

South Hams Audit Committee



Title:	Agenda
Date:	Thursday, 15th October, 2020
Time:	2.00 pm
Venue:	Via Skype
Full Members:	<p style="text-align: center;">Chairman Cllr Holway Vice Chairman Cllr Austen</p> <p><i>Members:</i> Cllr Brazil Cllr Spencer Cllr Pennington Cllr Taylor Cllr McKay</p>
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:	Democratic.Services@swdevon.gov.uk

1. Minutes	1 - 8
To approve as a correct record the minutes of the Audit Committee meetings held on 23 July 2020 and 30 July 2020;	
2. Urgent Business	
Brought forward at the discretion of the Chairman;	
3. Division of Agenda	
To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;	
4. Declarations of Interest	
Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting;	
5. Grant Thornton (ISA260) Report: Accounts - The Audit Findings for South Hams District Council	9 - 42
6. Grant Thornton Report - Informing the Audit Risk Assessment for South Hams District Council 2019/20	43 - 72
7. Grant Thornton Report - COVID-19 and Local Government	73 - 80
8. Grant Thornton Report - Local Government Audit and Financial Reporting - the Redmond Review	81 - 88
9. Annual Statement of Accounts 2019/2020	89 - 254
10. Annual Treasury Management Report for 2019/20	255 - 276
11. Audit Committee Workplan	277 - 278

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD VIA SKYPE ON THURSDAY, 23 JULY 2020

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

Members also in attendance:
Cllrs V Abbott, H D Bastone, J D Hawkins, N A Hopwood and J A Pearce

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Section 151 Officer; Director of Place and Enterprise; Head of Assets; Internal Audit Manager; Democratic Services Manager; Devon Audit Partnership Representatives and Grant Thornton Representatives

A.1/20 MINUTES

The minutes of the meeting of the Committee held on 25 June 2020 were confirmed as a true and correct record.

A.2/20 DECLARATIONS OF INTEREST

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

A.3/20 DEVON AUDIT PARTNERSHIP – NON-VOTING PARTNER

At its request, the Committee considered a report that outlined the potential benefits and impacts of being a ‘non-voting’ partner of the Devon Audit Partnership in comparison to being a ‘full’ partner.

In discussion, the Committee recognised that the current relationship was working particularly well for both partners and support was expressed for the report recommendation.

It was then:

RESOLVED

That the continued membership of the Devon Audit Partnership as a 'non-voting' member be endorsed.

A.4/20 **EXTERNAL AUDIT PROVISION**

The Committee considered a report that summarised the Council's current external audit arrangements and the background of the Public Sector Audit Appointments (PSAA).

In discussion, the previously raised frustrations over the ability for External Audit Fees to be increased without prior warning were repeated.

It was then:

RESOLVED

That the contents of the report be noted.

A.5/20 **IVYBRIDGE REGENERATION PROJECT**

A report was considered in light of the following Executive recommendation being made at its meeting held on 18 June 2020 (Minute E.89/19 refers):

'That the Audit Committee Work Plan be updated to ensure that the Risk Management elements of the Ivybridge Regeneration project be considered at a future meeting.'

In debate, the following points were raised:-

- (a) Officers confirmed that the Risk Register for the project continued to evolve and, in the event of any significant changes being made, an updated version would be circulated to Members;
- (b) In light of Members wishing to consider the exempt appendices, it was **PROPOSED** and **SECONDED** and on being put to the vote declared **CARRIED** that:

'In accordance with Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting during consideration of the following item of business as the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A to the Act is involved.'

Having been informed that the next gateway decision on the project was due to be made at the Council Meeting to be held on 24 September 2020, some Members proceeded to express the view that the Council should wait for the full impact of the COVID-19 Pandemic to be realised.

Contrasting views were also expressed with regard to the principal of repaying 50% of the Debt over a 50 year term. As a result, the Committee requested that:

'The Business Case also takes into account the principal of paying back 100% of the Capital Debt over a 50 year term.'

Once the Committee was content that it had no further questions and issues to raise that related to the exempt appendices, it was then **PROPOSED** and **SECONDED** and on being put to the vote declared **CARRIED** that:

'The public and press be re-admitted to the meeting.'

It was then:

RESOLVED

That the Committee has considered the Risk Management elements of the Ivybridge Regeneration project and specifically requests that the Business Case also takes into account the principal of paying back 100% of the Capital Debt over a 50 year term.

(Meeting commenced at 10.00 am and concluded at 11.00 am)

Chairman

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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD VIA SKYPE ON THURSDAY, 30 JULY 2020**

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

Members also in attendance:	
Cllrs V Abbott, H D Bastone, J D Hawkins, J A Pearce and R Rowe	

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Chief Executive, Section 151 Officer; Head of Finance; Head of Strategy & Projects; Democratic Services Manager; and Grant Thornton Representative

A.6/20 DECLARATIONS OF INTEREST

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

A.7/20 DRAFT STATEMENT OF ACCOUNTS 2019/20 AND DRAFT ANNUAL GOVERNANCE STATEMENT 2019/20

A report was considered that presented the draft Statement of Accounts for 2019 and the draft Annual Governance Statement (AGS) for the financial year ended 31 March 2020.

In discussion, reference was made to:

- (a) an update from the Grant Thornton representative. By way of an update on the External Audit, the representative informed that, whilst the work was proving to be more difficult to undertake remotely, the Audit was now almost 70% completed. Whilst the more significant corporate risks still needed to be signed off by the External Auditor, it was noted that no issues of concern had yet been identified;

- (b) the shortfall in Housing Benefit overpayment recoveries. Officers advised that this shortfall was attributed to the Council now being in receipt of real time information from the Department for Work and Pensions;
- (c) the anticipated £4 million borrowing on Capital Expenditure contained within the Capital Programme. At the request of the Committee, the Section 151 Officer agreed to provide additional information on the anticipated £4 million borrowing to Members outside of the meeting;
- (d) the Community Housing initiative. A Member expressed his disappointment at the apparent lack of Community Housing being generated through this initiative. In reply, the Section 151 Officer advised the Committee that an update report on this initiative was to be presented to the Executive at its meeting to be held on 17 September 2020;

In conclusion, a number of those Members in attendance wished to put on record their thanks to the finance officers for their hard work in producing both the draft Statement of Accounts and the draft AGS.

It was then:

RESOLVED

That the draft Statement of Accounts and the draft Annual Governance Statement for the financial year ended 31 March 2020 be noted.

A.8/20

ANNUAL REPORT 2019/20

The Committee considered a report that presented the Council's draft Annual Report for 2019/20.

In discussion, the following points were raised:

- (a) With regard to the average house price and annual average income information, officers advised that there was an error on the draft Annual Report. Prior to bring finalised, it was noted that the average house price in the South Hams was in fact 13 times the annual average income;
- (b) Once approved by Council, it was felt that the Annual Report should be circulated to all town and parish councils in the South Hams.

It was then:

RESOLVED

1. That the progress and achievements made by the Council be noted; and

2. That Council be **RECOMMENDED** to adopt its draft Annual Report for 2019/20, subject to the ratio between the average house price and annual average income information being updated.

(Meeting commenced at 2.00 pm and concluded at 3.00 pm)

Chairman

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Year ended 31 March 2020

15 October 2020

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Section

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

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Appendices

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of the South Hams District Council ('the Council') and the preparation of the group Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • Give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed remotely during June to October 2020. Our findings are summarised on pages 6 to 17. Audit adjustments are detailed in Appendix C. We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix E or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • cut-off testing for Debtors and Creditors; • finalisation of our review of the provision for NDR appeals; • completion of our audit procedures on the Council's net defined pension liability, including receipt of assurances from the Devon Pension Fund auditor; • completion of our review of the valuation of the Council's land and buildings and the related accounting treatment; • receipt of our final bank confirmation; • final quality review of the file and receipt of satisfactory responses to our outstanding queries; • receipt of the signed management representation letter (on the agenda); and • review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of land and buildings and investment properties – refer to page 8 for further detail. As explained on page 8, this is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations.</p>
	Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>

Headlines (continued)

Statutory duties

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

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

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

We have completed the majority of work under the Code, however, the areas outlined on page 3 are still to be concluded.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council has dealt with the administration of grants to businesses, staff re-deployment, closure of car parks, the provision of critical-only services during lockdown, and then the additional challenges of reopening services under new government guidelines.

Councils are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

We considered in our audit risk assessment the impact of the pandemic on our audit and issued an audit plan on 26 March 2020. In the plan, we reported a financial statement risk in respect of Covid-19. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing.

We started our audit on 15 June 2020. The Council's financial statements were provided on 23 July 2020, in advance of the revised national deadline, however we did receive draft working copy on 18 June 2020. In most areas, management have provided good working papers and there has been a responsive attitude to audit queries which reflect really well on the Council from an audit perspective. As expected, the finance team has been stretched throughout lockdown, producing the accounts and dealing with audit queries, alongside the "day job" and the requirements of additional government returns, and internal reporting. There are some areas where working papers could be improved, and we have discussed these with management throughout the audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you on 24 March 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion, as detailed in Appendix E.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

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

	£,000	Qualitative factors considered
Materiality for the financial statements	967	The Council operates in a stable, publicly funded environment.
Performance materiality	725	75% of materiality, no history of deficiencies or large number of misstatements.
Trivial matters	48	Level set for reporting errors or omissions to TCWG.
Materiality for Senior Officer Remuneration	12	Public sensitivity in the pay of senior officers in the public sector.

Significant audit risks

Risks identified in our Audit Plan

Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements could require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk.

Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. As previously noted, we received draft financial statements in advance of the revised national timetable;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. An example is in respect of the material valuation uncertainty disclosed by the Council's valuation experts in respect of land and buildings and investment properties;
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Findings

We recommended that the Council enhance its disclosure around going concern and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic.

The Covid-19 pandemic resulted in land and building and investment property valuations being reported on a 'material uncertainty' basis. As explained on page 8, this is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations.

We reviewed management's other estimates and judgements in light of the Covid-19 pandemic and concluded that these were reasonable.

The audit was completed remotely which resulted in certain challenges and work taking longer than we would have expected in normal conditions.

We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.

Significant audit risks continued

Risks identified in our Audit Plan

Auditor commentary

Management override of controls

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

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

We:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk and unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Findings

We have raised a control recommendation in Appendix A in respect of journals.

Our testing of journal entries made in year did not identify any issues.

Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£48.5m) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- considered the impact of Covid-19; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. In particular, reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the update of member data as part of the 2019 triennial actuarial valuation.

Findings

Subject to completion of outstanding procedures, there are no issues to bring to your attention.

Significant audit risks continued

Risks identified in our Audit Plan

Valuation of land and buildings

The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. Investment properties are valued annually. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£65.9m for other land and buildings, £19.2m for investment properties) and the sensitivity of the estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We identified the valuation of land and buildings and investment properties as a significant risk.

Auditor commentary

We:

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

Findings

Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the land and buildings and investment property valuations to the balance sheet and the caveat made by the valuers in their valuation reports, we will highlight the material uncertainty in our audit report in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosures made in the statement of accounts in Note 1.

The EOM paragraph does not qualify the opinion but refers to management's disclosure on the material uncertainty that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

We are concluding our review of the accounting treatment of the valuations and await management's updated version of the financial statements to review an audit adjustment in respect of an asset that was under construction at the beginning of the financial year. This is an accounting adjustment and will not impact upon the Council's General Fund.

Other audit risks

Risks identified in our Audit Plan


IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

Auditor commentary

In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate.

