# West Devon Audit Committee

West Devon Borough Council

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| **Title:** | **Agenda** |
| **Date:** | **Tuesday, 24th July, 2018** |
| **Time:** | **10.00 am** |
| **Venue:** | **Chamber - Kilworthy Park** |
| **Full Members:** | ***Chairman*** Cllr Davies<br>***Vice Chairman*** Cllr Ball<br>*Members:* Cllr Cann OBE, Cllr Hockridge, Cllr Lamb, Cllr Stephens, Cllr Watts |
| **Interests – Declaration and Restriction on Participation:** | 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. |
| **Committee administrator:** | Member.Services@swdevon.gov.uk |

***Page No***


**1. Apologies for absence**

**2. Declarations of interest**
Members are invited to declare any personal or disclosable pecuniary interests, including the nature and extent of such interests they may have in any items to be considered at this meeting.

If Councillors have any questions relating to predetermination, bias or interests in items on this Agenda then please contact the Monitoring Officer in advance of the meeting.

**3. Items Requiring Urgent Attention**
To consider those items which, in the opinion of the Chairman, should be considered by the Meeting as matters of urgency (if any).

**4. Confirmation of Minutes** **1 - 4**
Meeting held on 19 June 2018

**5. KPMG External Audit Report 2017/18** **5 - 40**

**6. Audited Statement of Accounts 2017/18 and Annual Governance Statement 2017/18** **41 - 186**

**7. Annual Treasury Management Report** **187 - 202**


PART TWO – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PUBLIC AND PRESS ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED (if any).
The Committee is recommended to pass the following resolution:

“**RESOLVED** that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the Meeting on the grounds that exempt information may be disclosed as defined in the paragraph given below in bold type from Part I of Schedule 12(A) to the Act.”

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Committee section on 01822 813662 or email
darryl.white@swdevon.gov.uk

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At a Meeting of the **AUDIT COMMITTEE** held in Meeting Room 3, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **19th** day of **June 2018** at **9.30am**

**Present:** Cllr M Davies (Chairman)

Cllr W G Cann OBE
Cllr B Lamb
Cllr L Watts

**Officers in attendance**:

Section 151 Officer;
Finance Community Of Practice Lead;
Finance Business Partner;
Support Services Specialist Manager;
Monitoring Officer;
Internal Audit Manager; and
Senior Specialist – Democratic Services.

**Also in attendance:** Cllr C Edmonds (lead Hub Committee Member)

*** AC 1 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Cllrs K Ball, L J G Hockridge and B Stephens.

*** AC 2 CONFIRMATION OF MINUTES**

The Minutes of the Committee Meeting held on 20 March 2018 were confirmed and signed by the Chairman as a correct record.

*** AC 3 DRAFT STATEMENT OF ACCOUNTS 2017-18 AND ANNUAL GOVERNANCE STATEMENT 2017-18**

The Committee considered a report that presented draft versions of the Statement of Accounts for 2017-18 and the Annual Governance Statement for 2017-18.

In particular, the report advised Members that an underspend of £72,000 was generated in 2017/18, which had been transferred to the General Fund Balance.

In discussion, the following points were raised:-

(a) The Committee and lead Hub Committee Member paid tribute to the achievements of the Finance Community Of Practice in meeting the requirement to publish the Council's Accounts a month earlier than in 2016/17;

(b) In reply to a question, the Section 151 Officer expressed the view that the financial standing of the Council was 'sound' for the short to medium term. Whilst Members were optimistic at this view, it was recognised that there was still much work for the Council to do to improve its financial standing for the medium to long term;

(c) The Committee noted that officers were aiming to present the Council's Pension Strategy to the meeting scheduled for 24 July 2018. Should this not be possible, then it was confirmed that this agenda item would be presented to the Committee meeting on 9 October 2018;

(d) Officers confirmed that the audit work in relation to the Council's Housing Benefit Subsidy Claim for 2018-19 had been separated out from the main audit. As a consequence, expressions of interest had been sought and, having submitted the cheapest quotation, officers had opted to recommend the appointment of KPMG to undertake this piece of work.

It was then **RESOLVED** that:

1. the Draft Statement of Accounts and the Draft Annual Governance Statement for the financial year ended 31 March 2018 be noted; and

2. the Council notifies the Department for Work and Pensions that it will appoint KPMG as its appointed 'Reporting Accountant' for 2018-19 for the Housing Benefit subsidy claim (as detailed in Section 4 of the presented agenda report).

*** AC 4 INTERNAL AUDIT ANNUAL REPORT 2017/18**

The Committee was presented with a report that summarised the work undertaken by the Council's Internal Audit team during 2017/18. The report also sought to review the performance of the Internal Audit service and provided an audit opinion on the adequacy of internal control.

In discussion, reference was made to:-

(a) those projects that had been issued a 'fundamental weaknesses' Audit Opinion. The Internal Audit Manager confirmed that both identified areas (Section 106 Agreements and Business Continuity Plan) had made demonstrable progress and the Committee received assurances that both would be kept under regular review;

(b) counter fraud arrangements. The Internal Audit Manager confirmed that counter fraud arrangements remained a high priority for the Council and it was acknowledged by Members that these assisted in the protection of public funds and accountability;

(c) the Internal Audit Team. By way of an update, the Committee noted that the member of the team who had suffered a serious accident had now returned to work. Whilst elements of the absence had been backfilled by the Devon Audit Partnership, Members were advised that the Audit Plan for 2017/18 had not been fully completed.

It was then **RESOLVED** that:

1. The Committee approve that, overall and based on work performed during 2017/18 and that of our experience from the previous year's audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework; and

2. Members approve the satisfactory performance and achievements of the Internal Audit Team during 2017/18.

*** AC 5 ANNUAL REPORT OF THE STATUTORY OFFICERS' PANEL**

The Committee considered a report that informed Members of the work that the Statutory Officers' Panel had carried out between April 2017 and March 2018.

In discussion, it was confirmed that the Panel had operational responsibility for ensuring Council compliance with its strategic risk management function.

It was then **RESOLVED** that the report be noted.

*** AC 6 GRANT THORNTON EXTERNAL AUDIT FEE LETTER**

The Committee considered correspondence from Grant Thornton that outlined the planned Audit Fee for 2018/19.

In discussion, the following points were raised:-

(a) The Committee welcomed the news that the Council would be paying, in comparison to the previous year, 23% less in its External Audit Fees for 2018/19;

(b) In noting that Grant Thornton would become the Council's External Auditor, the Committee was pleased that it would be retaining the same Audit Manager as it had on the last occasion that the organisation had been responsible for this function. In particular, Members acknowledged that the Audit Manager already had some understanding of both the Shared Services agenda and the Council's Transformation Programme and it was felt that this would ensure a smoother transition of External Auditor.

It was then **RESOLVED** that the content of the External Audit Fee Letter be noted.

*** AC 7 AUDIT COMMITTEE WORK PROGRAMME 2018/19**

Members considered a report that presented the draft Committee work programme for 2018/19.

In discussion, Members were informed that the Council's Financial Procedure Rules had not been reviewed for a period of time. As a consequence, a review of these Rules had been scheduled for the Committee meeting to be held on 9 October 2018.

It was then **RESOLVED** that the draft Work Programme for the 2018/19 Financial Year (as outlined at Appendix A of the presented agenda report) be approved.

(The Meeting terminated at 10.15 am)

Dated this

Chairman

KPMG

# External Audit ISA260 Report 2017-18

## West Devon Borough Council

July 2018

# Summary for Audit Committee

**This document summarises the key findings in relation to our 2017-18 external audit at West Devon Borough Council ('the Authority')**

**This report covers both our on-site work which was completed in March and June 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.**

| | |
|---|---|
| **Organisational control environment** | We have identified no significant issues with the Authority's organisational control environment and consider that the overall arrangements that have been put in place are reasonable. |
| **Controls over key financial systems** | The controls over the majority of the key financial systems are sound. However, we have raised one new recommendation in relation to the valuation process for property, plant and equipment.<br><br>We updated our audit approach due to the control deficiencies to complete additional substantive testing in these areas, with no further issues noted. |
| **Accounts production** | Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.<br><br>We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.<br><br>The Authority has prepared the accounts to a faster timetable in the current period, whilst maintaining the quality of the financial statements and working papers. This has taken significant effort from the finance team and we would like to thank the team for their support during this period. |
| **Financial statements** | **Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.**<br><br>Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 9):<br><br>— **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated, as well as reviewing the basis of valuation for those assets that have been revalued. Whilst we are satisfied that there is no material misstatement we identified areas where the processes involved could be improved (see recommendation one);<br><br>— **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure completeness and accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation. We are liaising with the auditors of the Pension Fund in order to gain |

# Summary for Audit Committee (cont.)

**Financial statements (continued)**

an understanding of the effectiveness of those controls that they operate. This is ongoing at date of this report.

— **Faster Close** – The timetable for the production of the financial statements was significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We reviewed the closedown plan for accounts production and monitored progress against these deadlines. We are pleased to confirm that we received draft accounts in advance of the revised deadline and anticipate issuing our opinion prior to the 31 July deadline.

— **Allocation of Shared Costs** – The Authority operates on a shared service basis with its neighbour, South Hams District Council. As a result of this arrangement, costs are initially borne by each authority individually and then an exercise is undertaken to allocate them on an appropriate and consistent basis. We reviewed the appropriateness of the basis of allocations, reviewed evidence of management approval and re-calculated based on the cost drivers with no issues being identified.

We have identified no adjusted or unadjusted audit difference as a result of our audit work. See page 26 for details.

We have, however, suggested a number of presentational corrections which have been corrected in the final draft of the financial statements.

Based on our work, we have raised one new recommendation and noted a prior-year recommendation relating to a monthly reconciliation of housing benefits expenditure which remains outstanding.. Details can be found in Appendices 1 & 2.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and opinion on 24 July 2018 and our Annual Audit letter in August 2018.

**Value for money arrangements**

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**We therefore anticipate issuing an unqualified value for money opinion**

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

— **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond maintaining those from prior years and also pursue income generation strategies. We reviewed the processes in place to ensure financial resilience,

# Summary for Audit Committee (cont.)

| | |
|---|---|
| **Value for money arrangements (continued)** | specifically that the Medium Term Financial Plan has duly taken into consideration relevant factors and sensitivity analysis. We also considered the way in which the Authority identified, approved, and monitored both savings plans and income generation projects and how budgets were monitored throughout the year. No issues were identified as a result of this work;<br>— **Commercialisation** - As well as identifying savings targets, the Authority have been investigating a range of commercial opportunities as a way of addressing its budget gap in future years. We considered the way in which such opportunities were assessed and the way in which Members were provided with the information necessary to determine whether these projects should be pursued. Again, no issues were identified as a result of this work.<br>See further details on page 18. |
| **Exercising of audit powers** | We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.<br>We have not identified any matters that would require us to issue a public interest report.<br>In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014. |
| **Acknowledgements** | We would like to take this opportunity to thank officers and Members for their continuing help. |

Section one

# Control Environment

# Organisational control environment

**We have identified no significant issues with the Authority's organisational control environment and consider that the overall arrangements that have been put in place are reasonable.**

## Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtained an understanding of the Authority's overall control environment and determined if appropriate controls have been implemented. We do not complete detailed testing of these controls.

## Key findings

We consider that your organisational controls are effective overall.

| Aspect of controls | Assessment |
|---|---|
| Organisational controls: | |
| Management's philosophy and operating style | 3 |
| Culture of honesty and ethical behaviour | 3 |
| Oversight by those charged with governance | 3 |
| Risk assessment process | 3 |
| Communications | 3 |
| Monitoring of controls | 3 |

| Key | |
|---|---|
| 1 | Significant gaps in the control environment. |
| 2 | Deficiencies in respect of individual controls |
| 3 | Generally sound control environment. |

# Controls over key financial systems

**The controls over the majority of the key financial systems are sound. However, there are some weaknesses in respect of housing benefits expenditure and property, plant and equipment.**

**We needed to complete additional substantive work in this area at year-end.**

## Work completed

We evaluated the design and implementation of key financial system controls and then tested selected controls that address key risks within these systems. The strength of the control framework informed the substantive testing we completed during our final accounts visit.

## Key findings

Based on our work we have determined that the controls over the majority of the key financial systems are sound, although we noted two weaknesses in respect of individual financial systems that impacted on our audit:

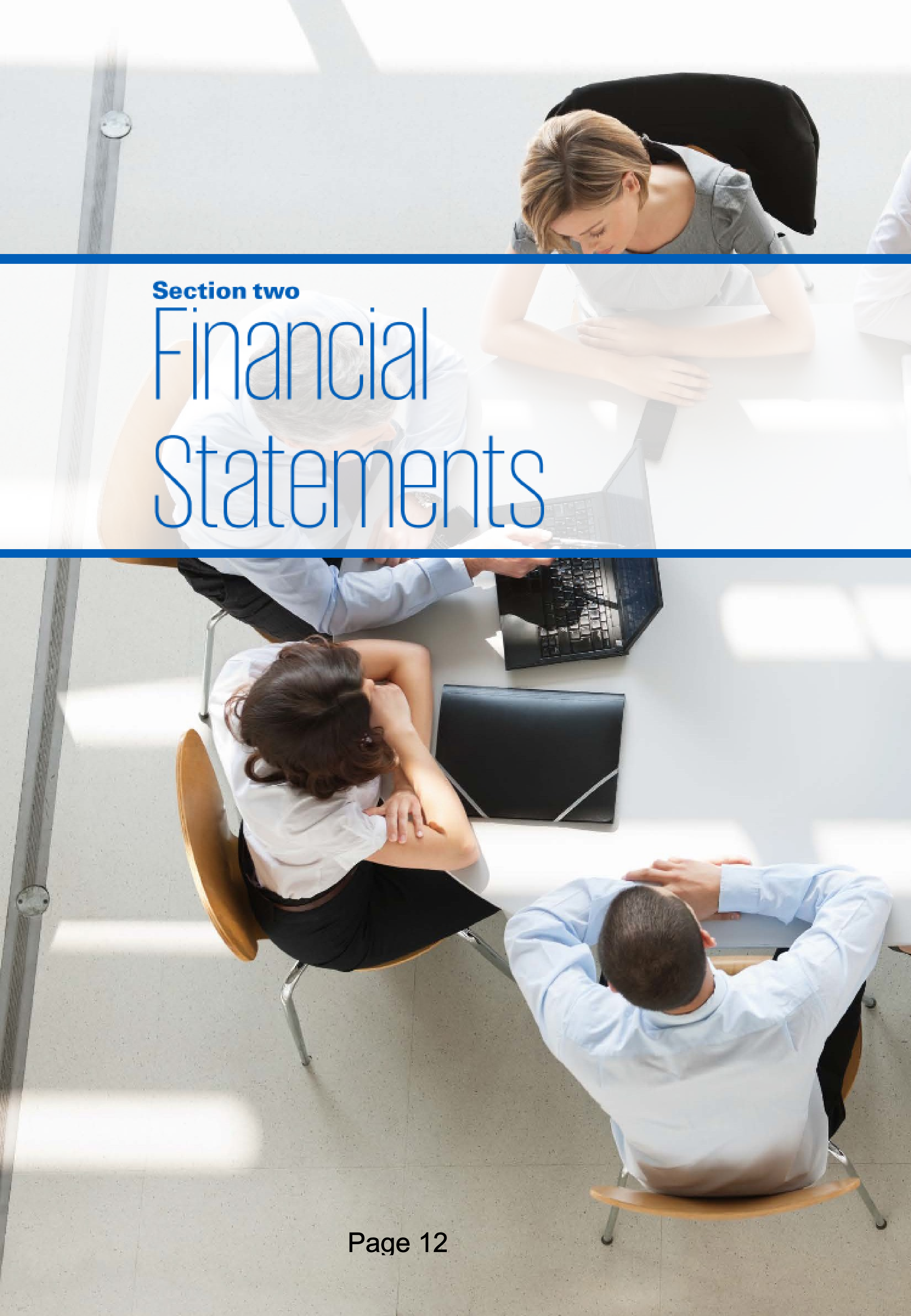
- **Housing Benefit Monitoring** – we noted that the monitoring of housing benefit controls was not completed on a monthly basis. This recommendation was raised in the prior year and remains outstanding.
- **Year-End Property, Plant and Equipment Processes** – we noted that there was not a formally documented approach to revaluation review and impairment review.

These weaknesses meant that we adapted our audit strategy in relation to housing benefits expenditure and property, plant and equipment through the inclusion of additional substantive testing at year-end. No issues were noted through this additional testing.

Recommendations are included in Appendix 1 and Appendix 2.

| Aspect of controls | Assessment |
|---|---|
| Property, Plant and Equipment | 2 |
| Cash and Cash Equivalents | 3 |
| Pension Assets and Liabilities | 3 |
| Non pay expenditure | 3 |
| Payroll | 3 |
| Housing benefits expenditure | 2 |
| Business rates income | 3 |
| Council tax income | 3 |
| Journals | 3 |

| Key | |
|---|---|
| 1 | Significant gaps in the control environment |
| 2 | Deficiencies in respect of individual controls |
| 3 | Generally sound control environment |



**Section two**

# Financial Statements

# Accounts production and audit process

**Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.**

**We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.**

**The Authority's overall process for the preparation of the financial statements is adequate.**

### Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This included a detailed closedown plan which listed the key requirements and timescales by officer in the process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

We consider that the overall process for the preparation of your financial statements is good. The accounts were produced ahead of the deadline of 31 May 2018 and the first draft was of a high standard despite the pressures brought by an earlier deadline.

We would like to thank the Finance team for their hard work in meeting the deadlines.

### Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at page 21.

### Quality of supporting working papers

We issued our Accounts Audit Protocol to Pauline Henstock in May 2018. This important document set out our audit approach and timetable. It also summarised the working papers and other evidence we required the Authority to provide to support our audit work. This helped the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements were understood and aligned to our expectations. We are pleased to report that this has resulted in good quality working papers with clear audit trails.

### Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance community of practice. As a result of this, all of our audit work was completed within the timescales expected with no unusual outstanding queries despite the advance in statutory deadlines. At the date of this report we are, however, still awaiting responses from the Pension Fund auditor to allow us to complete our work over the Authority's pensions liability.

# Specific audit areas

**We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.**

**For the year ending 31 March 2018, the Authority has reported an underspend against budget of £72,000 resulting in an increase to the General Fund balance. The financial statements report a deficit on the provision of services of £1.7m including items that do not impact on the general fund (such as capital charges). The Authority has used £409k of capital receipts against its revenue expenditure. The underlying deficit before the use of capital receipts is £2.1m.**

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

## 01

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

## 02

### Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

# Specific audit areas

## Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

**Risk:**

**Valuation of PPE**

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 31 December, there is a risk that the fair value is different at the year end.

**Our assessment and work undertaken:**

We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. There was no indication of a material movement between these dates.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. It was noted that the revaluation date had moved from 1 April to 31 December in year to reduce the risk of material movements occurring between revaluation date and year-end.

We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). No issues were noted with our testing.

We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment on page 14.

**Risk:**

**Allocation of Shared Costs**

The Authority operates a shared service basis with its neighbour, South Hams District Council. As a result of this arrangement, costs are initially borne by each authority individually and then an exercise is undertaken to allocate them on an appropriate and consistent basis. This is essential to ensuring that the Authority recognises its full costs and to prevent cross subsidy between the two authorities. In order to operate effectively, the allocation of costs must be undertaken on an appropriate basis which reflects the nature of the underlying activities and the way in which resources are consumed.

**Our assessment and work undertaken:**

Building upon our work undertaken during the previous year audit, we reviewed the way in which shared costs have been allocated to the Authority and ensured that:

- The basis of allocation is appropriate and reflects the nature of the activities involved;
- The allocation basis, and any changes from prior year, have been approved appropriately by management and was subject to appropriate review; and
- The allocation had been appropriately calculated and the resulting costs recognised.

# Specific audit areas (cont.)

## Significant Audit Risks – Authority (cont.)

**Risk:**

**Pension Liabilities**

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Devon County Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

**Our assessment and work undertaken:**

As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We are currently liaising with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include a consideration of the process and controls with respect to the assumptions used in the valuation.

We also evaluated the competency, objectivity and independence of Barnett Waddingham. There were no issues with these areas.

We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Barnett Waddingham. Our work over key assumptions did not highlight any areas of concern – we have set out our view of the assumptions used in valuing pension assets and liabilities on page 15.

In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. We noted some minor presentational differences which have been corrected.

We are liaising with the Pension Fund auditors to gain assurance over the controls operating by the Pension Fund and the provision of information to the actuary to support their calculation of the pension liabilities.

As a result of this work we determined that there are no issues with the pensions liabilities, subject to completion of the final elements of testing.

# Specific audit areas (cont.)

## Significant Audit Risks – Authority (cont.)

| | |
|---|---|
| **Risk:** | **Faster Close**<br><br>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.<br><br>These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. Whilst we are aware that the Authority has begun to plan and prepare for the revised timetable, there is still significant amount of work to be completed.<br><br>In our External Audit Plan we highlighted that in order to meet the revised deadlines the Council may need to make greater use of accounting estimates. In order to do so the Council would have had to ensure that those estimates remain valid at the point of finalising the financial statements. We also highlighted a number of logistical challenges that needed to be managed including:<br><br>— Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) were aware of the revised deadlines and had made arrangements to provide the output of their work in accordance with this;<br><br>— Revising the closedown and accounts production timetable to ensure that all working papers and other supporting documentation were available at the start of the audit process;<br><br>— Ensuring that the Audit Committee meeting schedules had been updated to permit signing in July; and<br><br>— Applying a shorter paper deadline to the July meeting of the Audit Committee to ensure accommodation of the production of the final version of the accounts and our ISA 260 report. |
| **Our assessment and work undertaken:** | We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.<br><br>We received draft financial statements in advance of the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.<br><br>In a number of areas the Authority made increased use of estimates. In these areas we considered the assumptions used and challenged the robustness of those estimates. Our work over post year-end journals tested was performed to a lower threshold to address the faster close risk.<br><br>As a result of this work we determined that there were no issues identified. |

# Specific audit areas (cont.)

## Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

| | |
|---|---|
| **Issue:** | **Commercial Property Acquisition Strategy**<br>During the year Members have voted in favour of acquiring significant levels of investment properties both within the Authority's geographic area and outside of that area. Such investments will be funded by way of additional Public Works Loan Board borrowing.<br>Whilst at the time of our audit planning no acquisitions had been undertaken, there were two properties under consideration with an estimated total value of £10 million. Depending upon the progress of the due diligence in relation to each of these properties there was the potential that acquisitions may occur before year end. This would have represented a significant unusual transaction for the Authority due to the scale of the acquisition. |
| **Our assessment and work undertaken:** | KPMG noted that there were no acquisitions of investment property in year. However, our work included review of any post year-end acquisitions of investment property and ensured that the date of purchase and borrowings were correctly excluded from 2017/2018 financial statements.<br>In addition, and linked to our Value For Money work, we reviewed the due diligence process undertaken to ensure that it was appropriately robust and that the correct approval processes were followed, with sufficient information provided to allow an informed decision. |

# Judgements

**We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.**

**Level of prudence**

| 0 | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Audit Difference | Cautious | | Balanced | | Optimistic | Audit Difference |
| | Acceptable Rang e | | | | | |

| Subjective area | 2017-18 | 2016-17 | Commentary |
|---|---|---|---|
| Provisions | 3 | 3 | The Authority's provision has increased from the previous year due to a larger number of appeals in progress.<br>We identified no issues in relation to the appropriateness of the provision. |
| Accruals de minimis level | 3 | 3 | The Authority has maintained its de minimis accruals threshold at £5,000. We have compared the threshold used to that applied at other authorities and have confirmed it is in line with the general approach adopted.<br>We did not note any issues with this in our current year testing. |
| Property Plant & Equipment: Asset lives/valuations | 3 | 3 | The Authority has utilised internal valuation experts to provide valuation estimates. We have reviewed the methodology and assumptions used and have concluded that the valuation exercise is in line with the CIPFA Code and external guidance.<br>We have reviewed the methodology for the revaluation performed as at 31 December 2017. A full valuation is performed on a rolling basis to cover 20% of the assets per annum over a five-year cycle. Assets not included in the full valuation are also assessed in order to ensure that carrying amounts are not materially different to current values at the year-end.<br>Based on the rolling programme of valuations, 48% of the asset value for land and buildings have been revalued in 2017/2018. We have gained assurance that the assets not revalued during the year have not materially changed since the previous revaluation.<br>It was noted that there is a weakness in the control environment due to lack of audit trail for the revaluation and impairment instructions. We also recommend that documentation for the revaluation process be improved for the coming years and that specific quantification for methodology be used (i.e. reference to published industry standard indices for asset types) for those not valued in year. |

# Judgements (cont.)

| Subjective area | 2017-18 | 2016-17 | Commentary |
|---|---|---|---|
| Valuation of pension assets and liabilities | 3 | 3 | The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.<br><br>The overall set of assumptions proposed by the Employer can be considered to be balanced relative to our central rates for a typical UK scheme with a duration of 19 years and within our normally acceptable range. |

| Assumption | Actuary Value | KPMG Range | Assessment |
|---|---|---|---|
| Discount rate | 2.55% | 2.51% | |
| CPI inflation | 2.30% | 2.15% | |
| Net discount rate | 0.25% | 0.36% | |
| Salary Growth | 3.80% | 2.30-4.30% | |
| Life expectancy<br>Current male / female<br>Future male/female | <br>23.5 / 25.6<br>25.7 / 27.9 | <br>22.1 / 23.9<br>23,5 / 25.4 | |

# Proposed opinion and audit differences

**Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 24 July 2018.**

## Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4) for this year's audit was set at £600k. Audit differences below £30k are not considered significant.

