grant (Business Rates) Earmarked Reserve. This compensation grant will be applied to the Collection Fund over the next three years (2021/22 onwards) to smooth the impact of the Business Rates deficit. The balance on this reserve as at 31 March 2021 was £6.28m. This is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

#### 9. OTHER OPERATING EXPENDITURE

2020/21 £000		2021/22 £000
2,736	Parish council precepts	2,960
49	(Gains)/losses on the disposal of non-current assets	-
65	Pension administration expenses	63
<b>2,850</b>	<b>Total</b>	<b>3,023</b>

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2020/21 £000		2021/22 £000
414	Interest payable and similar charges	366
(207)	Interest receivable and similar income	(140)
(113)	Other investment income	(417)
1,123	Net interest on the net defined benefit liability	1,212
(581)	Investment properties (Note 13)	(960)
<b>636</b>	<b>Total</b>	<b>61</b>

### 11. TAXATION AND NON-SPECIFIC GRANT INCOME

2020/21 £000		2021/22 £000
(9,299)	Council Tax	(9,679)
35	• Income	(328)
(60)	• Collection Fund adjustment	30
37	• Collection Fund - distribution of surplus	-
	• Support grant to parishes	
	Business Rates	
(11,395)	• Income	(11,375)
11,464	• Tariff	11,464
316	• Levy payment	1,109
1	• Pooling administration costs	2
(348)	• Pooling benefit	(299)
6,454	• Transfer of Collection Fund deficit/(surplus)*	1,372
	Non ring - fenced Government Grants:	
(9,183)	• S.31 Business Rate Relief Grants*	(5,789)
(1,199)	• New Homes Bonus Grant	(1,068)
(408)	• Rural Services Delivery Grant	(428)
-	• Lower Tier Services Grant	(82)
(1,088)	• COVID-19 LA Response Grant	(381)
(1,079)	• COVID-19 Sales, Fees & Charges Compensation	(108)
(475)	• COVID-19 New Burdens Admin Support Grant	(236)
(1,420)	Capital grants and contributions	(1,237)
<b>(17,647)</b>	<b>Total</b>	<b>(17,033)</b>

\*The S31 Business Rate Relief Grants received in 2020/21 and 2021/22 include the S31 compensation grant that local authorities were awarded to offset the business rate reliefs given to businesses during the pandemic. Under current Collection Fund accounting rules, the S31 grants are not discharged against the Collection Fund deficit until the following year onwards. Therefore there is



### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

a deficit on the Business Rates Collection Fund Adjustment Account at 31 March 2021 and 31 March 2022 which is reflected in the transfers of the Collection Fund deficit above. The S31 compensation grant is held in an earmarked reserve and will be applied to the Collection Fund over the next three years to smooth the impact of the Business Rates deficit.

#### 12. PROPERTY, PLANT AND EQUIPMENT

<b>Movements in 2021/22</b>	<b>Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infra-structure Assets</b>	<b>Community Assets</b>	<b>Assets Under Construction</b>	<b>Total Property, Plant &amp; Equipment</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>						
<b>At 1 April 2021</b>	<b>68,313</b>	<b>10,756</b>	<b>11,292</b>	<b>454</b>	<b>441</b>	<b>91,256</b>
Additions	14	731	75	62	1,742	2,624
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	365					365
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	65					65
Derecognition – disposals	(65)	(52)				(117)
<b>At 31 March 2022</b>	<b>68,692</b>	<b>11,435</b>	<b>11,367</b>	<b>516</b>	<b>2,183</b>	<b>94,193</b>
<b>Accumulated Depreciation &amp; Impairment at 1 April 2021</b>	<b>1,731</b>	<b>6,038</b>	<b>4,338</b>	<b>-</b>	<b>-</b>	<b>12,107</b>
Charge for 2021/22	1,629	1,014	457	-	-	3,100
Depreciation written out to the Revaluation Reserve	(1,053)					(1,053)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(154)					(154)
Derecognition – disposals		(52)				(52)
<b>At 31 March 2022</b>	<b>2,153</b>	<b>7,000</b>	<b>4,795</b>	<b>-</b>	<b>-</b>	<b>13,948</b>
<b>Balance Sheet amount at 31 March 2022</b>	<b>66,539</b>	<b>4,435</b>	<b>6,572</b>	<b>516</b>	<b>2,183</b>	<b>80,245</b>
<b>Balance Sheet amount at 31 March 2021</b>	<b>66,582</b>	<b>4,718</b>	<b>6,954</b>	<b>454</b>	<b>441</b>	<b>79,149</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Comparative Movements in 2020/21	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 2020</b>	<b>67,314</b>	<b>9,799</b>	<b>10,912</b>	<b>454</b>	<b>397</b>	<b>88,876</b>
Additions	111	2,336	341		1,274	4,062
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(582)					(582)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(10)					(10)
Derecognition – disposals	(20)	(1,379)				(1,399)
Assets reclassified (to)/from Held for Sale	159					159
Other movements in cost/ valuation - reclassification	1,341		39		(1,230)	150
<b>At 31 March 2021</b>	<b>68,313</b>	<b>10,756</b>	<b>11,292</b>	<b>454</b>	<b>441</b>	<b>91,256</b>
<b>Accumulated Depreciation &amp; Impairment at 1 April 2020</b>	<b>1,588</b>	<b>6,621</b>	<b>3,899</b>	-	-	<b>12,108</b>
Charge for 2020/21	1,377	741	439			2,557
Depreciation written out to the Revaluation Reserve	(1,033)					(1,033)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(198)					(198)
Derecognition – disposals	(3)	(1,324)				(1,327)
<b>At 31 March 2021</b>	<b>1,731</b>	<b>6,038</b>	<b>4,338</b>	-	-	<b>12,107</b>
<b>Balance Sheet amount at 31 March 2021</b>	<b>66,582</b>	<b>4,718</b>	<b>6,954</b>	<b>454</b>	<b>441</b>	<b>79,149</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>

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

### **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. Assets are depreciated in the year following acquisition and in the year of disposal.

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

### **Capital Commitments**

As at 31 March 2022 the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment. The commitments relate to:

- St Ann's Chapel Housing Scheme - £4.20 million
- Dartmouth Health & Wellbeing Hub - £3.94 million
- Batson, Salcombe Harbour Workshop - £0.69 million
- Batson, Salcombe Employment Units - £0.41 million

As a comparison, as at 31 March 2021 the Authority had not entered into any contracts for the construction or enhancement of Property, Plant and Equipment.

### **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.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	Land and buildings £000	Vehicles, plant, furniture & equipment £000	Total £000
<b>Valued at historical cost</b>	-	4,718	4,718
<b>Valued at current value in:</b>			
2021/2022	16,375	(283)	16,092
2020/2021	45,567		45,567
2019/2020	4,929		4,929
<b>Total</b>	<b>66,871</b>	<b>4,435</b>	<b>71,306</b>

#### 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>2020/21 £000</b>	<b>2021/22 £000</b>
Rental income from investment properties	(929)	(918)
Direct operating expenses arising from investment properties	348	(42)
<b>Net (gain)/ loss</b>	<b>(581)</b>	<b>(960)</b>

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

<b>B. Movement in fair value</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>
<b>Balance at start of the year</b>	<b>19,156</b>	<b>18,560</b>
Net gains/(losses) from fair value adjustments*	(286)	50
Transfers (to)/from Property, Plant and Equipment	(310)	-
<b>Balance at end of the year</b>	<b>18,560</b>	<b>18,610</b>

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

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 in Dartmouth. This amount equated to the purchase price of the investment property plus transaction costs (e.g. stamp duty land tax) and directly attributable expenditure (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. In 2020/21 there was a £286,000 reduction on the fair value adjustment due to the write down of the costs of acquisition of £296,000 (e.g. stamp duty land tax and legal and professional fees) plus a £10,000 upward valuation on Lee Mill, Ivybridge.

The Code requires that Investment Properties are measured annually at fair value. The fair value valuation increased by £50,000 at 31 March 2022 amounting to a total of £18.61 million. This increase in value relates to the Investment Property in Dartmouth.

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' in the Income and Expenditure account, as it is reversed out through the Capital Adjustment Account.

### **Fair Value Measurement of Investment Property**

#### **Observable Inputs – Level 2**

The commercial land and buildings are measured using in the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted using a market-derived discount rate to establish the present value of the net income stream. The approach has been developed using the Council's own data factoring in assumptions such as duration and timing of cash inflows and outflows, rent growth, occupancy levels, bad debt levels and maintenance costs. The Council's commercial land and buildings are therefore categorised as Level 2 based on assumptions on observable inputs in the fair value hierarchy as the measurement technique uses observable inputs to determine the fair value measurements.

#### **Highest and Best Use of Investment Properties**

In estimating the fair value of the Council's Investment Properties, it has been established that their current use is the highest and best use of the properties.

#### **Valuation Techniques**

There has been no change in the valuation techniques used during the year for Investment Properties.

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

### **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.

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

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 2021	31 March 2022	31 March 2021	31 March 2022
	£000	£000	£000	£000
<b>Financial Assets at Amortised Cost</b>				
Investments*	-	-	15,600	30,500
Cash and Cash Equivalents	-	-	23,838	22,981
Debtors	-	-	3,456	3,542
<b>Fair Value through Other Comprehensive Income – Financial Assets</b>				
Investments – CCLA Local Authorities’ Property Fund	1,338	1,573	-	-
Investments – CCLA Diversified Income Fund	1,942	2,032	-	-
<b>Total Financial Assets</b>	<b>3,280</b>	<b>3,605</b>	<b>42,894</b>	<b>57,023</b>
<b>Financial Liabilities at Amortised Cost</b>				
Borrowing	(14,380)	(14,284)	(94)	(96)
Creditors	(74)	(92)	(15,940)	(19,524)
<b>Total Financial Liabilities</b>	<b>(14,454)</b>	<b>(14,376)</b>	<b>(16,034)</b>	<b>(19,620)</b>

\*The increase in investments as at 31 March 2022 of £14.9m partly relates to the timing of the Council Tax energy rebate grant (£4.51m) which was received at the end of 2021/22 and the payments are being made on behalf of Central Government at the beginning of 2022/23. The Council also administered various Business Grants on behalf of Central Government and part of this increase relates to unapplied funding due to be repaid to Central Government.

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

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

At 31 March 2022 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 2021/22.

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

The Council had the following investments in equity instruments at 31 March 2022:

<b>Investment</b>	<b>Nominal</b>	<b>Fair Value</b>	<b>Change in Fair Value during 2021/22</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
CCLA Property Fund	1,500	1,573	(73)
CCLA Diversified Income Fund	2,000	2,032	(32)
<b>Total</b>	<b>3,500</b>	<b>3,605</b>	<b>(105)</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:

	2020/21	2021/22
	£000	£000
Net gains/losses on:		
Financial Assets measured at fair value through other comprehensive income	141	325
<b>Total Net Gains/(Losses)</b>	<b>141</b>	<b>325</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 2021 Fair Value £000	31 March 2022 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	3,280	3,605
<b>TOTAL</b>			<b>3,280</b>	<b>3,605</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 2021		31 March 2022	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
PWLB Debt – Maturity	(5,490)	(5,890)	(5,490)	(5,571)
PWLB Debt – Annuity	(8,984)	(9,812)	(8,890)	(8,912)
Long Term Creditors	(74)	(74)	(92)	(92)

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### Heritable Bank

At the 31 March 2022 the Council had £10,542 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that was affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank PLC is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank, Landsbanki.

The Council placed a deposit of £1,250,000 on 25th September 2008 with the Heritable Bank. Of this amount £1,239,458 (99%) 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 sixteen dividends amounting to 99% 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>31.3.2021</b> <b>£000</b>		<b>31.3.2022</b> <b>£000</b>
	<b>Short Term</b>	
1,802	Central Government bodies	1,964
787	Other Local Authorities	741
	Other debtors	
1,938	Council Tax*	652
8,389	Business Rates**	2,730
2,405	Other entities and individuals	2,775
<b>15,321</b>	<b>Total</b>	<b>8,862</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

\*There is a large reduction in the short term Council Tax debtors as at 31 March 2022 which reflects the favourable movement in the Council Tax Collection Fund balance in 2021/22. As at 31 March 2021, the Council was due to receive £1.3m from Council Tax Preceptors. As at 31 March 2022 this has moved to a Creditor position, where the Council owes the Preceptors £1.5m. This follows the improved position on the Council Tax Collection Fund at 31 March 2022, a surplus of £2.74m compared to a small surplus of £28,000 as at 31 March 2021. The debtor/creditor position also reflects the Preceptors share of the Council Tax bad debts provision.

\*\*There is a significant decrease in the short term Business Rates debtor as at 31 March 2022. The large debtor as at 31 March 2021 (£8.39m) was due to the deficit position on the Business Rates Collection Fund resulting from the timing differences in the Collection Fund accounting treatment of the S31 compensation grant. The debtor includes the deficits attributable to each of the Business Rates Preceptors (Central Government £9.05m, Devon County Council £1.63m and Devon and Somerset Fire Authority £0.18m) at 31 March 2021. This S31 compensation grant is gradually being released to the Collection Fund hence the reduction in the Business Rates Collection Fund deficit in 2021/22 and therefore the Business Rates debtor at 31 March 2022. The £2.73m debtor includes the following deficits attributable to each of the Business Rates Preceptors as at 31 March 2022 - Central Government £3.18m, Devon County Council £0.57m and Devon and Somerset Fire Authority £0.06m. These deficits are partly offset by the Preceptors share of the Business Rates appeals and bad debts provisions as at 31 March 2022.