Significant findings – key estimates and judgements


Accounting area	Summary of management’s policy	Auditor commentary	Assessment
Land and Buildings - £65.9m	<p>The Council used its internal valuer to complete the valuation of properties as at 31 December 2019 on a five yearly cyclical basis. 22%, by value, of total assets were revalued during 2019/20. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 December 2019 and those valued in earlier years, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties. Management’s assessment of assets not revalued has identified no material change to the properties’ value.</p> <p>In line with nationally issued RICS guidance, the Council’s valuer disclosed a material uncertainty in the valuation of the Council’s land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its Key Judgements and Material Estimates disclosure in the Statement of Accounts.</p>	<p>We have assessed the Council’s valuer to be competent, capable and objective.</p> <p>We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate – refer to page 8 for our findings.</p> <p>We confirm consistency of the estimate against the expectation derived by the audit team through the use of our auditor expert, Gerald Eve, and concluded that them movements and potential movements for non-valued assets were reasonable with no material issues arising.</p> <p>We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate.</p> <p>We have agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>Our proposed audit opinion includes an Emphasis of Matter paragraph to draw attention to the disclosure on the material uncertainty in respect of valuations, which is a national issue.</p>	 GREEN

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
Investment properties - £19.2m	<p>The Council used a specialist valuer to complete the valuation of properties as at 31 March 2020. The Council made one purchase in 2020 of £5m and the valuation of investment properties has resulted in a net decrease in value of £10k.</p> <p>Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19.</p>	<p>We have assessed the Council’s valuer to be competent, capable and objective.</p> <p>We reviewed the valuations performed by the valuer, with reference to the comparative properties and information used by the valuer in undertaking their valuations, and considered these to be appropriate.</p> <p>The valuation methodology applied remains consistent with the prior year.</p> <p>We agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>The Council did not include the disclosures on this issue within its Key Judgements and Material Estimates disclosure in the draft Statement of Accounts. The Council will update this in the final version of the accounts and we will refer to this in an Emphasis of Matter paragraph in our audit report.</p> <p>Our proposed audit opinion includes an Emphasis of Matter paragraph to draw attention to the disclosure on the material uncertainty in respect of valuations, which is a national issue.</p>	 <p>GREEN</p>

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process and key assumptions to be reasonable

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																												
Net pension liability – £48.5m	<p>The Council's net pension liability at 31 March 2020 is £48.5m (PY £48.6m). The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.4m net actuarial gain during 2019/20.</p>	<p>We have assessed the Council's actuary, Barnett Waddingham LLP, to be competent, capable and objective.</p> <p>We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise.</p> <p>We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:</p>	In progress																												
<table border="1"> <thead> <tr> <th data-bbox="679 525 1031 582">Assumption</th> <th data-bbox="1042 525 1342 582">Actuary Value</th> <th data-bbox="1353 525 1612 582">PwC range</th> <th data-bbox="1622 525 1819 582">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="679 589 1031 661">Discount rate</td> <td data-bbox="1042 589 1342 661">2.35%</td> <td data-bbox="1353 589 1612 661">2.35%</td> <td data-bbox="1622 589 1819 661">● GREEN</td> </tr> <tr> <td data-bbox="679 668 1031 761">Inflation (RPI/CPI)</td> <td data-bbox="1042 668 1342 761">2.7% 1.9%</td> <td data-bbox="1353 668 1612 761">2.65%-2.8% 1.85%-1.95%</td> <td data-bbox="1622 668 1819 761">● GREEN</td> </tr> <tr> <td data-bbox="679 768 1031 861">Pension increase rate</td> <td data-bbox="1042 768 1342 861">1.9%</td> <td data-bbox="1353 768 1612 861">Between 1.85%-1.95%</td> <td data-bbox="1622 768 1819 861">● GREEN</td> </tr> <tr> <td data-bbox="679 868 1031 961">Salary growth</td> <td data-bbox="1042 868 1342 961">2.9%</td> <td data-bbox="1353 868 1612 961">Between 2.85%-2.95%</td> <td data-bbox="1622 868 1819 961">● GREEN</td> </tr> <tr> <td data-bbox="679 968 1031 1039">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1042 968 1342 1039">Pensioners: 22.9 years Non-pensioners: 24.3 years</td> <td data-bbox="1353 968 1612 1039">21.4 – 23.2 22.8 – 24.7</td> <td data-bbox="1622 968 1819 1039">● GREEN</td> </tr> <tr> <td data-bbox="679 1046 1031 1118">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1042 1046 1342 1118">Pensioners: 24.1 years Non-pensioners: 25.5 years</td> <td data-bbox="1353 1046 1612 1118">23.7 – 24.7 25.2 – 26.2.</td> <td data-bbox="1622 1046 1819 1118">● GREEN</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%	● GREEN	Inflation (RPI/CPI)	2.7% 1.9%	2.65%-2.8% 1.85%-1.95%	● GREEN	Pension increase rate	1.9%	Between 1.85%-1.95%	● GREEN	Salary growth	2.9%	Between 2.85%-2.95%	● GREEN	Life expectancy – Males currently aged 45 / 65	Pensioners: 22.9 years Non-pensioners: 24.3 years	21.4 – 23.2 22.8 – 24.7	● GREEN	Life expectancy – Females currently aged 45 / 65	Pensioners: 24.1 years Non-pensioners: 25.5 years	23.7 – 24.7 25.2 – 26.2.	● GREEN			
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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provision for NDR appeals	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculates the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. In 2019/20 the provision is £1.6m, an increase of £0.2m from the prior year.	<p>The draft Statement of Accounts includes an accounting policy for the NDR appeals provision.</p> <p>The disclosure of the NDR appeals provision within the financial statements is adequate.</p> <p>Our review of the calculation of the provision is ongoing.</p>	In progress
Provision for bad debts	<p>The Council makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt.</p> <p>The Council adopts a calculation methodology based upon past experience and the age of debts to make an allowance for non-collectable amounts of the reported debts.</p> <p>Management have reviewed the amounts collected in year against the provision at 31 March 2019. This review indicates that the Council's provision may be over-prudent.</p> <p>In 2019/20 management included an additional 10% allowance for bad debts given the Covid-19 pandemic and the impact that this may have on revenue collection.</p>	<p>We have reviewed the Council's methodology and recalculated the provision.</p> <p>We consider that the Council's methodology is appropriate, whilst noting that it is potentially over-prudent in some cases. The methodology applied is consistent and we consider that the estimated provision for bad debts, including the additional values provided as a result of Covid-19, are reasonable.</p>	 GREEN
Shared services recharges	<p>Allocation of shared costs</p> <p>The Council operates on a shared service basis with West Devon District Council. Consequently, there are a number of costs borne by each Council that are reallocated as part of process to allocate costs equitably between the two Councils.</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed the basis of allocation to ensure that it is reasonable and appropriate; considered any changes from the prior year basis; and tested the calculation of transferred costs. <p>Our work has not identified any issues with the allocation of shared costs.</p>	 GREEN

Significant findings – matters discussed with management

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

Significant matter	Commentary	Auditor view
<p>Pension Liability</p> <p>Experience gains included in the change in actuarial valuations</p>	<p>The recorded gain arising from the actuary's use of roll forward annually gave a loss of £3.9m over the three years since the last triennial full valuation.</p> <p>The explanation for this was provided by the actuary</p> <ul style="list-style-type: none"> • £1.9m due to higher salary increases than were assumed for each year's roll forward. • £1.3m due to a couple of significant transfer values into the Fund over the inter-valuation period which were not allowed for as part of the roll forward approach. • £0.2m due to unreduced early retirements for four members on 1 April 2016. • £0.5m changes in other assumptions. <p>On 1 April 2019 the Council made a TUPE transfer to FCC Environment as part of the procurement of the Council's waste contract. This transferred the pension liability for circa 80 staff on a fully-funded basis. We considered the accounting treatment of this transfer and are satisfied that it has been appropriately included in the calculations.</p>	<p>We are satisfied that the actuary's approach is appropriate to make a reasonable estimate of the liability each year. Our auditor expert has assessed the use of the roll forward methodology can produce an error of up to 3% each year, it should be noted that this could be under or overstatement, so may not necessarily be cumulative.</p> <p>3% of the current liability would be £1.4m. We have undertaken additional procedures that give us assurance that the actuary's approach remains a reasonable basis for making the estimate, including if the explanation provided by the actuary for the experience adjustments was in line with our expectations. We can confirm that the response from the actuary provides us with sufficient evidence and assurance over the experience items.</p> <p>Our work on the pension liability is still to be finalised.</p> <p>Management will need to review future actuarial valuations and satisfy themselves that the actuary's valuation is reasonable in the context of the liability.</p> <p>Management response</p> <p>The Council will ask for further analysis (a breakdown) of future actuarial valuations and this will be raised by the s151 Officer at the next meeting of the Devon s151's Officers meeting.</p>
<p>Bank reconciliation</p>	<p>The bank reconciliation is unbalanced by a £1k, this results from an historic error arising from a change in software systems that should have been written off in previous years.</p>	<p>Management have reviewed the reconciliation and confirmed that the difference relates back a number of years and have provided an analysis that supports this. The amount needs to be written off to ensure that future reconciliations are accurate.</p> <p>Management response</p> <p>The Council will write off the historic reconciling item and the presentation of the bank reconciliation will be enhanced for the reconciliation between the balance on the bank statement at 31.3.2020 and the balance on the General Ledger at 31.3.2020.</p>

Significant findings – going concern

Our responsibility

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

Going concern commentary

Management's assessment process

The Council's accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

Auditor commentary

We have subjected the 2020/21 budget, Medium Term Financial Strategy to 2024/25 and cash flow forecast to March 2022 to detailed scrutiny and reviewed the planned budget proposals for 2020/21 in our consideration of the appropriateness of management's use of the going concern assumption.

The Section 151 officer has produced an assessment of the Council's use of the going concern assumption. We have reviewed this and the underlying support and concur with her opinion that the going concern basis is appropriate.

In only exceptional circumstances would we expect a local authority not to prepare its accounts on a going concern, in line with the Code and the public sector adoption of the going concern assumption.

In 2020/21 the Council expects to achieve a balanced budget and the Council's usable reserves at 31 March 2020 stood at £16m. This represents 32% of the annual gross cost of services.

The Council had £35.5m of cash and investments which represents over 23 months of net cost of services. The Council therefore has access to cash to meet it's bills. It also has sufficient borrowing headroom within it's borrowing limit as set out in it's Treasury Management Strategy.

The Covid-19 pandemic has resulted in a reduction of income in 2020/21, some of which has been covered through government support. This shows an overall projected overspend of £2.6m (27.5% of the total Budget of £9.4m for 2020/21). This position is after taking into account the £0.9m Government Grant that the Council has received for Covid-19, and the Council has reported a number of actions it can take to address the position.

Conclusion

Management did not disclose any material uncertainty about the Council's ability to continue as a going concern and our audit procedures led us to conclude that was appropriate. However we recommended that the Council add further disclosures around the Council's going concern position and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking and investment institutions. This permission was granted and the requests were sent. We are still awaiting a response from Lloyds, all other requests were returned with positive confirmation.
Disclosures	Further information on disclosure changes arising from our audit can be found in Appendix C.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management have been provided, with the exception of the final outstanding items listed on page 3.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially consistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; and • if we have applied any of our statutory powers or duties. <p>We have identified some best practice improves to the Annual Governance Statement in Appendix A but have concluded that it meets the disclosure requirements and is not misleading or inconsistent with other information.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the Council does not exceed the audit threshold set by the NAO.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of South Hams District Council in the audit report, as detailed in Appendix E.</p>

Value for Money

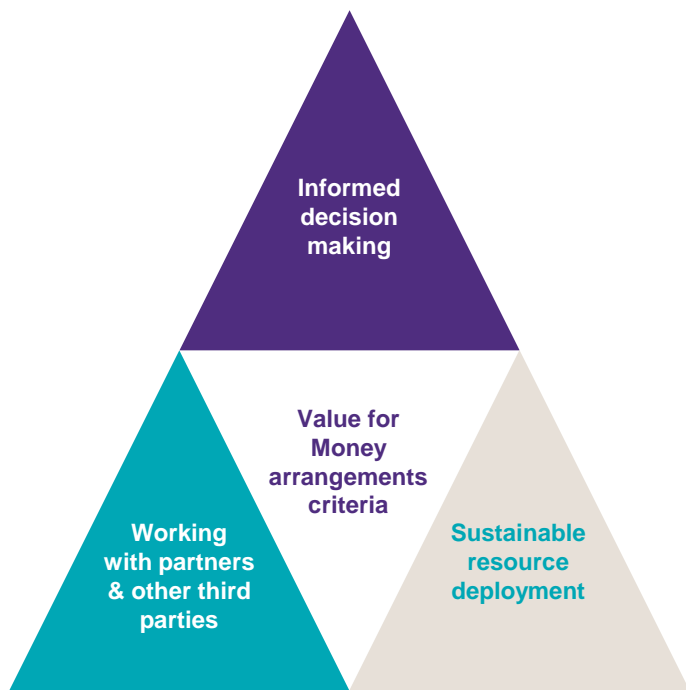
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2020 and identified one significant risk in relation to the Council's financial outturn and sustainability using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 24 March 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

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Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council's arrangements for setting its 2019/20 budget and five year medium term financial strategy;
- how these evolved through discussion and reporting;
- the Council's monitoring and flexing of the budget through 2019/20;
- the Council's 2019/20 financial outturn; and
- the Council's response to the Covid-19 pandemic on its income and expenditure streams.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 21.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management. We recommend that the Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money (continued)

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Financial outturn and sustainability

The risk as identified in our 2019/20 Audit Plan

The Council has set a balanced budget in 2020/21 and is currently forecasting a £0.6m budget gap for 2021/22. The aggregated budget gap by 2024/25 is £1.1m.