We did not identify any material misstatements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We understand that the Authority will be addressing these where deemed significant.

## Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that:

— It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and

— It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

## Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.**

## Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of West Devon Borough Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and West Devon Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 6 in accordance with ISA 260.

## Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Lisa Buckle for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

## Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

**Section three**

# Value for Money Arrangements

# Specific value for money risk areas

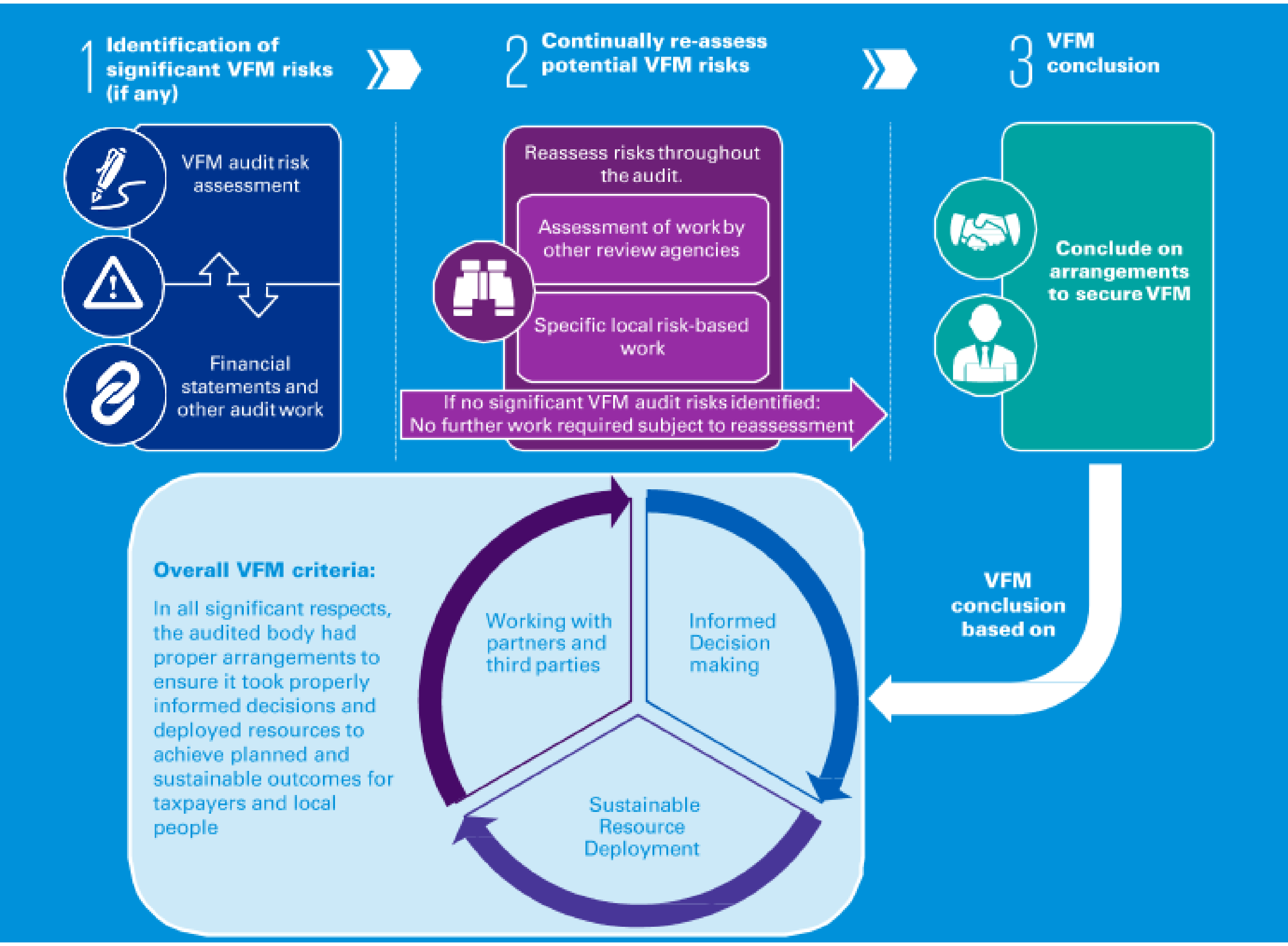
**Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.**

**We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.**

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



# Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

**Applicability of VFM Risks to VFM sub-criteria**

| VFM Risk | Informed decision making | Sustainable resource deployment | Working with partner and third parties |
|---|---|---|---|
| Delivery of budgets | ✓ | ✓ | ✓ |
| Commercialisation | ✓ | ✓ | ✓ |

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

# Specific value for money risk areas (cont.)

**As communicated to you in our *External Audit Plan 2017-18,* we have identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.**

**In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.**

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

| | |
|---|---|
| **Risk:** | **Delivery of budgets**<br><br>The Authority identified the need to make savings of £566k in 2017/18. The current forecast shows that the Authority will deliver an underspend of approximately £50k.<br><br>The Authority's budget for 2017/18 was approved at Council on 7 February 2017 and recognised a need for £566k in savings (in addition to those already delivered in prior years. The approved budget includes individual proposals to support the delivery of the overall savings requirement. The report to Council on 7 February 2017 also highlighted a budget gap of £834kfor 2018/19. There is a likelihood that central government funding will reduce further and that the need for savings will continue to have a significant impact on the Authority's financial resilience. |
| **Our assessment and work undertaken:** | Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.<br><br>The Authority is reporting an overall underspend of £72k in the General Fund Balance and a transfer of £283k in the Earmarked Reserves balance for 2017/18, with the overall balance of £5.2 million as of 31 March 2018. This is made up of £1.2 million of General Fund reserves and £4.0 million of Earmarked reserves.<br><br>We have performed a budget review for 2017/18 compared to actual results for the year and note that the budgeted figures for the period do not differ significantly from the actual figures in the Statement of Accounts and as such, the budgeting process can be seen as reliable and prudent. The spending, savings and service delivery continues to be monitored through the quarterly budget monitoring reports within the Committee and Board meetings. |

# Specific value for money risk areas (cont.)

## Significant VFM Risks (cont.)

| | |
|---|---|
| **Risk:** | **Commercialisation**<br>As well as identifying savings targets to meet budget gaps, the Authority is also investigating a range of income generating opportunities. These include a range of measures such as:<br>— Acquisition of investment properties (approved during the year); and<br>— Establishment of wholly owned subsidiary companies<br>Whilst such projects provide the opportunity for additional income generation, they also introduce additional risks that need to be managed. |
| **Our assessment and work undertaken:** | As part of our risk based work, we reviewed the way in which Members and Senior Management had been informed of the risks and rewards of such projects in order to allow them to reach decisions in an appropriate manner. We also considered the overall appraisal processes adopted and the stages at which Members were engaged and the way in which costs arising from such projects were monitored.<br>Our work identified that there were appropriate processes in place to ensure that potential purchases were considered against the overall strategy and that delegated individuals were able to make an informed decision before opting to proceed or reject a purchase. There was evidence of appropriate challenge and re-drafting of the strategy throughout the process.<br>We also noted that for the two year-end purchases of investment property, the correct approval process was followed. |

# Appendices

**Appendix 1:**

# Key issues and recommendations

**Our audit work on the Authority's 2017-18 financial statements has identified one issue. We have listed this issue in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.**

**The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.**

We have given each recommendation a risk rating and agreed what action management will need to take.

**Priority Rating for Recommendations**

| | | | | | |
|---|---|---|---|---|---|
| 1 | **Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. <br><br> Recommendations Raised: 0 | 2 | **Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. <br><br> Recommendations Raised: 1 | 3 | **Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. <br><br> Recommendations Raised: 0 |

| No. | Risk | Issue & Recommendation | Management Response |
|---|---|---|---|
| 1 | 2 | **Year-end Property, Plant and Equipment Processes** <br><br> ***Risk*** <br><br> It was noted through our controls work over Property, Plant and Equipment that there is no formal process for the rolling system of revaluation, and impairment review of assets. <br><br> The CIPFA Code stipulates that revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. <br><br> ***Recommendation*** <br><br> Formal instructions to be sent to valuers at year-end with responses formally captured to ensure that a full audit trail of items to be revalued and the outcome can be followed. | The recommendation is agreed and a formal process will be implemented for the 2018/19 Accounts. <br><br> ***Responsible Officer*** <br><br> Pauline Henstock – Finance Community of Practice Lead <br><br> ***Implementation Deadline*** <br><br> By December 2018 |

# Follow-up of prior year recommendations

**The Authority has not implemented all of the recommendations raised through our previous audit work.**

**We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.**

This appendix summarises the progress made to implement the recommendations identified in our Interim Audit Report 2016/17 and ISA 260 Report 2016/17 and outstanding recommendations from previous audit years and re-iterates any recommendations still outstanding.

| Number of recommendations that were | |
|---|---|
| Included in the original report | 1 |
| Implemented in year or superseded | - |
| Outstanding at the time of our interim audit | 1 |

| No. | Risk | Issue & Recommendation | Management Response | Status as at July 2018 |
|---|---|---|---|---|
| 3 | 3 | **Performing Monthly Reconciliations**<br>***Risk***<br>We have identified four non-significant control deficiencies during our 2016/17 audit in regards to monthly reconciliation controls over housing benefits and trade payables.<br>We acknowledge that there was an absence of staff responsible for performing the reconciliations however there is a monthly process checklist that provides guidance on required tasks to be completed every month. The Authority should have allocated staff to cover the key members to ensure that monthly processes are completed.<br>In our 2017/2018 interim audit, it was noted that the monthly reconciliation controls over housing benefit payments were not being completed.<br>***Recommendation***<br>Ensure that sufficient closedown staff are trained to complete the monthly process checklist over the financial statement balances to ensure that adequate review is performed over the monthly financial information.<br>The overarching principle is that monthly reconciliations should be completed and reviewed in a timely manner throughout the year and any reconciling items be explained and cleared the following month. | The recommendation is agreed. Officers will ensure reconciliations are completed on a timely basis.<br>***Responsible Officer***<br>Housing Benefits Manager and Support Services Case Management Manager<br>***Implementation Deadline***<br>This has been addressed. | It was noted during our interim audit that the completion of monthly benefit payment checks by officers was not being documented so as to evidence their completion.<br>We determined that it was necessary to adjust our audit approach to reflect the impact of this control failing during the year. We have not performed a follow up to confirm whether this has been resolved since our interim work.<br>As a result, we are re-iterating that this issue will need to be resolved. |

**Appendix 3:**

# Audit differences

**We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).**

**We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.**

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

### Adjusted audit differences – Authority

There were no adjusted audit differences.

### Unadjusted audit differences

There were no unadjusted audit differences..

# Materiality and reporting of audit differences

**The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.**

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in January 2018.

Materiality for the Authority's accounts was set at £600k which equates to around 1.8 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £30k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

**Appendix 5:**

# Required communications with the Audit Committee

**We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.**

| Required Communication | Commentary |
|---|---|
| Our draft management representation letter | We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018. |
| Adjusted audit differences | We have identified no adjusted differences as a result of our audit of the Authority's financial statements. |
| Unadjusted audit differences | We have identified no unadjusted differences as a result of our audit of the Authority's financial statements. |
| Related parties | There were no significant matters that arose during the audit in connection with the entity's related parties. |
| Other matters warranting attention by the Audit Committee | There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process. |
| Control deficiencies | We have set out our assessment of the Authority's internal control environment, including confirmation there were no significant deficiencies identified, in Section one of this report (see pages 5 and 6).<br>We have communicated all deficiencies in internal controls over financial reporting of a lesser magnitude than significant deficiencies identified during the audit in the body of this report (see page 6) |
| Actual or suspected fraud, noncompliance with laws or regulations or illegal acts | We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements. |
| Significant difficulties | No significant difficulties were encountered during the audit. |
| Modifications to auditor's report | There are no modifications to our audit report. |
| Disagreements with management or scope limitations | The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit. |
| Other information | No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.<br>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements. |

# Required communications with the Audit Committee (cont.)

| Required Communication | Commentary |
|---|---|
| Our declaration of independence and any breaches of independence | No matters to report.<br>The engagement team [and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms] have complied with relevant ethical requirements regarding independence.<br>See Appendix 6 for further details. |
| Accounting practices | Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.<br>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15. |
| Significant matters discussed or subject to correspondence with management | There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management. |

# Declaration of independence

## ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF WEST DEVON BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

# Declaration of independence (cont.)

### Independence and objectivity considerations relating to the provision of non-audit services

*Summary of fees*

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

| | 2017-18<br>£ | 2016-17<br>£ |
|---|---|---|
| Audit of the Authority | 39,396 | 39.396 |
| **Total audit services** | **39,396** | **39,396** |
| Mandatory assurance services | 5,630 | 5,340 |
| **Total Non Audit Services** | **5,630** | **5,340** |

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 14%. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

We confirm that all non-audit services were approved by the audit committee or equivalent.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in table below.

Analysis of Non-audit services for the year ended 31 March 2018

| Description of scope of services | Principal threats to independence and Safeguards applied | Basis of fee | Value of services delivered in the year ended 31 March 2018<br>£ | Value of services committed but not yet delivered<br>£ |
|---|---|---|---|---|
| **Mandatory assurance services** | | | | |
| Grant Certification – Housing Benefit Subsidy Return | The certification of the Housing Benefits Subsidy return forms part of our contractual responsibilities as the Authority's appointed auditor. The nature of this audit-related service is such that we do not consider it to create any independence threats. | Fixed Fee | 5,340 | 5,630 |

No non-audit services required specific approval from PSAA as the relevant thresholds were not breached.

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

# Declaration of independence (cont.)

## Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

**KPMG LLP**

**Appendix 7:**

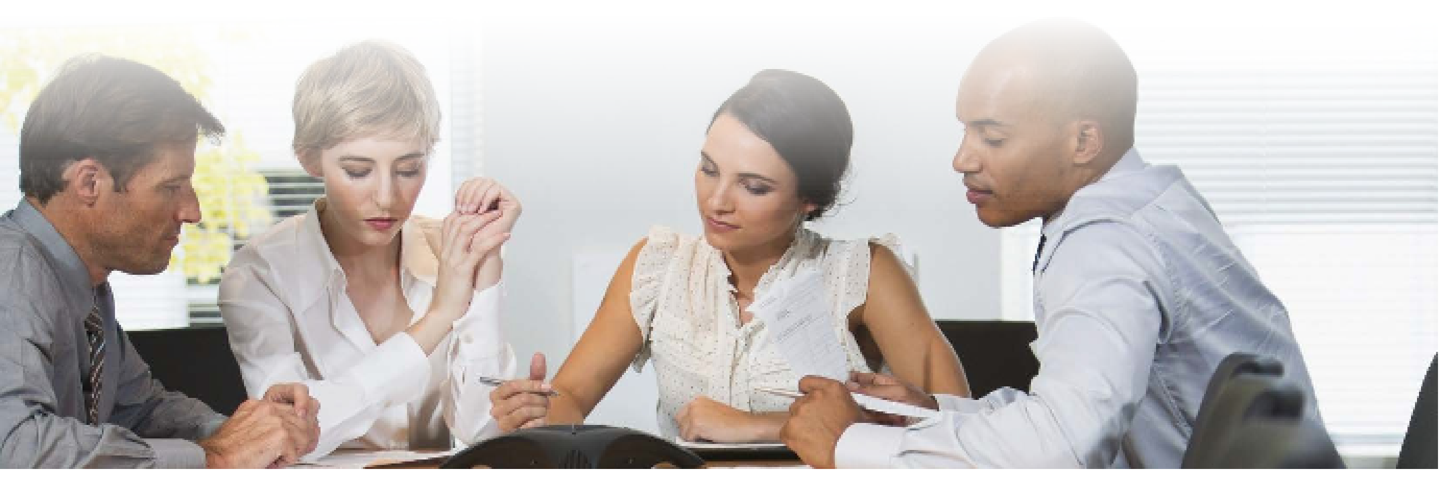
# Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £39,396 plus VAT (£39,396 in 2016/17), which is consistent with the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for September 2018. The planned scale fee for this is £5,630 plus VAT (£5,340 in 2016/17).

| Component of the audit | 2017-18 Planned Fee £ | 2016-17 Actual Fee £ |
|---|---|---|
| **Accounts opinion and value for money work** | | |
| PSAA Scale fee (West Devon Borough Council) | 39,396 | 39,396 |
| **Total audit services** | **39,396** | **39,396** |
| **Mandatory assurance services** | | |
| Housing Benefits Certification (work planned for September 2018) | 5,630 | 5,340 |
| **Total mandatory assurance services** | **5,630** | **5,340** |
| **Grand total fees for the Authority** | **45,026** | **44,736** |

*All fees quoted are exclusive of VAT.*



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Report to: **Audit Committee**

Date: **24 July 2018**

Title: **Annual Statement of Accounts 2017/2018**

Portfolio Area: **Support Services**

Wards Affected: **All**

Relevant Scrutiny Committee: **Overview and Scrutiny Committee**

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

Author: **Alex Walker** Role: **Finance Business Partner**

Contact: **Tel. 01803 861345**

**Email: alexandra.walker@swdevon.gov.uk**

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**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 2018 (Appendix B).
3. The Annual Governance Statement post audit (Appendix C)

## 1. Executive summary

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 2017/18. **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 (Strategic Finance Lead) are required to sign the Letter of Representation.**

## 2. Background

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) The statutory timetable relating to the production and publication of the final accounts has been brought forward for 2017/18 and subsequent financial years. The Council was required to publish the draft SOA by 31 May 2018, one month earlier than 2016/17. This is prior to the period for exercise of public rights which must include the first 10 working days of June. The regulations also require that local authorities in England publish their audited SOA by 31 July 2018.

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.

4) The attached booklet (Appendix B) contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Account, Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow.

   In addition, the narrative statement to the booklet summarises the major variations in income and expenditure from the original budget.

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.

6) The Annual Governance Statement (AGS) for 2017/18 shown in Appendix C reflects the new reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The new 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.

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**

1) **Revenue Expenditure**

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 2017/2018 of £72,000 is essentially a break-even position. ***The 2017/18 budget was £7.42 million and therefore the saving of £72,000 means that the actual spend was 1% less than the budget***. This saving will go into the Council's Unearmarked Reserves which now stand at £1.197 million. The main variations from budget are shown on Pages 9 of the Narrative Statement in the Statement of Accounts.

2) **Capital Expenditure**

Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £3.2 million in 2017/18. The main areas of expenditure were as follows:

- Residential renovation grants including disabled facility grants (£0.291m)
- New waste fleet (£1.653m)
- Investment in leisure facilities (£0.913m). The cost of which is being reimbursed to the Council by the leisure operator.

3) **Audit of Accounts**

The draft SOA was considered by the Audit Committee on 19 June 2018. These accounts are required to be audited by the Council's external auditors, who give their opinion on the draft accounts. The annual audit was undertaken during June and July by KPMG LLP. Post audit changes have been incorporated within the SOA in line with the recommendations contained within their 'Audit Findings Report'.

## 4. Proposed Way Forward

1) The Council Constitution delegates approval of the Accounts to the Audit 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 Committee and the Section 151 Officer (Strategic Finance Lead) 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.

## 5. Implications

| Implications | Relevant to proposals Y/N | Details and proposed measures to address |
|---|---|---|
| Legal/Governance | Y | 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.<br><br>The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS). |
| Financial | Y | The financial implications to this report are that an under spend of £72,000 was generated in 2017/2018. This means that the Council's actual spend for 2017/2018 was 1% less than the budget set for the year. |
| Risk | Y | 1) **Public Accountability** – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is recognised by statute as representing proper accounting practice. |

| | | |
|---|---|---|
| | | 2) **Resource Planning** – the Council takes into account any significant issues when developing the Council's Medium Term Financial Strategy. |
| Comprehensive Impact Assessment Implications | | |
| 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. |

**<u>Supporting Information</u>**

Appendix A – Letter of Representation
Appendix B – Statement of Accounts 2017/18
Appendix C – Annual Governance Statement 2017/18

**Background Papers:**

Finance Community of Practice final accounts working papers.
Audit Committee 19 June 2018 – Draft Statement of Accounts 2017/18.

**<u>Approval and clearance of report</u>**

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

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West Devon Borough Council

KPMG LLP
66 Queen Square
Bristol
BS1 4BE

24 July 2018

Dear Rees

This representation letter is provided in connection with your audit of the financial statements of West Devon Borough Council ("the Authority"), for the year ended 31 March 2018, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and

**ii.** Whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Expenditure and Funding Analysis, the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

**Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

    i. give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended;

    ii. Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

    The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

**Information provided**

4. The Authority has provided you with:

    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Authority for the purpose of the audit; and
    - Unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. The Authority confirms the following:

    The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

    Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

7. The Authority has disclosed to you all information in relation to:

    a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

        - management;
        - employees who have significant roles in internal control; or
        - others where the fraud could have a material effect on the financial statements; and

    b) Allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

    In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

    Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

11. The Authority confirms that:

   a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
   b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

*12.* On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) *Employee Benefits.*

The Authority further confirms that:

   a) all significant retirement benefits, including any arrangements that are:

      - statutory, contractual or implicit in the employer's actions;
      - arise in the UK and the Republic of Ireland or overseas;
      - funded or unfunded; and
      - approved or unapproved,

   have been identified and properly accounted for; and

   b) All plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 24 July 2018.

Yours faithfully,

Councillor M Davies
Chair of the Audit Committee

Mrs L Buckle
Section 151 Officer

**<u>Appendix to the Authority Representation Letter of West Devon Borough Council: Definitions</u>**

**Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

**Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

**Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

**Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

**Management**

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

**Related Party and Related Party Transaction**

**Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   vi. The entity is controlled, or jointly controlled by a person identified in (a).
   vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
   viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) Another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged

# West Devon Borough Council

# Draft Statement of Accounts

# 2017/2018

West Devon Borough Council

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## Statement of Accounts 2017-18

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

*West Devon Borough Council is committed to reflecting the full diversity of our community and to promoting equality of opportunity for everyone.*

# Section *1*

# *Narrative Statement*

## Introduction to the 2017/18 Statement of Accounts by Councillor P R Sanders, Leader of West Devon Borough Council

It has undoubtedly been a challenging year for West Devon, a rural District Council, with our main central government funding coming to an end on 1st April 2018. We have continued to work in partnership with South Hams District Council which has allowed West Devon Borough Council to achieve annual savings of £2.2 million and more importantly protect all statutory front line services.