#### 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>31.3.2021</b> <b>£000</b>		<b>31.3.2022</b> <b>£000</b>
377	Up to one year	580
342	One to three years	468
154	Over three years	219
<b>873</b>	<b>Total Debtors for Local Taxation</b>	<b>1,267</b>

#### 17. CASH AND CASH EQUIVALENTS

<b>31.3.2021</b> <b>£000</b>		<b>31.3.2022</b> <b>£000</b>
638	Cash held by the Authority	581
23,200	Money Market Funds	22,400
<b>23,838</b>	<b>Total Cash and Cash Equivalents</b>	<b>22,981</b>

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 18. CREDITORS

31.3.2021 £000		31.3.2022 £000
	<b>Short Term</b>	
(12,960)	Central Government bodies*	(17,466)
(1,398)	Other Local Authorities	(930)
	Other Creditors	
(135)	Council Tax**	(1,626)
(8,545)	Business Rates	(8,173)
(4,504)	Other entities and individuals	(4,337)
<b>(27,542)</b>	<b>Total</b>	<b>(32,532)</b>
	<b>Long Term</b>	
(74)	Other entities and individuals	(92)
<b>(74)</b>	<b>Total</b>	<b>(92)</b>

\*The increase in the short term Central Government bodies creditor mainly relates to the non-discretionary element of the Council Tax energy rebate grant (£4.3m). This grant was received at the end of 2021/22 and the payments are being made on behalf of Central Government at the beginning of 2022/23. The Council also administered various Business Grants on behalf of Central Government during 2020/21 and 2021/22. The large Central Government bodies creditor balance also reflects the unapplied funding due to be repaid to Central Government.

\*\* There is a large increase in the short term Council Tax creditors as at 31 March 2022 which reflects the favourable movement in the Council Tax Collection Fund balance in 2021/22. As at 31 March 2021, the Council was due to receive £1.3m from Council Tax Preceptors (a debtors balance). However, as at 31 March 2022 the Council owes Council Tax Preceptors £1.5m (a creditors balance). This follows the improved position on the Council Tax Collection Fund at 31 March 2022, a surplus of £2.74m compared to a small surplus of £28,000 as at 31 March 2021. The debtor/creditor position also reflects the Preceptors share of the Council Tax bad debts provision.

### 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 2021/22 or 2020/21. The breakdown of the 2021/22 provision is shown in the following table:

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	<b>Business Rates Appeals £000</b>
<b>Balance at 1 April 2021</b>	<b>1,636</b>
Provisions made in year	94
Amounts used in year	(236)
<b>Balance at 31 March 2022</b>	<b>1,494</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 2021/22 there has been a £354,000 reduction in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £142,000).

#### **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 2021/22 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.

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 21. UNUSABLE RESERVES

31.3.2021 £000		31.3.2022 £000
30,405	Revaluation Reserve	31,072
54,796	Capital Adjustment Account	54,531
(61,351)	Pensions Reserve	(52,621)
3	Council Tax Collection Fund Adjustment Account	331
(7,242)	Business Rates Collection Fund Adjustment Account	(2,540)
(220)	Financial Instruments Revaluation Reserve	105
(148)	Accumulated Absences Account	(155)
<b>16,243</b>	<b>Total Unusable Reserves</b>	<b>30,723</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.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

31.3.2021 £000	31.3.2021 £000	Revaluation Reserve	31.3.2022 £000	31.3.2022 £000
	<b>30,278</b>	<b>Balance at 1 April</b>		<b>30,405</b>
4,297		Upward revaluation of assets	1,882	
(3,846)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(464)	
	<b>451</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>1,418</b>
(404)		Difference between fair value depreciation and historical cost depreciation	(590)	
117		Accumulated gains on assets reclassified as Investment Properties	-	
(37)		Accumulated gains on assets sold or scrapped	(161)	
	<b>(324)</b>	<b>Amount written off to the Capital Adjustment Account</b>		<b>(751)</b>
	<b>30,405</b>	<b>Balance at 31 March</b>		<b>31,072</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**

2020/21 £000	2020/21 £000	Capital Adjustment Account	2021/22 £000	2021/22 £000
	54,655	<b>Balance at 1 April</b>		54,796
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
(2,557)		▪ Charges for depreciation of non-current assets	(3,100)	
188		▪ Revaluation gains/(losses) on Property, Plant and Equipment (PPE)	217	
(286)		▪ Revaluation gains/(losses) on Investment Properties	50	
(29)		▪ Amortisation of Intangible Assets	(82)	
(1,404)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,201)	
(232)		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(357)	
	<b>(4,320)</b>	<b>Total</b>		<b>(4,473)</b>
37		Amounts of Revaluation Reserve balance written off on disposal or sale of PPE	161	
(117)		Amounts of Revaluation Reserve written off on reclassification of PPE to Investment Properties	-	
<u>404</u>		Adjusting amounts written out of the Revaluation Reserve	<u>590</u>	
	<b>324</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>751</b>
		Capital financing applied in the year:		
507		• Use of the Capital Receipts Reserve to finance new capital expenditure	673	
1,241		• Capital grants and contributions credited to the CIES that have been applied to capital financing	977	
97		• Application of grants to capital financing from the Capitals Grants Unapplied Account	179	
344		• Statutory provision for the financing of capital investment charged against the General Fund	486	
1,798		• Capital expenditure charged against the General Fund	1,019	
150		• Revenue Contribution to Capital Outlay (RCCO)	123	
	<b>4,137</b>	<b>Total</b>		<b>3,457</b>
	<b>54,796</b>	<b>Balance at 31 March</b>		<b>54,531</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.

31.3.2021 £000	Pensions Reserve	31.3.2022 £000
(48,504)	<b>Balance at 1 April</b>	(61,351)
(10,490)	Actuarial gains or (losses) on pension assets and liabilities	12,608
(3,787)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(5,370)
1,430	Employer's pensions contributions and direct payments to pensioners payable in the year	1,492
<b>(61,351)</b>	<b>Balance at 31 March</b>	<b>(52,621)</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.

31.3.2021 £000	Council Tax Collection Fund Adjustment Account	31.3.2022 £000
39	<b>Balance at 1 April</b>	3
(36)	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	328
<b>3</b>	<b>Balance at 31 March</b>	<b>331</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.

31.3.2021 £000	Business Rates Collection Fund Adjustment Account	31.3.2022 £000
25	<b>Balance at 1 April</b>	<b>(7,242)</b>
(7,267)	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*	4,702
<b>(7,242)</b>	<b>Balance at 31 March</b>	<b>(2,540)</b>

\*The large movement in the 2021/22 Business Rates Collection Fund Adjustment Account reflects the improved deficit position on the Business Rates Collection Fund as at 31 March 2022. (£6.4m compared to £18.1m at 31 March 2021). During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 are being discharged against the Collection Fund deficit in 2021/22 onwards. Further S31 grants were also received in 2021/22 which will have a similar impact on the Business Rates Collection Fund in future years.

#### 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

31.3.2021 £000	Financial Instruments Revaluation Reserve	31.3.2022 £000
<b>(361)</b>	<b>Balance at 1 April</b>	<b>(220)</b>
151	Upward revaluation of assets	325
(10)	Downward revaluation of assets	-
<b>(220)</b>	<b>Balance at 31 March</b>	<b>105</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.

31.3.2021		Accumulated Absences Account	31.3.2022	
£000	£000		£000	£000
	(143)	<b>Balance at 1 April</b>		(148)
143		Settlement or cancellation of accrual made at the end of the preceding year	148	
(148)		Amounts accrued at the end of the current year	(155)	
	(5)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(7)
	(148)	<b>Balance at 31 March</b>		(155)

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

2020/21		2021/22
£000		£000
(2,557)	Depreciation	(3,100)
188	Impairment and downward valuations	217
(286)	Movement in market value of investment properties	50
(29)	Amortisation	(82)
606	Increase/(decrease) in Debtors	486
(11,984)	Increase/(decrease) in Creditors	(2,733)
(2)	Increase/(decrease) in Inventories	12
(2,357)	Movement in pension liability	(3,878)
(232)	Carrying amount of non-current assets held for sale, sold or derecognised	(357)
<b>(16,653)</b>	<b>Total</b>	<b>(9,385)</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

2020/21 £000		2021/22 £000
296	Proceeds from the sale of non-current assets	775
1,420	Other non-cash items charged to the net surplus or deficit on the provision of services	1,237
<b>1,716</b>	<b>Net cash flows from investing activities</b>	<b>2,012</b>

#### 24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2020/21 £000		2021/22 £000
4,241	Purchase of Property, Plant and Equipment, Investment Properties and Intangible Assets	2,790
100	Increase/(decrease) in investments*	14,900
(296)	Proceeds from the sale of Property, Plant and Equipment, Investment Properties and Intangible Assets	(775)
(2,362)	Other receipts from investing activities (capital grants and contributions)	(1,266)
<b>1,683</b>	<b>Net cash flows from investing activities</b>	<b>15,649</b>

\*The increase in the purchase of short and long term investments partly relates to the timing of the Council Tax energy rebate grant (£4.51m) which was received at the end of 2021/22 and the payments are being made on behalf of Central Government at the beginning of 2022/23. The Council also administered various Business Grants on behalf of Central Government and part of this increase relates to unapplied funding due to be repaid to Central Government.

#### 25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2020/21 £000		2021/22 £000
93	Repayments of short and long-term borrowing	94
3,773	Other receipts/payments for financing activities*	(7,922)
<b>3,866</b>	<b>Total</b>	<b>(7,828)</b>

\*The movement between 2020/21 and 2021/22 is due to the significant decrease in short term Business Rates debtors and large increase in

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

the short term Council Tax creditors. For further information please see note 15 Debtors and note 18 Creditors.

#### 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 2021/2022.

#### 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>2020/21 £000</b>		<b>2021/22 £000</b>
245	Allowances	250
1	Expenses	9
<b>246</b>	<b>Total</b>	<b>259</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:

<b>Post</b>	<b>Year</b>	<b>Salary, Fees and Allowances £</b>	<b>Expenses £</b>	<b>Pension Contribution £</b>	<b>Total £</b>
<b>Chief Executive and Head of Paid Service (Post vacant from 15/03/20 to 07/06/20 - Note B)</b>	20/21	100,300	-	16,900	<b>117,200</b>
	21/22	125,200	1,200	21,000	<b>147,400</b>
<b>Corporate Director of Governance &amp; Assurance</b>	20/21	72,500	500	12,200	<b>85,200</b>
	21/22	77,400	400	12,700	<b>90,500</b>
<b>Head of Finance (Deputy S.151 Officer)</b>	20/21	58,000	100	9,300	<b>67,400</b>
	21/22	56,000	100	9,400	<b>65,500</b>
<b>Head of Maritime</b>	20/21	54,200	1,000	8,900	<b>64,100</b>
	21/22	60,800	2,000	10,100	<b>72,900</b>
<b>Head of IT</b>	20/21	56,500	100	9,500	<b>66,100</b>
	21/22	57,500	100	9,700	<b>67,300</b>
<b>Head of Place Making – post vacant until 26/10/20</b>	20/21	22,200	100	3,700	<b>26,000</b>
	21/22	53,200	600	9,000	<b>62,800</b>
<b>Head of Human Resources</b>	20/21	52,400	200	8,800	<b>61,400</b>
	21/22	53,300	100	9,000	<b>62,400</b>
<b>Head of Legal &amp; Monitoring Officer (in post from 10<sup>th</sup> November 2020 – Note C)</b>	20/21	50,300	-	8,400	<b>58,700</b>
	21/22	58,400	-	9,800	<b>68,200</b>

No other officers earned over £50,000 during 2021/22 or 2020/21.

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

#### **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 2021/22 South Hams District Council reimbursed costs amounting to £489,100 (2020/21 £502,000) 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 2021/22 from West Devon Borough Council of £271,400 (2020/21 £233,100) in respect of the above shared senior employees.

#### **Note B: 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. South Hams District Council successfully recruited to this post in June 2020.