To balance the budget for 2020/21 the Council have identified £0.9m of savings that will need to be achieved, these include savings of £0.3m from re-procurement of contracts and the letting of the waste contract, and £0.2m from the elimination of the secondary pension contributions. The Council reported in Quarter 3 that it anticipated an underspend of £27k for the year.

Findings

The Council commenced its financial planning for 2019/20 in September 2018, this comprised:

- updating the forecast financial position for 31 March 2019;
- compiling the projected budget for 2019/20;
- further projecting and updating the medium term financial plan up to 31 March 2025; and
- setting out proposals and options to address the forecast financial shortfall.

The initial forecast set out a the forecast budget gap of £0.6m for 2019/20, and a further budget gap of £0.9m in 2020/21 giving a budget gap over the two years in the region of £1.5m. For the duration of the five year medium term financial strategy (MTFS) there is a cumulative gap of £7.4m. The initial report included a list of 10 options which could be taken to close the gap, and these included the use of reserves, lobbying government for NDR pilot status, use of the new homes bonus and exploring options to reduce the annual pension deficit contribution.

In February 2019, following member workshops and Committee debates, a balanced budget was set for 2019/20 and the cumulative funding gap over the life of the 5 year MTFS reduced from £7.4m to £1.6m, following realisation of the actions outlined in the original plan.

The Council monitors its budget quarterly, and reports to the Executive the current position, forecast year end position and updates the MTFS for known events. In September 2019 management started to report the plans to set the 2020/21 budget and five year MTFS to March 2025. At this point the forecasted budget gap was £0.5m for 2020/21 with a predicted gap of £0.4m in 2021/22, assuming the budget gap in 2020/21 had not been closed. The aggregated budget gap was forecast to be £2.4m over the five years if no action were taken.

In February 2020 the Council set a balanced budget for 2020/21 and forecast a £0.6m budget gap by the following year, 2021/22. The aggregated budget gap was forecast at £3.2m to 2024/25. The Council did have a number of options to close the gap such as the use of New Homes Bonus and reserves and additional Business Rates Pooling Gains.

Value for Money (continued)

Financial outturn and sustainability

Findings (continued)

The 2019/20 outturn shows an under spend on the General Fund of £0.1m against a net budget of £8.8m and total General Fund Reserves now stand at £16m. The main variations from the revenue budget were:

- £0.3m - additional planning income
- £0.2m - additional Treasury Management investment income
- £0.1m - Business Rates Pooling Gain
- offset by a £0.1m shortfall in Housing Benefit overpayment recoveries and £0.2m additional costs for the haulage and processing of waste and recyclable materials.

Following the latest triennial actuarial valuation the Council achieved the savings it planned in respect of contributions.

The Covid-19 crisis has resulted in extra cost pressures and the Council's income from fees and charges was substantially reduced. Longer term there could be an impact on council tax and business rates income and collection.

As a result of Covid-19 the Council now reports its financial position monthly. The Council's first Budget Monitoring Report (Month 1) for 2020/21 showed an overall projected overspend of £2.6m (27.5% of the total budget of £9.4m for 2020/21). However, subsequent government support and the gradual re-opening of services mitigated that position to some extent. In September 2020 the Council was projecting a shortfall of £1.3m for 2020/21. Management set out a series of mitigations, including a review of the capital programme, further discussions around discretionary service provision and additional use of reserves. The Council agreed a number of mitigating actions to close the gap for 2020/21, which includes releasing earmarked reserves and using additional government grants. These measures should close the forecast gap for 2020/21, however they are by their nature one-off. There is a risk that one-off measures will not be available in future years and recurrent measures should be identified.

In September 2020, following member workshops, the process to develop a recovery plan had started. A draft action plan is based on all of the outputs of the workshops and will need to be a rationalised whereby the proposals are prioritised in terms of impact and cost.

Auditor view

As the reserves position at 31 March 2020 shows, South Hams District Council has robust procedures to set, monitor and deliver its financial plans and the Council has accumulated a good level of reserves to meet those plans. However, the future financial plans do set out a number of financial challenges that could adversely impact on the Council's ability to continue to deliver services or to maintain financial stability.

The Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services and should ensure that it continues to take any difficult decisions on the delivery of services and savings in the future.

We propose to issue an unqualified Value for Money Conclusion for 2019/20.

Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Details of fees charged are detailed in Appendix D.



	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Subsidy return	£6,250*	Self-interest, self-review, management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,250 in comparison to the total fee for the audit of £40,271 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. We do not prepare the return, and do not expect material changes to arise from the work that would affect information in the financial system. We report factually, based on the instructions and any decisions on amendments to returns are for the Council to make, in discussion with the relevant government body. These factors all mitigate the perceived self-interest, self-review and management threats to acceptable levels.

* proposed fee, our work has yet to begin on the Councils Housing Benefits Subsidy return for 2019/20.




These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Councils S151 Officer. None of the services provided are subject to contingent fees.

Action plan




We have identified two recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<p>Value for Money</p> <p>Overall, as the reserves position shows that South Hams District Council has robust procedures to set, monitor and deliver its financial plans. The Council has a good level of reserves to meet those plans. However, the plans do set out a number of financial challenges that could adversely impact on the Council's ability to continue to deliver services or to maintain financial stability.</p>	<p>The Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services.</p> <p>Management response</p> <p>The Council has set an Amended Budget for 2020-21 to address the predicted £1.3m shortfall. In October, the Executive Committee will consider the Council's Medium Term Financial Strategy (MTFS) and the Council awaits an announcement from the Government on the future Comprehensive Spending Review, which will enable the Council to see if its assumptions in the MTFS hold true. Draft proposals for a draft budget for 2021-22 will be considered by the Executive on 3rd December 2020.</p>
 Page 31 <small>ow</small>	<p>Annual Governance Statement</p> <p>We note that the Annual Governance Statement makes no reference to:</p> <ul style="list-style-type: none"> • governance arrangements within partnerships and joint working • the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014); • GDPR; or • IT systems and controls. 	<p>The Council's reporting of its governance arrangements would be enhanced if these areas were given prominence in the Annual Governance statement.</p> <p>Management response</p> <p>This is noted. The final Annual Governance Statement presented to the Audit Committee in October 2020 contains the extra disclosure for partnerships, the Code of Practice, GDPR and IT systems and controls.</p>

Action plan

Assessment	Issue and risk	Recommendations
 High	<p>Journals</p> <p>Management have a review process whereby journals over £25k are reviewed by a second individual, a Finance Business Partner. Our review of the Council's journals and the reports used to identify those journals which require review identified the journal date selection criteria set up for the generation of the monthly review reports resulted in certain journals over £25k being omitted from the report and hence being unreviewed in months 1-3. Journals represent a risk of management override of controls and sufficient controls should be in place in order to identify fraud or error.</p>	<p>The Council should ensure that the reports used to highlight journals for review identify all journals over £25k. Management and Those Charged With Governance should also note the risk of unreviewed journals below £25k.</p> <p>Management response</p> <p>The original journals over £25k report was a period specific report which resulted in a small number of new year journals from months 1-3 being omitted from the report. We have now re-written the report to pick up all manual journals over £25k to eradicate this issue. The report will be run monthly but will cumulatively report journals from the start of the year. This report has been re-run retrospectively for 2019/20 and all journals over £25k have been reviewed.</p>
 Medium Page 32	<p>Debtors and Creditors</p> <p>The Council's income and expenditure sub-systems (e.g. car parking fines system, Salcombe harbour balances) operate in real-time, in that they give a point in time position of balances. For audit purposes it proved difficult to recreate the year-end balances for our testing purposes.</p>	<p>The Council needs to retain the details of debtors and creditors outstanding at the year-end to provide a trail that demonstrates who owes the Council and how collectible that might be, and what creditors were outstanding at year end.</p> <p>Management response</p> <p>This related to only a few feeder systems such as the car parks fines system (not the main Debtors and Creditors system). The Council will include within its workplan for next year a note to ensure that an extract of this system is taken at the year end date (31 March) to show a breakdown of all outstanding car parking fines at 31st March.</p>
 Medium	<p>Bank reconciliation</p> <p>The bank reconciliation is unbalanced by £1k, this results from an historic reconciling item arising from a change in software systems That should have been written off in previous years.</p>	<p>The Council should ensure that the historical amount is written off and that future bank reconciliations can be fully reconciled.</p> <p>Management response</p> <p>The Council will write off the historic reconciling item and the presentation of the bank reconciliation will be enhanced for the reconciliation between the balance on the bank statement at 31.3.2020 and the balance on the General Ledger at 31.3.2020.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of South Hams District Council's 2018/19 financial statements, which resulted in 3 recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>IT General Controls</p> <p>IT General Controls have been reviewed. There are a number of identified weaknesses that have been the subject of a separate report.</p>	<p>The Council's management team have followed the issues raised, There are some responses that are in progress, however we are satisfied that the Council has addressed the control issues.</p>
✓	<p>Commercialisation</p> <p>We recommend that management continue to monitor emerging guidance from CIPFA and central government on the acquisition of investment properties and related borrowing. In particular, management and members will need to closely scrutinise levels of borrowing related to investment property purchases and ensure that due diligence, legal, financial and other appropriate advice is sought, proportionality is considered prior to further purchases. Specific legal and due diligence will need to take place for each investment property purchased out of area and the concept of proportionality always adhered to.</p>	<p>There were no further Commercial acquisitions in 2019/20.</p>

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Assessment

- ✓ Action completed
- X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
There were no adjusted misstatements			

Misclassification and disclosure changes

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

Disclosure	Detail	Auditor recommendations	Adjusted?
Minor disclosure improvements	Various minor amendments to improve the presentation of the draft accounts.	To correct the presentation points identified	Yes
Significant estimates	Whilst bad debt provisions are material, there is no significant risk of material misstatement in future periods as a result estimation uncertainty and therefore should not be disclosed in this Note.	Remove the disclosure	Yes
Accounting policies	d) Material items sets materiality as £300k. The Comprehensive Income and Expenditure Statement (CIES) discloses amounts below this.	Line in the CIES should be removed	No
	k) & o) The Council has policies for Heritage Assets and Jointly Controlled Operations, but has no items to disclose.	Policies should be removed	No
	q) The Council's depreciation policy, and namely the typical useful lives disclosures, does not reflect the lives used in practice and should be updated. Also the policy should note that depreciation is provided on additions in the year following purchase and full depreciation is provided in the year of disposal.	The depreciation policy be updated to reflect the Council's current practice	Yes
Critical judgements	Shared services – the disclosure did not set out the nature of the judgement, the impact on the accounts or how the Council arrived at the judgement.	Update the disclosure	Yes
	Pension fund asset valuations is not a judgement, rather an estimate and already included in Note 1.	Remove the pension reference from the Critical Judgement note	Yes
	The material uncertainty disclosed for Land & Buildings in Note 1 should also be included for Investment Property. This disclosure should also be made in respect of the valuation of Investment Property held by the Devon Pension Fund on behalf of South Hams District Council.	Update the disclosure	Yes

Audit adjustments

Misclassification and disclosure changes (continued)

Disclosure	Detail	Auditor recommendations	Adjusted?
Going Concern	The Council makes little reference to going concern and the impact of the Covid-19 pandemic.	Enhance disclosure around going concern and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic.	Yes
PPE Note	The draft financial statements showed a revaluation adjustment of £5.6m under the 'Assets Under Construction' heading. The correct accounting treatment would have been to reclassify the works to 'Land and Buildings' and then revalue the asset taking into account the additional works.	<p>The Council should update the accounting treatment so that the revaluation is undertaken following reclassification of the works to land and buildings.</p> <p>This may also have an impact on the Council's Comprehensive Income and Expenditure Statement, dependent upon the value of any Revaluation Reserve balance in respect of the asset. As a capital entry, any changes will have no impact on the Council's General Fund.</p>	TBC