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

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

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

The Council has continued to play an influential role in the sub-regional debate on a number of key topics including devolution and productivity and continues to work closely with the Heart of the South West Local Enterprise Partnership (LEP) to secure Growth Deals to facilitate economic growth, job creation and prosperity in the area.

The Council has a forecast budget gap for 2019/20 of £0.75 million and is progressing various options to achieve long term financial stability. The Council has agreed a commercial property strategy of up to £37.45 million and in April 2018 has started implementing the strategy by purchasing two commercial properties.

The underspend for the 2017/18 year of £72,000 (1% of the net budget of £7.42m) demonstrates the Council's prudent management of our finances. Our strategic financial planning enables the Council to make fully informed decisions and to deliver the quality of services that our residents, visitors and businesses have every right to expect. The Council continues to do everything it can to ensure that residents, businesses and front-line services come first. The financial standing of the Council remains secure in the short to medium term, for what will undoubtedly be, very challenging times ahead.

**Councillor P R Sanders, Leader of the Council**

## Foreword by the Executive Director & Head of Paid Service

The Council continues to scrutinise budgets as part of our annual budget setting process to ensure that we target our spending where it is needed most. During 2016/17, the Council applied and was accepted for the four year Government funding agreement. From 2018/19 onwards, we will no longer receive any Revenue Support Grant from the Government and the Council will need to be self-financing.

District Councils such as West Devon have also suffered a large reduction in our New Homes Bonus funding (£0.5 million in 17/18) due to the number of payment years being reduced from six to four. Although the four year settlement offered no Revenue Support Grant, it did guarantee the Council its allocations of Rural Services Delivery Grant over the four year period, which equated to £0.37 million in 2019/20.

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

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

There is still much more to be done and the Council is establishing a solid base to be more commercial in our approach to meeting the forecast budget gap of £0.75 million for next year (cumulative budget gap of £3.46 million by 2022/23), whilst protecting its much valued services. In this financial climate, income generation becomes a key priority area.

Using our Medium Term Financial Strategy, the Council will continue to maximise its sources of income in order to maintain and improve services for our residents, businesses and visitors. We will do this through business development, ensuring the best use of our assets and identifying new income streams. The various options being progressed by the Council include market testing the Council’s waste, street cleansing and public conveniences services through competitive dialogue, reviewing discretionary services such as public conveniences and partnership funding and a review of the Council’s Assets including development opportunities.

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

**Sophie Hosking, Executive Director & Head of Paid Service**

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

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

- Understand the financial position of the Council as at 31 March 2018 and how the Council has performed against the budget set for 2017/18

- Be assured that the financial position of the Council is secure, with a degree of resilience.

This Narrative Statement provides information about West Devon, including the key issues affecting the Council and its Accounts. The Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure, measured under proper accounting practices with statutorily defined charges to the General Fund.

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

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

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

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

Appendix B

## NARRATIVE STATEMENT – INTRODUCTION

1. Each year West Devon Borough Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute. The Statement of Accounting Policies summarises the framework within which the Council's accounts are prepared and published.

## REVIEW OF THE YEAR – THE REVENUE BUDGET

2. The 2017/18 budget for West Devon was £7.42 million but the actual spend was 1% lower, providing an underspend of £72,000, which will go into the Council's Unearmarked Reserves which now stand at £1.197 million. The main components of the General Fund budget for 2017/18 and how these compare with actual income and expenditure are set out below:

| | **Estimate £000** | **Actual £000** | **Difference Cost/ (Saving) £000** |
|---|---|---|---|
| Cost of services | 7,493 | 7,413 | (80) |
| Parish Precepts | 1,286 | 1,286 | - |
| Interest and Investment income | (70) | (58) | 12 |
| **Amount to be met from Government grants and taxation** | **8,709** | **8,641** | **(68)** |
| *Financed from:* | | | |
| Revenue Support Grant | (223) | (227) | (4) |
| Business Rates | (1,539) | (1,539) | - |
| Council Tax | (5,642) | (5,642) | - |
| Surplus on Collection Fund | (178) | (178) | - |
| Transition Grant | (31) | (31) | - |
| Rural Services Delivery Grant | (373) | (373) | |
| Reserve Contributions | (723) | (723) | - |
| **UNDERSPEND 2017/18** | **-** | **(72)** | **(72)** |

3. The underspend is shown in the Movement in Reserves Statement in Section 2C and can be summarised as follows:

| | £000 |
|---|---:|
| General Fund Balance (un-earmarked revenue reserve) at 1 April 2017 | (1,125) |
| **Underspend for the 2017/18 financial year** | **(72)** |
| General Fund Balance (un-earmarked revenue reserve) at 31 March 2018 | (1,197) |

4. The table below shows a reconciliation of the position shown on the bottom of the Comprehensive Income and Expenditure Statement and the underspend for 17/18.

| | £000 |
|---|---:|
| **Total Comprehensive Income and Expenditure** | **(2,485)** |
| Remeasurements of the net defined benefit pension liability | 2,866 |
| Surplus on the revaluation of Property, Plant and Equipment | 1,349 |
| Deficit on the revaluation of available for sale financial assets | (16) |
| **The detail of the items below are shown in Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations'** | |
| Adjustments primarily involving the Capital Adjustment Account | (1,108) |
| Adjustments primarily involving the Capital Receipts Reserve | 18 |
| Adjustments primarily involving the Capital Grants Unapplied Account | 101 |
| Adjustments primarily involving the Pensions Reserve | (878) |
| Adjustments primarily involving the Council Tax Collection Fund Adjustment Account | (99) |
| Adjustments primarily involving the Business Rates Collection Fund Adjustment Account Capital Adjustment Account | (100) |
| Adjustments primarily involving the Accumulated Absences Account | (3) |
| Transfers to earmarked reserves | 283 |
| **Underspend for the 2017/18 financial year** | **(72)** |

5. A summary of the main differences from budget in 2017/18 is provided below:

| **ANALYSIS OF VARIATIONS** (% column shows variation against budget) | **£'000** | **% variation** |
|---|---|---|
| **Increases in expenditure/reduction in income** | | |
| **Customer First** | | |
| Leisure Centre legal fees - the Council externalised the legal work to facilitate negotiations over the terms of the lease arrangements for the new leisure contract. (One-off costs). | 80 | - |
| Additional salary costs (budgeted £1.783m salary costs) | 15 | 0.8% |
| Shortfall in letting income for Kilworthy Park, Tavistock (budgeted £0.159m of letting income) | 20 | 12.6% |
| **Commercial Services** | | |
| Waste services – overspend on the vehicle repairs and maintenance of an ageing fleet and on the purchase of equipment. New vehicle fleet were purchased towards the latter end of 2017/18. | 40 | 2.2% |
| **Support Services** | | |
| ICT support contracts – extra costs e.g. IEG4 software. The additional costs are offset by additional recovery of housing benefit overpayments. The budgeted amount for ICT support contracts was £0.218m. | 120 | 55.0% |
| **Other small variances** | 13 | - |
| **Reductions in expenditure/additional income** | | |
| **Customer First** | | |
| Housing Benefit – additional overpayment recoveries (budgeted expenditure for Housing Benefit in 2017/18 is £13 million) | (190) | - |
| Homelessness – the Council received flexible homelessness support grant and reduction in homelessness prevention costs (budgeted £0.139m). | (60) | (43.2)% |
| Employment Estates – additional rental income and service charges (budgeted £0.23m) | (70) | (30.4)% |
| **Commercial Services** | | |
| Car Parking – additional income (budgeted £0.842m) | (40) | (4.8)% |
| **TOTAL UNDERSPEND FOR 2017/18** | **(72)** | **(1.0)%** |

The 2017/18 budget for West Devon was £7.42 million but the actual spend was 1% lower, providing an underspend of £72,000 as shown above.

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

### Pension Liability

6. 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.

7. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2018 of £24.4 million. This compares to £26.4 million as at 31 March 2017. The deficit is derived by calculating the pension assets and liabilities at 31 March 2018. See Note 35 for further information.

### Business Rates

8. 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.

9. 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.

10. In 2017/18 there has been a £267,000 increase in the provision for appeals within the Collection Fund. The surplus on the Business Rates Collection Fund now stands at £152,000 (£402,000 in 2016/17). West Devon Borough Council's share of the surplus is 40% (£60,800). Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income. The balance on this reserve is £509,000 at March 2018. The Council is part of the Devon Business Rates Pool and the pooling gain received was £82,431 for 2017/18.

### Business Rates Pilot status for 2018/19

11. The move towards 75% Business Rate Retention of business rates growth is expected to be in place by 2020. Devon has been selected as one of 10 areas to take part in a national pilot allowing Councils to retain a higher share of business rates growth. The pilot is for one year, 2018/19 and will inform whether 75% of business rates retention can be rolled out nationally. The Council is very pleased to be given this opportunity by Central Government and it's currently predicted that the Council will retain an extra £460,000 of business rate income from the pilot.

**Trading Company**

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

**Borrowing**

13. As at 31 March 2018 the Council had £4.75 million of external borrowing (see note 13 – Financial Instruments - for more details).

**Capital spending**

14. The Council spent £3.2m on capital projects. The main areas of expenditure were as follows:
    - purchase of waste fleet (£1.65m)
    - leisure centres (£0.913m)
    - residential renovation grants including disabled facilities grants (£0.329m)

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

**FINANCIAL NEEDS AND RESOURCES**

15. The Authority maintains both capital and revenue reserves. The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.
16. General Fund reserves (which include earmarked reserves) have increased by £0.355m from the preceding year and stand at £5.2m at 31 March 2018.
17. The General Fund Balance (un-earmarked reserve) has increased by £72,000 in 2017/18 and totals £1.197m. 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.
18. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2018 amounts to £0.469m, compared to £0.625m at the end of the previous year.

19. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance capital or revenue expenditure.

20. 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 £24.4 million at 31 March 2018. This disclosure follows the implementation of the International Accounting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.

21. 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.

**Transformation Programme 2018 (T18)**

22. In 2013, West Devon Borough Council and South Hams District Council embarked on an ambitious and challenging Transformation Programme (T18), to remodel how the Councils worked. This was in light of the acute funding gap (£4.7 million) the Councils were facing.

23. The T18 Closedown report was presented to the Hub Committee on 5th June 2018. Attached below is a link to the full report:-

    http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=221&MId=1204&Ver=4

24. The predicted final spend for West Devon Borough Council (£2.767million) is £63,000 less than the budget of £2.83 million. The total annual savings realised for West Devon Borough Council from the T18 Transformation Programme were £1.505 million per year. The largest element of these savings were staffing savings. Between 2014 and 2015, the majority of employees at both Councils went through a rigorous recruitment process and the workforce was reduced by 30%. The payback period of the Transformation Programme was just under 3 years.

**Senior Leadership Team Interim arrangements**

25. In February 2018, the Executive Director for Strategy and Commissioning and Head of Paid Service left the employment of the Council. Due to the scale of the challenges ahead for the Council, Members felt that it was important that the Council retained stability and continuity in its strategic leadership and senior management capacity.

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

**Annual Governance Statement (AGS)**

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

## LOOKING FORWARD TO THE FUTURE AND NEXT STEPS

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

**Review of key services**

29. Over the next 12 months we will be benchmarking our services and performance against others and have invited the Local Government Association to carry out a 'Peer Review'. The review is scheduled for September and the review team will be made up of senior members and officers from other leading and comparable Councils. Their remit is as follows:

    - Review the various options to secure the financial sustainability of the Council
    - Consider the resource pressures for the Council and the implication for the delivery of non-statutory services and how the Council may manage these services in the future
    - Review the proposed plans for investment and commercial delivery
    - Review the extent that the Council has embraced organisational change and the use of e-technology
    - Review economic growth and housing and how the Council might deliver this

30. In addition we will be working with key stakeholders and current contractors to ensure that front line services continue to perform at a high level and can be developed in the future. Recycling, waste collection, street cleansing and grounds maintenance services will all be market tested for quality, environmental suitability, cost and performance.

**Partnership working**

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

**Our financial future**

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

**Summary**

33. Overall, the Council's finances remain secure in the short to medium term, but there is still much work to do to ensure the long-term financial sustainability of the Council, to meet the challenges ahead.

34. The financial year 2017/18 has seen significant change both in the way the Council is funded and the way in which its services are delivered. The significant Transformation Programme (T18) which the Council has embedded since its introduction in 2013, will give the Authority the best possible foundation from which to meet the future challenges facing Local Government and to maintain those services which are much needed and appreciated by our communities.

**Issue of the Accounts**

35. The Section 151 Officer & Strategic Finance Lead authorised the Statement of Accounts 2017/18 for issue on 24 July 2018. Events taking place after this date are not reflected in the financial statements or notes.

## ACHIEVEMENTS FOR 2017-18

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

# **COUNCIL -** Delivering efficient and effective services

| Action | 17/18 Progress |
|---|---|
| Customer Service | Proactive use of social media, roadshows and simple to use IT systems, has led to a significant reduction in call volumes and a drop in the number of people visiting our offices. Thanks to agile IT provision and improved business continuity and emergency response planning the Beast from the East weather event made little impact on our usual service delivery. |
| Value for Money | As part of the budget setting process for 2018/19, we have agreed to reduce funding or seek efficiencies to ensure statutory delivery outcomes are prioritised. During the year by working collaboratively with other Devon districts we have reviewed our insurance contract which has resulted in a £30,000 saving. |
| Lobbying | Participated in a number of consultations during the year, including capital investment and borrowing; business rate retention; the formation of the Heart of the South West Productivity Strategy and Joint Committee and the Fair Funding Review. The Council has also been accepted as one of only 10 new business rate retention pilots in England for 2018/19. |
| Investment | During the year, we adopted and commenced implementation of a commercial property acquisition strategy. This strategy has multiple objectives, including helping the Council to deliver and/or improve frontline services; support regeneration and the economic activity of the borough, LEP area and the South West peninsula; enhance economic benefit/business rate growth, and, as an ancillary benefit, assist with the financial sustainability of the Council. We are also undertaking research with the LGA (Local Government Association) into investment in housing, affordable housing and the private rented sector. |

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

| Action | 17/18 Progress |
|---|---|
| Community Project Grants | £23,562 given to 9 projects ranging from renovations to village halls, replacing play equipment and community picnic benches. |
| Town and Parish (TAP) Funding | £62,571 awarded to 30 community projects including village notice boards, play park refurbishment and Devon Air Ambulance night landing sites. |
| Seamoor Community Lotto | Agreement secured to proceed with a Council led lottery in partnership with South Hams District Council and Gatherwell Ltd. to support good causes locally. |
| Community Support | Provided core funding support to a range of local organisation providing services to local communities including the Citizens Advice, CVS (Community Volunteer Service), Ring and Rides, Okehampton Community and Recreation Association and Young Devon. |

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

| Action | 17/18 Progress |
|---|---|
| Affordable housing | 24 affordable homes were completed in North Tawton. Construction has also started on 10 affordable homes in Horrabridge and 6 affordable homes in South Tawton. A further 39 affordable homes are under construction throughout West Devon by working in partnership with developers and housing providers. |
| Disabled facility grants | Awarded over £213,300 to 45 projects to facilitate independent living through adaptation of homes including level shower access, stair lifts and rails. |

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

| Action | 17/18 Progress |
|---|---|
| Community Housing Initiative | £250,000 Community Housing Fund targeting homes for those with local connection where the cost of market housing ibeyond their reach. Internal resource in place and standardised delivery processes being adopted to bring forward a growing number of projects across West Devon. |

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

| Action | 17/18 Progress |
|---|---|
| Joint Local Plan | Conducted 8 community engagement events and invited formal representations on the pre-submission plan. Those representations have been considered by the Inspector. |
| Waste and Recycling | To improve recycling collections we have been replacing our old, inefficient vehicles as they have come to the end of their useful life. The new vehicles can collect higher volumes of recycling which enables us to collect from more properties before the need for emptying which is more cost effective and reduces the impact on our environment. We have also introduced a charge for garden waste collections to ensure we can continue to offer this discretionary service without compromising other services that the council provides. |
| Tavistock Town Heritage Initiative | Contributed to this partnership initiative securing £316,457 to date from the Heritage Lottery Fund, restoring 3 listed buildings in 2017/18 including the Pannier Market. Further conservation schemes and public realm enhancements planned for 2018/19. |

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

| **Action** | **17/18 Progress** |
|---|---|
| Greater Dartmoor LEAF (Local Enterprise Action Fund) | £265,624 awarded in the past 12 months to 10 projects which are expected to generate 22.6 FTE jobs. Projects include premises refurbishment, equipment investment and business expansion. |
| Business Support | Funded a business support package which has delivered advice to over 50 businesses, hosted 8 workshops and assisted businesses to recruit over 65 employees. |
| Teenage Market | Working in partnership with Tavistock College and Tavistock Town Council we launched the first Teenage Market in Tavistock. Providing young people the opportunity to hone their business skills and show their entrepreneurial flair. |
| Council owned premises | Achieved an average of 89% occupancy rate for all Council owned employment premises. |
| Sub Regional Productivity Plan | Worked with the Heart of the South West LEP authorities on the draft productivity plan through a series of workshops, consultations and research phases. A joint committee has now been formed to formulate a delivery plan to underpin the strategy. This work is expected to continue through 2018/19. |

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

| **Action** | **17/18 Progress** |
|---|---|
| Community Safety Partnership | Part funded the Fire Service Phoenix Project and worked with a dozen hard to reach young people. Held quarterly workshops with 3 local secondary schools. Worked with 2 schools on the Run, Hide, Tell campaign. Trained 91 taxi drivers on safeguarding and child sexual exploitation issues. |
| Junior Life Skills | Worked with 8 partners including the Police, RNLI, Fire Service, Dog Trust and Tavistock Rotary to present workshops to 549 children year 6 students on safety, wellbeing and responsible citizenship. |
| Refugees | Honoured our pledge to resettle 4 families as part of the Syrian vulnerable person resettlement scheme. |
| Leisure Centres | Successful first year for our partners Fusion Lifestyle - 125,000 user sessions at Okehampton and Tavistock, plus 750 swim school members. Capital improvements started and new changing rooms completed at Meadowlands. |
| Tamar Trails | Usage of the multi-use trails continues to grow with an estimated 20% increase in footfall over the past 12 months. |

# Appendix B

## PERFORMANCE INDICATORS FOR 2017-18

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

### Corporate Balanced Scorecard

**Community/Customer**

| Q1 | Q2 | Q3 | Q4 | Yr | |
|---|---|---|---|---|---|
| △ | △ | △ | △ | △ | Overall waste recycling rate % |
| ✔ | ✔ | ✔ | ✔ | ✔ | Residual waste per household |
| ✔ | ✔ | ✔ | ● | ✔ | Average no. of missed bins |
| △ | △ | △ | △ | △ | **CST:** % of calls answered |
| ● | ● | △ | ● | ● | **CST:** % of calls answered in 20 secs |

**Online uptake**

| Q1 | Q2 | Q3 | Q4 | Yr | |
|---|---|---|---|---|---|
| ✔ | ✔ | ✔ | ✔ | ✔ | % of Benefits new claims online (IEG4) |
| ● | ● | ● | ● | ● | % of Benefits change of circumstances online (IEG4) |
| ✔ | ✔ | ✔ | ✔ | ✔ | Ratio of web/call-post-email submissions (W2) |

**Processes**

| Q1 | Q2 | Q3 | Q4 | Yr | % of planning applications determined within time frame |
|---|---|---|---|---|---|
| ✔ | ✔ | ✔ | ✔ | ✔ | Major |
| ✔ | ✔ | ✔ | ✔ | ✔ | Non-Major |
| | | | | | *Other – no longer report this distinction. Applications captured above* |

| Q1 | Q2 | Q3 | Q4 | Yr | |
|---|---|---|---|---|---|
| △ | ✔ | ✔ | ✔ | ✔ | Avg End to End time Benefits New Claims |
| ✔ | ✔ | ✔ | ✔ | ✔ | Avg End to End time Benefits Change of circumstances |

**Performance**

| Q1 | Q2 | Q3 | Q4 | Yr | |
|---|---|---|---|---|---|
| ✔ | ✔ | ✔ | ✔ | ✔ | **EH:** % of nuisance complaints resolved at informal stage |
| ✔ | ✔ | ✔ | ✔ | ✔ | Avg days short term sickness/FTE |
| ✔ | ✔ | △ | ✔ | ✔ | Complaint response speed |

**Key**

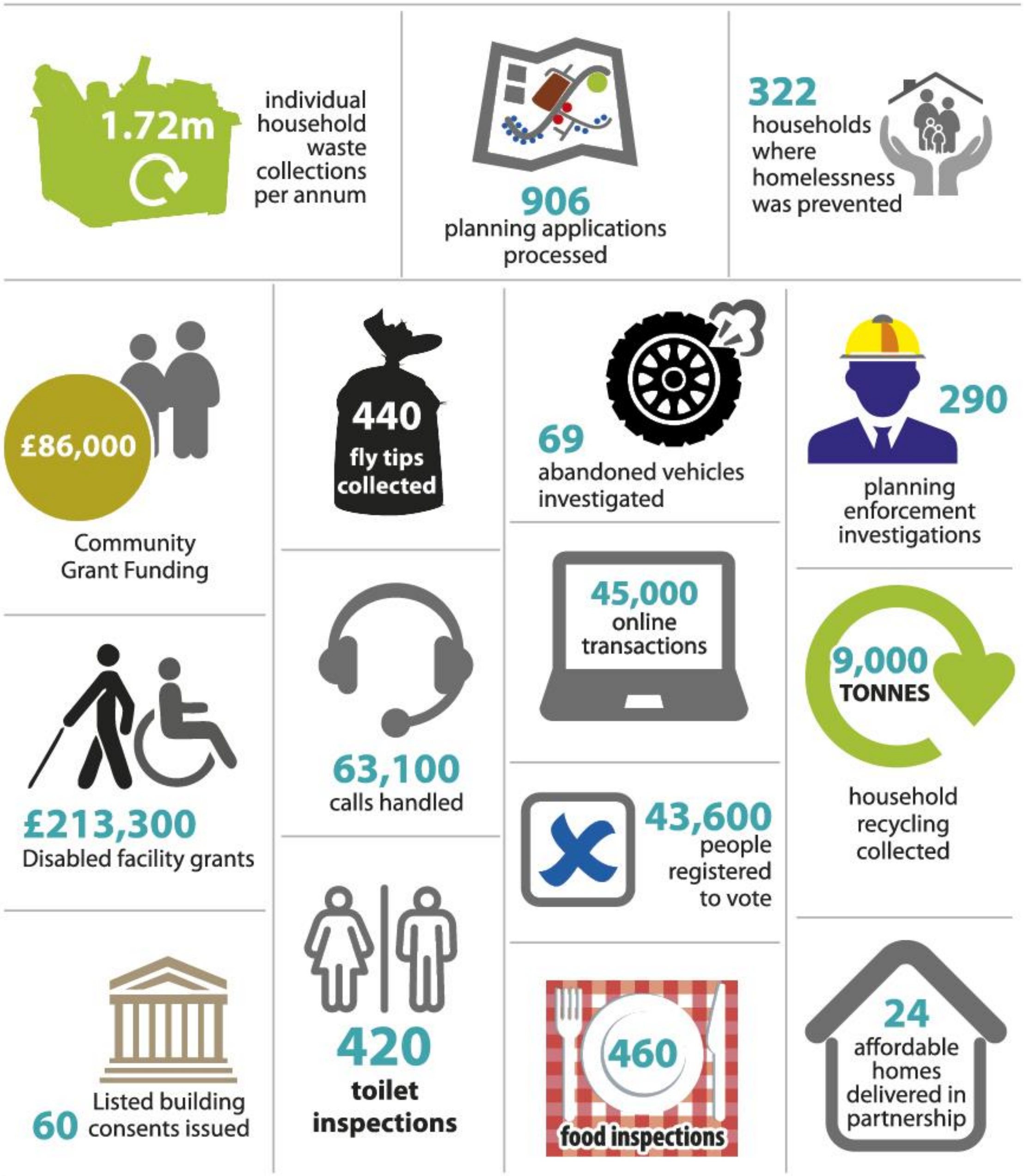
| | |
|---|---|
| ● | Below target performance |
| △ | Narrowly off target, be aware |
| ✔ | On or above target |

**Missed bins** - Target of less than 72 of 100,000 collections. The target was not met in quarter four due to the severe weather events in March.