#### **Note C: Head of Legal and Monitoring Officer**

The Chief Executive and Head of Paid Service conducted a review of the arrangements to ensure there was clarity of accountability for the statutory functions, and to make sure that the Monitoring Officer had the capacity to respond in a timely and effective manner to all issues referred to the role. A report was taken to Council in September 2020 which recommended the designation of the Monitoring Officer role to the Head of Legal Services (once appointed) and removal of the Monitoring Officer responsibilities and duties from the Business Manager (Specialists) employed by West Devon Borough Council. The Head of Legal and Monitoring Officer was appointed on 10 November 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:

	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>
<b>Fees payable with regard to external audit services</b>	<b>64</b>	<b>74</b>
Core Audit Fees	54	62
Audit of Grants and Returns	10	12
<b>Rebate from Public Sector Audit Appointments Ltd</b>	<b>-</b>	<b>(7)</b>
<b>Total</b>	<b>64</b>	<b>67</b>

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 30. GRANT INCOME

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

	2020/21 £000	2021/22 £000
<b>Credited to Taxation and Non-Specific Grant Income</b>		
<b>Capital grants and contributions:</b>		
Disabled Facilities Grants	(1,141)	(1,196)
Capital Section 106 deposits	-	(41)
Homes England (Clay Park)	(270)	-
Other capital grants and contributions	(9)	-
<b>Non ring - fenced Government grants and contributions:</b>		
New Homes Bonus Grant	(1,199)	(1,068)
S31 Business Rate Relief Grants*	(9,183)	(5,789)
Rural Services Delivery Grant	(408)	(428)
Lower Tier Services Grant	-	(82)
COVID-19 LA Response Grant	(1,088)	(381)
COVID-19 Sales, Fees & Charges Compensation	(1,079)	(108)
COVID-19 New Burdens Admin Support Grant	(475)	(236)
<b>Total</b>	<b>(14,852)</b>	<b>(9,329)</b>
<b>Credited to Services</b>		
Rent Allowance subsidy	(15,545)	(14,207)
Housing Benefit administration subsidy	(200)	(182)
Rent rebate subsidy	(62)	(95)
Discretionary housing payments	(172)	(128)
Council Tax benefit administration subsidy	(78)	(89)
Business Rates cost of collection allowance	(206)	(212)
Homelessness Prevention Grant	(120)	(205)
Neighbourhood Planning Grant	(140)	(90)
Redmond Review Local Audit Fees Grant	-	(17)
Recycling credits	(538)	(580)
Revenue Section 106 deposits	(521)	(699)
Electoral Commission – General Elections and European Elections	(18)	(199)
COVID-19 Hardship Support Fund	-	(104)
COVID-19 Additional Restrictions Support Grant	(1,178)	(1,668)
COVID-19 Additional Restrictions Support Grant (Top Up)	(223)	(550)
COVID-19 Track & Trace Administration Support Grant	(24)	(62)
COVID-19 Discretionary Business Grants Fund	(2,306)	-
COVID-19 ERDF Reopening High Streets Safely	-	(139)
COVID-19 Local Elections 2021 COVID Secure	-	(31)
COVID-19 Protect & Vaccinate Homelessness Support Grant	-	(46)
COVID-19 Contain Outbreak Management Fund	-	(98)
COVID-19 Council Tax Hardship Grant Fund	(508)	(131)
COVID-19 Local Restrictions Support Grant (Open)	(2,079)	(215)
Other grants	(408)	(631)
<b>Total</b>	<b>(24,326)</b>	<b>(20,378)</b>



### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### S31 Business Rate Relief Grants

\*The overall reduction in grant income between 2020/21 and 2021/22 of nearly £4 million mainly relates to the S31 Business Rate Relief Grants. The larger share of this funding was received in 2020/21. This S31 compensation grant was awarded to local authorities to offset the business rate reliefs given to businesses during the pandemic.

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 2021 £000</b>	<b>31 March 2022 £000</b>
BEIS Green Homes Grant	(1,026)	(1,026)
Other grants	(16)	(45)
<b>Total</b>	<b>(1,042)</b>	<b>(1,071)</b>

<b>Revenue Grants Receipts in Advance</b>	<b>31 March 2021 £000</b>	<b>31 March 2022 £000</b>
COVID-19 Additional Restrictions Grant	(562)	-
COVID-19 Additional Restrictions Grant (Top Up)	(550)	-
COVID-19 LRSG (Open)	(215)	-
Council Tax Rebate Grant	-	(174)
Other grants	(9)	(14)
<b>Total</b>	<b>(1,336)</b>	<b>(188)</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

<b>Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)</b>	<b>31 March 2021 £000</b>	<b>31 March 2022 £000</b>
Langage Energy Centre	(1,458)	(1,456)
Gara Rock, East Portlemouth	(523)	(523)
Land South East of Torhill Farm, Ivybridge	(489)	(474)
Land at Woodland Road, Ivybridge	(195)	(191)
Bonfire Hill, Salcombe	(184)	(152)
Land at Moorview, Marldon	(130)	(81)
Riverside, Totnes	(96)	(91)
Former Old Chapel Inn, Bigbury	(110)	(110)
Sawmills Field, Dartington	(77)	(46)
Trennels, Herbert Road, Salcombe	(93)	(93)
Webbers Yard, Dartington	(56)	(56)
Venn Farm, Brixton	(60)	(50)
Holywell Stores, Bigbury	(74)	(74)
Former Gas Works, Salcombe	(68)	(68)
Cornwood Road, Ivybridge	(214)	(214)
Land off Palm Cross Green, Modbury	(197)	(68)
Knighton Road, Wembury	(106)	(104)
Land East of Allern Lane, Tamerton Foliot	(105)	(103)
Land at Cornwood Road, Ivybridge	(97)	(143)
Yealm Hotel, Newton Ferrers	(139)	(139)
Various other sites	(1,254)	(1,481)
<b>Total</b>	<b>(5,725)</b>	<b>(5,717)</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 2021/22 is shown in Note 27.

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 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.

The Capital Financing Requirement has increased by £0.53m in 2021/22. This mainly reflects the capital expenditure incurred in respect of Dartmouth Health and Wellbeing Hub during the year of £0.35m.

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>2020/21 £000</b>	<b>2021/22 £000</b>
<b><i>Opening Capital Financing Requirement</i></b>	<b>11,494</b>	<b>13,002</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	2,788	882
Intangible Assets	179	166
Revenue expenditure funded from capital under statute (REFCUS)	1,404	1,201
Assets under Construction	1,274	1,742
Bank investment		
<b>Total expenditure for capital purposes</b>	<b>5,645</b>	<b>3,991</b>
<b>Sources of Finance</b>		
Capital receipts	(507)	(673)
Capital grants and external contributions	(1,338)	(1,156)
Earmarked reserves	(1,798)	(1,019)
Revenue	(150)	(123)
<b>Total funding</b>	<b>(3,793)</b>	<b>(2,971)</b>
<b>Minimum Revenue Provision</b>	<b>(344)</b>	<b>(486)</b>
<b><i>Closing Capital Financing Requirement</i></b>	<b>13,002</b>	<b>13,536</b>
<b><i>Movement in Capital Financing Requirement</i></b>	<b>1,508</b>	<b>534</b>
<b>Explained by:</b>		
Increase in underlying need to borrow (supported by government financial assistance)	(316)	(132)
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	1,824	666
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>1,508</b>	<b>534</b>

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 33. LEASES

#### Operating Leases

##### Authority as Lessee

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

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

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

	31 March 2021 £000	31 March 2022 £000
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	232	248
Later than one year & not later than five years	627	582
Later than five years	254	142
<b>Total</b>	<b>1,113</b>	<b>972</b>

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

	2020/21 £000	2021/22 £000
Minimum lease payments	230	252
<b>Total</b>	<b>230</b>	<b>252</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### 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	Place and Enterprise
The rental of office accommodation	20 years	24.07.2032	Place and Enterprise
The rental of office accommodation	10 years	29.09.2026	Place and Enterprise

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

	31 March 2021 £000	31 March 2022 £000
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	1,004	1,004
Later than one year & not later than five years	4,015	3,993
Later than five years	32,490	31,509
<b>Total</b>	<b>37,509</b>	<b>36,506</b>

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

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

#### 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 (£)	
	20/21	21/22	20/21	21/22	20/21	21/22	20/21	21/22
£0 - £20,000	-	-	2	1	2	1	8,272	796
<b>TOTAL</b>	-	-	<b>2</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>8,272</b>	<b>796</b>

The exit package amount (£796 in 2021/22) is the cost of redundancy payment plus the cost of any pension strain payments.

#### Shared Services with West Devon Borough Council

Of the £796 cost of exit packages in 2021/22 (£8,272 in 2020/21), West Devon Borough Council (WDBC) made a contribution of nil in 2021/22 (£2,830 in 2020/21). In addition, South Hams District Council made a contribution of nil to West Devon Borough Council in respect of their exit package costs in 2021/22 (nil in 2020/21).

#### 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.

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

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 2023 is £1.347m. 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

<b>Comprehensive Income and Expenditure Statement</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>
<b>Cost of Services</b>		
<i>Service cost comprising</i>		
- Current Service Cost	2,599	4,095
<i>Financing and Investment Income and Expenditure</i>		
- Net Interest Expense	1,123	1,212
- Administration Expenses	65	63
<b>Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>3,787</b>	<b>5,370</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	33,174	(7,123)
- Change in demographic assumptions	(1,470)	-
- Experience loss/(gain)	(1,829)	417
- Return on fund assets in excess of interest	(19,385)	(5,902)
<i>Total re-measurement recognised</i>	<i>10,490</i>	<i>(12,608)</i>
<b>Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>14,277</b>	<b>(7,238)</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	3,787	5,370
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
- Employers contributions payable to scheme	1,430	1,492

#### **Pensions Assets and Liabilities Recognised in the Balance Sheet**

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



### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

<b>Net Pension Liability</b>	<b>31 March 2021 £000</b>	<b>31 March 2022 £000</b>
Present value of the defined benefit obligation	161,989	158,337
Fair value of Fund assets	(103,353)	(108,238)
<b>Deficit/(surplus)</b>	<b>58,636</b>	<b>50,099</b>
Present value of unfunded obligation	2,715	2,522
<b>Net defined benefit liability/(asset)</b>	<b>61,351</b>	<b>52,621</b>

<b>Reconciliation of opening and closing balances of the fair value of Fund assets</b>	<b>31 March 2021 £000</b>	<b>31 March 2022 £000</b>
<b>Opening fair value of Fund assets</b>	<b>83,985</b>	<b>103,353</b>
Interest on assets	1,951	2,037
Return on assets less interest	19,385	5,902
Administration expenses	(65)	(63)
Contributions by employer including unfunded	1,430	1,492
Contributions by Scheme participants	481	505
Estimated benefits paid plus unfunded net of transfers in	(3,814)	(4,988)
<b>Closing fair value of Fund assets</b>	<b>103,353</b>	<b>108,238</b>

<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>	<b>31 March 2021 £000</b>	<b>31 March 2022 £000</b>
<b>Opening defined benefit obligation</b>	<b>132,489</b>	<b>164,704</b>
Current service cost	2,599	4,089
Interest cost	3,074	3,249
Change in financial assumptions	33,174	(7,123)
Change in demographic assumptions	(1,470)	-
Experience loss/(gain) on defined benefit obligation	(1,829)	417
Estimated benefits paid net of transfers in	(3,622)	(4,795)
Past service costs, including curtailments	-	6
Contributions by Scheme participants	481	505
Unfunded pension payments	(192)	(193)
<b>Closing defined benefit obligation</b>	<b>164,704</b>	<b>160,859</b>

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 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 2022, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2021, using financial assumptions that comply with IAS19.

To calculate the asset share they have rolled forward the assets allocated to South Hams District Council as at 31 March 2021 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 demographic assumptions are projected using the CMI\_2020 Model and are summarised in the table below:

<b>Basis for estimating assets and liabilities</b>	<b>31 March 2021 CMI_2020</b>	<b>31 March 2022 CMI_2020</b>
<b>Mortality assumptions (in years):</b>		
<i>Longevity at 65 for current pensioners</i>		
- Men	22.6	22.7
- Women	23.9	24.0
<i>Longevity at 65 for future pensioners (in 20 years)</i>		
- Men	24.0	24.0
- Women	25.4	25.4
<b>Financial assumptions (in percentages):</b>		
- RPI increases	3.2%	3.6%
- CPI increases	2.8%	3.2%
- Salary increases	3.8%	4.2%
- Pension increases	2.8%	3.2%
- Discount rate	2.0%	2.6%

The CMI\_2020 Model introduces a '2020 weight parameter' for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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	157,811	160,859	163,970
Projected service cost	3,733	3,863	3,998
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	161,085	160,859	160,635
Projected service cost	3,865	3,863	3,861
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	163,722	160,859	158,050
Projected service cost	3,997	3,863	3,733
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	168,214	160,859	153,835
Projected service cost	4,029	3,863	3,703

The estimated asset allocation for South Hams District Council as at 31 March 2022 is as follows:

Employer asset share	31 March 2021		31 March 2022	
	£000	%	£000	%
Gilts	3,514	3%	14,396	13%
UK equities	11,447	11%	9,647	9%
Overseas equities	53,375	52%	54,434	50%
Property	8,301	8%	10,198	10%
Infrastructure	4,188	4%	6,112	6%
Target return portfolio	9,730	9%	10,005	9%
Cash	1,066	1%	1,278	1%
Other bonds	4,634	5%	2,214	2%
Alternative assets	7,098	7%	(46)	0%
<b>Total</b>	<b>103,353</b>	<b>100%</b>	<b>108,238</b>	<b>100%</b>

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Of the total fund asset at 31 March 2022, 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 2022	
		% Quoted	% Unquoted
<b>Fixed interest government securities</b>	UK	-	-
	Overseas	13.3%	-
<b>Corporate bonds</b>	UK	-	-
	Overseas	-	-
<b>Equities</b>	UK	8.44%	-
	Overseas	50.29%	-
<b>Property</b>	All	-	9.42%
<b>Others</b>	Absolute return portfolio	9.24%	-
	Private equity	-	0.47%
	Infrastructure	-	5.65%
	Derivatives	(0.04%)	-
	Multi sector credit fund	-	-
	Private debt	-	2.05%
	Cash/Temporary investments	-	0.98%
<b>Net current assets</b>	Debtors	-	0.20%
	Creditors	-	-
<b>Total</b>		<b>81.23%</b>	<b>18.77%</b>

#### 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.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud case. The consultation closed on 8 October 2020 and a ministerial statement in response to this was published on 13 May 2021, however a full response to the consultation is still awaited; the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown.