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
<p>1 CCLA Investment In the Statement of Accounts, the investment of £3.2m is designated as Fair Value through Other Comprehensive Income (FVOCI).</p> <p>The terms of the agreement allow redemption on demand and in our view the investment does not therefore meet the designation criteria to be held as FVOCI under IFRS 9.</p> <p>In our view the investment should be classified as Fair Value Through Profit and Loss. The cumulative write down of value of £0.4m has been incorrectly charged to Other Comprehensive Income rather than the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. As noted in the Council's accounts, there is a temporary Statutory Override in place that allows Fair Value movements to be reversed to an unusable reserve so there would continue to be no impact on the General Fund of this reclassification.</p>	(In year) Cr Other Comprehensive Income and Expenditure £338k		(In year) Dr (Surplus) or Deficit on Provision of Services £338k
<p>Page 36</p>	(Cumulative) Cr Other Comprehensive Income and Expenditure £361k		(Cumulative) Dr (Surplus) or Deficit on Provision of Services £361k

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£40,271	TBC

Non-audit fees for other services	Proposed fee
Audit Related Services	
Grants:	
Housing Benefit Subsidy return	£6,250

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the financial statements:

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

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

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

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

Conclusions relating to going concern

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

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

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

Audit opinion

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

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

Audit opinion

In preparing the financial statements, the Corporate Director of Strategic Finance (Section 151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Report on other legal and regulatory requirements - Certificate

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

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Bristol

[Date]

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Informing the audit risk assessment for South Hams District 2019/20



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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors, Management and the Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	<p>The Covid pandemic became prevalent in March 2020, near the year end date. This has had an impact on Fixed Asset Valuations with a Material Uncertainty shown in Note 1 'Assumptions made about the future and other major sources of estimation uncertainty'. This was due to Covid and the Council followed national guidance issued by RICS in its valuation. The Council purchased one Investment Property within 2019-20 for £5million.</p> <p>The Council also carried out a Senior Management Restructure during 2019/20 and the posts deleted and posts created are referred to in the Narrative Statement. This created savings of £60,000 for each Council.</p>
2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>Yes the appropriateness has been considered – they are considered appropriate.</p> <p>No</p>
3. Is there any use of financial instruments, including derivatives?	<p>A summary of Financial Instruments carried on the Balance Sheet are shown in Note 14 to the Accounts.</p> <p>The Council has a £1.5m Investment with the CCLA Property Fund and a £2m Investment with the CCLA Diversified Income Fund.</p>
4. Is Are you aware of any significant transaction outside the normal course of business?	<p>No – see comments in Section 1 about the Covid pandemic in general.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No – see comments about Material Uncertainty due to the Covid 19 pandemic.
6. Are you aware of any guarantee contracts?	No. The main two contracts the Council has is for the delivery of waste services with FCC and for the delivery of leisure services with Fusion Leisure.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Legal fees have been: £60,775 (15K on planning advice, £3K on public conveniences transfers to Parishes and £43K on general legal professional fees)</p> <p>And in addition:</p> <p>£56,014 legal advice and due diligence for renewable energy opportunities (solar farm)</p> <p>£21,796 for legal advice on various Community Housing projects</p> <p>£10,878 for the purchase of an Investment Property (Dartmouth M & S)</p> <p>£7,844 for legal advice on a Wholly Owned Company – Community Benefit Society (not yet set up)</p>
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>External advice was taken in HR on the Senior management review.</p> <p>Development specialists have advised on the future of Follaton House (HQ) and possible adaptations (e.g. opportunities for a wedding venue)</p>

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The Council's Audit Committee exercises overview of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control for South Hams District Council.</p> <p>This is done through the following:</p> <p>Anti Fraud, Corruption and Bribery Policy and Strategy, and Anti-Money Laundering Policy:</p> <p>The Audit Committee considers and recommends to Council the approval of the Council's policies and zero tolerance position in relation to fraud and money laundering and monitors their use and any actions required to improve the control environment following alleged breaches.</p> <p>The System of Internal Audit: as described below, related reports to the Audit Committee include breaches of internal control and the Council's related Rules; Contract and Financial Procedure Rules as well as information on alleged fraud.</p> <p>The Senior Leadership Team consider it to be unlikely that the financial statements are materially misstated due to fraud.</p> <p>6 monthly reports on risk management are presented to the Council's Audit Committee. The risk management matrix used makes an assessment of the financial impact and the scoring is based on a range of financial impacts.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The area most at risk of Fraud is Housing Benefit Fraud.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with</p>	<p>Not within the Council or within Council departments.</p>

Fraud risk assessment

Question	Management response
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?	Housing Benefit fraud No specific concerns. No cash taken anymore – Council is cashless. Possibly within the depots for buildings maintenance. Internal audit controls in place.
5. What processes do the Council have in place to identify and respond to risks of fraud?	The Audit Committee receives a six monthly report on strategic risks. The Audit Committee also receives an annual report from the Statutory Officers' Panel (consisting of the Chief Executive, the S151 Officer and the Monitoring Officer) and one of the areas considered is Fraud. The Internal Audit Manager also reports on Fraud as part of his annual internal report to the Audit Committee.
6. How would you assess the overall control environment for the Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The Internal Control environment is reported on quarterly to the Audit Committee as part of the regular reporting of the Internal Audit Manager. A 'follow up' report is done on all internal audits on an annual basis also. Housing Benefit fraud is the highest risk area. See above None known of.

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	None known of to the S151 Officer.
<p>8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Anti Fraud, Corruption and Bribery arrangements, whistle blowing policy and other ethical standards are publicised throughout the Council and to a wider audience outside through training, leaflets, the internal computer network and the Council's website etc.</p> <p>Reliance is placed on the process and the Council's Constitution, which includes the following: After consulting with the Head of Paid Service and the Monitoring Officer, the Section 151 Officer will report to the full Council and the Council's external auditor if it is considered that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully;</p> <p>After consulting with the Head of Paid Service and Section 151 Officer, the Monitoring Officer will report to the Full Council if it is considered that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.</p> <p>There are processes in place to provide members of the Audit Committee, and other member bodies, with the assurance that when considering agenda items all relevant laws have been complied with, which includes: A formal system of consultation for all reports to member bodies, which includes advice on the legal implications from qualified solicitors and advice on financial implications by qualified accountants;</p> <p>All staff are recruited and regularly assessed against the Council's six IMPACT behaviours of Communicative, Responsible, Adaptable, Challenging, Co-operative and Outcome Focussed.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Committee exercises overview of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control for the Council. This is done through the following: Anti Fraud, Corruption and Bribery Policy and Strategy, and Anti-Money Laundering Policy: The Audit Committee considers and recommends to Council the approval of the Council's policies and zero tolerance position in relation to fraud and money laundering and monitors their use and any actions required to improve the control environment following alleged breaches. The System of Internal Audit: related reports to the Audit Committee include breaches of internal control and the Council's related Rules; Contract and Financial Procedure Rules as well as information on alleged fraud.</p> <p>No potential frauds have been reported to the Audit Committee during 2019/20.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The S151 Officer is not aware of any.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Every Committee and Council report has to state the legal implications of the report and state the legal powers that are being used to make a decision.</p> <p>The Monitoring Officer and the S151 Officer review all reports that are published and reports are 'signed off' by these Statutory Officers.</p> <p>No – see comments about how Covid19 will affect valuations and a Material Valuation Uncertainty being given (following national RICS guidance).</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Audit Committee receives a quarterly confirmation that there is no significant breach of law or internal rules.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The S151 Officer and Monitoring Officer have quarterly meetings with the Chief Executive (Statutory Officers Panel) where any such items would be discussed. None known of.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No – None known of.

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Council? What was the outcome of that assessment?</p>	<p>Yes – the latest Month 3 revenue budget monitoring report presented to the Executive on 30th July showed an expected shortfall (loss) for 2020/21 of £1.3million.</p> <p>The S151 Officer is assured of the Council's Going Concern Status. Monthly monitoring is being undertaken by the finance team.</p> <p>Options for an Amended Budget for 2020-21 are being presented to Members in September. Utilising the £112,000 underspend from closing down the 2019/20 Accounts will be one of the options being presented to Members in September. Earmarked Reserves total £13.998m at 31.3.2020 and Unearmarked Reserves stand at £2.0 million.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the budget and the financial information provided to members throughout the year?</p>	<p>Yes – various assumptions are made about income levels from July onwards but actual losses for the first 3 months have been factored in.</p>

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Council, financial forecasts and report on going concern?	No new statutory or policy changes known of – apart from the Government support package for Covid19 pandemic.
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No none reported.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	Cash Flow continues to be positive. The Council is being proactive in chasing all debts with reminder letters having been sent for council tax arrears, business rates arrears and sundry debtors. These reminder letters are not automated from the system (as was the case before Covid) but have instead been personalised to the customer's situation e.g. claiming council tax support. The reminder letters offer help and support for addressing arrears and debts. Further reminder letters will be sent in future months regularly. Team Devon (all the Devon Councils) have agreed to co-ordinate approaches to debt recovery in terms of timings and key messages.

Going concern considerations

Question	Management response
<p>6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes – the Senior Management Team has been recently recruited to. The Chief Executive is new in post in July 2020 but has a wealth of experience from being the South West Lead Adviser for the LGA.</p>
<p>7. Does the Council have procedures in place to assess their ability to continue as a going concern?</p>	<p>Yes – monthly budget monitoring reports – also sets out the Government support package and the Government's 'income guarantee' scheme. Amended Budget will be set by Council in September 2020. Recovery and Renewal Plan re. Covid and 'Build Back Better' initiative will be taken to Council also in September 2020 for approval. Revised MTFS in October 2020.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>None aware of.</p>

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Monthly revenue budget monitoring reports are reported to the Executive on a monthly basis. The accounts set out elements of the going concern assessment such as the level of Unearmarked and Earmarked Reserves.</p> <p>An amended Budget for 2020-21 will be agreed by Council in September 2020. This will be done on a virement basis of how the budget shortfall of £1.3m will be met.</p>

Related Parties

Issue

Matters in relation to Related Parties

the Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?	All Members and all of the Senior Leadership Team are required to complete a Related Parties Return in April 2020 following the Year End. Items disclosed on these returns are reviewed by the Finance Head of Practice, to assess whether they need to be disclosed within the Financial Statements.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

the Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	None known of by the S151 Officer.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes and these have not changed from the previous year.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Very little use of accounting estimates within the Financial Statements. De-minimis levels are set out clearly within the accounting policies. Note 1 to the Accounts sets out in detail the 'Other Major Sources of Estimation Uncertainty'.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	Fair value for land/buildings defined as 'existing use' by the Council.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20.	the Council	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and where applicable the Council as the valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Review of all assets undertaken annually in line with the Council.	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Measurement of Financial Instruments	Financial instruments consist of investments (Collective Investment Fund (CIF)). Measured initially at cost and subsequently at amortised cost using the effective interest method.	Knowledge by the Investment team who manages the CIF portfolio in assessing the potential risk in credit losses.	Fund advisers – the Council	The CIF portfolio is assessed on an individual borrower for its expected credit losses using: i) Probability of default ii) Loss of given default	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the Council.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. the Council signs off the write off.	N/A	N/A	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert the Council. These figures are based on making % adjustments to the closing values of assets/liabilities.	the Council responds to queries raised by the administering body, the Council.	the Council are provided with an actuarial report by the Council (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



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COVID-19 and local government

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Slide content for audit committees

September 2020

DRAFT



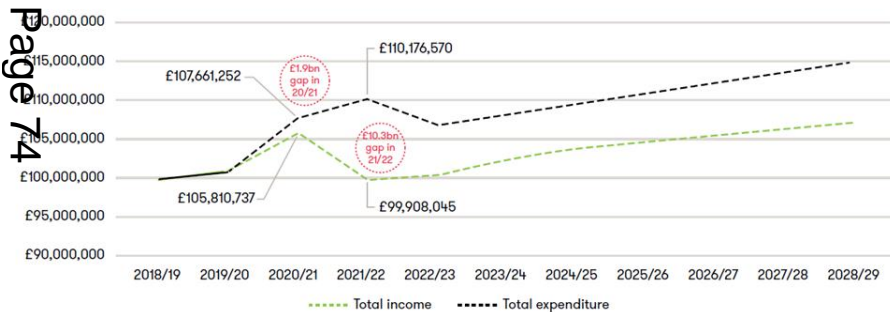
Covid-19 update

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside Covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