**CST: % of calls answered in 20 secs** – Performance was below target in three of the four quarters during the year. New initiatives such as web chat were being trialled to reduce call volumes.

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

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



## Performance for the year 2017/18

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

Online transactions increased by 120% to 45,000 transactions

Missed waste collections equate to 68 in every 100,000

Non major planning determinations delivered on time 90%

Call volume decreased by 21%

## PRINCIPAL RISKS AND UNCERTAINTIES

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

Below is an extract mainly from the latest Risk report to the Audit Committee and from the Council's risk register.

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

| **Risk** | **Uncertainties** | **Mitigation** |
|---|---|---|
| **Governance: Adherence to Council policies & processes and Government guidelines** | To maintain effective Member standards and develop new Council Constitution. To continue to raise awareness of the risk of fraud and the implications of the Bribery Act 2010. To ensure that there is on-going review and self-assessment of the effectiveness of governance arrangements within the Council. T18 programme rollout saw service levels reduce but these have now recovered | Promotion of necessary policies via staff intranet. Reviewed and implemented new Council constitution. To provide necessary Annual Governance self-assessment review by the Senior Leadership Team. Audit Committee established with wider terms of reference. External reviews including the Council's external auditors. Appropriate committee monitoring. Service based risk assessments and action plans, with a particular focus on high risk service activity. Training & Development plans being developed. Policies for Health & Safety and wellbeing and lone working all being updated. Statutory Officer Panel set up and meeting Quarterly. Internal Audit programme of work confirmed for 2017/18. |
| **Delivery of local plan (Inc. 5 Year Land Supply)** | Lack of detail / contingency around 5 year land supply until the joint local plan is completed. | JLP Submitted to Planning Inspectorate for examination, but more work required on evidence base for housing need assessment. |
| **Political commitment for change** | Considerable external change with Devolution and Government funding cuts; leading to uncertainty within the South West and beyond. | Regular Leader & Deputy Leader meetings. Regular surgery and informal sessions for wider membership. |
| **Service Performance** | Lack of appropriate resources due to current interim vacancies; ongoing transformation programme specifically IT and process implementation is not yet complete. These two combined have affected our ability to deliver appropriately on occasion. This pressure was increased due to county and general elections in 2017 | Getting it right the first time, getting back to people appropriately and more timely. Better channel recognition to clear responses. Keep better records. Appropriate resources in the right places. Plan to commence measuring customer satisfaction during 18/19. Increased customer engagement; new complaints policy in place. Ongoing review of internal and external policies. |
| **Business Continuity** | Processes need to be robust to ensure business continuity in the event of a significant event occurring e.g. failure to ensure the continuous availability of critical IT systems. | Having two HQ locations is main mitigating factor - however an outage of power/ICT at either location would lead to a serious disruption of service. Agile working further reduces reliance on two office buildings. Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. Business Continuity plans have been updated - priority areas - ICT Networking - Payroll & Creditors Payments; other plans need to be made more robust. Storm Emma provided good evidence of business continuity arrangements through agile working and the IT systems. |

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

# Section 2

# Core Financial Statements

## *SECTION 2A COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT*

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

| **2016/17 Restated*** | | | | **2017/18** | | |
|---|---|---|---|---|---|---|
| **Gross Expenditure £000** | **Gross Income £000** | **Net Expenditure £000** | **Segment** | **Gross Expenditure £000** | **Gross Income £000** | **Net Expenditure £000** |
| 19,017 | *(16,601) | *2,416 | Customer First* | 19,703 | (16,316) | 3,387 |
| 3,053 | (1,529) | 1,524 | Commercial Services | 4,052 | (1,812) | 2,240 |
| 1,435 | (616) | 819 | Strategy & Commissioning | 1,554 | (579) | 975 |
| 1,930 | (379) | 1,551 | Support Services | 1,963 | (409) | 1,554 |
| 658 | (8) | 650 | Centrally Held Costs | 774 | (12) | 762 |
| 102 | (3) | 99 | Material Items (Note 2) | 39 | - | 39 |
| **26,195** | ***(19,136)** | ***7,059** | **Cost of Services** | **28,085** | **(19,128)** | **8,957** |
| 1,243 | - | 1,243 | Other operating expenditure (Note 9) | 1,300 | (13) | 1,287 |
| 806 | (55) | 751 | Financing and investment income and expenditure (Note 10) | 797 | (76) | 721 |
| 4,164 | *(14,649) | *(10,485) | Taxation and non-specific grant income (Note 11)* | 3,365 | (12,616) | (9,251) |
| **32,408** | **(33,840)** | **(1,432)** | **(Surplus) or Deficit on Provision of Services** | **33,547** | **(31,833)** | **1,714** |
| | | - | (Surplus) or deficit on revaluation of Property, Plant and Equipment | | | (1,349) |
| | | 5,780 | Remeasurements of the net defined benefit liability | | | (2,866) |
| | | - | (Surplus) or deficit on revaluation of available for sale financial assets | | | 16 |
| | | **5,780** | **Other Comprehensive Income and Expenditure** | | | **(4,199)** |
| | | **4,348** | **Total Comprehensive Income and Expenditure** | | | **(2,485)** |

*The 2016/17 Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis (EFA) have been restated in respect of the accounting treatment of REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants. There is no overall impact on the 'surplus on the provision of services'; the 2016/17 balance remains at £1,432,000. The restatement is purely for presentational purposes and has no impact on the Balance Sheet. Please see Note 38 – Prior Period Restatement for further information.

## *SECTION 2B EXPENDITURE AND FUNDING ANALYSIS*

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

| **2017-2018** | **Net Expenditure Chargeable to the General Fund £000** | **Adjustments between Funding and Accounting Basis (note 4) £000** | **Net Expenditure in the Comprehensive Income and Expenditure Statement £000** |
|---|---:|---:|---:|
| Customer First | 1,804 | 1,583 | 3,387 |
| Commercial Services | 2,183 | 57 | 2,240 |
| Strategy & Commissioning | 947 | 28 | 975 |
| Support Services | 1,497 | 57 | 1,554 |
| Centrally Held Costs | 762 | - | 762 |
| Material Items | 39 | - | 39 |
| **Net Cost of Services** | **7,232** | **1,725** | **8,957** |
| Other income and expenditure | (7,587) | 344 | (7,243) |
| **(Surplus)/Deficit on Provision of Services** | **(355)** | **2,069** | **1,714** |

| | **General Fund Balance £000** | **Earmarked Reserves £000** | **Total General Fund Reserves £000** |
|---|---:|---:|---:|
| **Opening Balance at 31 March 2017** | **(1,125)** | **(3,732)** | **(4,857)** |
| (Increase)/decrease in year | (72) | (283) | (355) |
| **Closing Balance at 31 March 2018** | **(1,197)** | **(4,015)** | **(5,212)** |

| **2016-2017 Comparatives – restated ****(Please see Note 38 – Prior )* | **Net Expenditure Chargeable to the General Fund £000** | **Adjustments between Funding and Accounting Basis (note 4) £000** | **Net Expenditure in the Comprehensive Income and Expenditure Statement £000** |
|---|---:|---:|---:|
| Customer First* | 1,788 | 628 | 2,416 |
| Commercial Services | 1,534 | (10) | 1,524 |
| Strategy & Commissioning | 875 | (56) | 819 |
| Support Services | 1,506 | 45 | 1,551 |
| Centrally Held Costs | 650 | - | 650 |
| Material Items | 99 | - | 99 |
| **Net Cost of Services** | **6,452** | **607** | **7,059** |
| Other income and expenditure* | (7,859) | (632) | (8,491) |
| **(Surplus)/Deficit on Provision of Services** | **(1,407)** | **(25)** | **(1,432)** |

| | **General Fund Balance £000** | **Earmarked Reserves £000** | **Total General Fund Reserves £000** |
|---|---:|---:|---:|
| **Opening Balance at 31 March 2016** | **(1,055)** | **(2,395)** | **(3,450)** |
| (Increase)/decrease in year | (70) | (1,337) | (1,407) |
| **Closing Balance at 31 March 2017** | **(1,125)** | **(3,732)** | **(4,857)** |

## Movement in Reserves Statement

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

| **2017/18** | General Fund Balance £000 | Earmarked General Fund Reserves £000 | **Total General Fund Reserves £000** | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | **Total Usable Reserves £000** | Unusable Reserves £000 | **Total Authority Reserves 2017/18 £000** |
|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2017 carried forward** | **1,125** | **3,732** | **4,857** | **452** | **173** | **5,482** | **(8,391)** | **(2,909)** |
| **Movement in Reserves during Year** | | | | | | | | |
| Total Comprehensive Income & Expenditure | (1,714) | - | **(1,714)** | | | **(1,714)** | 4,199 | **2,485** |
| Adjustments between accounting basis & funding basis under regulations (Note 7) | 2,069 | - | **2,069** | (105) | (51) | **1,913** | (1,913) | **-** |
| Transfers to/from Earmarked Reserves (Note 8) | (283) | 283 | **-** | - | - | **-** | - | **-** |
| ***Increase/ (Decrease) in Year*** | **72** | **283** | **355** | **(105)** | **(51)** | **199** | **2,286** | **2,485** |
| **Balance at 31 March 2018 carried forward** | **1,197** | **4,015** | **5,212** | **347** | **122** | **5,681** | **(6,105)** | **(424)** |

*SECTION 2C: MOVEMENT IN RESERVES*

| **2016/17** **Comparatives** | General Fund Balance £000 | Earmarked General Fund Reserves £000 | **Total General Fund Reserves £000** | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | **Total Usable Reserves £000** | Unusable Reserves £000 | **Total Authority Reserves 2015/16 £000** |
|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2016 carried forward** | **1,055** | **2,395** | **3,450** | **452** | **21** | **3,923** | **(2,484)** | **1,439** |
| **Movement in Reserves during Year** | | | | | | | | |
| Total Comprehensive Income & Expenditure | 1,432 | - | **1,432** | - | - | **1,432** | (5,780) | **(4,348)** |
| Adjustments between accounting basis & funding basis under regulations (Note 7) | (25) | - | **(25)** | - | 152 | **127** | (127) | **-** |
| Transfers to/from Earmarked Reserves (Note 8) | (1,337) | 1,337 | **-** | - | - | **-** | - | **-** |
| ***Increase/ (Decrease) in Year*** | **70** | **1,337** | **1,407** | **-** | **152** | **1,559** | **(5,907)** | **(4,348)** |
| **Balance at 31 March 2017 carried forward** | **1,125** | **3,732** | **4,857** | **452** | **173** | **5,482** | **(8,391)** | **(2,909)** |

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 are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.

| **31 March 2017** | | **Notes** | | **31 March 2018** |
|---:|---|:---:|---|---:|
| **£000** | | | | **£000** |
| 19,311 | Property, Plant & Equipment | 12 | | 22,315 |
| 88 | Intangible Assets | | | 123 |
| - | Long Term Investments | 13 | | 484 |
| 127 | Long Term Debtors | 14 | | 123 |
| **19,526** | **Long Term Assets** | | | **23,045** |
| - | Short Term Investments | 13 | | 3,000 |
| 2,541 | Short Term Debtors | 14 | | 3,760 |
| 9,641 | Cash and Cash Equivalents | 15 | | 4,377 |
| **12,182** | **Current Assets** | | | **11,137** |
| (5,291) | Short Term Creditors | 16 | | (4,367) |
| (306) | Provisions | 17 | | (413) |
| **(5,597)** | **Current Liabilities** | | | **(4,780)** |
| (110) | Long Term Creditors | 16 | | (54) |
| (2,100) | Long Term Borrowing | 13 | | (4,750) |
| (26,368) | Pension Fund Liabilities | 35 | | (24,380) |
| (442) | Capital Grants Receipts in Advance | 30 | | (642) |
| **(29,020)** | **Long Term Liabilities** | | | **(29,826)** |
| **(2,909)** | **Total Net Assets** | | | **(424)** |
| 5,482 | Usable Reserves | 18 | | 5,681 |
| (8,391) | Unusable Reserves | 19 | | (6,105) |
| **(2,909)** | **Total Reserves** | | | **(424)** |

The unaudited accounts were issued on 30 May 2018. The audited accounts were issued on 24 July 2018.

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

| **2016/17 £000** | | **2017/18 £000** |
|---:|---|---:|
| **(1,432)** | **Net (surplus) or deficit on the provision of services** | **1,714** |
| (686) | Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 20) | (578) |
| (3,498) | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 21) | 360 |
| **(5,616)** | **Net cash flows from Operating Activities** | **1,496** |
| (280) | Investing Activities (Note 22) | 5,651 |
| 451 | Financing Activities (Note 23) | (1,883) |
| **(5,445)** | **Net (increase) or decrease in cash and cash equivalents** | **5,264** |
| 4,196 | Cash and cash equivalents at the beginning of the reporting period | 9,641 |
| **9,641** | **Cash and cash equivalents at the end of the reporting period (Note 15)** | **4,377** |

# Section 3

# Notes to the Financial Statements

## Notes to the Financial Statements

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

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

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

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Property, Plant and Equipment | Assets are depreciated over useful lives which are estimated annually. The carrying value of Property, Plant and Equipment as at 31 March 2018 is £22 million. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to change by 1 year across all assets, this would have a £27,000 impact on the Council's finances. |
| Arrears | The Authority makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. For example at 31 March 2018, the Authority had a balance of Sundry Debtors of £214,000. A review of significant balances suggested that an impairment for doubtful debts of 53% (£114,000) was appropriate. | The impairment for doubtful debts is reviewed annually in order to respond to changes in collection rates. If Council Tax arrears were to change by 1%, this would have an impact of £6,700 on the Council's finances. |
| Business Rates Appeals Provision | Estimates have been made for the provision for refunding ratepayers who may successfully appeal against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed. The total appeals provision as at 31 March 2018 is £1.03 million, of which the Council's share is 40% (£413,000). | There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation. If the Business Rates appeals provision were to change by 1% this would have an impact of £10,000 on the Council's finances. |

| **Item** | **Uncertainties** | **Effect if Actual Results Differ from Assumptions** |
|---|---|---|
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | 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 £918,000. |
| | The value of pension assets is estimated based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. 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. | The assumptions interact in complex ways. For example, in 2017/18, the Authority's actuaries advised that the pension liability had decreased by £2.5 million as a result of a change in "financial assumptions". |
| | The Pensions Fund's Actuary has provided updated figures for the year based on the last valuation in 2016. This valuation is based upon cashflow and assets values as at 31 March 2018. | Please refer to note 35 for further information about the assumptions used by the actuaries. |
| | The Pensions Fund's Actuary has provided updated figures for the year based on the last valuation in 2016. This valuation is based upon cashflow and assets values as at 31 March 2018.<br>The carrying value of the Pensions Liability as at 31 March 2018 is £24.4 million. | |

## 2. MATERIAL ITEMS OF INCOME AND EXPENDITURE

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

| | **2016/17** | | | **2017/18** | | |
|---|---|---|---|---|---|---|
| **Transformation Programme (T18) Investment Costs** | **Direct £000** | **Recharges £000** | **Total £000** | **Direct £000** | **Recharges £000** | **Total £000** |
| **GROSS REVENUE EXPENDITURE** | | | | | | |
| Implementation and design of the future operating model | - | 68 | 68 | - | - | - |
| Redundancy and Pension strain payments | 56 | 57 | 113 | 39 | - | 39 |
| Pension Strain (capitalised cost) | (79) | - | (79) | - | - | - |
| **Sub Total** | **(23)** | **125** | **102** | **-** | **-** | **39** |
| **GROSS REVENUE INCOME** Shared Service Recharge to South Hams DC | - | (3) | **(3)** | - | - | **-** |
| **Sub Total** | **-** | **(3)** | **(3)** | **-** | **-** | **-** |
| **NET REVENUE EXPENDITURE/(INCOME)** (as shown in the CIES) | **(23)** | **122** | **99** | **39** | **-** | **39** |

## 3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2017/2018 was approved for issue by the Section 151 Officer & Strategic Finance Lead on 30 May 2018. The Statement of Accounts were then reviewed by the Audit Committee on 19 June 2018 and the audited accounts were authorised for issue on 24 July 2018. This is also the date up to which events after the reporting period have been considered. There are no events which took place after 31 March 2018 which require disclosure.

## 4. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

| **Adjustments between Funding and Accounting Basis** | | | | |
|---|---|---|---|---|
| **2017/18** | **Adjustments for capital purposes (Note A) £000** | **Net change for the pensions adjustments (Note B) £000** | **Other Differences (Note C) £000** | **Total adjustments £000** |
| Customer First | 1,470 | 113 | - | **1,583** |
| Commercial Services | 34 | 23 | - | **57** |
| Strategy and Commissioning | - | 28 | - | **28** |
| Support Services | 54 | - | 3 | **57** |
| **Net Cost of Services** | **1,558** | **164** | **3** | **1,725** |
| **Other income and expenditure from the Expenditure & Funding Analysis** | **(569)** | **714** | **199** | **344** |
| **Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES** | **989** | **878** | **202** | **2,069** |

| **Adjustments between Funding and Accounting Basis** | | | | |
|---|---|---|---|---|
| **2016/17 Comparatives – restated*** *(see note 38 – Prior Period Restatement for further information)* | **Adjustments for capital purposes (Note A) £000** | **Net change for the pensions adjustments (Note B) £000** | **Other Differences (Note C) £000** | **Total adjustments £000** |
| Customer First* | 827 | (199) | - | **628** |
| Commercial Services | 34 | (44) | - | **(10)** |
| Strategy and Commissioning | - | (56) | - | **(56)** |
| Support Services | 43 | - | 2 | **45** |
| **Net Cost of Services*** | **904** | **(299)** | **2** | **607** |
| **Other income and expenditure from the Expenditure & Funding Analysis*** | **(741)** | **724** | **(615)** | **(632)** |
| **Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES** | **163** | **425** | **(613)** | **(25)** |

**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 i.e. Minimum Revenue Provision and other capital contributions. 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.

## 5. SEGMENT REPORTING

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

| **2017/18** | **Customer First £000** | **Commercial Services £000** | **Support Services £000** | **Total £000** |
|---|---:|---:|---:|---:|
| **Expenditure** | | | | |
| Housing Benefit Payments | 13,387 | - | - | **13,387** |
| Waste Services | - | 2,046 | - | **2,046** |
| Depreciation | 434 | 34 | - | **468** |
| **Income** | | | | |
| Housing Benefit Subsidy | (13,342) | - | - | **(13,342)** |
| Car Parking Income | - | (986) | - | **(986)** |
| | | | | |
| **2016/17 comparatives** | | | | |
| **Expenditure** | | | | |
| Housing Benefit Payments | 13,724 | - | - | **13,724** |
| Waste Services | - | 1,945 | - | **1,945** |
| Depreciation | 414 | 34 | 42 | **490** |
| **Income** | | | | |
| Housing Benefit Subsidy | (13,607) | - | - | **(13,607)** |
| Car Parking Income | - | (1,053) | - | **(1,053)** |

## 6. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

| **Expenditure and Income Analysed by Nature** | **2016/17 Restated* £000** | **2017/18 £000** |
|---|---|---|
| Employee Benefits Expenses | 6,175 | 6,560 |
| Other Service Expenses | 19,365 | 19,968 |
| Depreciation, Amortisation and Impairment | 654 | 1,558 |
| Interest Payments | 96 | 97 |
| Pension Fund Administration Expenses | 14 | 14 |
| Net Interest on the net defined benefit liability | 710 | 700 |
| **Total Expenditure** | **27,014** | **28,897** |
| | | |
| Fees, Charges and Other Service Income | (4,869) | (4,647) |
| Interest and Investment Income | (69) | (58) |
| Income from Council Tax and Business Rates** | (5,622) | (5,357) |
| Revenue Grants and Contributions* | (17,484) | (16,811) |
| Capital Grants and Contributions* | (402) | (279) |
| (Gains) or losses on disposal of non-current assets | - | (13) |
| Other Income | - | (18) |
| **Total Income** | **(28,446)** | **(27,183)** |
| | | |
| **(Surplus) or Deficit on Provision of Services** | **(1,432)** | **1,714** |

*The 2016/17 revenue grants and capital grants have been restated to reflect the correct accounting treatment of REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants. In the 2016/17 Statement of Accounts revenue grants were overstated by £250,000 with a corresponding reduction in capital grants. This is further explained in Note 38 – Prior Period Restatement.

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

## 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.

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2017/18** | **General Fund Balance £000** | **Capital Receipts Reserve £000** | **Capital Grants Unapplied £000** | **Movement in Unusable Reserves £000** |
| **Adjustments primarily involving the Capital Adjustment Account (CAA):** | | | | |
| ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):*** | | | | |
| Charges for depreciation and impairment of non-current assets | **468** | | | **(468)** |
| Revaluation losses/(gains) on Property Plant and Equipment | **626** | | | **(626)** |
| Amortisation of Intangible Assets | **54** | | | **(54)** |
| Capital grants and contributions applied | **(177)** | | | **177** |
| Revenue expenditure funded from capital under statute (REFCUS) | **409** | | | **(409)** |
| ***Insertion of items not debited or credited to the CIES:*** | | | | |
| Statutory provision for the financing of capital investment | **(42)** | | | **42** |
| Capital expenditure charged against the General Fund | **(230)** | | | **230** |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | **(101)** | | **101** | **-** |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | **(152)** | **152** |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | |
| Transfer of unattached capital receipts | **(18)** | **18** | | **-** |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | **(123)** | | **123** |

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2017/18** | **General Fund Balance £000** | **Capital Receipts Reserve £000** | **Capital Grants Unapplied £000** | **Movement in Unusable Reserves £000** |
| **Adjustments primarily involving the Pensions Reserve:** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35) | **1,797** | | | **(1,797)** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | **(919)** | | | **919** |
| **Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:** | | | | |
| Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements | **99** | | | **(99)** |
| **Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:** | | | | |
| Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements | **100** | | | **(100)** |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | **3** | | | **(3)** |
| **Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2017/18** | **2,069** | **(105)** | **(51)** | **(1,913)** |

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2016/17 Comparatives** | **General Fund Balance £000** | **Capital Receipts Reserve £000** | **Capital Grants Unapplied £000** | **Movement in Unusable Reserves £000** |
| **Adjustments primarily involving the Capital Adjustment Account (CAA):** | | | | |
| ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):*** | | | | |
| Charges for depreciation and impairment of non-current assets | **448** | | | **(448)** |
| Amortisation of Intangible Assets | **42** | | | **(42)** |
| Revenue expenditure funded from capital under statute | **413** | | | **(413)** |
| Capital grants and contributions applied | **(249)** | | | **249** |
| ***Insertion of items not debited or credited to the CIES:*** | | | | |
| Statutory provision for the financing of capital investment | **(42)** | | | **42** |
| Capital expenditure charged against the General Fund | **(297)** | | | **297** |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | **(152)** | | **152** | **-** |
| **Adjustments primarily involving the Pensions Reserve:** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES | **1,328** | | | **(1,328)** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | **(903)** | | | **903** |
| **Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:** | | | | |
| Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements | **153** | | | **(153)** |

| | Usable Reserves | | | |
|---|---|---|---|---|
| **2016/17 Comparatives** | **General Fund Balance £000** | **Capital Receipts Reserve £000** | **Capital Grants Unapplied £000** | **Movement in Unusable Reserves £000** |
| **Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:** | | | | |
| Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements | **(768)** | | | **768** |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | **2** | | | **(2)** |
| **Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2016/17** | **(25)** | | **152** | **(127)** |

## 8. TRANSFERS TO/ FROM EARMARKED RESERVES

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

**Car Parking Maintenance -** In line with the Council's car parking strategy, a car parking maintenance reserve is maintained to ensure that major planned works on car parks can be carried out at the appropriate time, in line with a cyclical programme of maintenance and repairs.