The actuary valuation within the financial statements includes an allowance for the McCloud judgement.

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

### **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 Liverty) 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:

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

- 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.

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 25 March 2021 and is available on the Council's website (Minute 51).

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.

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

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 2021/22 was approved by Council on 25 March 2021 and is available on the Council's website (Minute 51).

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).

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 2022 and is reflected in the current figure of £486,000. This compares to £545,000 in 2020/21. 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.

## SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

### 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 2022	Historical Experience of Default	Estimated Maximum Exposure to Default and Uncollectability at 31 March 2022
	£000	%	£000
<b>Deposits with Bank and Financial Institutions</b>			
Aberdeen Standard Money Market Fund	6,000	0.000%	-
Blackrock Money Market Fund	6,000	0.000%	-
Deutsche Money Market Fund	4,400	0.000%	-
LGIM Money Market Fund	6,000	0.000%	-
Debt Management Office	4,400	0.001%	-
Debt Management Office	3,600	0.002%	-
Debt Management Office	4,500	0.005%	-
Standard Chartered Bank	6,000	0.012%	1
Barclays Bank PLC	3,500	0.002%	-
Barclays Bank PLC	2,500	0.014%	-
Lloyds Bank PLC	6,000	0.023%	1
<b>Total</b>	<b>52,900</b>		<b>2</b>

### Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through 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 Council 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 Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.



## **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 Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, 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,

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

therefore there will be no impact on the General Fund until the investment is sold or impaired.

#### ***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's 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 Council'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:

	<b>Approved minimum limits</b>	<b>Approved maximum limits</b>	<b>31 March 2021</b>		<b>31 March 2022</b>	
	<b>%</b>	<b>%</b>	<b>£million</b>	<b>%</b>	<b>£million</b>	<b>%</b>
Less than 1 year	0%	10%	0.094	0.6%	0.096	0.7
Between 1 and 2 years	0%	10%	0.096	0.7%	0.459	3.2%
Between 2 and 5 years	0%	50%	1.384	9.6%	1.392	9.7%
Between 5 and 10 years	0%	50%	2.361	16.3%	2.375	16.5%
Between 10 and 20 years	0%	50%	3.968	27.4%	3.642	25.3%
More than 20 years	0%	100%	6.571	45.4%	6.416	44.6%
<b>Total</b>			<b>14.474</b>	<b>100.0%</b>	<b>14.380</b>	<b>100.0%</b>

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

### **38. ACCOUNTING POLICIES**

#### **a) General Principles**

The **Statement of Accounts** summarises the Authority's transactions for the 2021/22 financial year and its position at the year end of 31 March 2022. 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 2020/21, 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 **Statement of Financial Position** (also known as the Balance Sheet).
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

### SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- 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 **Statement of Financial Position** (Balance Sheet). Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Council operates a de minimis policy for accruals. For revenue and capital expenditure the de minimis has remained at £5,000 in 2021/22.

#### c) Cash and Cash Equivalents

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

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

**Key: T = trade date**

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

In the **Cash Flow Statement**, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council'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** (CIES) or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

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

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

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

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

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

#### **f) Charges to Revenue for Non-Current Assets**

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

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

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

#### **g) Employee Benefits**

##### **Benefits Payable during Employment**

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

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

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the *General Fund Balance* to be charged with the amount payable by the Council 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 Council 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 Council.

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 Council are included in the **Statement of Financial Position** (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.

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

- The assets of the pension fund attributable to the Council are included in the **Statement of Financial Position** (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 Non Distributed Costs
  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the *Financing and Investment Income and Expenditure* line of the **Comprehensive Income and Expenditure Statement** – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- **Re-measurements comprising:**
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the *Pensions Reserve* as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the *Pensions Reserve* as Other Comprehensive Income and Expenditure
  - contributions paid to the Devon County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the *General Fund balance* to be charged with the amount payable by the Council 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*,

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

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

### **h) Events after the Reporting Period**

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

Two types of events can be identified:

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

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

### **i) Financial Instruments**

#### **Financial Liabilities**

Financial liabilities are recognised on the **Statement of Financial Position** (Balance Sheet) when the Council 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** (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the



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

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 **Statement of Financial Position** (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 **Statement of Financial Position** (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 **Statement of Financial Position** (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 Council measures the fair value of an asset or liability using the

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

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 Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council 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 Council 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 Council when there is reasonable assurance that:

- the Council 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 **Statement of Financial Position** (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

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

revenue grants and all capital grants) in the **Comprehensive Income and Expenditure Statement**.

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

#### **k) Heritage Assets**

Heritage assets are assets that are held by the Council 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 Council 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 Council. 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 Council can be determined by reference to an active market. In practice, no intangible asset held by the Council 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 **Statement of Financial Position** (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

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

to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

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

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

#### **o) Jointly Controlled Operations**

Jointly controlled operations are activities undertaken by the Council 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 Council recognises on its **Statement of Financial Position** (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.

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

### 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 **Statement of Financial Position** (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.

#### **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 Customer Service and Delivery service group within the **Comprehensive Income and Expenditure Statement**, 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 Council 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.

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

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

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

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

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

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

### **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 **Statement of Financial Position** (Balance Sheet) takes place when no future economic benefits are expected from its use. Such recognition and derecognition takes place regardless of whether the replaced part has been depreciated separately.

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

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

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



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

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.

#### **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:

### 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**.

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 and maximum useful lives are:

Asset	Typical Useful Life	Maximum Useful Life
Buildings	Up to sixty years	Up to eighty years
Infrastructure	Up to twenty years	Up to fifty years
Refuse vehicles	Up to seven years	Up to ten years
Light vans	Up to seven years	Up to seven years
Marine vessels	Up to fifteen years	Up to fifteen years
IT equipment	Up to three years	Up to three years

For some assets, a residual value is held on the Asset Register. The residual value is the estimated amount which would currently be realised from the disposal of the asset after deducting selling costs. Residual values are recorded as £15,000 for Ferry Tugs and £6,000 for Ferry Floats, both of which are used in the operation of the Dartmouth Ferry. Refuse vehicles purchased before 2015/16 also have a residual value of £2,000.

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 **Statement of Financial Position** (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 Council a legal or constructive obligation that probably requires settlement by a transfer

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

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 Council becomes aware of the obligation and are measured at the best estimate at the **Statement of Financial Position** (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 **Statement of Financial Position** (Balance Sheet). Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

#### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council 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 Council. 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 **Statement of Financial Position** (Balance Sheet) but disclosed in a note to the accounts. The Council operates a disclosure de minimis policy for contingent liabilities of £50,000.

#### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council 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 Council.

Contingent assets are not recognised in the **Statement of Financial Position** (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. The Council operates a disclosure de minimis policy for contingent assets of £50,000.

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

#### **t) Reserves**

The Council 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 Council – these reserves are explained in the relevant policies.

#### **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 Council 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.

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

#### **w) Section 106 Deposits**

Where repayment conditions exist, developer contributions are treated as revenue receipts (Long Term Liabilities in the Statement of Financial Position, also known as 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 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 and Governance 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 Council's share of accrued income

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

for the year. However, regulations determine the amount of council tax and business rates that must be included in the Council'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 **Statement of Financial Position** (Balance Sheet) includes the Council'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 2022/23 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Council in the 2022/23 financial statements i.e. from 1 April 2022.

The Council 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 Council.

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 initially deferred implementation of IFRS16 for local government until 1 April 2022 due to the COVID-19 pandemic. However, following its emergency consultation on exploratory proposals for changing the Code in February 2022, CIPFA/LASAAC issued a preliminary decision to defer IFRS16 *Leases* until 1 April 2024. This was subsequently agreed by the government's Financial Reporting Advisory Board (FRAB) in April 2022. However, both the 2022/23 and the 2023/24 Codes will allow for adoption as of 1 April 2022 or 2023. There are no plans for the Council to early adopt this standard.

Following this deferral to 1 April 2024, it is not yet possible to determine the impact of IFRS16 on the Council's financial performance or financial position.

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

### **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 main critical judgement made in the Statement of Accounts is:

- 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 and Governance Committee on an annual basis. The final actual shared services split formulae are adjusted if they exceed a tolerance level of 3% from the original estimate.



## SECTION 4. COLLECTION FUND

### COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2022

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.

2020/21 Business Rates* £000	2020/21 Council Tax** £000		2021/22 Business Rates* £000	2021/22 Council Tax** £000
		<b>INCOME</b>		
-	(77,229)	Income from Council Tax		(83,021)
(15,575)	-	Business Rates Receivable	(22,865)	-
-	-	Interest on Refunds	-	-
377	-	Less: Transitional Relief	28	-
<b>(15,198)</b>	<b>(77,229)</b>		<b>(22,837)</b>	<b>(83,021)</b>
		<b>EXPENDITURE</b>		
		<b>Precepts, Demands and Shares:</b>		
14,244	-	Central Government	14,219	-
2,564	55,431	Devon County Council	2,559	57,879
-	8,535	Devon & Cornwall Police	-	9,060
285	3,398	Devon & Somerset Fire Authority	284	3,447
11,395	9,299	South Hams District Council (net including Towns/Parishes)	11,375	9,679
2,575	-	Business Rates written off and change in impairment allowance	(2,029)	-
-	362	Council Tax written off and change in impairment allowance	-	491
63	-	Business Rates increase/(decrease) in provision for appeals	(354)	-
206	-	Business Rates – Costs of collection	212	-
		<b>Distribution/collection of previous year's estimated surplus/(deficit):</b>		
744	-	Central Government	(7,592)	-
457	360	Devon County Council	(1,366)	(181)
-	55	Devon and Cornwall Police	-	(28)
20	22	Devon and Somerset Fire Authority	(152)	(11)
814	60	South Hams District Council	(6,074)	(30)
<b>33,367</b>	<b>77,522</b>		<b>11,082</b>	<b>80,306</b>
<b>18,169</b>	<b>293</b>	<b>MOVEMENT ON BALANCE</b>	<b>(11,755)</b>	<b>(2,715)</b>

## SECTION 4. COLLECTION FUND

### \* Business Rates Receivable and the movement on the Collection Fund Balance

During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 were not discharged against the Collection Fund deficit until 2021/22 onwards. Therefore Business Rates Receivable reduced by £14.1m in 2020/21 leading to an overall deficit on the Business Rates Collection Fund of £18.106m as at 31 March 2021. Some of the S31 compensation grant has now been applied to the Collection Fund in 2021/22 smoothing the impact of the Business Rates deficit. This has resulted in an increase in Business Rates Receivable to £22.9m in 2021/22 and a corresponding reduction in the deficit on the Business Rates Collection Fund as at 31 March 22 of £11.7m as shown above.

The significant deficit position on the Business Rates Collection Fund in 2020/21 is reflected in 2021/22 in the distributions of the previous year's deficit to the Preceptors as shown above.

### \*\*Council Tax Position

Council Tax income was higher than anticipated in 2021/22 leading to an increase in the Council Tax Collection Fund surplus from £28,000 as at 31 March 2021 to £2.74m as at 31 March 2022. Recovery of Council Tax arrears was temporarily suspended in 2020/21 during the pandemic. In addition, the estimated reduction in the Council Tax Collection Rate following the pandemic did not materialise in 2021/22, leading to higher income levels than anticipated.

#### 1. Council Tax and Council Tax Base

In 2021/22, the Council's average Band D Council Tax was £2,090.55 (£1990.82 in 2020/21). The charge for each band is a ratio of band D. The 2021/22 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	1,161.42
A	6/9	1,393.70
B	7/9	1,625.98
C	8/9	1,858.27
D	1	2,090.55
E	11/9	2,555.12
F	13/9	3,019.68
G	15/9	3,484.25
H	18/9	4,181.10

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 2021/22 was **38,298.32** as calculated below (38,508.49 in 2020/21).

## SECTION 4. COLLECTION FUND

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
<b>Disabled A</b>	-	14.50	14.50	5/9	8.06
<b>A</b>	5,039	(872.75)	4,166.25	6/9	2,777.50
<b>B</b>	8,809	(1,034.25)	7,774.75	7/9	6,047.03
<b>C</b>	8,947	(855.50)	8,091.50	8/9	7,192.44
<b>D</b>	8,128	(625.50)	7,502.50	1	7,502.50
<b>E</b>	6,992	(474.25)	6,517.75	11/9	7,966.14
<b>F</b>	3,883	(192.50)	3,690.50	13/9	5,330.72
<b>G</b>	3,063	(174.75)	2,888.25	15/9	4,813.75
<b>H</b>	347	(20.50)	326.50	18/9	653.00
<b>Total</b>	<b>45,208.00</b>	<b>(4,235.50)</b>	<b>40,972.50</b>		<b>42,291.14</b>
Less allowance for non collection					(1,268.74)
Plus adjustment for armed forces dwellings					67.10
Other adjustments including Council Tax Support					(2,791.18)
<b>Tax base</b>					<b>38,298.32</b>

### 2. Rateable Value

The total business rates rateable value at 31 March 2022 was £86,993,036. This compares to £86,832,255 at 31 March 2021. The standard business rates multiplier was 51.2p in 2021/22 (2020/21 51.2p). Without reliefs this would generate a total income of £44,540,434.43 (2020/21 £44,458,114.56). 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. In 2021/22 the Government continued to fund a Retail, Hospitality and Leisure Relief scheme in response to the COVID-19 pandemic.