Local Authority Income and Expenditure (England) 2018/19 to 2028/29



Source: Grant Thornton/CIPFA Financial Foresight

Local government finances remain significantly impacted and our Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales, fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part counteract the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

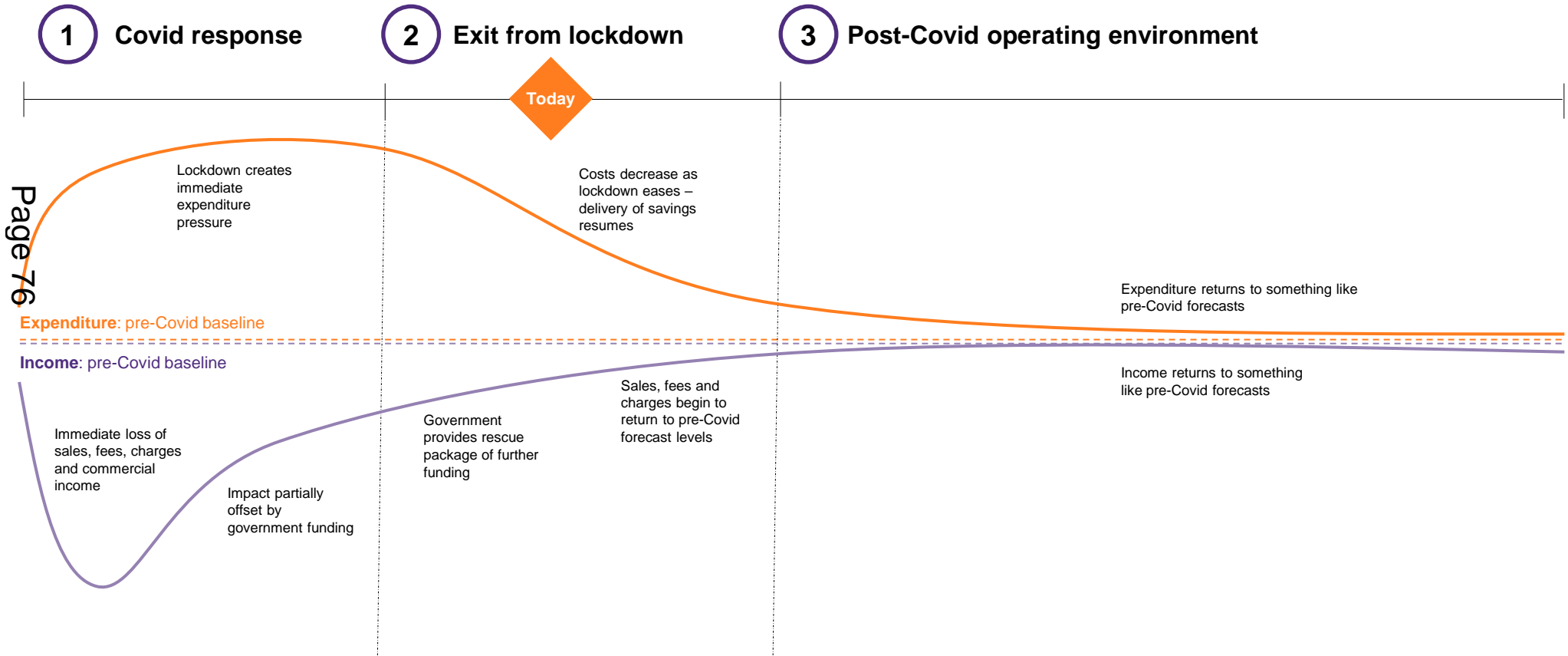
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

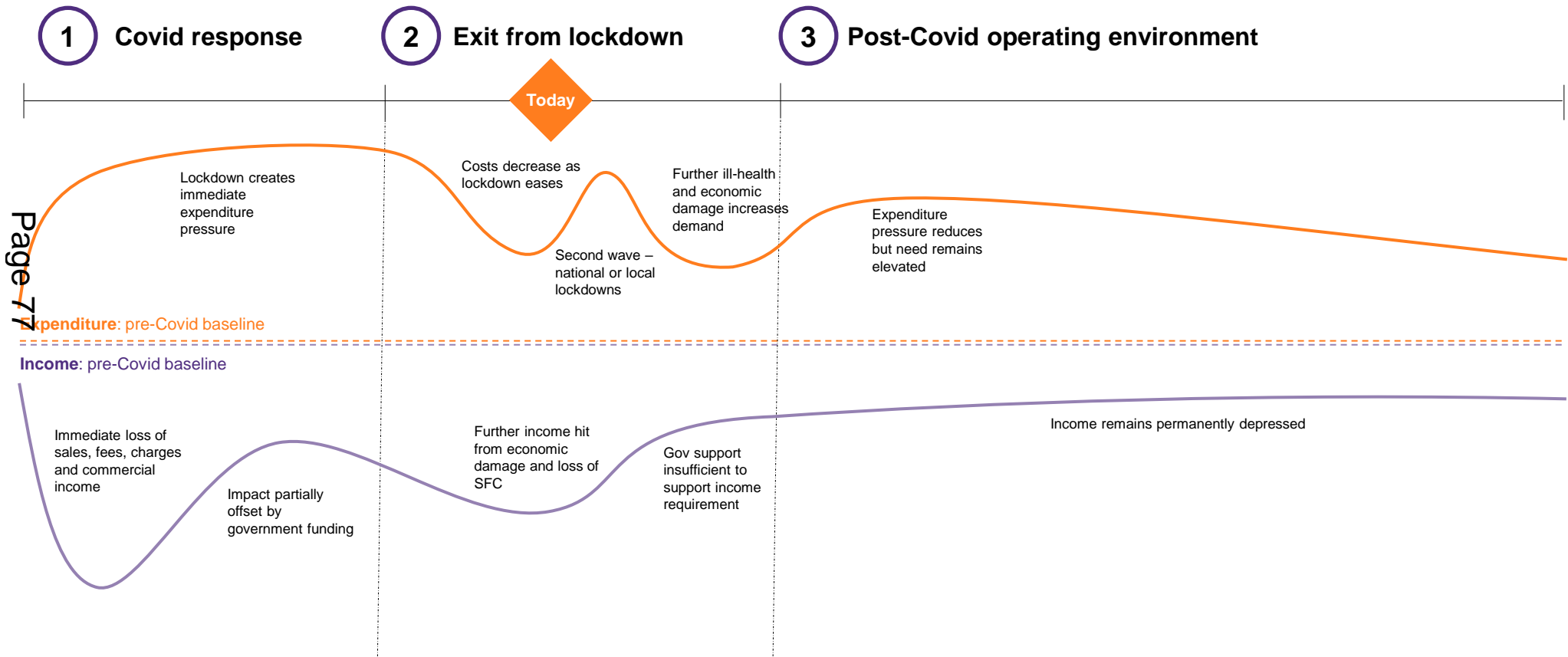
Example scenarios

Scenario 1 – swift return to normality



Example scenarios (Cont'd)







Scenario 2 – second wave and ongoing disruption



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Scenarios and hypotheses

Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community 	<ul style="list-style-type: none"> Multiple lockdowns and ongoing disruption Community dependency and expectation of sustained response Turbulence and activism within the VCS Socio-economic inequality is compounded Failure of leisure and cultural services 	<ul style="list-style-type: none"> Smooth exit from lockdown to a “new normal” Community mobilisation is channelled into ongoing resilience Strengthened VCS relationships and focus Systemic response to inequality is accelerated Leisure and cultural services adapted to social distancing
Business & economy 	<ul style="list-style-type: none"> 16% reduction in GVA for 2020 based on OBR reference scenario Slow / uneven economic recovery and “long tail” on unemployment Central gov / BEIS focus investment on areas furthest behind Loss of tourist & student spend causes unmitigated damage 'V' shaped recovery results in 2-3 year recovery period 	<ul style="list-style-type: none"> 5-10% reduction in GVA Rapid economic recovery with employment levels close behind Central government “back winners” with investment Adaptation allows resumption of tourist and student economy Business base is weighted towards growth sectors
Health & wellbeing 	<ul style="list-style-type: none"> Increased demand and escalating need due to fallout from lockdown Newly-vulnerable cohorts place strain on the system Unit costs increase further as markets deteriorate and providers fail SEND transport unable to adapt to social distancing Imposed disruption of care system 	<ul style="list-style-type: none"> Positive lifestyle changes and attitudes to care reduce demand Needs of newly vulnerable cohorts met through new service models New investment in prevention and market-shaping manage costs New ways of working leading to stronger staff retention Locally-led reform of health and care system
Political & regulatory 	<ul style="list-style-type: none"> Local government side-lined by a centralised national recovery effort Unfunded burdens (e.g. enforcement and contact-tracing) Councils in the firing line for mismanaging recovery 	<ul style="list-style-type: none"> Local government empowered as leaders of place-based recovery Devolution and empowerment of localities Councils at the forefront of civic and democratic renewal
Environment 	<ul style="list-style-type: none"> Opportunity missed to capture and sustain environmental benefits The end of the high street / town centres Emissions and air quality worsened by avoidance of public transport Capital programmes stuck 	<ul style="list-style-type: none"> Ability to invest in transport modal shift and green infrastructure Changed working patterns rejuvenate town centres Sustained impact on emissions due to new behaviours New, shovel-ready infrastructure programmes
Organisational 	<ul style="list-style-type: none"> Inadequate funding forces fiscal constraint Working practices return to status quo – increased operating costs Imposed structural change within the place Austerity 2 Commercial portfolio becomes a liability 	<ul style="list-style-type: none"> Adequate funding enables a programme of targeted investment Learning and adaptation to new operating environment Energised system-wide collaboration and reform Fiscal reform and civic renewal Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

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Develop and test hypotheses around impact on place, services, operations, finances

Design rapid interventions - implement, test and evaluate

- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

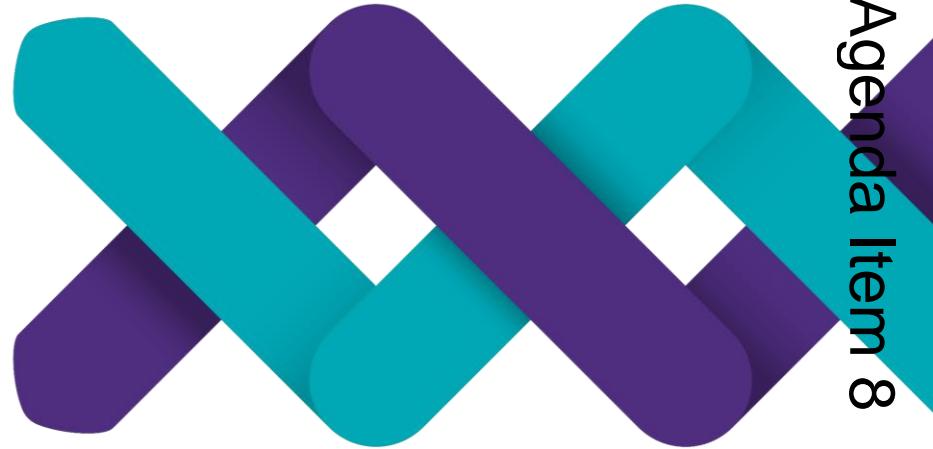
Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

Local Government audit and financial reporting – the Redmond Review

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Grant Thornton
September 2020



Agenda Item 8

The Redmond Review – scope and purpose

Scope

- Launched September 2019. Views by December 2019
- Led by Sir Tony Redmond, former President of CIPFA

Purpose – to assess

- Effectiveness of audit in local authorities
- Transparency of financial reporting

Publication

- 8 September 2020

The system is not working

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The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

Sir Tony's Recommendations

A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- **Move back to a September deadline** - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year

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Sir Tony's Recommendations

A call for action

- **Accounts simplification** - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- recognition of the **role of authorities in improving governance and reporting** and
- development of **audited and reconciled accounts summaries.**

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Grant Thornton's View

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.