**Planning, Policy and Major Developments -** This was set up to help smooth out annual expenditure on review and preparation of the local plan. It has developed to help deal with costs associated with planning policies and planning related activities.

**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 reserve covers any possible funding issues from the new accounting arrangements.

**Strategic Change Reserve –** This reserve was set up to finance one off investments under the Council's Transformation Programme that are required for the development or release of ongoing efficiencies.

**16/17 Budget Surplus Contingency –** This reserve was created as part of the 2016/17 Budget setting process.

**Innovation Fund (Invest to Earn) Reserve** – Some of this fund will be used to acquire and develop land within West Devon to support local housing need.

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

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

| 2017/18<br><br>EARMARKED RESERVES | Balance at 31 March 2017 £000 | Transfers Out £000 | Transfers In £000 | Balance at 31 March 2018 £000 |
|---|---|---|---|---|
| **General Fund** | | | | |
| Car Parking Maintenance | 440 | (5) | - | 435 |
| ICT Development | 24 | (19) | 25 | 30 |
| JSG Future Options | 46 | (35) | - | 11 |
| Planning Policy & Major Developments | 39 | (60) | 65 | 44 |
| 16/17 Budget Surplus Contingency | 669 | (287) | - | 382 |
| Innovation Fund (Invest to Earn) | 906 | (182) | - | 724 |
| Outdoor Sports & Recreation | 7 | - | 11 | 18 |
| Waste & Cleansing Options Review | 80 | - | - | 80 |
| Community Housing Fund | 248 | (5) | - | 243 |
| Leisure Services | 174 | - | 57 | 231 |
| Support Services Trading | - | - | 8 | 8 |
| Environmental Health Initiatives | - | - | 20 | 20 |
| Habitats Reserve | 13 | (3) | - | 10 |
| Landscape Maintenance | 5 | - | - | 5 |
| Invest to Save | 27 | - | - | 27 |
| Elections | 24 | - | - | 24 |
| DCC Localism Support Officer | 4 | - | 1 | 5 |
| REIP – Localism Projects | 1 | (1) | - | - |
| New Burdens CLG | 3 | - | - | 3 |
| CLG – Assets Community Value | 8 | - | - | 8 |
| Neighbourhood Planning Grants | 58 | (11) | - | 47 |
| World Heritage Key Site | 5 | - | - | 5 |
| Cannons Meadow | 16 | (3) | - | 13 |
| Millwood Homes | 15 | - | - | 15 |
| DCC Public Health | 6 | - | - | 6 |
| Revenue Grants | 59 | - | 161 | 220 |
| Business Rates Retention Scheme | 218 | - | 291 | 509 |
| Town Teams & Economic Grants | 23 | - | - | 23 |
| Flood Works | 18 | (3) | - | 15 |
| New Homes Bonus | 227 | (963) | 961 | 225 |
| Homelessness | 30 | - | 65 | 95 |
| Strategic Change | 111 | (51) | 227 | 287 |
| Planning Enforcement | 5 | - | - | 5 |
| Maintenance Fund | 223 | - | - | 223 |
| S106 Monitoring | - | - | 19 | 19 |
| **TOTAL EARMARKED REVENUE RESERVES** | **3,732** | **(1,628)** | **1,911** | **4,015** |

| **2016/17 Comparatives EARMARKED RESERVES** | **Balance at 31 March 2016 £000** | **Transfers Out £000** | **Transfers In £000** | **Balance at 31 March 2017 £000** |
|---|---|---|---|---|
| **General Fund** | | | | |
| Car Parking Maintenance | 408 | - | 32 | 440 |
| ICT Development | - | (18) | 42 | 24 |
| JSG Future Options | - | - | 46 | 46 |
| Planning Policy & Major Developments | - | - | 39 | 39 |
| 16/17 Budget Surplus Contingency | - | - | 669 | 669 |
| Innovation Fund (Invest to Earn) | - | (16) | 922 | 906 |
| Outdoor Sports & Recreation | - | - | 7 | 7 |
| Waste & Cleansing Options Review | - | - | 80 | 80 |
| Community Housing Fund | - | - | 248 | 248 |
| Leisure Services | - | (99) | 273 | 174 |
| LA Business Growth | 25 | (25) | - | - |
| Habitats Reserve | 15 | (2) | - | 13 |
| Landscape Maintenance | 5 | - | - | 5 |
| Invest to Save | 27 | - | - | 27 |
| Elections | 24 | - | - | 24 |
| DCC Localism Support Officer | 4 | - | - | 4 |
| REIP – Localism Projects | 1 | - | - | 1 |
| DCC TAP Funds | 63 | (63) | - | - |
| New Burdens CLG | 3 | - | - | 3 |
| CLG – Assets Community Value | 8 | - | - | 8 |
| Neighbourhood Planning Grants | 65 | (7) | - | 58 |
| World Heritage Key Site | 5 | - | - | 5 |
| Cannons Meadow | 19 | (3) | - | 16 |
| Millwood Homes | 15 | - | - | 15 |
| Young Persons Prevention Officer | 10 | (10) | - | - |
| DCLG Business Support Scheme | 13 | (13) | - | - |
| Inspire Annex 111 | 7 | (7) | - | - |
| DCC Public Health | 25 | (19) | - | 6 |
| Revenue Grants | - | - | 59 | 59 |
| Business Rates Retention Scheme | 844 | (626) | - | 218 |
| Town Teams & Economic Grants | 17 | - | 6 | 23 |
| Flood Works | 20 | (2) | - | 18 |
| New Homes Bonus | 697 | (2,288) | 1,818 | 227 |
| Homelessness | 30 | - | - | 30 |
| Strategic Change | - | (81) | 192 | 111 |
| Planning Enforcement | 45 | (40) | - | 5 |
| Maintenance Fund | - | (17) | 240 | 223 |
| **TOTAL EARMARKED REVENUE RESERVES** | **2,395** | **(3,336)** | **4,673** | **3,732** |

## 9. OTHER OPERATING EXPENDITURE

| 2016/17 | | 2017/18 |
|---|---|---|
| **£000** | | **£000** |
| 1,229 | Parish council precepts | 1,286 |
| - | (Gains) or losses on disposal of non-current assets | (13) |
| 14 | Pension administration costs | 14 |
| **1,243** | **Total** | **1,287** |

## 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2016/17 | | 2017/18 |
|---|---|---|
| **£000** | | **£000** |
| 96 | Interest payable and similar charges | 97 |
| (55) | Interest receivable and similar income | (58) |
| - | Other investment income | (18) |
| 710 | Pensions interest cost and expected return on pension assets | 700 |
| **751** | **Total** | **721** |

## 11. TAXATION AND NON SPECIFIC GRANT INCOME

| 2016/17 | | 2017/18 |
|---|---|---|
| **Restated*** | | |
| **£000** | | **£000** |
| | Council Tax | |
| (5,440) | Income (inc Parish Precepts) | (5,642) |
| 81 | Collection Fund Adjustment | 30 |
| (208) | Collection Fund – Distribution of Surplus | (109) |
| 77 | Support Grant to Parishes | 71 |
| | | |
| | Business Rates | |
| (4,271) | Income | (4,099) |
| 3,018 | Tariff | 3,017 |
| - | Pooling Administration Costs | 1 |
| (48) | Pooling Gain | (82) |
| 147 | Levy | 85 |
| - | Safety Net | - |
| (207) | Transfer of Collection Fund Deficit | 86 |
| | | |
| | Non-ring fenced government grants | |
| (367) | Small Business Rate Relief Grant | (738) |
| (627) | Revenue Support Grant | (227) |
| (1,745) | New Homes Bonus | (961) |
| (31) | Transition Grant | (31) |
| (462) | Rural Services Delivery Grant | (373) |
| | | |
| (402) | Capital grants and contributions* | (279) |
| **(10,485)** | **Total** | **(9,251)** |

*The 2016/17 'Capital grants and contributions' have been restated to reflect the correct accounting treatment of REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants. Please see Note 38 – Prior Period Restatement for further information.

## 12. PROPERTY, PLANT AND EQUIPMENT

### Movements in 2017/18:

| | Land and Buildings £000 | Vehicles, Plant & Equipment £000 | Infra-structure Assets £000 | Community Assets £000 | Assets Under Construction £000 | Total Property, Plant and Equipment £000 |
|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | |
| **At 1 April 2017** | **19,583** | **1,493** | **1,074** | **83** | **99** | **22,332** |
| Additions | 164 | 1,653 | - | - | 932 | 2,749 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 203 | - | - | - | - | 203 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (650) | - | - | - | - | (650) |
| **At 31 March 2018** | **19,300** | **3,146** | **1,074** | **83** | **1,031** | **24,634** |
| | | | | | | |
| **Accumulated Depreciation and Impairment at 1 April 2017** | **1,204** | **1,493** | **324** | **-** | **-** | **3,021** |
| Charge for 2017/18 | 440 | - | 28 | - | - | 468 |
| Depreciation written out to the Revaluation Reserve | (688) | - | - | - | - | (688) |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | (482) | - | - | - | - | (482) |
| **At 31 March 2018** | **474** | **1,493** | **352** | **-** | **-** | **2,319** |
| | | | | | | |
| **Balance Sheet amount at 31 March 2018** | **18,826** | **1,653** | **722** | **83** | **1,031** | **22,315** |
| **Balance Sheet amount at 31 March 2017** | **18,379** | **-** | **750** | **83** | **99** | **19,311** |

## Comparative Movements in 2016/17:

| | Land and Buildings £000 | Vehicles, Plant & Equipment £000 | Infra-structure Assets £000 | Community Assets £000 | Assets Under Construction £000 | Total Property, Plant and Equipment £000 |
|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | |
| **At 1 April 2016** | **19,583** | **1,493** | **1,074** | **83** | **-** | **22,233** |
| Additions | - | - | - | - | 99 | 99 |
| Derecognition – disposals | - | - | - | - | - | - |
| **At 31 March 2017** | **19,583** | **1,493** | **1,074** | **83** | **99** | **22,332** |
| | | | | | | |
| **Accumulated Depreciation and Impairment at 1 April 2016** | **784** | **1,493** | **296** | **-** | **-** | **2,573** |
| Charge for 2016/17 | 420 | - | 28 | - | - | 448 |
| Derecognition - disposals | - | - | - | - | - | - |
| **At 31 March 2017** | **1,204** | **1,493** | **324** | **-** | **-** | **3,021** |
| | | | | | | |
| **Balance Sheet amount at 31 March 2017** | **18,379** | **-** | **750** | **83** | **99** | **19,311** |
| **Balance Sheet amount at 31 March 2016** | **18,799** | **-** | **778** | **83** | **-** | **19,660** |

## Depreciation

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

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

## Capital Commitments

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

- Waste Vehicles £949,500 (£2.5 million in 2016/17)
- Leisure Centre investment £488,000 (£1.5 million in 2016/17)

## Revaluations

The Council values its whole asset portfolio once every five years. The last valuation was carried out in 2014. An external independent valuer, Jones LangLasalle, revalued the Authority’s asset portfolio as at 31 March 2014. In addition, the more significant assets are revalued on an ad hoc basis.

## Fair Value Review at 31 March 2018

In addition, a formal impairment review of the entire holding of assets is undertaken at the end of each financial year, to ensure the carrying value reflects the fair value at the Balance Sheet date. This was undertaken by the Council’s Valuer.

Non-Specialised operational properties were valued on the basis of existing use value (EUV). Specialised operational properties were valued on the basis of depreciated replacement costs (DRC). A deminimus level of £10,000 was set. Infrastructure assets are on a historical cost (HC) basis, whilst vehicles, plant and equipment are held on historical costs as a proxy for current value.

| | **Land and buildings £000** | **Vehicles, plant furniture & equipment £000** | **Total £000** |
|---|---|---|---|
| **Valued at historical cost** | - | 1,653 | 1,653 |
| **Valued at current value in:** | | | |
| 2017/2018 | 9,010 | - | 9,010 |
| 2013/2014 | 9,816 | - | 9,817 |
| **Total** | **18,826** | **1,653** | **20,480** |

## 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. FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

Liabilities
- trade payables and other payables
- borrowings
- financial guarantees

Assets
- bank deposits
- trade receivables
- loans receivables
- investments

Derivatives
- swaps
- forwards
- options

### Capitalisation of Borrowing Costs

Due to the costs of the Authority's Capital Programme, the Authority borrowed £2.1 million from the Public Works Loan Board (PWLB) on 2nd August 2007 at a fixed rate of 4.55% for 45 years and 6 months.

On 29 March 2018, the Authority borrowed £2.65 million on an Annuity loan from the Public Works Loan Board (PWLB) at a fixed rate of 1.92% for 9 years.

Any costs of borrowing are borne in the Comprehensive Income & Expenditure statement by interest charges and the Minimum Revenue Provision for the repayment of debt. The Minimum Revenue Provision (MRP) is charged on the Asset Life Method and provisions are made over the estimated life of the asset for which the borrowing is undertaken. MRP is applied in the financial year following the one in which the asset became operational.

## Summary of Financial Instruments

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

| | Long-term | | | Current | |
|---|---|---|---|---|---|
| (2016/17 – short term debtors restated*) | **31 March 2017 £000** | **31 March 2018 £000** | | **31 March 2017 £000** | **31 March 2018 £000** |
| **Investments** | | | | | |
| Short term investments | - | - | | - | 3,000 |
| Available-for-sale investments: | | | | | |
| Local Authorities' Property Fund | - | 484 | | - | - |
| | | | | | |
| **Cash and cash equivalents** | | | | | |
| Loans and receivables: | | | | | |
| Money Market Funds and cash | - | - | | 9,641 | 4,377 |
| | | | | | |
| **Debtors** | | | | | |
| Loans and receivables | 127 | 123 | | - | - |
| Short term debtors* | - | - | | 968* | 1,211 |
| **Total Financial Assets** | **127** | **607** | | **10,609** | **8,588** |
| | | | | | |
| **Borrowings** | | | | | |
| Loans at amortised cost: | | | | | |
| PWLB | (2,100) | (4,750) | | - | - |
| | | | | | |
| **Other Long Term Liabilities** | | | | | |
| Liabilities at amortised cost: | | | | | |
| Long term creditors | (110) | (54) | | - | - |
| | | | | | |
| **Creditors** | | | | | |
| Liabilities at amortised cost: | | | | | |
| Short term creditors | - | - | | (2,747) | (1,950) |
| **Total Financial Liabilities** | **(2,210)** | **(4,804)** | | **(2,747)** | **(1,950)** |

*The 2016/17 comparative for short term debtors has been restated. In 2016/17 capital payments in advance (£53,000) were incorrectly classified as a Financial Instrument.

## FAIR VALUE OF ASSETS AND LIABILITIES

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

- For loans from the Public Works Loan Board (PWLB), borrowing rates have been applied to provide the fair value under PWLB debt redemption procedures;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

The fair values are as follows:

| | **31 March 2017** | | **31 March 2018** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair Value** | **Carrying amount** | **Fair Value** |
| | **£000** | **£000** | **£000** | **£000** |
| PWLB Debt – Maturity | 2,100 | 3,118 | 2,100 | 3,840 |
| PWLB Debt – Annuity | - | - | 2,650 | 2,780 |
| Long Term Debtors | 127 | 127 | 123 | 123 |
| Long Term Creditors | 110 | 110 | 54 | 54 |

## RECOGNITION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

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

| **Financial Instrument** | **Basis of measurement** | **Note** |
|---|---|---|
| Investments – Fixed Rate | Carrying amount adjusted for interest owed at year end. | Investments have both fixed term and fixed interest rates. |
| Investments – Other | Held at carrying value on basis of materiality. | Money Market Funds and CCLA |
| PWLB Debt | Carrying value and interest due at year end shown as a current liability. | Borrowing is both fixed term and fixed interest rate. |
| Operational Debtors | Held at invoiced amount less a provision for uncollectable debts. | Carrying amount is reasonable approximation of fair value for these short term receivables with no stated interest rate. |
| Operational Creditors | Held at invoiced amount | Carrying amount is reasonable approximation of fair value for these short term liabilities |

## 14. DEBTORS

| **31.3.2017 £000** | | **31.3.2018 £000** |
|---|---|---|
| | **Short Term** | |
| 367 | Central Government bodies* | 1,120 |
| 593 | Other Local Authorities** | 209 |
| | Other debtors | |
| 387 | Council Tax | 716 |
| 250 | Business Rates | 430 |
| 944 | Other entities and individuals*** | 1,285 |
| **2,541** | **Total** | **3,760** |
| | **Long Term** | |
| 127 | Other Local Authorities | 123 |
| **127** | **Total** | **123** |

*The 'Central Government bodies' debtor has increased substantially in 2017/18 due to the end of year position for the Housing Benefit subsidy claim. At 31 March 2018 £637,000 was due from Central Government following completion of the final claim.

**The reduction in ‘Other Local Authorities’ debtors is mainly due to the timing of shared services recharges with South Hams District Council and changes to the hosting agreement of the Building Control Partnership – see note 25 Trading Operations for further information. There is a similar reduction in ‘Other Local Authorities’ creditors shown in Note 16.

***The increase in ‘Other entities and individuals’ debtor for 2017/18 relates mainly to the deposit on a Commercial property purchase in Okehampton. This will be funded from PWLB borrowing in April 2018.

## 15. CASH AND CASH EQUIVALENTS

| 31.3.2017 £000 | | 31.3.2018 £000 |
|---|---|---|
| 1,191 | Cash held by the Authority | 1,177 |
| 8,450 | Money Market Funds | 3,200 |
| **9,641** | **Total Cash and Cash Equivalents** | **4,377** |

## 16. CREDITORS

| 31.3.2017 £000 | | 31.3.2018 £000 |
|---|---|---|
| | **Short Term** | |
| (113) | Central Government bodies | - |
| (1,935) | Other Local Authorities* | (840) |
| (2) | NHS Bodies | (1) |
| | Other Creditors | |
| (183) | Council Tax | (44) |
| (800) | Business Rates | (681) |
| (2,258) | Other entities and individuals** | (2,801) |
| **(5,291)** | **Total** | **(4,367)** |
| | **Long Term** | |
| (73) | Other Local Authorities | (16) |
| (37) | Other entities and individuals | (38) |
| **(110)** | **Total** | **(54)** |

*The reduction in ‘Other Local Authorities’ creditors is partly due to the timing of shared services recharges with South Hams District Council. There is a similar reduction in ‘Other Local Authorities’ debtors in Note 14. In addition the balance at 31 March 2017 included some Section 106 deposits due to Devon County Council, which were paid during 2017/18.

**The increase in ‘Other entities and individuals’ short term creditor for 2017/18 relates mainly to the purchase of new waste vehicles, which are due to be settled in 2018/19.

## 17. PROVISIONS

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

| | **Business Rates Appeals £000** |
|---|---:|
| **Balance at 1 April 2017** | **(306)** |
| Provisions made in year | (303) |
| Amounts used in year | 196 |
| **Balance at 31 March 2018** | **(413)** |

**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 was made about the likely success rate of appeals and their value. In 2017/18 there has been a £267,000 increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (£107,000). This is further explained in the Narrative Statement.

## 18. USABLE RESERVES

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

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

**Earmarked Reserves** - The Council has set aside monies for specific purposes e.g. vehicle & plant replacement, the funding of strategic issues etc.

**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.

## 19. UNUSABLE RESERVES

| 31.3.2017 £000 | | 31.3.2018 £000 |
|---:|---|---:|
| 5,515 | Revaluation Reserve | 6,820 |
| 12,167 | Capital Adjustment Account | 11,378 |
| (26,368) | Pensions Reserve | (24,380) |
| - | Available for Sale Financial Instruments Reserve | (16) |
| 208 | Council Tax Collection Fund Adjustment Account | 109 |
| 161 | Business Rates Collection Fund Adjustment Account | 61 |
| (74) | Accumulated Absences Account | (77) |
| **(8,391)** | **Total Unusable Reserves** | **(6,105)** |

## 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.

| 31.3.2017 £000 | 31.3.2017 £000 | Revaluation Reserve | 31.3.2018 £000 | 31.3.2018 £000 |
|---|---|---|---|---|
| | **5,578** | **Balance at 1 April** | | **5,515** |
| - | | Upward revaluation of assets | 1,934 | |
| - | | Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services | (585) | |
| | **5,578** | **Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services** | | **1,349** |
| (63) | | Difference between fair value depreciation and historical cost depreciation | (44) | |
| | **(63)** | | | **(44)** |
| | **5,515** | **Balance at 31 March** | | **6,820** |

## 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.

| 2016/17 £000 | 2016/17 £000 | Capital Adjustment Account | 2017/18 £000 | 2017/18 £000 |
|---|---|---|---|---|
| | **12,419** | **Balance at 1 April** | | **12,167** |
| | | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) : | | |
| (448) | | ▪ Charges for depreciation of non-current assets | (468) | |
| - | | ▪ Revaluation losses on Property, Plant and Equipment | (626) | |
| (42) | | ▪ Amortisation of Intangible Assets | (54) | |
| (413) | | ▪ Revenue expenditure funded from capital under statute (REFCUS) | (409) | |
| | **(903)** | **Total** | | **(1,557)** |
| 63 | | Adjusting amounts written out of the Revaluation Reserve | 44 | |
| | **63** | **Net written out amount of the cost of non-current assets consumed in the year** | | **44** |
| | | Capital financing applied in the year: | | |
| - | | • Use of the Capital Receipts Reserve to finance new capital expenditure | 123 | |
| 249 | | • Capital grants and contributions credited to the CIES that have been applied to capital financing | 177 | |
| - | | • Application of grants to capital financing from the Capitals Grants Unapplied Account | 152 | |
| 297 | | • Capital expenditure charged against the General Fund | 230 | |
| 42 | | • Statutory provision for the financing of capital investment charged against the General Fund (Minimum Revenue Provision) | 42 | |
| | **588** | **Total** | | **724** |
| | **12,167** | **Balance at 31 March** | | **11,378** |

## Pensions Reserve

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

| 31.3.2017<br>£000 | Pensions Reserve | 31.3.2018<br>£000 |
|---:|---|---:|
| **(20,163)** | **Balance at 1 April** | **(26,368)** |
| (5,780) | Actuarial gains or (losses) on pension assets and liabilities | 2,866 |
| (1,328) | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES | (1,797) |
| 903 | Employer's pensions contributions and direct payments to pensioners payable in the year | 919 |
| **(26,368)** | **Balance at 31 March** | **(24,380)** |

## Available for Sale Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. 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

| 31.3.2017<br>£000 | Available for Sale Financial Instruments Reserve | 31.3.2018<br>£000 |
|---:|---|---:|
| **-** | **Balance at 1 April** | **-** |
| - | Upward revaluation of assets | - |
| - | Downward revaluation of investments not charged to the Surplus/(Deficit) on the Provision of Services | (16) |
| **-** | **Balance at 31 March** | **(16)** |

## Council Tax Collection Fund Adjustment Account

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

| 31.3.2017 £000 | Council Tax Collection Fund Adjustment Account | 31.3.2018 £000 |
|---:|---|---:|
| **361** | **Balance at 1 April** | **208** |
| (153) | 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 | (99) |
| **208** | **Balance at 31 March** | **109** |

## Business Rates Collection Fund Adjustment Account

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

| 31.3.2017 £000 | Business Rates Collection Fund Adjustment Account | 31.3.2018 £000 |
|---:|---|---:|
| **(607)** | **Balance at 1 April** | **161** |
| 768 | 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* | (100) |
| **161** | **Balance at 31 March** | **61** |

*See Note on Business Rates appeals in the Narrative Statement

**Accumulated Absences Account**

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

| 31.3.2017 £000 | 31.3.2017 £000 | Accumulated Absences Account | 31.3.2018 £000 | 31.3.2018 £000 |
|---|---|---|---|---|
| | **(72)** | **Balance at 1 April** | | **(74)** |
| 72 | | Settlement or cancellation of accrual made at the end of the preceding year | 74 | |
| (74) | | Amounts accrued at the end of the current year | (77) | |
| | **(2)** | 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 | | **(3)** |
| | **(74)** | **Balance at 31 March** | | **(77)** |

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

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| (448) | Depreciation | (468) |
| - | Impairment & downward valuations | (626) |
| (42) | Amortisation | (54) |
| 389 | (Increase)/decrease in Debtors | 861 |
| (160) | Increase/(decrease) in Creditors | 709 |
| (425) | Movement in pension liability | (878) |
| - | Other non-cash items charged to the net surplus or deficit on the provision of services | (122) |
| **(686)** | **Total** | **(578)** |

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

| **2016/17 £000** | | **2017/18 £000** |
|---:|---|---:|
| 502 | Capital Grants credited to the net surplus or deficit on the provision of services | 342 |
| (4,000) | Proceeds from short-term and long-term investments | 0 |
| - | Other non-cash items charged to the net surplus or deficit on the provision of services | 18 |
| **(3,498)** | **Total** | **360** |

## 22. CASH FLOW STATEMENT – INVESTING ACTIVITIES

| **2016/17 £000** | | **2017/18 £000** |
|---:|---|---:|
| 134 | Purchase of Property, Plant and Equipment, Investment Properties and Intangible Assets | 2,749 |
| - | Purchase of short and long term investments | 3,500 |
| - | Other payments for investing activities | (140) |
| - | Proceeds from the sale of Property, Plant and Equipment, Investment Properties & Intangible Assets | (18) |
| (414) | Other receipts from investing activities (capital grants & contributions) | (440) |
| **(280)** | **Net cash flows from investing activities** | **5,651** |

## 23. CASH FLOW STATEMENT – FINANCING ACTIVITIES

| **2016/17 £000** | | **2017/18 £000** |
|---:|---|---:|
| 0 | Cash receipts of short and long term borrowing | (2,650) |
| 451 | Other receipts from financing activity | 767 |
| **451** | **Total** | **(1,883)** |

## 24. 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, West Devon Borough Council (WDBC), South Hams District Council (SHDC) 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 the Devon Building Control Partnership (DBCP) to the three Council areas. This agreement saw the transfer of all staff who had DBCP responsibilities from WDBC or SHDC to TDC. WDBC and SHDC retain an active participation in the controlling Devon Building Control Partnership Committee.