## SECTION 4. COLLECTION FUND

### 3. Collection Fund balance

<b>2020/21 Business Rates* £000</b>	<b>2020/21 Council Tax** £000</b>		<b>2021/22 Business Rates* £000</b>	<b>2021/22 Council Tax** £000</b>
(63)	(321)	Fund balance at 1 April	18,106	(28)
18,169	293	Deficit/(surplus) for year	(11,755)	(2,715)
<b>18,106</b>	<b>(28)</b>	<b>Fund balance as at 31 March – deficit/(surplus)</b>	<b>6,351</b>	<b>(2,743)</b>

#### **\*Business Rates Position**

During 2020/21 and 2021/22 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 could not be discharged against the Collection Fund deficit until 2021/22 onwards. The deficit on the Business Rates Collection Fund as at 31 March 2022 has reduced from £18.1m to £6.4m following release of some of the S31 compensation grant received in 2020/21 to the Collection Fund. The S31 compensation grant will be applied to the Collection Fund over the next three years to smooth the impact of the Business Rates deficit.

#### **\*\*Council Tax Position**

Council Tax income was higher than anticipated in 2021/22 leading to an increase in the Council Tax Collection Fund surplus from £28,000 as at 31 March 2021 to £2.74m as at 31 March 2022. The Preceptors element of this surplus is reflected in the significant increase in the Council Tax Creditor as at 31 March 2022 detailed in Note 18.

## SECTION 4. COLLECTION FUND

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

2020/21 Business Rates* £000	2020/21 Council Tax** £000		2021/22 Business Rates* £000	2021/22 Council Tax** £000
9,053	-	Central Government	3,175	-
1,630	(20)	Devon County Council	572	(1,982)
-	(4)	Devon and Cornwall Police	-	(312)
181	(1)	Devon and Somerset Fire Authority	64	(118)
<b>10,864</b>	<b>(25)</b>	<b>Total deficit/(surplus) due to Preceptors</b>	<b>3,811</b>	<b>(2,412)</b>
7,242	(3)	South Hams District Council	2,540	(331)
<b>18,106</b>	<b>(28)</b>	<b>Fund balance as at 31 March – deficit/(surplus)</b>	<b>6,351</b>	<b>(2,743)</b>

### \*Business Rates Position

The deficit on the Business Rates Collection Fund as at 31 March 2022 has reduced from £18.1m to £6.4m following release of some of the S31 compensation grant received in 2020/21 to the Collection Fund. This deficit is shared between the Preceptors and South Hams District Council as shown in the table above. The Preceptors element of this deficit is reflected in the significant reduction in the Business Rates Debtor as at 31 March 2022 detailed in Note 15.

### \*\*Council Tax Position

Council Tax income was higher than anticipated in 2021/22 leading to an increase in the Council Tax Collection Fund surplus from £28,000 as at 31 March 2021 to £2.74m as at 31 March 2022. The Preceptors element of this surplus is reflected in the significant increase in the Council Tax Creditor as at 31 March 2022 detailed in Note 18.

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

**The Authority's responsibilities**

The Authority is required to:

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

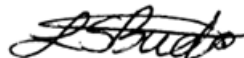
**The Chief Financial Officer's responsibilities**

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 2022.



.....  
**Lisa Buckle BSc (Hons), ACA**  
**Corporate Director of Strategic Finance (Section 151 Officer)**

**24 November 2022**

**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 and Governance Committee at its meeting held on 24 November 2022.

Signed on behalf of South Hams District Council

.....

**Councillor L Austen**

Chairman of the Audit Governance Committee

## **SECTION 6. AUDITORS REPORT.**

### **Independent auditor's report to the members of South Hams District Council**

#### **Report on the Audit of the Financial Statements**

##### **Opinion on financial statements**

We have audited the financial statements of South Hams District Council (the 'Authority') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 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 2021/22; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

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

We are responsible for concluding on the appropriateness of the Corporate Director of Strategic Finance (Section 151 Officer)'s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

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 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that 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 appropriate.



## **SECTION 6. AUDITORS REPORT.**

The responsibilities of the Corporate Director of Strategic Finance (Section 151 Officer) with respect to going concern are described in the 'Responsibilities of the Authority, the Corporate Director of Strategic Finance (Section 151 Officer) and Those Charged with Governance for the financial statements' section of this report.

### **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, 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 statements or our knowledge 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 the 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 in April 2020 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 '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 matters 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, the other information published together with the financial statements in the Statement of Accounts 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.

## **SECTION 6. AUDITORS REPORT.**

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

As explained in the Statement of Responsibilities/Approval of the Accounts, 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 2021/22, 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 and Governance 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.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Governance Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they had any knowledge of actual, suspected or alleged fraud.

## **SECTION 6. AUDITORS REPORT.**

- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries posted by senior finance personnel rights and, material management estimates and judgements
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Corporate Director of Strategic Finance (Section 151 Officer) has in place to prevent and detect fraud;
  - journal entry testing, with a focus on unusual and high risk journals, including those identified as those posted by senior personnel, those made by unusual posters or in unusual accounts combinations
  - challenging assumptions and judgements made by management in significant accounting estimates in respect of the valuation of land and buildings, investment property, and defined benefit pensions liability valuations; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, investment property and defined benefit pensions liability valuations.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA/LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## **SECTION 6. AUDITORS REPORT.**

### **Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority’s arrangements in our Auditor’s Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor’s report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

#### **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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

### **Report on other legal and regulatory requirements – Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for South Hams District Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor’s Annual Report; and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

## **SECTION 6. AUDITORS REPORT.**

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

### **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 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.

Signature:

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

Bristol  
Date: 24 November 2022

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

<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.





## South Hams District Council Annual Governance Statement 2021-2022

### 1. Scope of Responsibility

South Hams District Council is responsible for ensuring that:

- its business is conducted in accordance with legal requirements and proper standards
- public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, South Hams District Council is also responsible for ensuring that there is a sound system of governance (incorporating the system of internal control) and maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, including arrangements for the management of risk

South Hams District Council and West Devon Borough Council have been shared services partners since 2007. As two of the very first Councils to share a Chief Executive in 2007, the Councils have been bold in challenging the traditional local government model and have always been at the forefront of radical change and innovation.

The role of the Chief Executive is to implement the plans and policies that support the strategic direction of the Council as set by Members. The Chief Executive leads the Senior Leadership Team consisting of the Directors of Finance, Service Delivery, Governance and Place & Enterprise, who are in turn supported by an Extended Leadership Team. The Extended Leadership Team includes the principal people managers and professional lead officers in areas such as Housing, Planning, Environmental Health, Asset Management, Environment Services and Waste and Support Services such as Finance, Legal, and Human Resources.

The Council's Corporate Director of Strategic Finance is the officer with statutory responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.



The S.151 Officer, who acts as the Chief Financial Officer (CFO), has responsibility for the administration of the financial affairs of the Council; will contribute to the corporate management of the Council, in particular through the provision of professional financial advice; will provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all Members and will support and advise Members and officers in their respective roles; and will provide financial information to the media, Members of the public and the community.

The CFO leads the promotion of good financial management including through the provision and publication of Financial and Contract Procedure Rules. The Council's S.151 Officer is a qualified accountant.

A review of the Council's arrangements against the CIPFA guidance on the Role of the Chief Finance Officer in Local Government has concluded that the recommended criteria have been met in all areas.

## 2. The Purpose of the Governance Framework

The governance framework comprises the cultural values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community. The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate, cost-effective services have been delivered.

A significant part of the framework is the Council's system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

The governance framework was in place at South Hams District Council for the year ended 31 March 2022 and is expected to continue up to the date of approval of the Accounts by the Audit and Governance Committee.

This Statement explains how South Hams District Council has met the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and Society of Local Authority Chief Executive's (SOLACE) Framework Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016.



Included within this framework are seven core principles of governance:

**PRINCIPLE A Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

All Council decisions incorporate a legal implications section within the report and these are published on the Council's website. Officers and Members receive support from Legal Services in considering legal implications and if specialist legal advice is required then the Council will engage external advisors. The Section 151 Officer and Monitoring Officer have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal and financial requirements and for reporting any such instances to Members.

In addition the Council undertakes the following to ensure a strong commitment to ethical values and behaving with integrity:

- Staff are assessed against a set of key behaviours (known as our 'IMPACT' Framework) to establish the right values and culture
- In order to promote ethical behaviours amongst Members and Officers, the Council has a number of policies such as those relating to procurement, whistleblowing, counter fraud and anti-money laundering. Through the Council's induction programme, employees are required to read the Employee Code of Conduct and confirm that they have understood the content. Any suspected cases of fraud, corruption and non-compliance with policy are investigated by the Council's Internal Audit Team.
- The Council has effective counter fraud and anti-corruption arrangements which are maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPA, 2014). Our anti-fraud and corruption policies are maintained in line with the code. The council also participates in the National Fraud Initiative (NFI).
- The Council's whistle-blowing policy, known as the Confidential Reporting Policy, is available to all staff on the Council's Intranet (including Frequently Asked Questions) and is also publicised internally on an occasional basis to maintain its profile. During 2021/22 the policy was updated and considered by the Audit Committee at their meeting on 10<sup>th</sup> March 2022 (A.39/21 Review of Confidential Reporting Policy). The policy was then recommended to Full Council at their meeting on 19<sup>th</sup> May 2022 where it was adopted.



- The Council's Constitution also defines the roles of Members and officers. Part 5 of the Constitution includes a Protocol on Councillor / Officer Relations. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted Members of Council bodies in their dealings with officers where appropriate. Work continued through 2021/22 to review the constitution and a report on its revision was considered at Full Council at its meeting on 19 May 2022.
- There are codes of conduct in place for Members and Officers which include arrangements for registering interests and managing conflicts of interest. The Officers' Code of Conduct was reviewed and agreed with the Unions in 2017-18.  
A Members' Code of Conduct is in place and is fit for purpose but is due to review on the conclusion of the Local Government Association's consultation (and issue of) a new model code of conduct.
- The Overview and Scrutiny Panel is responsible for overseeing the Members' Code of Conduct and good governance by Members and its terms of reference are set out in the Constitution
- There is an effective Audit and Governance Committee in place with clear terms of reference, which oversees internal and external audit, the Constitution, Risk Management and regulatory policies.
- The Council has continued to operate a robust information governance regime. Information security breaches are reported to the Data Protection Officer (DPO) on a regular basis and are investigated by an officer within the Governance Directorate, with a report to the Information Commissioner where required. Information governance policies and procedures are reviewed and approved by the Information Governance Group on a regular basis.
- Annual IT health checks are undertaken which are conducted by accredited external security specialists. These are commissioned standard tests of system security, designed to assess our suitability for connection to government networks. Overall the security posture of the external network infrastructure was found to be excellent.

### **PRINCIPLE B Ensuring openness and comprehensive stakeholder engagement**

All Council business is conducted in public unless legislation deems it appropriate for it to be considered in private.

From 7<sup>th</sup> May 2021, on expiry of the emergency covid powers enabling us to hold formal remote meetings, our committee meetings returned to being face to face.





We have however retained the positives from the pandemic and continued with 'Hybrid meetings' enabling non-committee Members, external speakers and our officers to join meetings remotely to minimise the covid risks and enable greater attendance and participation in meetings.

We continue to stream our committee meetings to YouTube, social media and our website (save where 'Exempt' under the Local Government Act 1972 following formal evaluation of the public interest).

The Council undertakes the following to ensure openness and comprehensive engagement:

- Publishes consultations and surveys on the Council website and uses a consultation checklist based on the Gunning Principles to structure consultations to ensure good communication guidelines are adhered to.
- Utilises social media on a daily basis including Twitter, Instagram, Facebook, LinkedIn and YouTube to provide instant information on Council services thus allowing for a free flow of comments from stakeholders.
- Uses dedicated Locality Engagement Officers to attend local events to canvas the opinions of stakeholders to help shape the delivery of Council services.
- Produces specific e-bulletins for various interest groups including Business, Housing, Neighbourhood Planning, etc.
- Publishes an Annual Report available on the Council website which openly demonstrates how Council resources are used.

**PRINCIPLES C AND D Defining outcomes in terms of sustainable economic, social, and environmental benefits and determining the interventions necessary to optimise the achievement of the intended outcome**

The Council has a number of strategic documents and plans that guide its approach to achieving its vision and ensuring that it remains financially sustainable. The Council's adopted Priorities are confirmed in Article 6 of the Constitution and again are published on the Council's website.

The Council's policies, aims and objectives are well established and monitored at various levels for example forward plans, annual service planning process and personal development reviews.