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Report to: **Audit Committee**
Date: **15 October 2020**
Title: **Annual Statement of Accounts 2019/2020**
Portfolio Area: **Support Services – Cllr H Bastone**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**
Date next steps can be taken: **15 October 2020**

Author: **Alexandra Walker** Role: **Finance Business Partner**
Pauline Henstock **Head of Finance Practice and Deputy S.151 Officer**
Contact: **01803 861345** alexandra.walker@swdevon.gov.uk
01803 861377 pauline.henstock@swdevon.gov.uk

Recommendations:

It is recommended that Members approve:

1. The wording of the Letter of Representation (Appendix A)
2. The audited Statement of Accounts for the financial year ended 31 March 2020 (Appendix B).

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 2019/20. **Following approval of the accounts, the Chairman of the Audit Committee is required to sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. **Following approval of its wording, the Chairman of the Audit Committee and the Section 151 Officer (Director of Strategic Finance) are required to sign the Letter of Representation.**

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 was brought forward from 2017/18. Since then the Council has been required to publish the draft SOA by 31 May, one month earlier than previously. However, due to the Covid-19 pandemic the 2019/20 statutory timetable was extended. On 22 April 2020 the Ministry for Housing, Communities & Local Government wrote to all Local Authority Chief Executives in England, confirming that the draft accounts must be approved by 31 August 2020 at the latest. This is prior to the period for exercise of public rights which must commence on or before the first working day of September 2020. The letter also stated that local authorities in England must publish their audited SOA by 30 November 2020. This deferral of the publication dates amending the 2015 Regulations for 2019/20 is detailed in The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 (SI 2020 No 4040).
- 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 Statement, Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow.
- 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 2019/20 shown in Appendix C reflects the reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The requirements include:

- An acknowledgement of responsibility for ensuring there is a sound system of governance.
- A reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment.
- An opinion on the level of assurance that the governance arrangements can provide.
- An agreed action plan.
- A conclusion.

The grey shading in Appendix C shows the changes to the Annual Governance Statement (AGS), following the audit of the Accounts and the AGS.

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 2019/2020 of £112,000 is essentially a break-even position. ***The 2019/20 budget was £8.83 million and therefore the saving of £112,000 means that the actual spend was 1.3% less than the budget.*** The main variations from budget are shown on Page 9 of the Narrative Statement in the Statement of Accounts. The saving of £112,000 has been earmarked as one of the ten options approved by Members to address the 2020/21 budget shortfall due to the current Covid-19 pandemic. The Amended 2020/21 Budget report was approved by Council on 24 September 2020.

2) Capital Expenditure

Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £9.7 million in 2019/20.

The main areas of expenditure were as follows:

- purchase of an investment property (£5.0m)
- residential renovation grants renovation grants including disabled facilities grants (£1.8m)
- new industrial units (£0.8m)
- scheduled replacement of plant, vehicles and marine infrastructure (£0.6m)
- new play areas (£0.4m)
- affordable housing and investments in the community (£0.3m)
- coastal defence schemes (£0.2m)
- land purchase (£0.2m)

3) Audit of Accounts

The draft SOA was considered by the Audit Committee on 30 July 2020. These accounts are required to be audited by the Council's external auditors Grant Thornton, who give their opinion on the draft accounts. The annual audit was undertaken remotely due to the current pandemic between the middle of June and the beginning of October. Post audit changes have been incorporated within the SOA in line with the recommendations contained within their 'Audit Findings Report'.

4. Options available and consideration of risk

- 1) The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of the value of the Council's property, plant, equipment and investment properties. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS (Royal Institution of Chartered Surveyors) Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation.
- 2) At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values in the 2019/20 SOA have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.
- 3) Due to the Covid-19 pandemic the Council is undertaking monthly budget monitoring reports. In addition an amended budget was approved by Members at Council on 24 September 2020 to address the projected shortfall in 2020/21 of £1,313,000.

5. 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 (Director of Strategic Finance) are required to sign the Letter of Representation. The letter is attached at Appendix A. It is recommended that Members approve the wording of the Letter of Representation.

6. Implications

Legal/Governance		<p>The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015.</p> <p>The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS).</p>
Financial implications to include reference to value for money		<p>The financial implications to this report are that an under spend of £112,000 was generated in 2019/2020. This means that the Council's actual spend for 2019/2020 was 1.3% less than the budget set for the year.</p> <p>The saving of £112,000 has been earmarked as one of the ten options approved by Members to address the 2020/21 budget shortfall due to the current Covid-19 pandemic.</p> <p>As stated in Grant Thornton's 'The Audit Findings for South Hams', Grant Thornton anticipate issuing an unqualified value for money conclusion. They have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
Risk		<p>Public Accountability – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is recognised by statute as representing proper accounting practice.</p> <p>Resource Planning – the Council takes into account any significant issues when developing the Council's Medium Term Financial Strategy.</p>
Supporting Corporate Strategy		<p>The Annual Statement of Accounts and Annual Governance Statement support all of the six Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing, as both encompass and summarise everything that the Council does in monetary</p>

		<p>terms.</p> <p>In particular for the 'Council Theme', the Accounts summarise how the Council is delivering efficient and effective services and demonstrating strong financial management and strategic financial planning.</p> <p>Our Guiding Principles of the Corporate Strategy are 'to provide value for money and good customer service'. See comments above on the annual Value for Money audit opinion.</p>
Climate Change - Carbon / Biodiversity Impact		None directly arising from this report.
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.

Supporting Information

Appendix A – Letter of Representation

Appendix B – Statement of Accounts 2019/20

Appendix C – Annual Governance Statement 2019/20

Background Papers:

Finance Community of Practice final accounts working papers.
Audit Committee 30 July 2020 – Draft Statement of Accounts 2019/20.

Approval and clearance of report

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

Direct telephone: 01803 861413
E-Mail: lisa.buckle@swdevon.gov.uk

Our ref: Letter of Representation
Date: 15 October 2020

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

Dear Sirs

South Hams District Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of South Hams District Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements. In particular, we consider the CCLA investments to be long-term in nature and have no plans to redeem them within 12 months.
- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 15 October 2020

Yours faithfully

Name: Councillor T Holway

Position: Chairman of the Audit Committee

Date: 15 October 2020

Name: Mrs L Buckle

Position: Corporate Director for Strategic Finance

Date: 15 October 2020

Signed on behalf of the Council



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



**South Hams
District Council**

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Statement of Accounts 2019/20

The Statement of Accounts 2019/20 can be made available in large print, Braille, tape format or other languages upon request.

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

Section 1

Narrative Statement

Introduction to the 2019/20 Statement of Accounts by Councillor Pearce, Leader of South Hams District Council



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

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

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

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

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

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

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

Councillor Pearce, Leader of the Council

Foreword by the Chief Executive



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

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

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

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

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

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

Andy Bates, Chief Executive

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



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

- Understand the financial position of the Council as at 31 March 2020 and how the Council has performed against the budget set for 2019/20
- Be assured that the financial position of the Council is secure, with a degree of resilience.

This Narrative Statement provides information about South Hams District Council, including the key issues affecting the Council and its Accounts. It is very important to us to provide residents and other stakeholders with the confidence that the public money for which we are responsible has been properly accounted for. We have embedded financial management disciplines, processes and procedures.

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

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

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

Mrs Lisa Buckle BSc (Hons), ACA

Corporate Director for Strategic Finance (S151 Officer)
NARRATIVE STATEMENT – INTRODUCTION

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

REVIEW OF THE YEAR – THE REVENUE BUDGET

2. *The 2019/20 budget for South Hams was £8.83 million. A surplus of £112,000 means that the actual spend was 1.3% less than the budget. This saving will go into the Council's Unearmarked Reserves which now stand at £2 million.* The main components of the General Fund budget for 2019/20 and how these compare with actual income and expenditure are set out below:

	Estimate	Actual	Difference
	£000	£000	Cost/ (Saving) £000
Cost of services (after allowing for income and reserve contributions)	6,552	6,773	221
Parish Precepts	2,464	2,464	-
Interest and Investment income	(183)	(372)	(189)
Amount to be met from Government grants and taxation including parish precepts	8,833	8,865	32
<i>Financed from:</i>			
Business Rates	(1,897)	(1,897)	-
Business Rates Pooling Gain for 2019/20	(100)	(238)	(138)
Council Tax (including parish precepts)	(6,316)	(6,316)	-
Surplus on Collection Fund	(112)	(112)	-
Rural Services Delivery Grant	(408)	(408)	-
Business Rates Levy Surplus Grant	-	(6)	(6)
SURPLUS FOR 2019/20	-	(112)	(112)

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

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

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

4. The surplus on the General Fund of £112,000 is essentially a break-even position and represents less than 0.2% of the Council's gross turnover in 2019/20 of £67 million.
5. The table below shows a reconciliation of the position shown on the bottom of the Comprehensive Income and Expenditure Statement and the reported surplus for the 2019/20 financial year.

	£000
Total Comprehensive Income and Expenditure Statement	1,175
Surplus on the revaluation of Property, Plant and Equipment	5,557
Deficit on the revaluation of Financial Instruments	(338)
Remeasurements of the net defined benefit pension liability	(350)
Transfers to earmarked reserves	705
The detail of the items below are shown in Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations' in the General Fund Balance column.	
Adjustments primarily involving the Capital Adjustment Account	(6,929)
Adjustments primarily involving the Capital Grants Unapplied Account	96
Adjustments primarily involving the Capital Receipts Reserve	432
Adjustments primarily involving the Pensions Reserve	415
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	(78)
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	(789)
Adjustments primarily involving the Accumulated Absences Account	(8)

Surplus for the 2019/20 financial year	(112)
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6. A summary of the main variances to budget in 2019/20 is provided below:

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

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

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

Pension Liability

7. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The overall impact on the General Fund of the IAS 19 entries is neutral.
8. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2020 of £48.5 million. This compares to £48.6 million as at 31 March 2019. The deficit is derived by calculating the pension assets and liabilities at 31 March 2019. See Note 35 for further information.

Business Rates

9. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline or if a Council's income from business rates falls due to successful business rates appeals.
10. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value.
11. In 2019/20 there has been a £436,000 increase in the provision for appeals within the Collection Fund. The balance on the Business Rates Collection Fund at 31 March 2020 is a small surplus of £63,000 (£2.035m surplus in 2018/19). South Hams District Council's share of the surplus is 40% (£25,000).
12. The significant reduction in the surplus on the Business Rates Collection Fund relates to the unwinding of the business rates appeals provision made in previous years. This income was released to the Council's General Fund in 2018/19. Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income. The balance on this reserve is £6.19m at 31 March 2020 (£5.11m as at 31 March 2019).
13. Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income. In

2019/20 the balance of the Business Rates Retention Scheme (BRRS) earmarked reserve increased by £1.08m to £6.19m as at 31 March 2020 (£5.11m at 31 March 2019). This reflects the additional Business Rates income generated for the District in 2019/20 following the closure of the Business Rates Collection Fund at the year end.

14. In 2019/20 budgeted income for Business Rates was £1.9m, however income generated amounted to £2.98m. This additional income was transferred to the BRRS earmarked reserve, which is held to address any future volatility in funding from the complex accounting arrangements for Business Rates. Some of this additional business rates income is due to timing differences in the way the Collection Fund operates and part of the funding will be needed to meet future years' budgets for business rates, in particular when business rates baselines are due to be re-set in the future.

Trading Company

15. South Hams District Council and West Devon Borough Council set up a trading company, Servaco Limited, on 4th September 2014. This is a company limited by shares. The company has not traded in 2019/20 and a set of statutory dormant Accounts will be filed with Companies House for the period 1 April 2019 to 31 March 2020. The future of Servaco Limited will be reviewed during 2020/21.

Sherford Community Land Trust

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

Housing Company

17. In February 2020, the Council agreed to set up a Housing Company in the form of a Community Benefit Society (CBS), to support the Council own and manage rented housing stock. The CBS would be capable of holding the affordable housing developed by the community housing programme and also that purchased from developers. On 21 March 2019, Council approved (Minute CM 74/18) community housing

development expenditure of up to £8.5million, to build out four community housing schemes, delivering 55 residential units.