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

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

## 25. BUSINESS IMPROVEMENT DISTRICTS

The Tavistock Business Improvement District (BID) was set up in Tavistock on the 1st September 2011 for the purpose of providing additional services or improvements to the Tavistock BID area. The BID is funded in part by a levy which is based on the rateable value of each property within the BID area and this is charged in addition to the non-domestic rates. West Devon Borough Council acts as agent for the BID Company.

## 26. AGENCY SERVICES

(a) The Authority collects land charge search fees on behalf of Devon County Council. These fees are reimbursed to the County Council on a periodic basis. The amount collected was £19,951 in 2017/18 (£15,279 in 2016/17).

(b) The Authority acts as an agent for Devon County Council, Devon and Cornwall Police Authority and Devon & Somerset Fire & Rescue Authority in the collection of council tax and for Central Government for the collection of Non Domestic Business Rates. Details can be found in Section 4 - The Collection Fund.

(c) Under the provisions of The Business Improvements Districts (England) Regulations 2004, the Authority provides agency services for the Tavistock BID.

## 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 at:

https://www.westdevon.gov.uk/article/3661/Councillor-Allowances-and-Annual-Attendance-

| 2016/17 £000 | | 2017/18 £000 |
|---:|---|---:|
| 187 | Allowances | 187 |
| 18 | Expenses | 16 |
| **205** | **Total** | **203** |

## 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.

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

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

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

| Post | Year | Salary, Fees and Allowances £ | Expenses £ | Pension Contribution £ | Total £ |
|---|---|---|---|---|---|
| **Executive Director Head of Paid Service – left 18.2.18** | 17/18 | 92,231 | 1,542 | 11,660 | **105,433** |
| | 16/17 | 97,869 | 864 | 11,940 | **110,673** |
| **Strategic Finance Lead & S151 Officer** | 17/18 | 56,710 | - | 7,543 | **64,253** |
| | 16/17 | 58,092 | - | 7,087 | **65,179** |
| **Commercial Services Group Manager** | 17/18 | 72,720 | 4,219 | 9,672 | **86,611** |
| | 16/17 | 69,667 | 2,253 | 8,499 | **80,419** |
| **Business Development Group Manager** | 17/18 | 62,452 | 2,722 | 8,306 | **73,480** |
| | 16/17 | 61,610 | 3,054 | 7,517 | **72,181** |
| **Monitoring Officer (0.9FTE)** | 17/18 | 49,714 | 90 | 6,612 | **56,416** |
| | 16/17 | 49,222 | 383 | 6,005 | **55,610** |
| **Commissioning Manager** | 17/18 | 48,220 | 1,942 | 6,413 | **56,575** |
| | 16/17 | - | - | - | **-** |
| **Operational Manager (Environmental Services)** | 17/18 | 49,043 | 1,744 | 6,523 | **57,310** |
| | 16/17 | - | - | - | **-** |

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

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

**Note B: Senior Leadership Team Interim arrangements**
In February 2018, the Executive Director for Strategy and Commissioning and Head of Paid Service left the employment of West Devon Borough Council. Due to the scale of the challenges ahead for the Council, Members felt that it was important that the Council retained stability and continuity in its strategic leadership and senior management capacity.

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

## 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:

| | **2016/17 £000** | **2017/18 £000** |
|---|---|---|
| **Fees payable with regard to external audit services** | **44** | **45** |
| Core Audit Fees | 39 | 39 |
| Audit of Grants and Returns | 5 | 6 |
| **Rebate from Public Sector Audit Appointments Ltd** | **-** | **(6)** |
| **TOTAL** | **44** | **39** |

## 30. GRANT INCOME

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

| | 2016/17 £000 Restated* | 2017/18 £000 |
|---|---|---|
| **Credited to Taxation and Non Specific Grant Income** | | |
| **Capital grants and contributions:** | | |
| MHCLG – Disabled Facilities Grants* | (402) | (279) |
| **Non ring - fenced Government grants and contributions:** | | |
| Revenue Support Grant | (627) | (227) |
| New Homes Bonus Grant | (1,745) | (961) |
| Small Business Rate Relief | (367) | (738) |
| Rural Services Delivery Grant | (462) | (373) |
| Transition Grant | (31) | (31) |
| **Total** | **(3,634)** | **(2,609)** |
| **Credited to Services** | | |
| Rent Allowance subsidy | (13,440) | (13,105) |
| Housing Benefit administration subsidy | (218) | (201) |
| Rent rebate subsidy | (55) | (44) |
| Flexible Homelessness Support Grant | - | (92) |
| Discretionary housing payments | (112) | (193) |
| Business Rates cost of collection allowance | (85) | (84) |
| MHCLG - Community Housing Fund | (248) | - |
| REFCUS grants applied* | - | - |
| Section 106 deposits | (2) | (103) |
| Recycling credits | (301) | (260) |
| Electoral Commission - General Elections, Referendum and Police & Crime Commissioners | (202) | (162) |
| County Council Elections | - | (100) |
| Other grants | (152) | (167) |
| **Total** | **(14,815)** | **(14,511)** |

*The 2016/17 revenue grants and capital grants have been restated to reflect the correct accounting treatment of REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants. Please see Note 38 – Prior Period Restatement for further information.

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

| **Capital Grants Receipts in Advance** | **31 March 2017 £000** | **31 March 2018 £000** |
|---|---:|---:|
| Land Stabilisation | (10) | (10) |
| Hayedown | (20) | (20) |
| Batheway Fields | - | (158) |
| Other Section 106s | (412) | (454) |
| **Total** | **(442)** | **(642)** |

## 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 2017/18 is shown in Note 27.

## 32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

| **Summary of Capital Expenditure and Financing (incorporating the Capital Financing Requirement)** | **2016/17** <br> **£000** | **2017/18** <br> **£000** |
|---|---:|---:|
| ***Opening Capital Financing Requirement*** | ***1,758*** | ***1,716*** |
| **Capital Investment** | | |
| Property, Plant and Equipment | - | 1,816 |
| Intangible Assets | 35 | 90 |
| Revenue expenditure funded from capital under statute (REFCUS) | 413 | 375 |
| Assets under Construction | 99 | 933 |
| **Total expenditure for capital purposes** | **547** | **3,214** |
| **Sources of Finance** | | |
| Capital receipts | - | (126) |
| Capital grants and external contributions | (250) | (291) |
| Earmarked reserves | (297) | (231) |
| **Total funding** | **(547)** | **(648)** |
| | | |
| **Minimum Revenue Provision** | **(42)** | **(42)** |
| | | |
| ***Closing Capital Financing Requirement*** | ***1,716*** | ***4,240*** |
| | | |
| ***Movement in Capital Financing Requirement*** | ***(42)*** | ***2,524*** |
| | | |
| **Explained by:** | | |
| Minimum Revenue Provision | (42) | (42) |
| Underlying need to borrow | - | 2,566 |

## 33. LEASES

### Authority as Lessee

The Authority has, in the past, acquired some assets through operating leases. These have included vehicles and printers. However, all remaining material operating leases have ceased and no lease payments have been made since 2009/10.

### Authority as Lessor

The Authority leases approximately 65 industrial units and commercial properties to external organisations. Income totalling £258,000 has been received in respect of these properties during 2017/18. The gross value of assets held for use in operating leases was £3m as at 31 March 2018.

The authority has also granted a lease to the Wharf Building. The lease is for 35 years from December 1994 and was originally granted to The Wharf Community Arts Centre Limited but has now been transferred to CAM (The Wharf) Limited. The arrangement is accounted for as an operating lease and a peppercorn rent is charged.

## 34. EXIT PACKAGES AND TERMINATION BENEFITS

There were no exit packages in 2017/18 (nil in 2016/17). In addition, West Devon Borough Council has not contributed towards exit packages in South Hams District Council in 2017/18 (nil in 2016/17).

## 35. DEFINED BENEFIT PENSION SCHEMES

### Participation in Pension Schemes

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

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

The administering authority for the Fund is Devon County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2019 is £837,000. The Actuary has estimated the duration of the Employer's liabilities to be 19 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.

### Service Cost

Of particular note is the substantial movement in the service cost from 2016/17. The increase in 2017/18 is due to a combination of factors which include the discount rate used, inflation and the cost of settlements. Firstly, the reduction in the discount rate increases the cost of service as there is an adverse movement between the benefits that members will have accrued

compared with the returns that are anticipated at the discount rate. Secondly, the increase in inflation in 2017/18 increases the benefits members will have accrued from their services.
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:

| **Comprehensive Income and Expenditure Statement** | **2016/17 £000** | **2017/18 £000** |
|---|---|---|
| **Cost of Services** | | |
| *Service cost compromising* | | |
| - Current Service Cost | 604 | 1,083 |
| *Financing and Investment Income and Expenditure* | | |
| - Net Interest Expense | 710 | 700 |
| - Administration Expenses | 14 | 14 |
| **Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services** | **1,328** | **1,797** |
| **Other post-employment benefits charged to the comprehensive income and expenditure statement** | | |
| *Re-measurement of the net defined benefit liability compromising;* | | |
| - Change in financial assumptions | (10,701) | 2,502 |
| - Change in demographic assumptions | 292 | - |
| - Experience loss/(gain) | 1,780 | - |
| - Return on fund assets in excess of interest | 3,141 | 364 |
| - Other actuarial gains/(losses) on assets | (292) | - |
| ***Total re-measurement recognised*** | **(5,780)** | **2,866** |
| **Total post-employment benefits charged to the Comprehensive income and expenditure statement** | **(4,452)** | **4,663** |
| *Movement in Reserves Statement* | | |
| - Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code | (1,328) | (1,797) |
| *Actual amount charged against the General Fund Balance for pensions in the year* | | |
| - Employers contributions payable to scheme | 807 | 919 |

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

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

| **Net Pension Liability** | **31 March 2017 £000** | **31 March 2018 £000** |
|---|---|---|
| Present value of the defined benefit obligation | 51,277 | 49,998 |
| Fair value of Fund assets | (25,921) | (26,558) |
| **Deficit / (Surplus)** | **25,356** | **23,440** |
| Present value of unfunded obligation | 1,012 | 940 |
| **Net defined benefit liability / (asset)** | **26,368** | **24,380** |

| **Reconciliation of opening and closing balances of the fair value of Fund assets** | **31 March 2017 £000** | **31 March 2018 £000** |
|---|---|---|
| **Opening fair value of Fund assets** | **22,827** | **25,921** |
| Interest on assets | 812 | 694 |
| Return on assets less interest | 3,141 | 364 |
| Other actuarial gains/ (losses) | (292) | - |
| Administration expenses | (14) | (14) |
| Contributions by employer including unfunded | 903 | 919 |
| Contributions by Scheme participants | 166 | 180 |
| Estimated benefits paid plus unfunded net of transfers in | (1,622) | (1,506) |
| **Closing fair value of Fund assets** | **25,921** | **26,558** |
| **Reconciliation of opening and closing balances of the present value of the defined benefit obligation** | **31 March 2017 £000** | **31 March 2018 £000** |
| **Opening defined benefit obligation** | **42,990** | **52,289** |
| Current service cost | 604 | 1,083 |
| Interest cost | 1,522 | 1,394 |
| Change in financial assumptions | 10,701 | (2,502) |
| Change in demographic assumptions | (292) | - |
| Experience loss / (gain) on defined benefit obligation | (1,780) | - |
| Estimated benefits paid net of transfers in | (1,536) | (1,428) |
| Past service costs, including curtailments | - | - |
| Contributions by Scheme participants | 166 | 180 |
| Unfunded pension payments | (86) | (78) |
| **Closing defined benefit obligation** | **52,289** | **50,938** |

**Basis for estimating assets and liabilities**

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

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

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

The major assumptions are summarised in the following table:

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

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

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 | 50,020 | 50,938 | 51,874 |
| Projected service cost | 921 | 948 | 976 |
| Adjustment to long term salary increase | +0.1% | 0.0% | (0.1%) |
| Present value of total obligation | 51,014 | 50,938 | 50,862 |
| Projected service cost | 948 | 948 | 948 |
| Adjustment to pension increases and deferred revaluation | +0.1% | 0.0% | (0.1%) |
| Present value of total obligation | 51,799 | 50,938 | 50,092 |
| Projected service cost | 976 | 948 | 921 |
| Adjustment to life expectancy assumptions | + 1 Year | None | -1 Year |
| Present value of total obligation | 52,964 | 50,938 | 48,992 |
| Projected service cost | 978 | 948 | 919 |

The estimated asset allocation for West Devon Borough Council as at 31 March 2018 is as follows:

| **Employer asset share** | **31 March 2017** | | **31 March 2018** | |
|---|---|---|---|---|
| | **£000** | **%** | **£000** | **%** |
| Gilts | 773 | 3% | 833 | 3% |
| UK equities | 6,233 | 24% | 5,694 | 22% |
| Overseas equities | 9,014 | 34% | 9,829 | 37% |
| Property | 2,268 | 9% | 2,471 | 9% |
| Infrastructure | 1,009 | 4% | 953 | 4% |
| Target return portfolio | 3,849 | 15% | 3,966 | 15% |
| Cash | 692 | 3% | 649 | 2% |
| Other bonds | 662 | 3% | 543 | 2% |
| Alternative assets | 1,421 | 5% | 1,443 | 5% |
| Private equity | - | - | 177 | 1% |
| **Total** | **25,921** | **100%** | **26,558** | **100%** |

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

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

## 36. CONTINGENT LIABILITIES

The Council had no contingent liabilities at 31 March 2018.

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

### Key Risks

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

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

### Overall Procedures for Managing Risk

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

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

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 and is available on the Council's website.

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

Credit risk

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

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

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

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

On 5 December 2017, the Council revised its Treasury Management Strategy for 2017/18, to include the proposals within the Council's Commercial Property Acquisition Strategy. The Council's Borrowing Limits were increased by £37.45 million to reflect this.

At Council in February 2017, it was approved (minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in April 2017.

The Council's Counterparty limits are as follows:

- £3 million for Money Market Funds
- £0.5 million on CCLA Property Investment Fund
- £3 million on term deposits with banks and building societies with the UK (£4 million with Lloyds Bank)

No breaches of the Council's counterparty criteria occurred during the reporting period.

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2018 and is reflected in the current figure of £577,000. This compares to £624,000 in 2016/17. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 14 to the accounts.

Liquidity risk

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 15 to the accounts.

This seeks to ensure that cash is available when needed.

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

Market Risk

*Interest rate risk*

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

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

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

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

From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Finance team will monitor markets and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

*Price risk*

The Council has an investment of £0.5 million in the CCLA Local Authorities Property Fund which is classified as 'available for sale'. At the end of each financial year the value of the local authority's investment is adjusted to equal the number of units held, multiplied by the published bid price, with gain or loss taken to the Available for Sale Reserve. Movements in the unit price therefore have no impact on the General Fund until the investment is sold or impaired.

*Foreign exchange risk*

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

Refinancing and Maturity Risk

The Authority maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

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

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

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

| | Approved minimum limits | Approved maximum limits | Actual 31 March 2017 £million | Actual 31 March 2017 % | Actual 31 March 2018 £million | Actual 31 March 2018 % |
|---|---|---|---|---|---|---|
| Less than 1 year | 0% | 10% | 0 | 0 | 0 | |
| Between 1 and 2 years | 0% | 10% | 0 | 0 | 0.272 | 5.7 |
| Between 2 and 5 years | 0% | 30% | 0 | 0 | 0.849 | 17.9 |
| Between 5 and 10 years | 0% | 50% | 0 | 0 | 1.529 | 32.2 |
| More than 10 years | 0% | 100% | 2.1 | 100 | 2.1 | 44.2 |
| **Total** | | | **2.1** | **100** | **4.75** | **100** |

## 38. PRIOR PERIOD RESTATEMENT

The 2016/17 Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding Analysis (EFA) have been restated to reflect the accounting treatment of REFCUS (Revenue Expenditure Funded from Capital Under Statute) grants under the CIPFA Code. In the 2016/17 Statement of Accounts £250,000 was reflected in the gross income in the Cost of Services (Customer First) with a corresponding reduction in Capital Grants. There is no overall impact on the 'surplus on the provision of services'; the 2016/17 balance remains at £1,432,000. The restatement is purely for presentational purposes and has no impact on the Balance Sheet.

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

| **CIES – net expenditure** | **Pre-Restatement Values as at 31 March 17** | **Impact of 2016/17 Restatement** | **Restated Values as at 31 March 17** |
|---|---:|---:|---:|
| | **£000** | **£000** | **£000** |
| **Customer First** | 2,166 | 250 | 2,416 |
| **Cost of Services (sub total)** | 6,809 | 250 | 7,059 |
| **Taxation and non specific grant income** | (10,235) | (250) | (10,485) |
| **Surplus on Provision of Services** | **(1,432)** | **-** | **(1,432)** |

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

| **EFA – adjustments between funding and accounting basis** | **Pre-Restatement Values as at 31 March 17** | **Impact of 2016/17 Restatement** | **Restated Values as at 31 March 17** |
|---|---:|---:|---:|
| | **£000** | **£000** | **£000** |
| **Customer First** | 378 | 250 | 628 |
| **Net Cost of Services (sub total)** | 357 | 250 | 607 |
| **Other income and expenditure** | (382) | (250) | (632) |
| **Surplus on Provision of Services** | **(25)** | **-** | **(25)** |

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

| **Grant Income** | **Pre-Restatement Values as at 31 March 17** | **Impact of 2016/17 Restatement** | **Restated Values as at 31 March 17** |
|---|---:|---:|---:|
| | **£000** | **£000** | **£000** |
| **MHCLG – Disabled Facilities Grants** | **(152)** | **(250)** | **(402)** |
| **Credited to Services - REFCUS grants applied** | **(250)** | **250** | **-** |

## 39. ACCOUNTING POLICIES

### a) General Principles

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

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

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

### b) Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract

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

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

### c) <u>Cash and Cash Equivalents</u>

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

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

***Key: T = trade date***

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

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

### d) <u>Material items of Income and Expense</u>

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

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

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

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

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

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

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

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

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

**g) <u>Employee Benefits</u>**

**Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

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

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

**Post-Employment Benefits**

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

**The Local Government Scheme**

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

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

- Liabilities are discounted to their value at current prices, using a discount rate.

- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value.

For further information please refer to Note 35.

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

- **Service cost comprising:**
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- **Re-measurements comprising:**
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- contributions paid to the Devon County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

**Discretionary Benefits**

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

**h) <u>Events after the Reporting Period</u>**

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

Two types of events can be identified:

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

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

## i) Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

### Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments (the Council does not currently hold any available-for-sale assets).

### Loans and Receivables

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

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

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

**Fair Value**

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

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

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date.

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 – unobservable inputs for the asset or liability.

**Recognition and measurement of financial instruments**

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

| Financial Instrument | Basis of Measurement | Note |
|---|---|---|
| Investments – Fixed Rate | Carrying amount adjusted for interest owed at year end | Investments have both fixed term and fixed interest rates |
| Investments – Other | Held at carrying value on basis of materiality | See also accounting policy on cash equivalents |
| Operational debtors | Held at invoiced or billed amount less an estimate for non-collection of debts | Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate. The carrying amount has been adjusted for an assessment of bad debts. See Note 37 within 'credit risk' for further information |
| Operational creditors | Held at invoiced or billed amount | Carrying amount is a reasonable approximation of fair value for these short term liabilities |

## j) Government Grants and Contributions

**General**

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

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

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

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

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

A Business Improvement District (BID) scheme operates in Tavistock. This scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as an agent for the Tavistock BID Company, the Council is the billing authority and collects the levy on the BID company's behalf. No income or expenditure is included in the Comprehensive Income and Expenditure Statement, and any cash balance collected by the Council but not yet paid to the BID company at the year end is carried in the Balance Sheet as a creditor.

### k) Heritage Assets

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

### l) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority. As with Property, Plant and Equipment a de minimis level of £10,000 has been set for capitalisation.

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

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

### m) Inventories

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

**n) Investment Properties**

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

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

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

**o) Jointly Controlled Operations**

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

**p) Leases**

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

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

**The Authority as Lessee**

Finance Leases

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

Operating Leases

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

**The Authority as Lessor**

Finance Leases

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

Operating Leases

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

**q) Overheads and Support Services**

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

**r) Property, Plant and Equipment**

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

**Recognition**

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

**Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

## De minimis policy for capital controls and accounting purposes

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

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

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

## Component Accounting

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

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

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

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

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

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

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

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

The criteria for components to be separately valued are that:

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

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

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

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

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

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

- Plant and equipment and engineering services
- Structure

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

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

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

**Impairment**

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

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

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

**Depreciation**

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

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

| **Asset** | **Useful life** |
|---|---|
| Buildings | Sixty years |
| Infrastructure | Twenty years |
| Refuse vehicles | Seven years |
| Light vans | Five years |
| IT equipment | Four years |

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

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

**Disposals and Non-current Assets Held for Sale**

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

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

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

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

**Provisions**

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

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

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

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

**Contingent Liabilities**

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

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

**Contingent Assets**

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

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

**t) <u>Reserves</u>**

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

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

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

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

### v) Section 106 Deposits

Developer contributions are initially treated as Capital Receipts in Advance unless a clear capital use is identified in the terms of the agreement, in which case they are defined as Capital Contributions Unapplied.