## Corporate Strategy

Considering several significant changes to the operating environment (post-Brexit and Covid-19 among them), the Council began the process of developing a new corporate strategy in April 2020. This work continued into this financial year and a draft Corporate Strategy was considered in July 2021 with a period of consultation then running through the summer. The final Corporate Strategy, 'Better lives for all', a vision for South Hams was adopted in September 2021 and can be found [here](#). The strategy is a significant step forward for the Council, setting a clear direction for us for the next three years, underpinned by detailed delivery plans.

## Annual Report for 2021-22

The Council's Annual Report sets out the Council's key achievements for 2021-22. This year's Annual Report is aligned to our new Better Lives for All delivery plan themes.

The 2021-22 Annual Report of Achievements can be seen [here](#) (Agenda Item E.16/22)

## Partnerships and Governance

The Council has several partnerships that help to deliver our Strategic Priorities. Regular updates are provided by key partnerships to Members with them being provided either formally to the Overview and Scrutiny Panel or informally through the weekly Member Bulletin.

During 2021-22 we have taken steps to identify key partners and consulted with them to shape our Better Lives for All Strategy.

We are now considering the future of our 'funded' key partners with a view to agreeing a further two-year funding arrangement. These include organisations that align and support in delivering our corporate strategy such as Citizens Advice, CVS and AONB.

An annual report on the activities of Outside Bodies was considered by Overview and Scrutiny at their meeting on 21<sup>st</sup> April 2022 <https://mg.swdevon.gov.uk/documents/s28313/Appendix%20A%20Outside%20Bodies%20Annual%20Report.pdf>

## **PRINCIPLE E Developing the entity's capacity, including the capability of its leadership and the individuals within it**

Through regular staff briefings, e-bulletins, team meetings and an online staff appraisal system, South Hams District Council ensure that all staff understand our corporate priorities and how their work contributes to them.



During 2021/22 the Council has undertaken the following to develop capacity and capability:

- Developed a Management Development Programme for a cohort of over 30 senior officers within the Council – which launches in 2022/23
- Provided a Member training and development programme
- Promoted to staff the use of “Learning Pool” an extensive online learning resource
- Delivered focused training on specific issues (e.g. complaints, data protection, information security)
- Worked in partnership with local authorities and other bodies to achieve economies of scale -West Devon for our full Shared Services, Teignbridge District Council for Procurement support and Plymouth City Council through our Joint Local Plan.
- Conducted a staff survey to gauge employee satisfaction and assist in improving how the organisation performs.
- Held a Staff Awards ceremony to recognise outstanding performance, and highlighted compliments paid to staff from customers and colleagues in the weekly staff bulletin

During 2022/23 there will be a significant focus on organisational development and people management with the bringing together of core functions (HR, Comms, Organisational Development and Strategy). In September we will be carrying out a revised employee survey, carried out by the Local Government Association. This will provide us with a benchmark and enable us to identify progress over the next three years.

#### PRINCIPLE F Managing risks and performance through robust internal control and strong public financial management

There is a culture of risk ownership and management throughout the Council with Strategic Risks being logged centrally and are updated regularly. Our approach to reporting strategic risks to members has been enhanced, providing a greater narrative and a clearer history of the risk scoring.

For each risk, the uncertainties are identified, along with the consequences, likelihood of occurrence and strategic impacts that would result.

Elected Members also have the opportunity to raise concerns with the mitigating actions being taken by officers and can suggest new risks for consideration. In addition to continuing to report risks to the Councils Audit Committee twice a year, we now report the Strategic Risks to the Executive on a quarterly basis.



All Committee reports include a reference where relevant to the potential impact on the Council's priorities and corporate strategy themes, and address as appropriate any financial, staffing, risk, legal and property implications, and are monitored by appropriate senior officers (including the S151 Officer and the Monitoring Officer). The Chief Finance Officer (Section 151 Officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

During the year, the Council has taken the step of joining the South West Audit Risks Management Group. This brings together Risk Management Officials from all key public sector bodies in Devon, Cornwall and Somerset every quarter to consider the approach to risk management, workshop any significant risks that we may face and to share best practice.

With regards to managing performance throughout the year we have continued to maintain performance to meet the needs of our customers.

We have taken steps to enhance our performance management framework which has seen us implement:-

- a programme of progress reports on our Corporate Strategy themes. This 'deep-dives' are reported to Overview and Scrutiny with each meeting considering a different theme. This ensures that scrutiny focus on our progress against our corporate strategy priorities
- quarterly Integrated Performance Management reports to Executive which set out progress against our corporate strategy, key risks and issues, progress against strategy budget and key performance indicators
- A suite of revised Key Performance Indicators (KPIs)

We have continued to systematically review areas of poor performance, streamlined processes, embedded new IT solutions and delivered staff training.

To manage performance the Council ensures the following:

- Continuous managerial review of services to ensure continuous improvement and the economic, effective and efficient use of resources
- Financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Quarterly budget monitoring reports are presented to the Executive.
- Active performance management arrangements including regular reports to Overview & Scrutiny Panel and Development Management Committee on performance measures





- A robust complaints/ compliments procedure is in place and is widely publicised, with the Ombudsman's Annual Report being reported to the Overview and Scrutiny Panel
- Freedom of Information requests are dealt with in accordance with established protocols

Fraud/Irregularity - There have been no irregularities to report regarding the day-to-day operation of the Councils. However, there have been 12 cases which relate to COVID-19 business grant applications. 8 cases were identified as potential frauds before any payment was made. Of the remaining four cases, two are being investigated by the National Investigation Service and the Council has been supplying information to assist in these investigations. Recovery of payments in the final two cases is taking place. Any cases identified have been reported to Devon Audit Partnership's Counter Fraud Team and to the National Anti-Fraud Network (NAFN).

#### **PRINCIPLE G Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

The Council follows the Government Communication Service guidance on providing clear and accurate information and has a number of measures in place to demonstrate transparency and accountability.

An Audit Committee meets between five and six times a year and its role is to provide an oversight of the financial reporting and audit processes plus the system of internal controls and compliance with laws and regulations.

The Council also has two internal audit staff managed by the Devon Audit Partnership who provide an opinion on the internal control environment and governance processes. In March 2019 (Minute A.53/18), it was recommended to Council for South Hams to join the Devon Audit Partnership as a 'non-voting' partner. This was approved by Council in March 2019 with the Council joining the partnership as a non-voting partner from 1 April 2019.

Nine applications for exemptions to Contract/Financial Procedure Rules were received in the year with all being approved.

Grant Thornton have substantially completed their audit of the financial statements for 2021/22 and subject to outstanding queries being resolved and the conclusion of the national infrastructure accounting issue, **Grant Thornton anticipate issuing an unqualified audit opinion for 2021/22.**



To further ensure transparency the council undertakes the following:

- Provide training to Members on the Overview and Scrutiny Panel on effective scrutiny practices
- Ensure all Member decisions are formally minuted
- Streams all of its public meetings online
- Publishes all Council decisions online together with background reports
- Produces an Annual Report detailing Council performance and spend

### **Process for maintaining and reviewing effectiveness of the Council's Governance arrangements**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This responsibility is in practice carried out by Senior Managers, with the Chief Executive informing the Executive of any significant matters warranting their attention. The Council ensures the delivery of services in accordance with Council policies and budgets, which includes long term financial planning, good financial management and ensuring up to date risk management across the Council.

#### The Audit and Governance Committee

The Audit and Governance Committee has a specific role in relation to the Council's financial affairs including the internal and external audit functions and monitors the internal workings of the Council (broadly defined as 'governance'). It is responsible for making sure that the Council operates in accordance with the law and laid down procedures and is accountable to the community for the spending of public money. The Audit and Governance Committee will provide:-

- i) independent assurance of the adequacy of the risk management framework and the associated control environment
- ii) independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment
- iii) oversees the financial reporting process.

The review of effectiveness of the system of internal control is informed by three main sources: the work of Internal Audit; by managers who have responsibility for the development and maintenance of the internal control environment; and also by comments made by external auditors and other review agencies/inspectorates.



### Internal Audit

The Council's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2011. This responsibility is delegated to the S151 Officer.

The Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources. All audit reports go to the Senior Leadership Team who agree any recommendations. Members receive an annual report of internal audit activity and approve the annual audit plan for the forthcoming year.

The Internal Audit annual report for 2021/22 was considered by the Audit Committee on 30<sup>th</sup> June 2022. The report contains the Head of Internal Audit's Opinion for the 2021/22 year which is that of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

### Senior Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a number of significant internal control areas which are subject to review by internal audit. All managers acknowledge their responsibilities and confirm annually that they have implemented and continuously monitored various significant controls.

### External auditors and other review agencies/inspectorates

Our external auditors (Grant Thornton) have issued their 'Audit Findings Report for the Council for 2021/22 and this will be considered by the Audit and Governance Committee on 24 November 2022. The document summarises their key findings in relation to their external audit of the Council's Accounts for 2021/22 and contains an opinion on the Council's financial statements, the control environment in place to support the production of timely and accurate financial statements and the Council's significant risk areas.

Grant Thornton have substantially completed their audit of the financial statements for 2021/22 and subject to outstanding queries being resolved and the conclusion of the national infrastructure accounting issue, **Grant Thornton anticipate issuing an unqualified audit opinion for 2021/22.**



### Value for Money (VFM) arrangements

Grant Thornton’s Value for Money work will provide a commentary on the work Grant Thornton have undertaken to address the key elements of governance, financial sustainability and how to improve economy, efficiency and effectiveness.

Grant Thornton have not yet completed all of their VFM work and so are not in a position to issue their Auditor’s Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Audit and Governance Committee in September 2022. **Grant Thornton currently expect to issue their Auditor’s Annual Report in February 2023.** This is in line with the National Audit Office’s revised deadline, which requires the Auditor’s Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

### Significant Governance Issues

The following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

### ***Issues and action plan from the System of Internal Control***

Issue Identified	Action to be taken	Responsible Officer and target date
<p><b><u>Financial Uncertainty</u></b></p> <p>The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending and the additional pressures as a result of the long term impacts of Covid-19.</p> <p>The Council has to be entirely independent to fund all of its services on a net budget of just over £10.4million (2022/23), as the District Council no longer receives any main Government Grant (Revenue Support Grant).</p>	<p>On 10<sup>th</sup> February 2022, Council set a balanced Budget for 2022/23. Members approved the creation of a new Earmarked Reserve, the Financial Stability Reserve for £280,000, to be available for any future financial pressures from future local government funding reforms and any other budget pressures.</p> <p>The Council will prepare its Medium Term Financial Strategy for the period covering 2023/24 to 2025/26 and this will be presented to the Executive at its September 2022 meeting, with the Budget Monitoring report for the first few months of 2022/23 being presented to the Executive in October 2022.</p>	<p>Director of Strategic Finance (S151 Officer)</p> <p>By October 2022</p>



Issue Identified	Action to be taken	Responsible Officer and target date
<p>Throughout the 2021/22 financial year, the Deputy S151 Officer has continued to submit monthly DELTA returns to Central Government that detail the current additional expenditure and loss of income streams suffered by the Council on a monthly basis (due to Covid19), with predictions for future months.</p> <p>The S151 Officer will continue to monitor expenditure and income streams and the overall longer term impact of Covid-19.</p> <p>Much will also depend on the next Government financial settlement for 2023/24 and confirmation on funding items like Negative Revenue Support Grant, New Homes Bonus scheme and the timing for the business rates baseline reset.</p>	<p>The Council will continue to respond to national funding consultations and lobby alongside other Devon Councils and national organisations such as the District Councils' Network for a multi-year financial settlement, to aid long term strategic financial planning.</p> <p>The Budget Gap over the next two years, 2023/24 and 2024/25, is likely to be in excess of £0.6million in aggregate and work is already underway to address this. A Member budget workshop will be held in the Autumn to explore potential options for addressing the budget shortfall for the next financial year and longer term.</p> <p>There will be regular Budget Monitoring reports to the Executive.</p> <p>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.</p> <p>In his speech to the Local Government Association (LGA) conference on 28 June 2022, the Secretary of State, Michael Gove MP, promised to give local authorities greater "financial certainty". It was confirmed that a 2-year financial settlement will be introduced. The proposal for a 2-year settlement suggests that there will be rollover settlements in both 2023/24 and 2024/25, meaning financial settlements that are broadly similar to 2022/23. The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2025/26 but this has not been confirmed by the Government.</p>	<p>Director of Strategic Finance (S151 Officer)</p> <p>By October 2022</p>





Issue Identified	Action to be taken	Responsible Officer and target date
	<p>As at 31 March 2022, the Council holds £20.839m in Earmarked Reserves and £2.056m in Unearmarked Reserves. Approximately £4.26m of Earmarked Reserves is due to a technical accounting adjustment on Business Rates and is not money which is available to the Council to spend.</p>	
<p><b><u>Delivery of Waste and Recycling</u></b></p> <p>In the 2020/21 Annual Governance Statement, we highlighted the issues being experienced by our waste contractor in delivering the Waste and Recycling Service.</p> <p>Throughout 2021/22, the Council had a significant focus on trying to resolve issues with its waste and recycling service.</p> <p>On 12 July 2022, Executive considered a report, with advice from the Council's Waste Working Group. The Waste Working Group advised that the Council and FCC Environment have reached a mutual agreement to end their contract for waste, recycling, street and toilet cleaning services.</p> <p>Both parties agree that the past few years have presented a number of extremely challenging circumstances.</p> <p>In the best interests of the residents of the South Hams, it was proposed that the services will be operated by the Council from Monday 3 October 2022. This decision was subsequently approved by Full Council on 14 July 2022. The Council and FCC Environment will work closely together to ensure a smooth transfer of the services.</p>	<p>A project team will now be established to manage the transfer of services back in house.</p> <p>A project manager has been appointed to support the Head of Waste with the delivery of the project.</p> <p>A further update including updated financial modelling will be considered by the Executive and Council in September 2022 ahead of the service returning under the direct control of the Council on 3 October 2022.</p>	<p>Head of Waste and Recycling – July 2022</p> <p>Director of Service Delivery and Director of Strategic Finance (S151 Officer)</p> <p>September 2022 and October 2022</p>