Borrowing

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

Capital spending

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

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

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

20. At 31 March 2020 the Council had investments of £1.5 million with the CCLA Property Fund and £2 million with the CCLA Diversified Income Fund.
21. Upon transition to IFRS 9 – Financial Instruments on 1 April 2018, and in accordance with paragraphs 5.7.5 and 7.2.8 (b) of IFRS9, South Hams District Council makes an irrevocable election to present in other comprehensive income, changes in the fair values of its equity instruments. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds these investments as

a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

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

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

FINANCIAL NEEDS AND RESOURCES

23. The Authority maintains both capital and revenue reserves. The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.
24. General Fund reserves (which include earmarked reserves) have increased by £817,000 from the preceding year and stand at £16.0 million at 31 March 2020.
25. The General Fund Balance (un-earmarked reserve) has increased by £112,000 in 2019/20 and totals £2.010 million. Revenue reserves may be used to finance capital or revenue spending plans. The level of Reserves are assessed as adequate for the Council's operations.
26. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2020 amounts to £3.4 million compared to £4.4 million at the end of the previous year.
27. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance

capital or revenue expenditure. In addition the Financial Instruments Revaluation Unusable Reserve has been created in 2018/19 following the implementation of IFRS9 Financial Instruments on 1 April 2018.

28. When reviewing the amount of overall reserves held, consideration should be given to the possible implications of the Pension Fund deficiency disclosed within the notes to the balance sheet. The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £48.5 million at 31 March 2020. This disclosure follows the implementation of the International Accounting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.
29. It is important to gain an understanding of the accounts to appreciate the nature of this reported deficiency, which is based on a “snapshot” of pension assets and liabilities at the year end. This is quite different from the valuation basis used for the purposes of establishing the employer’s contribution rate and fund shortfall, which are calculated using actuarial assumptions spread over a number of years.

Newly Elected Council

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

Senior & Extended Leadership Team Restructure

31. Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements. A report was presented to Council on 21 February 2019 (Council Minute 55/18) that outlined a review of the Staffing Establishment.
32. Following a restructure and recruitment process, the Senior Leadership Team was finalised in September 2019 to include the following posts:
 - Chief Executive & Head of Paid Service
 - Director of Customer Service and Delivery
 - Director of Place and Enterprise
 - Director of Governance & Assurance
 - Director of Strategic Finance
33. This year South Hams and West Devon Councils have concluded a restructure of their Senior Leadership Team and Extended Leadership Team, to ensure that we are aligned to best deliver our corporate priorities.

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

Deletion of the following posts

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

Creation of the following posts

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

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

Annual Governance Statement (AGS)

36. The Council's Annual Governance Statement sets out the arrangements for governance which the Council has in place. The AGS is published alongside the Accounts for 2019/20.

Peer Challenge

37. In 2018, the Council requested that the Local Government Association ("LGA") undertake a Peer Challenge of South Hams District Council, jointly with West Devon Borough Council in order to identify their strengths and any areas for improvement.

38. Significant progress has been made in progressing the action plan and a follow-up progress review will be made by the LGA in 2020.

LOOKING FORWARD TO THE FUTURE AND NEXT STEPS

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

New Chief Executive

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

Climate Emergency Response

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

Covid-19 Community Leadership

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

Customer Satisfaction

50. In 2019 we undertook a Customer Satisfaction Survey for the second year. This demonstrated a significant improvement of satisfaction with an 11.8% increase in our 'Getting it right first time' score which is

encouraging during a year where across all industries, average satisfaction scores have decreased.

51. While we are extremely pleased with the improvements demonstrated in our Customer Satisfaction rating in 2019/20, we will continue to focus on making improvements to our customer experience. In November we held all staff away days which focused on further improving the customer experience and identifying steps we can take to make our customers interaction with us easier.
52. During 2020/21 we will be implementing new technology platforms for the majority of our customer online and back-office functions. Based on Low-Code technology, we will aim to review every online process to ensure a seamless customer interaction.

Working with communities

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

Our financial future

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

Going Concern

58. There is a high degree of uncertainty about future levels of funding for local government. The Council is awaiting the announcement from the Government on the Comprehensive Spending Review for 2021-22 to

2023-24. The other areas adding to the uncertainty are the postponement of the implementation of the Fair Funding Review, the future resetting of business rates baselines, the impact of the COVID19 pandemic on major income streams and the future of the New Homes Bonus scheme. South West Councils are lobbying Government for an extension into 2021-22, to the current 'income backed guarantee scheme' announced by the Government for losses on major income streams due to COVID.

59. In 2020-21 a shortfall of £1.3million has been projected due to the impact of the COVID pandemic on the Council's financial position. At Council on 24th September 2020, Members approved an Amended Budget for 2020-21 which addressed this shortfall. In October 2020, the Executive will consider the Medium Term Financial Strategy and draft Budget Proposals for 2021-22 will be considered by the Executive on 3rd December 2020.
60. Based on the S151 Officer's management assessment (which has included consideration of the Government support available, the Council's current level of reserves, the level of working capital including cash and investments, a sensitivity analysis on forecast cashflows, income from local taxation and borrowing headroom etc.), there is no material uncertainty and as a result the Accounts for 2019-20 are prepared on a going concern basis.

Issue of the Accounts

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

ACHIEVEMENTS FOR 2019/20

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

COUNCIL - Delivering efficient and effective services

Action	Progress 2019/20
Improved the efficiency of our IT systems	<p>This year we have made investments in our IT system, firstly by implementing a new Benefits platform that enables users to sign in to an account to see the progress of their benefits claims.</p> <p>We have also committed to investing £1.5m in improving our other customer facing IT systems by replacing our current technology with new state of the art platforms. The new system will enable us to be much more responsive to customer needs and ensure a better overall customer experience. This will be a significant project to be delivered in 2020/21</p>
Positive progress on our Customer Improvement programme	<p>In 2018 we joined the Institute of Customer Service and undertook our first Customer Satisfaction benchmarking. Following the results, we started a programme of improvements to improve our customer experience. This year we undertook a follow up survey which showed a real improvement including an 11.8% improvement in our 'Getting it right first time' score. This is a real achievement at a time when across all sectors, the average customer satisfaction levels are decreasing. Our benchmarking score is now 4.1 times higher than the national local council average.</p> <p>Calls to our call centre reduced by 14,110 on last year, along with a reduction in our online contact. We see this as a positive indication that we're getting more right first time.</p>
Elections & Member Induction	<p>In May 2019 we held District Council as well as Town and Parish Council elections followed by the General Election in December. An incredibly busy year for the elections team.</p> <p>District Councillors undertook a comprehensive Induction programme with over 40 hours of induction and training offered to each Councillor.</p>
New Waste and Recycling Contract	<p>The new Waste and Recycling contract went live in April 2019 which has already seen an improvement in the number of missed collections.</p>
Restructure of Management team	<p>It important that the Council remains efficient in deployment of its staff. A recommendation of the Peer Challenge in 2018 was that we should look to realign our management team to better support our future priorities. As a result, the Senior and Extended Leadership Teams and Management functions of the Council were restructured with the new team in place for January 2020.</p>

This not only enables us to focus on our priorities, but has also reduced our management costs by £120,000 across the two Councils (£60,000 for South Hams).

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

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

HOMES - Enabling homes that meet the needs of all

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

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

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

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

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

	Additional funding of £153k has been awarded by Defra to extend the programme during 2019-2020
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WELLBEING - Supporting positive, safe and healthy lifestyles and helping those most in need




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





















	have launched schemes to enable employees to purchase additional annual leave and take career breaks.
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









PERFORMANCE INDICATORS FOR 2019/20











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











Balanced Scorecard

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

Customer					
Q1	Q2	Q3	Q4	Yr.	
					Waste Recycling Rate %
					Residual waste per household
					Contact centre calls answered within 20 seconds
					Average number missed waste and recycling collections per 100,000

Process					
Q1	Q2	Q3	Q4	Yr.	
					Processing speed of new benefit claims
					Processing speed – change of circumstances
					% of Major planning applications determined on time (with extensions)

Financial					
Q1	Q2	Q3	Q4	Yr.	
					% of Non-Domestic Rates collected
					% of Council Tax collected

Organisational Capacity					
Q1	Q2	Q3	Q4	Yr.	
					Working days lost to sickness absence
					% of customer contact through online interaction



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



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



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



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

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



£666,271
Disabled facility grants



1878 Play Park Inspections
undertaken



3.5m

individual
household
waste
collections
per annum



£40,000

Community
Grant Funding



104,386
calls handled

348

households
where
homelessness
was prevented



109

abandoned vehicles
investigated



17,560
TONNES

household
recycling
collected

PRINCIPAL RISKS AND UNCERTAINTIES

A risk and opportunity management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through

the understanding of risks, whether a positive opportunity or a threat and the likely impact. A Statutory Officers' Panel was set up in 2015/16 and a key role of this Panel is strategic risk management. This Panel consists of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer.

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

Risk Title	What is (or are the) Uncertainties	Latest Note (as at June 2020)
Adherence to Medium Term Financial Strategy	<p>Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area.</p> <p>The latest forecast for the Devon Business Rates Pooling gain is over £7 million for 2019/20, with the SHDC share of the pooling gain being around £300,000.</p>	<p>The Budget for 2020-21 was approved by Council in February 2020. Waste contract procurement has delivered significant financial savings. Grounds maintenance business review and ICT review to be carried out to deliver either growth opportunity or efficiencies in working methods.</p> <p>Since the budget was set in February, the impact of Covid-19 has begun impacting on the Council's finances. The gross service expenditure budget for 2020/21 was set at £40 million (£9.411 million net). There is forecast to be a budget shortfall of £2.588 million (May 2020 position) when compared against the total budget set for 2020/21, due mainly to the impact of the Covid 19 pandemic.</p> <p>The significant extent of these predicted losses present imminent funding challenges for the Council. With income falling, unemployment expected to rise and a lack of certainty around funding, there are going to be difficult decisions to be made. A Members' Budget Workshop will be arranged for August 2020.</p> <p>Council will be asked to consider a revised budget for 2020-21 at the September 2020 cycle of meetings.</p>
Risk Title	What is (or are the) Uncertainties	Latest Note (as at June 2020)

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

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

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

Section 2

Core Financial Statements

SECTION 2A COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

2018/19			2019/20			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Segment	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
32,292	(26,568)	5,724	Customer First*	34,111	(23,448)	10,663
11,715	(7,132)	4,583	Commercial Services**	9,953	(7,173)	2,780
1,382	(248)	1,134	Strategy and Commissioning	1,437	(565)	872
3,762	(1,304)	2,458	Support Services	3,679	(1,349)	2,330
907	(32)	875	Centrally Held Costs	1,316	(83)	1,233
336	-	336	Material Items (Note 2)	45	-	45
50,394	(35,284)	15,110	Cost of Services	50,541	(32,618)	17,923
		3,301	Other operating expenditure (Note 9)			2,599
		(1,257)	Financing and investment income and expenditure (Note 10)			130
		(14,803)	Taxation and non-specific grant income (Note 11)			(14,608)
		2,351	(Surplus) or Deficit on Provision of Services			6,044
		(10,885)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(5,557)
		(5,848)	Remeasurements of the net defined benefit liability			350
		23	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income			338
		(16,710)	Other Comprehensive Income and Expenditure			(4,869)
		(14,359)	Total Comprehensive Income and Expenditure			1,175

* Customer First net expenditure has increased by approximately £5m, due to capital accounting adjustments in respect of impairment. In addition both gross income and gross expenditure in Customer First have decreased by approximately £3m due to a reduction in Housing Benefit payments and subsidy following the transition to Universal Credit.

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

SECTION 2B MOVEMENT IN RESERVES STATEMENT

Movement in Reserves Statement

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

2019/20	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 2019/20 £000
Balance at 31 March 2019 carried forward	1,898	13,293	15,191	3,537	828	19,556	37,165	56,721
Movement in Reserves during 2019/20								
Total Comprehensive Income and Expenditure	(6,044)	-	(6,044)	-	-	(6,044)	4,869	(1,175)
Adjustments between accounting basis and funding basis under regulations (Note 7)	6,861	-	6,861	(478)	(487)	5,896	(5,896)	-
Transfers to/from Earmarked Reserves (Note 8)	(705)	705	-	-	-	-	-	-
Increase/ (Decrease) in Year	112	705	817	(478)	(487)	(148)	(1,027)	(1,175)
Balance at 31 March 2020 carried forward	2,010	13,998	16,008	3,059	341	19,408	36,138	55,546

SECTION 2B MOVEMENT IN RESERVES STATEMENT

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

SECTION 2C BALANCE SHEET

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

31 March 2019 £000		Notes	31 March 2020 £000
76,968	Property, Plant and Equipment	12	76,917
14,150	Investment Properties	13	19,156
134	Intangible Assets		52
1,477	Long Term Investments	14	3,139
1	Long Term Debtors	15	-
92,730	Long Term Assets		99,264
14,500	Short Term Investments	14	15,500
-	Assets Held for Sale		452
75	Inventories		69
6,454	Short Term Debtors	15	6,135
11,929	Cash and Cash Equivalents	17	16,819
32,958	Current Assets		38,975
(8,222)	Short Term Creditors	18	(9,193)
-	Short Term Borrowing	14	(92)
-	Revenue Grants in Advance	30	(2,950)
(1,436)	Provisions	19	(1,611)
(9,658)	Current Liabilities		(13,846)
(51)	Long Term Creditors	18	(61)
(5,099)	Long Term Revenue Grants in Advance - Section 106 Deposits	30	(5,707)
(5,490)	Long Term Borrowing	14	(14,475)
(48,569)	Pensions Liability	35	(48,504)
(100)	Capital Grants - Receipts in Advance	30	(100)
(59,309)	Long Term Liabilities		(68,847)
56,721	Net Assets		55,546
19,556	Usable Reserves	20	19,408
37,165	Unusable Reserves	21	36,138
56,721	Total Reserves		55,546

The notes on pages 37 to 122 form part of these financial statements. The unaudited accounts were issued on 23 July 2020. The audited accounts were issued on 15 October 2020.