### w) Shared Services

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

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

### x) VAT

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

### y) Accounting for Local Taxes

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

**Accounting for Council Tax and Business Rates**

The council tax and business rates income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and business rates that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and business rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

**z) <u>Minimum Revenue Provision</u>**

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.

## 40. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

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

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

### IFRS9 Financial Instruments

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

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

At Council in February 2017, it was approved (minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund (LAPF), with the investment being placed in April 2017. Any fair value gains or losses will be credited or debited to the Surplus/Deficit on the Provision of Services in the Consolidated Income and Expenditure Statement as they arise, however this is not thought to be material for the Council.

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

### IFRS 15 Revenue from Contracts with Customers

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

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

## 41. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 39, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs.

- The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this information an assessment was made about the likely success rate of appeals and their value.

**COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2018**

This account reflects the statutory requirements for the Council as a billing authority to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

| **2016/17 Business Rates £000** | **2016/17 Council Tax £000** | | **2017/18 Business Rates £000** | **2017/18 Council Tax £000** |
|---:|---:|---|---:|---:|
| | | **INCOME** | | |
| - | (35,295) | Income from Council Tax | - | (37,093) |
| (10,738) | - | Business Rates Receivable | (9,970) | - |
| 142 | - | Transitional Relief | (416) | - |
| **(10,596)** | **(35,295)** | | **(10,386)** | **(37,093)** |
| | | **EXPENDITURE** | | |
| | | **Precepts, Demands and Shares:** | | |
| 5,339 | - | Central Government | 5,124 | - |
| 961 | 23,830 | Devon County Council | 922 | 25,293 |
| - | 3,411 | Devon & Cornwall Police Authority | - | 3,517 |
| 107 | 1,578 | Devon & Somerset Fire Authority | 103 | 1,627 |
| 4,271 | 5,440 | West Devon Borough Council (net including Towns/Parishes) | 4,099 | 5,642 |
| 114 | - | Business Rates written off and change in impairment allowance | 3 | - |
| - | 230 | Council Tax written off and change in impairment allowance | - | 506 |
| (800) | - | Business Rates increase/(decrease) in provision for appeals | 267 | - |
| 85 | - | Business Rates – Costs of collection | 84 | - |
| | | Distribution/collection of previous year's estimated surplus/(deficit): | | |
| (701) | - | Central Government | 17 | - |
| (126) | 1,211 | Devon County Council | 3 | 778 |
| - | 177 | Devon and Cornwall Police | - | 111 |
| (14) | 82 | Devon and Somerset Fire Authority | - | 52 |
| (560) | 280 | West Devon Borough Council | 14 | 178 |
| **8,676** | **36,239** | | **10,636** | **37,704** |
| **(1,920)** | **944** | **MOVEMENT ON BALANCE** | **250** | **611** |

## 1. COUNCIL TAX AND COUNCIL TAX BASE

In 2017/18, the Council's average Band D Council Tax was £1,808.61. The charge for each band is a ratio of band D. The 2017/2018 charges therefore were:

| Band | Ratio to Band D | Council Tax (£) |
|---|---|---|
| **Disabled A** | 5/9 | 1,004.78 |
| **A** | 6/9 | 1,205.74 |
| **B** | 7/9 | 1,406.70 |
| **C** | 8/9 | 1,607.65 |
| **D** | 1 | 1,808.61 |
| **E** | 11/9 | 2,210.52 |
| **F** | 13/9 | 2,612.44 |
| **G** | 15/9 | 3,014.35 |
| **H** | 18/9 | 3,617.22 |

These charges are before any appropriate discounts or benefits. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2017/18 was **19,948.77** as calculated below (19,733.41 in 2016/17).

| Band | Dwellings per Valuation List | Adjustment for Disabled Banding Appeals, Discounts and Exemptions | Revised Dwellings | Ratio to Band D | Band D Equivalent |
|---|---|---|---|---|---|
| **Dis A** | | 8.75 | 8.75 | 5/9 | 4.86 |
| **A** | 3,440.00 | (581.50) | 2,858.50 | 6/9 | 1,905.67 |
| **B** | 6,381.00 | (713.00) | 5,668.00 | 7/9 | 4,408.44 |
| **C** | 5,294.00 | (474.75) | 4,819.25 | 8/9 | 4,283.78 |
| **D** | 4,121.00 | (309.50) | 3,811.50 | 1 | 3,811.50 |
| **E** | 3,334.00 | (221.00) | 3,113.00 | 11/9 | 3,804.78 |
| **F** | 1,761.00 | (70.75) | 1,690.25 | 13/9 | 2,441.47 |
| **G** | 1,013.00 | (81.00) | 932.00 | 15/9 | 1,553.33 |
| **H** | 82.00 | (8.75) | 73.25 | 18/9 | 146.50 |
| **Total** | **25,426.00** | **(2,451.50)** | **22,974.50** | | **22,360.33** |
| Less allowance for non-collection | | | | | (670.81) |
| Plus adjustment for armed forces dwellings | | | | | 20.50 |
| Other adjustments including Council Tax Support | | | | | (1,761.25) |
| **Tax base** | | | | | **19,948.77** |

## 2. Rateable value

The total business rates rateable value at 31 March 2018 was £32,137,924. This compares to £29,011,191 at 31 March 2017. The standard business rates multiplier was 49.3p in 2017/18 (2016/17: 49.7p). Without reliefs this would generate a total income of £15,843,996.53 (2016/17 £14,418,561.93). These figures are a snapshot only and differ from the value of business rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

## 3. Collection fund balance

| 2016/17 Business Rates £000 | 2016/17 Council Tax £000 | | 2017/18 Business Rates £000 | 2017/18 Council Tax £000 |
|---:|---:|---|---:|---:|
| 1,518 | (2,256) | Fund balance at 1 April | (402) | (1,312) |
| (1,920) | 944 | Deficit/(surplus) for year* | 250 | 611 |
| **(402)** | **(1,312)** | **Fund balance as at 31 March – deficit/(surplus)*** | **(152)** | **(701)** |

*The increase in the provision for Business Rates appeals and the subsequent impact on the Business Rates Collection Fund is explained in note 40 – Critical Judgements in Applying Accounting Policies.

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

| 2016/17 Business Rates £000 | 2016/17 Council Tax £000 | | 2017/18 Business Rates £000 | 2017/18 Council Tax £000 |
|---:|---:|---|---:|---:|
| (201) | - | Central Government | (76) | - |
| (36) | (913) | Devon County Council | (13) | (492) |
| - | (130) | Devon and Cornwall Police | - | (68) |
| (4) | (61) | Devon and Somerset Fire Authority | (2) | (32) |
| **(241)** | **(1,104)** | **Total deficit/(surplus) due to Preceptors** | **(91)** | **(592)** |
| (161) | (208) | West Devon Borough Council | (61) | (109) |
| **(402)** | **(1,312)** | **Fund balance as at 31 March – deficit/(surplus)** | **(152)** | **(701)** |

## *The Authority's responsibilities*

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Section 151 Officer & Strategic Finance Lead

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets

- 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 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 of Practice
- 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 its income and expenditure for the year ended 31 March 2018.

**……………………………………………….**

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

**24 July 2018**

# *Approval of the Statement of Accounts*

I confirm that these accounts were approved by the Audit Committee as its meeting held on 24 July 2018.

Signed on behalf of West Devon Borough Council

**…………………………………………………**

**Councillor M Davies**

Chairman of the Audit Committee

*SECTION 6. AUDITORS' REPORT*

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST DEVON BOROUGH COUNCIL

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of West Devon Borough Council ('the Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Collection Fund and the related notes, including the accounting policies in note 39.

In our opinion the financial statements:

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

### Basis for opinion

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

### Going concern

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

### Other information published with the financial statements

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

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

### Section 151 Officer & Strategic Finance Lead's responsibilities

As explained more fully in the statement set out on page 110, the Section 151 Officer & Strategic Finance Lead is responsible for: the preparation of the Authority's 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 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

**Auditor's responsibilities**

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

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

**REPORT ON OTHER LEGAL AND REGULATORY MATTERS**

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

**Conclusion**

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

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether West Devon Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether West Devon Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

**Statutory reporting matters**
The Code of Audit Practice requires us to report to you if:

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

We have nothing to report in these respects.

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

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

**CERTIFICATE OF COMPLETION OF THE AUDIT**

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

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

## GLOSSARY OF TERMS

| | |
|---|---|
| **ACCRUALS** | A sum included in the account to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts have been prepared. |
| **ACTUARIAL GAINS & LOSSES** | These are changes in actuarial deficits or surpluses that arise because either actual experience or events have not been exactly the same as the assumptions adopted at the previous valuation (experience gains and losses) or the actuarial assumptions have changed. |
| **BALANCES** | The surplus or deficit on any account at the end of the year. Amounts in excess of that required for day to day working may be used to reduce the demand on the Collection Fund. |
| **BUSINESS IMPROVEMENT DISTRICT (BID)** | A Business Improvement District is a partnership between a local authority and the local business community to develop projects and services that will benefit the trading environment within the boundary of a clearly defined commercial area. |
| **CAPITAL EXPENDITURE** | Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset. |
| **CAPITAL RECEIPTS** | Income received from sale of assets which is available to finance other capital expenditure or to repay debt on assets financed from loans. |
| **CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY** | The governing body responsible for issuing the statement of recommended practice to prepare the accounts. |
| **COLLECTION FUND** | A separate fund which must be maintained by a district for the proper administration of Council Tax and Non Domestic Rates. |
| **CURRENT SERVICE COST** | Amount chargeable to Services based on the Actuary’s assessment of pension liabilities arising and chargeable to the financial year. |

**CURTAILMENTS**

The amount the Actuary estimates as costs to the authority of events that reduce future contributions to the scheme, such as granting early retirement.

**DEFINED BENEFIT SCHEME**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

**DEMAND**

The charging authorities own Demand is, in effect, its precept on the fund.

**FAIR VALUE**

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

**FEES & CHARGES**

In addition to the income from charge payers and the Governments, Local Authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.

**FINANCIAL INSTRUMENTS**

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

**GOVERNMENT GRANTS**

Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.

**IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)**

Provisions against income to prudently allow for non collectable amounts.

**INTEREST COST**

For the pension fund this represents the discount rate at the start of the accounting period applied to the liabilities during the year based on the assumptions at the start of the accounting period.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) & THE CODE OF PRACTICE (CODE)**

Formal financial reporting standards adopted by the accounting profession and to be applied when dealing with specific topics within its accounting Code. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

**LIBID**

Acronym for the London Inter-bank Bid Rate, being the interest rate at which a market maker or underwriter will offer to buy bonds and securities.

**MINIMUM REVENUE PROVISION (MRP)**

This is a statutory requirement to make an annual calculation of an amount or MRP considered prudent to offset against borrowings made under the Prudential Borrowing rules.

**PAST SERVICE COST**

These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.

**PRECEPT**

The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.

**PROJECTED UNIT METHOD**

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases,
b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

**RATEABLE VALUE**

A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.

**REVENUE EXPENDITURE**

Recurring items of day to day expenditure consisting principally of Salaries and Wages, Debt Charges and general running expenses etc.

| | |
|---|---|
| **SETTLEMENTS** | A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability. |
| **STRAIN ON FUND CONTRIBUTIONS** | Additional employers pension contributions as a result of an employee's early retirement |
| **SUNDRY CREDITORS** | Amounts owed by the Authority at 31 March. |
| **SUNDRY DEBTORS** | Amounts owed to the Authority at 31 March. |

APPENDIX C

# West Devon Borough Council
# Annual Governance Statement
# 2017 – 2018

## 1. Scope of Responsibility

West Devon Borough 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, West Devon Borough 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. A Statutory Officers' Panel was set up in 2015 and a key role of this Panel is strategic risk management.

West Devon Borough Council and South Hams District 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.

In early 2015 a completely new leadership team were appointed to lead the organisation through the transformation programme, become more customer-focused, save money, and explore ways of generating income for the Council. The Councils have been led by a small leadership team consisting of two Executive Directors (one of whom holds the statutory position of Head of Paid Service) and four Group Managers. From February 2018 onwards, interim senior leadership arrangements have been put into place consisting of one Executive Director (Head of Paid Service) and four Group Managers.

The role of the Senior Leadership Team (SLT) is to implement the plans and policies to support the strategic direction of the Council as set by Members. The SLT are supported by an Extended Leadership Team (ELT). The ELT includes the principal people managers and professional lead officers in areas such as Housing, Planning, Environmental Health, Asset Management, Environment Services and Waste Operations and Support Services such as Finance, Legal, and Human Resources.

The Council's Group Manager (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. (Constitution Article 10)

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 West Devon Borough Council for the year ended 31 March 2018 and is expected to continue up to the date of approval of the Accounts by the Audit Committee.

This Statement explains how West Devon Borough 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 which 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 and Monitoring Officers 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 'IMPACT') to establish the right values and culture
- 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. It was last reviewed and adopted by Members in July 2016 and was reviewed by the Statutory Officers' Panel in July 2017.
- 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.
- 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 has been reviewed and agreed with the Unions in 2017-18. The Members Code of Conduct is due for review in 2018-19.
- The Overview and Scrutiny Committee 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 Committee in place with clear terms of reference.

## PRINCIPLE B - Ensuring openness and comprehensive stakeholder engagement

All Committee and Council meetings are open to the public, with papers available in advance on the Council's website (save where 'exempt' under the Local Government Act 1972 following formal evaluation of the public interest).

The Council also 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, optimising and achieving outcomes

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.

In March 2016 the Overview and Scrutiny Committee considered *West Devon Our Plan*, which is a single strategic document that sets out the vision, objectives and activities of the Council.

The link to the full report on Our Plan is set out below:

http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=223&MId=240&Ver=4

It brings together all strategies and plans and sets out a comprehensive story of what the Council wants to achieve through two blended and inter-related elements;

- The corporate plan establishing the Council's vision, objectives, priorities, actions and delivery approaches and
- The Local Plan establishing land use planning policies and allocations – the Council's work on the Joint Local Plan between Plymouth City, West Devon and South Hams is described further below:

The Council's Our Plan Themes and Objectives are:

- Economy – Creating places for enterprise to thrive and business to grow
- Homes – Enabling homes that meet the needs of all
- Infrastructure – Securing the services and facilities that meet the needs of our communities
- Communities – Empowering residents to create strong communities
- Wellbeing – Supporting positive safe and healthy lifestyles
- Environment – Protecting, conserving and enhancing our built and natural environment
- Heritage – Celebrating our past and protecting our heritage for the future
- Resources – Promoting energy efficiency and more effective use of our natural resources

On 24th April 2018, the Hub Committee considered new, refreshed and more focussed 5 year Corporate Strategy Themes which reflected the views of the Member led Corporate Strategy Task & Finish Group; and comments from all Member workshops and survey responses.

On this date, the Hub Committee also considered the Annual Report for 2017/18 which set out the Council's achievements for 2017/18, by each of the new Themes within the refreshed Corporate Strategy. These reports were approved by Council in May 2018 and are available on the Council's website.

In tandem, work has progressed to develop a Joint Local Plan between Plymouth City, West Devon and South Hams. The Joint Local Plan (JLP) sets out a strategy and detailed policies that establish a framework to steer housing and employment development to the most sustainable locations and to guide decisions on planning applications. The JLP has just gone through its public examination and at this stage we are confident that the plan will be supported by the Planning Inspectors and is on track to be adopted later this financial year.

The Council also undertakes the following to ensure it defines, optimises and achieves outcomes:

- Staff briefings led by Senior Leadership Team articulate the vision and new ways of working
- Regular consultation is undertaken on a range of issues

- Effective budgetary monitoring takes place regularly and is reported quarterly to Members
- Cashable savings identified in the T18 programme have been realised
- Performance management and reporting is embedded including quarterly reporting to the Overview and Scrutiny Committee
- Scrutiny teams have delivered tangible outcomes as highlighted in their Annual Report
- The Council regularly engages with other authorities to learn and understand how best practice has been delivered elsewhere.

## PRINCIPLE E - Developing capacity and capability

Staff throughout West Devon and South Hams perform well with sickness levels below the national average. HR policies allow a fair and positive relationship between employer and employee. Regular staff briefings and an online staff appraisal system ensures staff are up to speed with Council priorities. Employees are able to evidence their achievements and identify any training needs through the appraisal process.

The Councils are committed to providing opportunities to young people and currently have 2 apprentices.

The Council also undertakes the following to develop capacity and capability:

- Delivers an induction programme for Officers and Members
- Provides a Member training and development programme
- Promotes to staff the use of "Learning Pool" an extensive online learning resource
- Delivers focused training on specific issues (e.g. complaints, data protection)
- Extended Leadership Team development programme
- Works in partnership with local authorities and other bodies to achieve economies of scale
- Conducts a staff survey to gauge employee satisfaction and assist in improving how the organisation performs. The survey results have shown significant improvement over the past 3 years.
- The Council held its first Staff Awards in 2017/18 and this is intended to be an annual event

## PRINCIPLE F Managing risks and performance

There is a culture of risk ownership and management throughout the Council and in 2017/18, particular focus has been given to health and safety and information security.

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

The Council's Senior Leadership Team review the corporate risk log monthly and updates are reported to Elected Members via the Audit Committee on a biannual basis. Elected Members also have the opportunity to raise concerns with the mitigating actions being taken by officers, and can suggest new risks for consideration.

A Statutory Officers' Panel which meets quarterly has been set up comprising of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer with other key officers invited as appropriate. Its key roles are to ensure that the Council complies with, and manages:

- Governance frameworks
- Strategic risk management, and
- Regulatory framework

The Statutory Officers' Panel has important links with the Audit Committee and the Overview & Scrutiny Committee. It has a rolling programme of works which are set out in a Forward Plan. On 19th June 2018, the Audit Committee considered the Annual Report of the Statutory Officers' Panel.

As part of the Statutory Officer's Panel work programme in 2018-19, the Finance Procedure Rules will be updated and submitted to the Council's Audit Committee for review and approval.

All committee reports include reference where relevant to the potential impact on the Council's priorities and community plan 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).

With regards to managing performance throughout the year we have continued to improve performance to meet the needs of our customers. We have systematically reviewed areas of poor performance, streamlined processes, embedded new IT solutions and delivered staff training.

As a result we have seen a significant reduction in call volumes, an increase in transactions online and quicker turnaround times for planning and benefits.

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 Hub Committee

- Active performance management arrangements including quarterly reports to Overview & Scrutiny 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 Committee
- Freedom of Information requests are dealt with in accordance with established protocols

## PRINCIPLE G Implementing good practices in transparency, reporting, and 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 five 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.

External audit is provided by KPMG who in July 2018 reported that they were satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency, and effectiveness in its use of resources.

To further ensure transparency the council undertakes the following:

- Provide training to Members on the Overview and Scrutiny Committee on effective scrutiny practices
- Ensure all Member decisions are formally minuted
- 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 Executive Director informing the Hub Committee 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 Overview and Scrutiny Committee is responsible for performing a review function and on 26th June 2018 they will consider their Annual Report for 2017/18, which sets out a summary of the work programme they have considered for the 2017/18 year.

## Audit Committee

The Audit 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 Committee reviewed all aspects of the Council's strategic performance and resource management arrangements, including budgeting, accounting and treasury management.

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

West Devon'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 2017/18 was also considered by the Audit Committee on 19th June 2018. The report contained the Head of Internal Audit's Opinion for the 2017/18 year as stated below:-

**Overall and based on work performed during 2017/18, and that of our experience from previous year's audit, the Head of Internal Audit's Opinion is of "Significant 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 (KPMG) have issued their 'Audit progress' letter dated 9th March 2018, on the outcome of the planning and control evaluation phases of their audit. This was to ensure that, in line with good practice, any significant matters are reported to those charged with governance in a timely manner. Their letter states their audit work has gone smoothly and that they have not identified any significant issues. However KPMG did identify one non-significant control deficiency. This related to the fact that the completion of monthly benefit payment checks by officers was not being documented so as to evidence their completion.

The key messages from KPMG's External Audit report for 2017/18 (presented to the Audit Committee on 24th July 2018) were as follows:-

An unqualified audit opinion on the Accounts is anticipated to be issued before 31 July 2018. KPMG's audit of the Accounts did not identify any material misstatements to the Council's Accounts and they agreed a number of minor presentational and disclosure changes to the supporting notes to the Accounts.

No significant issues arose as a result of their work on the allocation of shared costs, the valuation of PPE, Pension Liabilities or Faster Close.

KPMG raised one recommendation around the year end property, plant and equipment processes. They noted that there was not a formally documented approach to revaluation review and impairment review.

The KPMG report stated that "The overall process for the preparation of the financial statements is good. The accounts were produced ahead of the deadline of 31 May and the first draft was of a high standard, despite the pressures brought by an earlier deadline".

**Value for Money (VFM) audit conclusion** – KPMG concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. An unqualified VFM conclusion is anticipated to be issued by 31 July 2018.