Issue Identified	Action to be taken	Responsible Officer and target date
<p>At the point of preparing the Statement of Accounts, planning continues and a further update will be considered by Executive and Council in September, ahead of the transfer of services in-house in October.</p>		
<p><b><u>Business Continuity</u></b></p> <p>During 2021/22, Business Continuity has continued to be a significant risk for the Council, with the ongoing Covid-19 pandemic continuing to impact on resourcing across the Council – both from the increased work required to support various Government support schemes and the direct impact of staff being unable to work due to sickness related to the virus.</p> <p>The Council has also considered the implications of emerging risks such as increased instances of cyber attacks on local government and other organisations.</p>	<p>We have commenced work to update our business continuity plans in light of these risks and will be implementing a revised Business Continuity work programme for 2022/23</p>	<p>Director Customer Service and Delivery 2022/23</p>
<p><b>Internal and External Audit Reports</b></p> <p>Some issues have been identified in audit reports by the Council’s shared in-house internal audit team and the Council’s external auditor, Grant Thornton. Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed where appropriate</p> <p>Specifically highlighted within the Internal Audit Annual Report for 2021/22 were:</p> <p>Debtors – Limited Assurance</p>	<p>All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors’ ‘follow up’ procedures.</p> <p>Further work is being undertaken on the areas highlighted by the internal audit report being the use of enforcement agents for the recovery of sundry debts, progressing legal action through the courts and monitoring broken instalment arrangements.</p>	<p>Extended Leadership Team (ELT) S151 Officer Internal Audit Manager In line with agreed timescales</p> <p>Head of Finance - Ongoing</p>



Issue Identified	Action to be taken	Responsible Officer and target date
<p>Council Tax and Business Rates – Limited Assurance</p>	<p>The Head of Finance is raising queries on the use of the web-version of the Civica Financials system through the User Group as it is felt that the additional functionality needed is not yet there to enable the finance team to migrate to the new system.</p> <p>A review of our Revenues and Benefits function has taken place during 2021/22 with a detailed improvement plan being developed. We have also taken steps to recruit a dedicated Head of Revenues and Benefits. This will ensure a greater strategic focus and direction on the areas of improvement identified within the audit.</p>	<p>Head of Revenues and Benefits – Ongoing</p>
<p>Estates, Property and rent – Limited Assurance</p>	<p>Work has continued on addressing the areas identified for improvement within the audit. The Audit Committee has asked for a specific agenda item to update on progress in this area at their September meeting.</p>	<p>Head of Assets – September 2022</p>
<p>Data Quality – Limited Assurance</p>	<p>We have continued progress with implementation of our new IT systems which will lead to a greatly reduced need to manually extract and interrogate data in order to provide key performance information to Members and staff. A Data Quality Strategy will be updated and shared with all staff setting out the principles of good quality data management. A further update on this will be considered by the Audit and Governance Committee at their meeting in September.</p>	<p>Head of Strategy – September 2022</p>





We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

## CONCLUSION

The Council is satisfied that appropriate governance arrangements are in place. However it remains committed to maintaining and where possible, improving these arrangements, in particular by addressing the issues identified by Internal Audit and External Audit in their regular reports to the Audit and Governance Committee.

**Signed:**

**Cllr J Pearce**  
**Leader of South Hams District Council**

**Signed:**

**Andy Bates Chief Executive**  
**On behalf of South Hams District Council**

Date: 24 November 2022

This page is intentionally left blank

# Agenda Item 7

Report to: **Audit and Governance Committee**

Date: **24 November 2022**

Title: **Update on Progress on the 2022-23 Internal Audit Plan**

Portfolio Area: **Cllr J Pearce – Leader of the Council**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Paul Middlemass** Role: **Audit Manager**

Contact: Paul.Middlemass@devon.gov.uk **07736 155687**  
Tony.Rose@devon.gov.uk **01392 383000**

---

## **Recommendations:**

### **It is recommended that:**

The progress made against the 2022/23 internal audit plan, and any key issues arising are noted and approved.

## **1. Executive summary**

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team.

## **2. Background**

The Audit and Governance Committee, under its Terms of Reference contained in South Hams District Council's Constitution, is required to monitor, and review the internal audit programme and findings, and the associated progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The purpose and role of Internal Audit, and of the related Council responsibilities is also contained in the Internal Audit Charter and Strategy.

### 3. Outcomes/outputs

Members will note the assurances provided on the audited areas and seek management assurance that identified weaknesses are being addressed.

### 4. Options available and consideration of risk

No alternative operation has been considered as the function of internal audit is a requirement of Corporate Governance.

### 5. Proposed Way Forward

That Audit and Governance Committee notes the results of Internal Audit work (Appendix A) undertaken during the period.

### 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	<p>There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.</p>
Risk	Y	<p>The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.</p>
Supporting Corporate Strategy	Y	<p>This Progress Report and the work of Internal Audit supports all of the Council's corporate strategy themes.</p>
Climate Change – Carbon / Biodiversity Impact	Y	<p>None directly arising from this report. The Internal Audit function, managed by Devon Audit Partnership is mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to support the audit process, although it is</p>

		inevitable that on-site verification may be required at times. The team use an audit management system (Mki) which enables managerial review to take place remotely, thus also saving on the need for travel.
<b>Comprehensive Impact Assessment Implications</b>		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

Appendix A – Internal Audit Progress Report

#### **Background Papers:**

Internal Audit Plan 2022/23 as approved by Audit and Governance Committee.

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/A</b>

This page is intentionally left blank

# Internal Audit

## Progress Report 2022-23

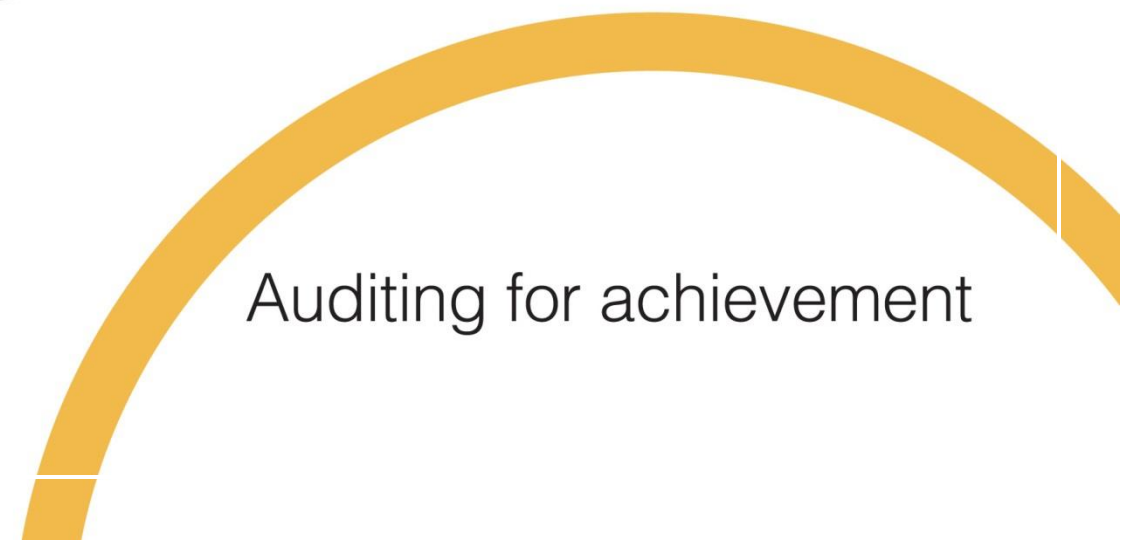
### South Hams Audit & Governance Committee

Page 209

4 November 2022



Tony Rose  
Head of Audit Partnership



Auditing for achievement

## Introduction

The Audit and Governance Committee, under its Terms of Reference contained in South Hams District Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 introduced the requirement that all Authorities carry out an annual review of the effectiveness of their internal audit system and incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2022-23 was presented and approved by the Audit and Governance Committee in March 2022. The following report and appendices set out the background to audit service provision and provides a position statement on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report contributes to that annual opinion.

### Expectations of the Audit Committee from this progress report

Audit and Governance Committee members are requested to consider:

- the assurance statement within this report.
- the basis of our opinion and the completion of audit work against the plan.
- the revised audit plan provided.
- audit coverage and findings provided.
- the overall performance and customer satisfaction on audit delivery.

In review of the above the Audit and Governance Committee are required to consider the assurance provided alongside that of the Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework and satisfy themselves from this assurance that the internal control framework continues to be maintained.

**Tony Rose**  
**Head of Devon Audit Partnership**

<b>Contents</b>	Page
Introduction	1
Opinion Statement	2
Executive Summary of Audit Results	2
Value Added	3
Audit Coverage & Progress Against Plan	3
<b>Appendices</b>	
1 – Summary of Audit Results	4
2 – Progression of audit plans	9



## Opinion Statement

**Overall, based on work performed during 2022/23 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework.**

*This opinion statement will support Members in their consideration for signing the Annual Governance Statement.*

Internal Audit assesses whether key, and other, controls are operating satisfactorily within audit reviews. An opinion on the adequacy of controls is provided to management as part of each audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified.

Implementation of action plans is the responsibility of management but may be reviewed during subsequent audits or as part of a follow-up process.

Directors and Senior Management are provided with details of Internal Audit's opinion for each audit review to assist them with compilation of their individual annual governance assurance statements at year end.

<b>Substantial Assurance</b>	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
<b>Reasonable Assurance</b>	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
<b>No Assurance</b>	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

## Executive Summary of Audit Results

### Key Financial Systems

We provide a Substantial Assurance on Treasury Management, and a Reasonable Assurance on management of Payroll during 2021/22 using the TeamSpirit software. We have also started this year's Payroll audit on the new system. We also provide a Substantial Assurance related to post payment assurance of Covid 19 - Business Grants.

### Risk Based Audits

We provide a report on Climate Change (Reasonable). We also provide a Substantial Assurance on Contract Management of the Leisure Centres.

Appendix 1 of this report provides more detail on the audits delivered since the last Committee meeting with the overall assurance opinion and recommendations. Where a "substantial assurance" or "reasonable assurance" of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of "limited assurance" has been provided then issues were identified during the audit process that required attention. We have provided a summary of key issues reported that are being addressed by management. We are content that management are appropriately addressing these issues.

### Counter Fraud Work

Recent assessments state that there is an epidemic of fraud cases. Fraud now account for 40% of all crimes; it is anticipated that this will further increase by 25% in the coming years ([see Fraud and the Justice System](#)). The government has responded with formation of the Public Sector Fraud Authority. Given this landscape, it is important for councils to have effective measures to reduce the risk and impact of fraud.

We plan to undertake Fraud Risk Assessment in most of the District Councils we support in the next few months including South Hams and West Devon. We intend to present the results to Audit Committee.

We are not aware of any reported fraud issues in the year to date. Management is aware that they can refer any suspected issues to our specialist counter fraud team.

## Recommendation Tracking

We understand that management continues to review audit recommendations made by internal audit since April 2020 to confirm that they are implemented or work taking place to implement them. In undertaking audits, we continue to find audit recommendations (some High Priority) from previous audits that have not been progressed.

## Value Added

It is important that the internal audit service seeks to "add value" whenever it can. We consider internal audit activity has added value to the organisation and its stakeholders by:

- Providing objective and relevant assurance.
- Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.
- Adjusting the audit plan when needed to provide real time assurance.
- Comparing and contrasting controls across the different Devon Councils that we support.

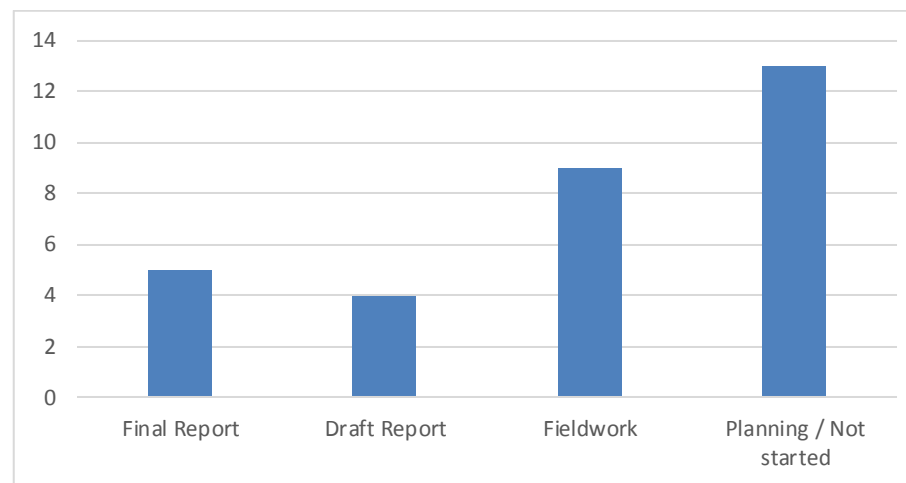
## Audit Coverage and Performance Against Plan

We have almost completed all the audits from the 2021-22 audit plan. Appendix 2 provides detail on these audits, as well as detail on the 2022-23 audit plan.

Progress to deliver the 2022-23 plan has been impacted by continued diversion of one of the two core auditors to administer the Covid Business Grants for the council. We anticipate this work may

shortly complete. In addition, the LAG / LEAF work is expected to continue into 2023. We estimate this means we are short of more than 65 days from this financial year. We are subsequently using additional DAP resource to support audit plan delivery. Part of this resource is undertaking a comprehensive Cyber Security audit provided by One West (a DAP strategic partner), and other audits supported by the DAP team such as a risk management review.

### Chart: Delivery of the 2022-23 audit plan



### Customer Satisfaction

We have had no recent satisfaction returns. We will be placing emphasis on obtaining feedback for current audits.

## Appendix 1 – Summary of audit reports and findings for 2021-22

Audit / Assurance Opinion	Summary, risk exposure and management actions
<p><b>Covid 19 - Business Grants Post-Scheme Assurance</b></p> <p>Page 13</p> <p><b>Substantial Assurance</b></p>	<p>The process for distributing grants has been hugely successful: between March 2020 and March 2022, across all schemes, SHDC paid approximately 16,600 grants with a total value of almost £86m, whilst WDBC paid over 6,000 grants with a total value of £33.5m.</p> <p>The small number of grants subsequently identified by post-payment checks as being non-compliant or paid in error demonstrates the success of the comprehensive range of manual and automated pre-payment checks in place. At £142k, they made up just 0.1% of the total value of grants paid.</p> <p>We confirm that all these cases of suspected fraud or error have been investigated and recovery sought as appropriate. Where possible, overpayments were recovered from future grants due to the applicant, otherwise a debtor's invoice was raised. At the time of our review the majority of the £142k had been recovered. There is £52.2k outstanding (0.04% of the total grant payments), one third of which are being repaid in instalments by the recipients.</p> <p>The Councils' robust approach to accepting and processing grant applications, has also minimised the occurrence of fraud. At the time of writing, there were seventeen cases of suspected fraud, with grants having been paid in only three instances (total value £25k), and all were being investigated. Post-payment checks continue to be made by officers and so may highlight additional cases.</p> <p><b>We did not agree any High recommendations.</b></p>
<p><b>Treasury Management</b></p> <p><b>Substantial Assurance</b></p>	<p>The Councils are adhering to legislative and regulatory requirements and have appropriate and effective controls in place over treasury management operations. The Councils continue to follow a cautious investment strategy, the investment priorities being the security of capital, the liquidity of investments and yield.</p> <p>Interest rates and actual returns were low (0.07% for both Councils in 2021/22) reflecting the low interest environment: rates will inevitably be much greater for 2022/23. Appropriate expert advice was obtained on investments, and there was a good process to record and administer individual investments. Investments are made only in institutions on their approved lending list, which is regularly</p>

reviewed based on credit agency and market information.

Use is also made of the Public Works Load Board; at the end of 2021/22 this constituted 17 loans (£14.38m) for South Hams, and 30 loans (£27.73m) for West Devon, most are to fund leisure investment loans to Fusion, and to fund projects. We understand no loans are likely from the PWLB this year.

There is appropriate segregation of duties related to system administration and raising and approval of CHAPS payments and investment made through the Sungard portal.

**We did not agree any High recommendations.**

**Contract Management – Leisure**  
**Substantial Assurance**  
 Page 214

Based on the systems and processes provided, we confirm the Councils are effectively undertaking their duties with regard to managing the leisure facilities through the DBOM Contract. In the last couple of years, this has included effective financial and risk assessment of the viability of the contractor to ensure leisure services could continue, at best value for money.

Attendance and membership levels have improved and are at near pre-pandemic levels improving future financial viability. Centre participation across all 6 leisure centres in South Hams and West Devon has increased since re-opening from c19,500 to c62,000 in January 2022. When compared to January 2020 of c64,000 this represents a 97% usage rate close to pre-Covid levels. The councils are effectively monitoring contractor performance to ensure it continues to deliver as per the contract. There is also active review of the financial viability of the contractor.

We make some recommendations and restate some that have not been implemented from our last audit in 2018/19 (including the two High Recommendations stated below).

**The agreed High recommendations related to:**

1. Business Continuity - Identifying options if the current operator cannot continue to deliver the service (although an options appraisal was undertaken in Sept 20).
2. Obtain a copy of all building warranties and contracts for work completed by Fusion.

**Dartmouth Lower Ferry (21/22 audit plan)**

Ferry Management have undertaken further steps to improve processes and utilise the eHarbour system. Further improvements are still needed to the eHarbour software to enable further controls and reduction in officer involvement. Existing system procedures and controls need to be further modified and improved to ensure that processes can continue to operate at or above the current standards.

We have also found that the current ferry software system, although providing a good basis for the recording of ferry transactions, cannot produce reports which would provide complete management

## Reasonable Assurance

information. Banking can now be independently verified to the eHarbour system and bank reconciliations, but the system would be further improved with the introduction of functionality such as the ability to input adjustments direct to the system.

Predominately only one officer undertakes the reconciliation of income and banking, although sometimes officer may be present in the office, and there is now the ability to agree banking direct to the Bank Report on eHarbours. Re the Fidelity Guarantee Cover, insurers usually expect dual control and independent validation to be in operation to reduce the risk of loss of money or property sustained as a direct result of acts of fraud, theft or dishonesty by an employee. We have suggested additional controls such as that two officers are always present and evidence the banking.

We also made recommendations to improve functionality, and reconciliation of the system, such as improvement of the eHarbour management reports.

### The High recommendations agreed related to:

1. Involvement of two officers in the counting and reconciliation of cash and banking.
2. Reconciliation of the income report from the ferry eHarbour system and the General Ledger.
3. Amend eHarbour to produce a record of the transactions made in error that are put onto it.
4. Produce and review the information produced from the eHarbour system on the Saver Travel Pass income sold and used by individuals.
5. Introduce clear procedures for the operation of the eHarbour system and communicate to staff.

## Climate Change

### Reasonable Assurance

The Councils have made progress to reduce their carbon emissions. For example:

- Significant reductions in commuting and business mileage due to continued remote working practices.
- Some of the light vehicle fleet have been replaced with electric equivalents; work is underway to continue this rollout.
- Funding allocated for solar panel installation across the leisure centres (£500k for the four SHDC centres and £300k for the two WDBC centres).
- £0.25m across SHWD for decarbonisation planning at the six Leisure Centres from Public Sector Low Carbon Skills Fund.

Projects to support the net zero target across the wider community are also underway:

- Installation of electric vehicle charging points at several Council-owned public car parks; and
- Continued allocation of £900k (SHDC) and £600k (WDBC) in Green Homes Grants to allow

eligible households to deliver energy saving measures.

However, the councils do not have an agreed baseline of carbon emissions over successive years meaning it is not possible to confirm emissions are reducing. There has also been no detailed scoping of the many projects in the Action Plans so that understanding is limited of the funding required to deliver them.

**We did not agree any High Recommendations.**

We made several Medium recommendations including: to ensure a clear baseline of emissions; to develop the Actions Plans to reach Net Zero; to create an Adaptation Plan; and maintain a risk and opportunities register.

**Payroll (21/22 plan)**

**Reasonable Assurance**

Page 216

The 2021/22 arrangements for delivery of the payroll function have been operated as effectively as possible, within the limitations of the TeamSpirit software. Despite the continued need to undertake some manual calculations, it has not led to errors in the payroll as there were appropriate checks and controls for data input and manual calculations. Payments to staff appear to have been made accurately, with very few overpayments and advances of pay required due to errors.

We have repeated two minor recommendations from last year, as we were unable to confirm they had been implemented due to the unavailability of Payroll staff who were involved in the testing and implementation of the new payroll system.

We maintained some oversight of this latter piece of work, seeking assurance that shortcomings within the TeamSpirit system were not being duplicated in the new payroll system i-Trent, that is now used by the councils.

**We did not agree any High Recommendations.**

## Appendix 2 – Progress on the audit plan

### 2021/22 Audits

Audit	Business Area	Assurance Opinion	Comments
Dartmouth Lower Ferry	Place & Enterprise	Reasonable	See summary in Appendix A
Payroll	KFS	Reasonable	See summary in Appendix A
Change Control – Business Processes		Tbc	Report being drafted
Salcombe Harbour	Place & Enterprise	Tbc	Report being drafted

### 2022/23 Audits

Audit	Business Area	Assurance Opinion	Comments
<b>Final Report issued / Work Completed</b>			
Development Management - Section 106 Arrangements	Customer Service & Delivery	Reasonable Assurance	Summary provided in previous meeting.
Climate Change	Governance & Assurance	Reasonable Assurance	See summary in Appendix A
Covid19 - Business Grants Post-Scheme Assurance 2022/23	Place & Enterprise	Substantial Assurance	See summary in Appendix A
Treasury Management	KFS	Substantial Assurance	See summary in Appendix A
Contract Management - Leisure	Governance & Assurance	Substantial Assurance	See summary in Appendix A



Audit	Business Area	Comments
<b>Draft Report</b>		
Building Maintenance - Works Scheduling Follow Up	Customer Service & Delivery	Draft issued 13 June. Work being prioritised to obtain management agreement to the report.
Corporate Strategy and Performance Management	Governance & Assurance	Draft issued 16 September 2022. Work now being undertaken with management to finalise the report.
Procurement - compliance with financial procedures and tender limits	Governance & Assurance	Draft issued 15 November 2022
Health and Wellbeing	Customer Service & Delivery	Draft Report issued 19 October 2022
<b>Fieldwork</b>		
Risk Management	Governance & Assurance	To be undertaken in November 2022.
Corporate Information Management	Governance & Assurance	To be undertaken in November 2022
Capital Expenditure	Place & Enterprise	
ICT Cyber Security	Customer Service & Delivery	
Payroll	KFS	Work started 4 Nov 22
Grants LAG LEAF 2022/23	Other items	Ongoing work to validate this grant.
Contingency, Advice & Emerging Risks	Other items	Ongoing
National Fraud Initiative	Other items	Ongoing
Exemptions from Financial Regulations	Other items	Ongoing
<b>Planning / Not Yet Started</b>		
Main Accounting System	KFS	Indicative start Q4
Creditor (Payments)	KFS	Indicative start Q3



Debtors (Income Collection)	KFS	Indicative start Q3
Business Rates	KFS	Indicative start Q3
Council Tax	KFS	Indicative start Q3
Housing Benefits	KFS	Indicative start Q3
Regeneration and Investment Strategy	Place & Enterprise	Indicative start Q4
Locality Officers	Customer Service & Delivery	Indicative start Q3
Partnership Funding Arrangements	Customer Service & Delivery	Indicative start Q3
Project Management	Governance & Assurance	Indicative start Q4
Future IT Project	Governance & Assurance	Indicative start Q2
VAT Arrangements	Governance & Assurance	Indicative start Q3
Business Continuity / ICT Business Continuity	Governance & Assurance	Indicative start Q3

## Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, North Devon, Mid Devon and Torridge councils. We aim to be recognised as a high-quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.



The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [robert.hutchins@devonaudit.gov.uk](mailto:robert.hutchins@devonaudit.gov.uk) .

## Proposed Workplan for the Audit & Governance Committee for the 2022/23 Financial Year

Committee Meeting Date	Agenda Items
24 November 2022	<ul style="list-style-type: none"> <li>i) Grant Thornton Report: Accounts – the Audit Findings for South Hams District Council;</li> <li>ii) Audited Annual Statement of Accounts 2021/22 and Audited Annual Governance Statement 2021/22;</li> <li>iii) Internal Audit Progress report 2022/23</li> </ul>
5 January 2023	<ul style="list-style-type: none"> <li>i) Grant Thornton update report</li> <li>ii) Update on Progress on the 2022/23 Internal Audit Plan;</li> <li>iii) Treasury Management Mid Year report 2022/23</li> <li>iv) Strategic Risk Update;</li> </ul>
9 March 2023	<ul style="list-style-type: none"> <li>i) Grant Thornton – External Audit Plan 2022/23</li> <li>ii) Grant Thornton Update Report;</li> <li>iii) Grant Thornton Report: Auditor’s Annual Report for 2021/22</li> <li>iv) Grant Thornton – Informing the Risk Assessment for 2022/23 (Planning for the 2022/23 Accounts);</li> <li>v) 2023/24 Internal Audit Plan;</li> <li>vi) 2023/24 Capital Strategy, 2023/24 Investment Strategy and 2023/24 Treasury Management Strategy;</li> <li>vii) Draft Budget Book 2023/24;</li> <li>viii) Cost Methodology for Shared Services 2022/23;</li> <li>ix) Update on Progress on the 2022/23 Internal Audit Plan;</li> <li>x) Strategic Debt update;</li> <li>xi) Draft Planning Protocol for Major Projects</li> </ul>

This page is intentionally left blank