**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 Compliance Review of the Code of Corporate Governance***

| Issue Identified | Action to be Taken | Responsible Officer |
|---|---|---|
| **Closedown of T18 Transformation Programme**<br><br>In 2013, West Devon Borough Council and South Hams District Council embarked on an ambitious and challenging Transformation Programme (T18), to remodel how the Councils worked. This was in light of the acute combined funding gap (£4.7 million) the Councils were facing.<br><br>The T18 Closedown report is being presented to the Hub Committee on 5th June 2018.<br><br>The predicted final spend (£2.767million) is £63,000 less than the budget of £2.83 million. The total annual savings realised from the T18 Transformation Programme were £1.505 million per year. The largest element of these savings were staffing savings. Between 2014 and 2015, the majority of employees at both Councils went through a rigorous recruitment process and the workforce was reduced by 30%. The payback period of the Transformation Programme was just under 3 years. | T18 Closedown Report to be considered by the Hub Committee in June 2018.<br><br>Lessons learnt contained within the report are to be taken into account on future corporate projects.<br><br>A separate report is to be produced looking at the Civica implementation and the lessons learnt as a result. | Senior Leadership Team<br>S.151 Officer<br>Monitoring Officer<br>Internal Audit Manager<br>Timescale in line with the Programme.<br><br>Group Manager for Customer First and Support Services<br>October 2018 |

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

The system of internal control is described in section 2 above.

| Issue Identified | Action to be Taken | Responsible Officer & Target Date |
|---|---|---|
| ***The Joint Local Plan***<br><br>This year has seen the Council make good progress with the Joint Local Plan, by working together with South Hams District Council and Plymouth City Council.<br><br>The Joint Local Plan is a strategic planning document which sets out development and growth up until 2034 and will set home building and job targets for all three authorities. The plan has just gone through its public examination and at this stage, the Council is confident that the plan will be supported by the Inspectors and is on track to be adopted later this financial year. | A Joint Member Steering Group is in place to ensure that key decisions needing to be made are taken back to the individual Local Authorities. | Executive Director and Head of Paid Service<br><br>Target Date:<br>Adopt in the 2018/2019 year. |
| ***General Data Protection Regulation (GDPR)***<br><br>On 25th May 2018, the General Data Protection Regulation came into effect.<br><br>Work has been undertaken in respect of data protection/GDPR readiness and an audit completed.<br><br>Data Protection Officer (DPO) now named and is a member of the Senior Leadership Team (SLT). | All employees responsible for the adequacy of data security arrangements within their control. Access to electronic data is only available via Council managed devices.<br><br>All staff have been and new starters will be completing a data protection awareness course via the Council's new eLearning tool.<br>Continue to monitor arrangements in place. | Group Manager for Business Development<br><br>June 2018<br><br>September 2018 |

| Issue Identified | Action to be Taken | Responsible Officer & Target Date |
|---|---|---|
| ***Financial Uncertainty***<br>As Local Authorities experience reductions in funding, although West Devon Borough Council currently has a balanced budget, we must continue to review spending and monitor financial plans in order to balance future budgets in the face of the further government funding reductions.<br><br>A Medium Term Financial Strategy (MTFS) was presented to the Hub Committee on 18th July 2017, setting out the current position and was regularly updated throughout the 2018-19 Budget Setting process.<br><br>There is still more to be done but the Council is establishing a solid base from which to become more commercial in its approach to meeting the forecast budget gap of £0.75 million for next year (cumulative budget gap of £3.46 million by 2022/23), whilst protecting its much valued services.<br><br>In this financial climate, income generation becomes a key priority area.<br>Other initiatives in progress include:<br>• Income generation initiatives<br>• Business Rates Pilot<br>• Strategic Asset Review<br>Recycling, waste collection, street cleansing and grounds maintenance services are being market tested<br>A Members Financial Stability Review Group was set up in November 2017 and reported to the Hub Committee in March 18. | The Council will respond to Government consultations on:<br>i)Fair Funding Review<br>ii) Business Rates Growth Retention by 2020<br>iii)Negative Revenue Support Grant for 2019/20 onwards<br><br>Senior Leadership Team actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate, the learning from this is incorporated into strategic plans.<br><br>Members and the Senior Leadership Team have been actively involved in the development of the MTFS. A Members' Budget Consultation Workshop was held with all Members on 10th October 2017.<br>An all Member Workshop on the Medium Term Financial Strategy was held on 1st May 2018. The outcome of the workshop will inform the report to the Hub Committee in July 2018. The Members Financial Stability Review Group will report to each meeting of the Hub Committee in 2018/19. | Senior Leadership Team<br>S151 Officer<br>December 2018<br><br>Reports to Council at the end of July 2018<br><br>Five Year Medium Term Financial Strategy report in September 2018.<br><br>Government consultations will be responded to within their deadlines.<br><br>S151 Officer and Business Development Group Manager |

| Issue Identified | Action to be Taken | Responsible Officer & Target Date |
|---|---|---|
| **Review of key services – Peer Review**<br>Over the next 12 months we will be benchmarking our services and performance against others and have invited the Local Government Association to carry out a 'Peer Review'. The review is scheduled for September and the review team will be made up of senior members and officers from other leading and comparable Councils and they will assess our progress in the following areas;<br>• Review the various options to secure the financial sustainability of the Council<br>• Consider the resource pressures for the Council and the implication for the delivery of non-statutory services and how the Council may manage these services in the future<br>• Review the proposed plans for investment and commercial delivery<br>• Review the extent that the Council has embraced organisational change and the use of e-technology<br>• Review economic growth and housing and how the Council might deliver this. | Undertake a 'Peer Review' with the objectives as stated.<br><br>In addition, we will be working with key stakeholders and current contractors to ensure that front line services continue to perform at a high level and can be developed in the future.<br><br>Recycling, waste collection, street cleansing and grounds maintenance services are being market tested for quality, environmental suitability, cost and performance.<br><br>The FrontLine Services Project Board consists of relevant officers and three Members from each Council, who meet on a monthly basis to facilitate the waste procurement project. | Senior Leadership Team<br><br>By September 2018<br><br>Group Manager for Commercial Services and S151 Officer<br><br>By December 2018 |

| Issue Identified | Action to be Taken | Responsible Officer & Target Date |
|---|---|---|
| **Senior Leadership Team Interim arrangements**<br>In February 2018, the Executive Director for Strategy and Commissioning and Head of Paid Service left the employment of the Council. Due to the scale of the challenges ahead for the Council, Members felt that it was important that the Council retained stability and continuity in its strategic leadership and senior management capacity.<br>At a Council meeting in December 2017, Council approved that the Executive Director for Service Delivery and Commercial Development be designated the Head of Paid Service for an interim period of up to 18 months. It was also agreed to allocate additional responsibilities to members of the senior and extended leadership team on an interim basis. | Report to Council in Summer 2019 regarding the Senior Leadership Team structure | Executive Director and Head of Paid Service |
| **Internal and External Audit Reports**<br>Some issues have been identified in audit reports by the Council's shared in-house internal audit team and the Council's external auditor, KPMG.<br><br>Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed where appropriate. | 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. | Extended Leadership Team (ELT)<br>S151 Officer<br>Internal Audit Manager<br>In line with agreed timescales |

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 Committee.

**Signed:**

**Cllr P R Sanders**
**Leader of West Devon Borough Council**

**Signed:**

**Sophie Hosking**
**Executive Director and Head of Paid Service**

**On behalf of West Devon Borough Council**

**Date:** 24th July 2018

| | | | |
|---|---|---|---|
| Report to: | **Audit Committee** | | |
| Date: | **24th July 2018** | | |
| Title: | **Annual Treasury Management Report 2017/18** | | |
| Portfolio Area: | **Support Services – Councillor C Edmonds** | | |
| Wards Affected: | **ALL** | | |
| Urgent Decision: | **N** | Approval and clearance obtained: | **Y** |


| | | | |
|---|---|---|---|
| Author: | Lisa Buckle | Role: | **Finance Community of Practice Lead** |
| | Alex Walker | | **Finance Business Partner** |

Contact: **Email Lisa.buckle@swdevon.gov.uk 01803 861413**


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**Recommendations:**

**That the Audit Committee:**

1. **approves the actual 2017/18 prudential and treasury indicators in this report; and**
2. **notes the Annual Treasury Management report for 2017/18.**

## 1. Executive summary

Income from investments this year was £57,860 which is £12,461 lower than the budget of £70,321 at an average return of 0.42%. The comparable performance indicator (Benchmark) is the average 7-day LIBID rate which was 0.21%. Therefore the Council achieved 0.21% return on investments over the benchmark for 17/18.

## 2. Background

### Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Treasury management is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks "

During 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Minute AC 32)
- A mid-year (minimum) treasury update report (Minute CM 56)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues will be undertaken during 2018/19 in order to support Members' scrutiny role.

### The Economy and Interest Rates

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase

in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%. The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.
Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in **investment rates** from 3 – 12 months increasing sharply during the spring quarter.

**PWLB borrowing rates** increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to **US treasuries**. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

The **general election** on 8 June had relatively little impact on financial markets.

**Overall Treasury Position as at 31 March 2018**

At the beginning and the end of 2017/18 the Council's treasury position was as follows:

| Investments | 31 March 2017 Principal | Rate/Return for 2016/17 | 31 March 2018 Principal | Rate/Return for 2017/18 |
|---|---|---|---|---|
| | £ | % | £ | % |
| Short term - fixed | - | 0.59 | 3,000,000 | 0.59 |
| Money Market Funds | 8,450,000 | 0.34 | 3,200,000 | 0.25 |
| Property Fund Investments | - | - | 500,000 | 4.60% |
| **Total** | **8,450,000** | | **6,700,000** | |

The following is a list of our investments at 31 March 2018.

**<u>Fixed Term Deposits</u>**

| | Fixed to | £ | Interest Rate |
|---|---|---|---|
| Lloyds Bank | 15/05/2018 | 3,000,000 | 0.65% |

**<u>Money Market Funds</u>**

| Amount | Investment | Interest rate |
|---|---|---|
| £3,000,000 | Ignis Sterling Liquidity | 0.29% |
| £200,000 | LGIM Sterling Liquidity Fund | 0.28% |

**<u>Property Funds</u>**

| Amount | Investment | Dividend Yield |
|---|---|---|
| £500,000 | CCLA – Property Fund | 4.60% |

At Council in February 2017, it was approved (Minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in April 2017.

As at 31 March 2018 the Council's investment with the CCLA was £500,000. Accrued net dividends from the original date of investment (April 2017) are £21,000.

The investment was made with a view to a long term commitment. The bid market value as at 31 March 2018 for the Council's investment was £484,000.

**The Strategy for 2017/18**

The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would remain at 0.50% until quarter 2 2019 and then increase to 0.75% in December 2018.

There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

The strategy adopted in the original Treasury Management Strategy Report for 2017/18 approved by the Council on 21 March 2017 (Minute – AC32) was subject to revision during the year to include the proposals within the Commercial Property Acquisition Strategy and the Council's Borrowing Limits were increased to £37.45 million for this aspect. The revised Treasury Management Strategy 2017/18 was approved by the Council on 5 December 2017 (Minute – CM46).

**The Borrowing Requirement and Debt**

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

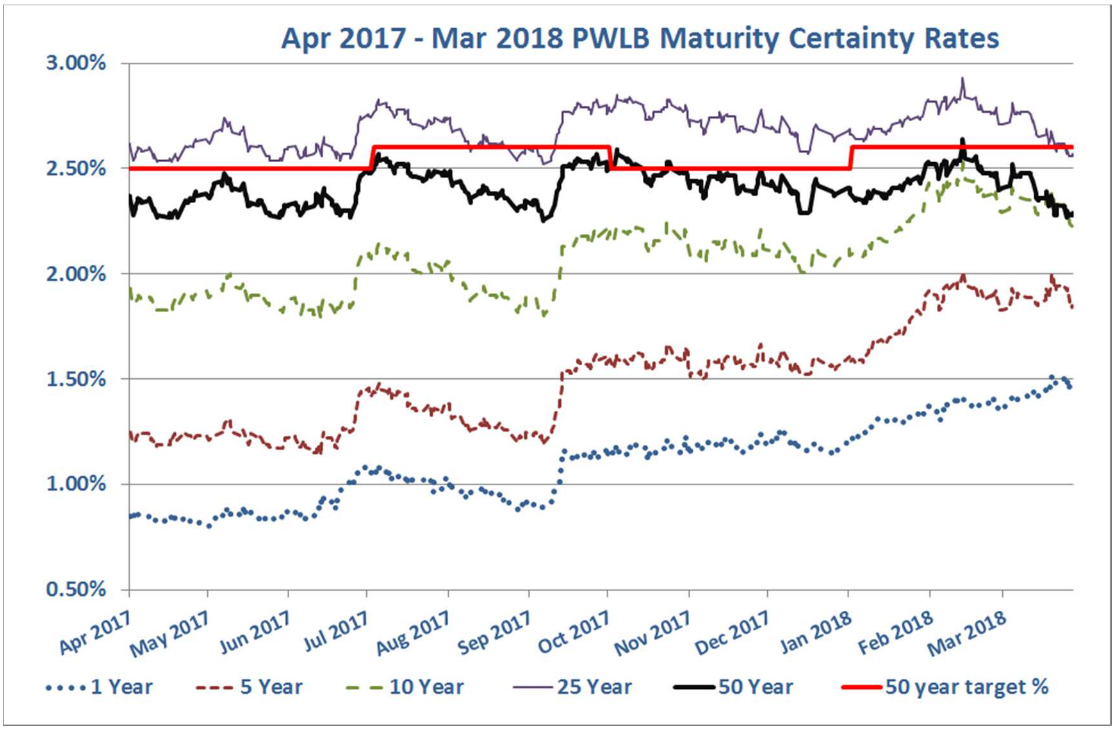
| | 31-Mar-17 Actual | 31-Mar-18 Budget | 31-Mar-18 Actual |
|---|---|---|---|
| CFR General Fund (£m) | 1,716 | 43,073 | 4,240 |

In March 2018 the Council undertook prudential borrowing of £2.65 million for the waste fleet vehicles. This reflects the increase in the actual Capital Financing Requirement for 2017/18.

The Capital Financing Requirement estimate for 2017/18 was increased by £37.45 million to reflect the recommendations within the commercial property acquisition strategy. Note: The Council did not purchase any commercial property during 2017/18, but the table reflects the approved strategy. The Council has purchased two commercial properties in April 2018.

**Borrowing Rates in 2017/18**

PWLB borrowing rates - the graph below shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.




**Borrowing Outturn for 2017/18**

Details of the loans outstanding at 31 March 2018 are shown below:

| Lender | Purpose | Maturity | Interest Rate % | Principal held at 31 March 2017<br><br>£'000 | Principal held at 31 March 2018<br><br>£'000 |
|---|---|---|---|---|---|
| PWLB | Kilworthy Park | 45 Years | 4.55 | 2,100 | 2,100 |
| PWLB | Waste Fleet | 9 Years | 1.92 | - | 2,650 |
| **Total** | | | | **2,100** | **4,750** |

**Repayments**

During 2017/18 the Council repaid £95,550 at an average rate of 4.55%.
**Investment Rates in 2017/18**

Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.

**Investment Outturn for 2017/18**

**Investment Policy** – the Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 21 March 2017 (revised 5 December 2017 – CM46). This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Income from investments this year was £57,860 which is £12,461 lower than the budget of £70,321 at an average return of 0.42%. The comparable performance indicator (Benchmark) is the average 7-day LIBID rate which was 0.21%. Therefore the Council achieved 0.21% return on investments over the benchmark for 17/18.

**Other Issues 2017/18**

**1. Revised CIPFA Codes**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate an ancillary income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. Officers will report to members when the implications of these new codes have been assessed as to the likely impact on the Authority.

## 2. Markets in Financial Instruments Directive II (MiFID II)

The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on West Devon Borough Council apart from having to fill in forms sent by each institution dealing with the Authority and for each type of investment instrument we use, apart from for cash deposits with banks and building societies.

## 3. Implications

| Implications | Relevant to proposals Y/N | Details and proposed measures to address |
|---|---|---|
| Legal/Governance | Y | Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003 |
| Financial | Y | Income from Treasury Management activities amounted to £57,860 in 2017/18. Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning. |
| Risk | Y | The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.<br><br>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.<br><br>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members. |
| Comprehensive Impact Assessment Implications | | |

| | | |
|---|---|---|
| Equality and Diversity | N | N/a |
| Safeguarding | N | N/a |
| Community Safety, Crime and Disorder | N | N/a |
| Health, Safety and Wellbeing | N | N/a |
| Other implications | N | none |

**Supporting Information**

**Appendices:**

Appendix A – Lending list as at 29 March 2018
Appendix B - Prudential and Treasury Indicators 2017/18

**Background Papers:**

Annual treasury strategy in advance of the year (Audit Committee 21 March 2017 – AC 32)
Revised treasury strategy in year (Council 5 December 2017 – CM46)
A mid-year treasury update report (Audit Committee 30 January 2018 - AC28)

# APPENDIX A

| Counterparty as at 29th March | | Fitch Rating | | | | | | Moody's Ratings | | | | S&P Ratings | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United Kingdom | | Long Term | | Short Term | Viability | Support | | Long Term | | Short Term | | Long Term | | Short Term | Suggested Duration |
| | Collateralised LA Deposit* | | | | | | | | | | | | | | Y - 60 mths |
| | Debt Management Office | | | | | | | | | | | | | | Y - 60 mths |
| | Multilateral Development Banks | | | | | | | | | | | | | | Y - 60 mths |
| | Supranationals | | | | | | | | | | | | | | Y - 60 mths |
| | UK Gilts | | | | | | | | | | | | | | Y - 60 mths |
| Banks | Abbey National Treasury Services | SB | A | F1 | | | 1 | SB | Aa3 | | P-1 | | | | R - 6 mths |
| Banks | Bank of Scotland PLC | SB | A+ | F1 | a | | 5 | SB | Aa3 | | P-1 | PO | A | A-1 | R - 6 mths |
| Banks | Barclays Bank PLC | PW | A | F1 | a | | 5 | NW | A1 | | P-1 | SB | A | A-1 | R - 6 mths |
| Banks | Close Brothers Ltd | SB | A | F1 | a | | 5 | SB | Aa3 | | P-1 | | | | R - 6 mths |
| Banks | Goldman Sachs International Bank | SB | A | F1 | | | | NO | A1 | | P-1 | SB | A+ | A-1 | R - 6 mths |
| Banks | HSBC Bank PLC | SB | AA- | F1+ | a+ | | 1 | NW | Aa3 | | P-1 | SB | AA- | A-1+ | O - 12 mths |
| Banks | Lloyds Bank Plc | SB | A+ | F1 | a | | 5 | SB | Aa3 | | P-1 | PO | A | A-1 | R - 6 mths |
| Banks | Santander UK PLC | PW | A | F1 | a | | 2 | SB | Aa3 | | P-1 | SB | A | A-1 | R - 6 mths |
| Banks | Standard Chartered Bank | SB | A+ | F1 | a | | 5 | SB | A1 | | P-1 | SB | A | A-1 | R - 6 mths |
| Banks | Sumitomo Mitsui Banking Corporation | SB | A | F1 | | | 1 | SB | A1 | | P-1 | SB | A | A-1 | R - 6 mths |
| Banks | UBS Ltd. | SB | AA- | F1+ | | | 1 | SB | A1 | | P-1 | SB | A+ | A-1 | O - 12 mths |
| Building Societies | Coventry Building Society | SB | A | F1 | a | | 5 | SB | A2 | | P-1 | | | | R - 6 mths |
| Building Societies | Leeds Building Society | SB | A | F1 | a- | | 5 | SB | A3 | | P-2 | | | | G - 100 days |
| Building Societies | Nationwide Building Society | SB | A+ | F1 | a | | 5 | SB | Aa3 | | P-1 | PO | A | A-1 | R - 6 mths |
| Building Societies | Skipton Building Society | SB | A- | F1 | a- | | 5 | SB | Baa1 | | P-2 | | | | G - 100 days |
| Building Societies | Yorkshire Building Society | SB | A- | F1 | a- | | 5 | SB | A3 | | P-2 | | | | G - 100 days |
| Nationalised and Part Nationalised Banks | National Westminster Bank | PW | BBB+ | F2 | bbb+ | | 5 | PW | A2 | | P-1 | PO | BBB+ | A-2 | B - 12 mths |
| Nationalised and Part Nationalised Banks | Royal Bank of Scotland Group Plc | SB | BBB+ | F2 | bbb+ | | 5 | SB | Baa3 | | P-3 | SB | BBB- | A-3 | B - 12 mths |
| Nationalised and Part Nationalised Banks | The Royal Bank of Scotland Plc | SB | BBB+ | F2 | bbb+ | PW | 5 | NW | A2 | NW | P-1 | SB | BBB+ | A-2 | B - 12 mths |

**Key**

| **Watches and Outlooks** | | **Duration** | |
|---|---|---|---|
| SB | Stable Outlook | Yellow - Y | 60 Months |
| NO | Negative Outlook | Blue - B | 12 Months |
| NW | Negative Watch | Orange - O | 12 Months |
| PO | Positive Outlook | Red - R | 6 Months |
| PW | Positive Watch | Green - G | 100 Days |
| EO | Evolving Outlook | | |
| EW | Evolving Watch | | |

**APPENDIX B**

**PRUDENTIAL AND TREASURY INDICATORS 2017/18**

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

## Capital Expenditure

This prudential Indicator is a summary of the Council's capital expenditure.

| Capital Expenditure | 2016/17 Actual £000 | 2017/18 Estimate £000 | 2017/18 Actual £000 |
|---|---|---|---|
| **Total** | **547** | **41,970** | **3,214** |

The table below summarises the financing of the Council's capital programme. Any shortfall of resources would result in a funding need (borrowing).

| Capital Expenditure | 2016/17 | 2017/18 | 2017/18 |
|---|---|---|---|
| | Actual £000 | Estimate £000 | Actual £000 |
| **Total** | **547** | **41,970** | **3,214** |
| **Financed by:** | | | |
| Capital receipts | 0 | 0 | 126 |
| Capital grants | 250 | 402 | 291 |
| Reserves | 99 | 80 | 191 |
| New Homes Bonus | 198 | 88 | 40 |
| **Net financing need for the year** | **0** | **41,400** | **2,566** |

*Nb. Please note that the estimate for 2017-18 represents the approved capital programme for that year. However, actual capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.*

The Capital expenditure estimate for 2017/18 was increased by £37.45 million to reflect the recommendations within the commercial property acquisition strategy. Note: The Council did not purchase any commercial property during 2017/18, but the table reflects the approved strategy. The Council has purchased two commercial properties in April 2018.

**The Council's Borrowing Need (the Capital Financing Requirement)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). It is essentially a measure of the Council's underlying need to borrow if the figure is greater than zero.

In March 2018 the Council undertook prudential borrowing of £2.65 million for the waste fleet vehicles. This reflects the increase in the actual Capital Financing Requirement for 2017/18.

The Capital Financing Requirement estimate for 2017/18 was increased by £37.45 million to reflect the recommendations within the commercial property acquisition strategy. Note: The Council did not purchase any commercial property during 2017/18, but the table reflects the approved strategy. The Council has purchased two commercial properties in April 2018.

| | **2016/17** | **2017/18** | **2017/18** |
|---|---|---|---|
| | **Actual £000** | **Estimate £000** | **Actual £000** |
| **Total CFR** | 1,716 | 43,073 | 4,240 |
| **Movement in CFR** | (42) | 41,358 | 2,524 |
| **Explained by:** | | | |
| Minimum Revenue Provision | (42) | (42) | (42) |
| Change in underlying need to borrow | - | 41,400 | 2,566 |

**AFFORDABILITY PRUDENTIAL INDICATORS**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

**Ratio of financing costs to net revenue stream**

This indicator identifies the trend in the receipt of net investment income against the net revenue stream. It is calculated by dividing investment income and interest received, by the Council's Net Budget Requirement.

The financing costs were increased in the 2017/18 estimate to reflect the proposals within the commercial property acquisition strategy, and therefore increased this indicator. These proposals will now take place in 2018/19.

| | 2016/17 | 2017/18 | 2017/18 |
|---|---|---|---|
| | Actual | Estimate | Actual |
| Ratio of net financing cost to net revenue stream. This is a net cost. | 1.1% | 3.4% | 1.1% |

**Estimates of the incremental impact of capital investment decisions on council tax**

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources.

The 2017/18 estimate of the impact on council tax (this is a notional indicator) included the proposals set out in the commercial property acquisition strategy. These proposals will now take place in 2018/19.

**Incremental impact of capital investment decisions on the band D council tax (Notional cost as explained above)**

| | 2016/17 | 2017/18 | 2017/18 |
|---|---|---|---|
| | Actual | Estimate | Actual |
| | £ | £ | £ |
| Future incremental impact of capital investment decisions on the band D Council tax (Notional cost) | 0.06 | 1.96 | 0.05 |

**TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY**

**The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

| Operational Boundary | 2016/17 | 2017/18 |
|---|---|---|
| | £ | £ |
| Borrowing | 3,000,000 | 45,000,000 |
| Other long term liabilities | - | - |
| Total | 3,000,000 | 45,000,000 |

**The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

| Authorised limit | 2016/17 | 2017/18 |
|---|---|---|
| | £ | £ |
| Borrowing | 6,000,000 | 48,000,000 |
| Other long term liabilities | - | - |
| Total | 6,000,000 | 48,000,000 |

The Authorised Limit was increased in 2017/18 to reflect the recommendations within the commercial property acquisition strategy and the proposed borrowing for the new leisure contract and waste fleet.

West Devon Borough Council's current level of borrowing as at 31 March 2018 was £4.75 million.

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

| | Approved minimum limits | Approved maximum limits | Actual 31 March 2017 £million | Actual 31 March 2018 £million |
|---|---|---|---|---|
| Less than 1 year | 0% | 10% | 0 | 0 |
| Between 1 and 2 years | 0% | 10% | 0 | 0.272 |
| Between 2 and 5 years | 0% | 30% | 0 | 0.849 |
| Between 5 and 10 years | 0% | 50% | 0 | 1.529 |
| More than 10 years | 0% | 100% | 2.1 | 2.1 |
| **Total** | | | **2.1** | **4.75** |

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