SECTION 2D CASH FLOW STATEMENT

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

2018/19 £000		2019/20 £000
2,351	Net (surplus) or deficit on the provision of services	6,044
(7,814)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 22)	(9,263)
2,312	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23)	2,205
(3,151)	Net cash outflows/ (inflow) from Operating Activities	(1,014)
(1,623)	Net increase/(decrease) in Investing Activities (Note 24)	8,693
13,514	Net cash outflow/(inflow) from Financing Activities (Note 25)	(12,569)
8,740	Net (increase) or decrease in cash and cash equivalents	(4,890)
20,669	Cash and cash equivalents at the beginning of the reporting period	11,929
11,929	Cash and cash equivalents at the end of the reporting period (Note 17)	16,819

Section 3

Notes to the

Financial Statements

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

The items in the Authority's Balance Sheet at 31 March 2020 for which there are significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Property, Plant and Equipment</p>	<p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS (Royal Institution of Chartered Surveyors) Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p> <p>Assets are depreciated over useful lives which are estimated annually. The carrying value of Property, Plant and Equipment as at 31 March 2020 is £77 million.</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in an impact on the financial statements of approximately £7.7m.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to reduce by 1 year across all assets, this would have an impact of approximately £149,000 on the Council's finances.</p>

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Fair value measurement of investment property	<p>The Council's external valuers use recognised valuation techniques to determine the fair value of Investment Property each year. This involves making assumptions and estimates in terms of how market participants would price the property. The fair value of Investment Properties as at 31 March 2020 is £19 million.</p>	<p>The valuations for our Investment Properties are subject to the same uncertainties as those described above.</p> <p>In addition, the fair value estimates may differ from the actual prices that could be achieved in an arm's length transaction. If the fair value estimates were to change by 2%, this would have a £380,000 impact on the Council's finances.</p>
Business Rates Appeals Provision	<p>Estimates have been made for the provision for refunding ratepayers who may successfully appeal against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed. The total appeals provision as at 31 March 2020 is £4 million, of which the Council's share is 40% (£1.6 million).</p> <p>Due to the uncertain impact of Covid-19 on businesses and potential rateable value appeals it is possible that current assumptions may not be fully accurate.</p>	<p>Whilst the uncertainty around Covid-19 means any estimate of the impact would be highly uncertain, the impact would feed through in to the collection fund balance which would then be taken account of in future years' budgets.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>The value of pension assets is estimated based upon information available at the Balance Sheet date, although these valuations could be earlier. The actual valuations at the Balance Sheet date, which may not be available until sometime later, may give a different value of pension assets, but this difference is not considered</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2.5 million.</p> <p>The assumptions interact in complex ways. For example, in 2019/20, the Authority's actuaries advised that the pension liability has reduced by £1 million as a result of a change in "demographic assumptions" and decreased by £12 million as a result of a change in "financial assumptions".</p> <p>Please refer to Note 35 for further</p>

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	<p>to be material.</p> <p>The Pension Fund’s Actuary has provided updated figures for the year based on the valuation in 2019. This valuation is based upon cash flow and assets values as at 31 March 2020.</p> <p>Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out during 2022/23 (as at 31 March 2022) and will set contributions for the period from 1 April 2023 to 31 March 2026.</p> <p>The carrying value of the pensions liability as at 31 March 2020 is £48.5 million.</p> <p>Movements in the value of investments due to current economic uncertainty will affect the valuation of the pension liability. This will include the impact on the value of Investment Properties held by the Local Government Pension Scheme on behalf of South Hams District Council.</p>	<p>information about the assumptions used by the actuaries.</p> <p>If the value of investments is found to have changed from the estimates used by the actuaries, it will impact the overall value of the pension liability. For instance, a 5% increase in the pension liability would have an impact of £2.4m on the financial statements.</p>

2. MATERIAL ITEMS OF INCOME AND EXPENSE

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

	2018/19	2019/20
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SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2019/20 was approved for issue by the Section 151 Officer & Strategic Finance Lead on 23 July 2020. The Statement of Accounts were then reviewed by the Audit Committee on 30 July 2020. The audited accounts were authorised for issue on 15 October 2020. This is also the date up to which events after the reporting period have been considered. There are no events which took place after 31 March 2020 which require disclosure.

4. EXPENDITURE AND FUNDING ANALYSIS

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

2019/20	Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis (Note 4A) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Customer First	2,782	7,881	10,663
Commercial Services	2,485	295	2,780

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Strategy and Commissioning	1,053	(181)	872
Support Services	2,361	(31)	2,330
Centrally Held Costs	1,233	-	1,233
Material Items	45	-	45
Net Cost of Services	9,959	7,964	17,923
Other income and expenditure	(10,776)	(1,103)	(11,879)
(Surplus)/Deficit on Provision of Services	(817)	6,861	6,044

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

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

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

4A. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

Adjustments between Funding and Accounting Basis

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2019/20	Adjustments for capital purposes (Note A) £000	Net change for the pensions adjustments (Note B) £000	Other Differences (Note C) £000	Total adjustments £000
Customer First	8,636	(755)	-	7,881
Commercial Services	831	(536)	-	295
Strategy and Commissioning	-	(181)	-	(181)
Support Services	38	(77)	8	(31)
Net Cost of Services	9,505	(1,549)	8	7,964
Other income and expenditure from the Expenditure & Funding Analysis	(3,104)	1,134	867	(1,103)
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	6,401	(415)	875	6,861

Adjustments between Funding and Accounting Basis				
2018/19 Comparatives	Adjustments for capital purposes (Note A) £000	Net change for the pensions adjustments (Note B) £000	Other Differences (Note C) £000	Total adjustments £000
Customer First	2,776	778	-	3,554
Commercial Services	1,063	552	-	1,615
Strategy and Commissioning	2	187	-	189
Support Services	31	79	10	120
Net Cost of Services	3,872	1,596	10	5,478
Other income and expenditure from the Expenditure & Funding Analysis	(3,497)	1,362	12,670	10,535
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	375	2,958	12,680	16,013

Note A: Adjustments for Capital Purposes

Adjustments for capital purposes reflect:

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

Other income and expenditure from the Expenditure and Funding Analysis – this adjusts for statutory charges for capital financing and other

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

capital contributions are deducted. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written-off.

Note B: Net Change for the Pensions Adjustments

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

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

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

Note C: Other Differences

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

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

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

5. SEGMENT REPORTING

The net expenditure figures in the Expenditure and Funding Analysis (Note 4) include the following particular amounts of income and expenditure:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2019/20	Customer First	Commercial Services	Strategy and Commissioning	Support Services	Financing & Investment Income	Total
	£000	£000	£000	£000	£000	£000
Expenditure						
Housing Benefit Payments*	16,854					16,854
Waste Contract Payments**		3,287				3,287
Depreciation	1,523	782		3		2,308
Income						
Housing Benefit Subsidy*	(16,628)					(16,628)
Dartmouth Lower Ferry fees and charges		(905)				(905)
Car Parking fees and charges		(3,196)				(3,196)
Planning fees and charges	(1,178)					(1,178)
Salcombe Harbour fees and charges		(1,156)				(1,156)
Trade Waste fees and charges		(825)				(825)
Income from other external sources	(267)	(672)				(939)
Investment Properties					(721)	(721)

* Housing Benefit Payments and Subsidy reduced by approximately £3 million between 2018/19 and 2019/20. This significant decrease is due to the ongoing transition from Housing Benefit to Universal Credit.

**There is no comparator for Waste Contract Payments in 2018/19 as the waste service was only outsourced from 1 April 2019.

2018/19	Customer First	Commercial Services	Strategy and Commissioning	Support Services	Financing & Investment	Total
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SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Comparatives	£000	£000	£000	£000	Income £000	£000
Expenditure						
Housing Benefit Payments*	19,703	-	-	-	-	19,703
Depreciation	1,526	837	2	3	-	2,368
Income						
Housing Benefit Subsidy*	(19,481)	-	-	-	-	(19,481)
Dartmouth Lower Ferry fees and charges	-	(850)	-	-	-	(850)
Car Parking fees and charges	-	(3,170)	-	-	-	(3,170)
Planning fees and charges	(1,191)	-	-	-	-	(1,191)
Salcombe Harbour fees and charges	-	(1,091)	-	-	-	(1,091)
Trade Waste fees and charges	-	(725)	-	-	-	(725)
Income from other external sources	(245)	(501)	-	-	-	(746)
Investment Properties	-	-	-	-	(633)	(633)

6. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

Expenditure and Income Analysed by Nature	2018/19	2019/20

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	£000	£000
Employee Benefits Expenses*	16,557	10,949
Other Service Expenses	29,998	30,153
Depreciation, Amortisation and Impairment**	2,322	9,494
Interest Payments	120	177
Pension Fund Administration Expenses	68	71
Net Interest on the net defined benefit liability	1,290	1,067
Losses/(Gains) on disposal of non current assets***	1,037	64
Total Expenditure	51,392	51,975
Fees, Charges and Other Service Income	(14,173)	(14,264)
Interest and Investment Income	(292)	(385)
Income from Council Tax and Business Rates****	(7,796)	(5,963)
Revenue Grants and Contributions	(25,061)	(23,473)
Capital Grants and Contributions	(1,482)	(1,774)
Other Income	(237)	(72)
Total Income	(49,041)	(45,931)
(Surplus) or Deficit on Provision of Services	2,351	6,044

* The reduction in Employee Benefit Expenses is mainly due to a decrease in the accounting adjustment for pensions (IAS19) of £3.2m. This is shown in Note 4A - Note to the Expenditure and Funding Analysis. In addition, there are significant reductions of £2.4m following the implementation of the Waste Collection contract.

** The value of Leisure Centres was revalued downwards by £5m in 2019/20, giving rise to the significant increase seen in Depreciation, Amortisation and Impairment.

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

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

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

2019/20	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	2,308			(2,308)
Revaluation losses/(gains) on Property, Plant and Equipment	5,316			(5,316)
Movements in the market value of Investment Properties	(10)			10
Amortisation of Intangible Assets	92			(92)
Capital grants and contributions applied	(1,677)			1,677
Revenue expenditure funded from capital under statute (REFCUS)	1,788			(1,788)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	424			(424)
Repayment of mortgage and parish loans		1		(1)
Insertion of items not debited or credited to the CIES:				
Statutory provision for the financing of capital investment	(34)			34
Capital expenditure charged against the General Fund	(1,278)			1,278
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(96)		96	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(583)	583
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(364)	364		-
Costs of disposal funded from capital receipts	4	(4)		-
	Usable Reserves			

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2019/20	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	(72)	72		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(911)		911
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	1,097			(1,097)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,512)			1,512
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	78			(78)
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	789			(789)
Adjustments primarily involving the Accumulated Absences 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	8			(8)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2019/20	6,861	(478)	(487)	5,896

	Usable Reserves	
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SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2018/19 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	2,368			(2,368)
Revaluation losses/(gains) on Property, Plant and Equipment	490			(490)
Movements in the market value of Investment Properties	(1,550)			1,550
Amortisation of Intangible Assets	84			(84)
Capital grants and contributions applied	(869)			869
Revenue expenditure funded from capital under statute (REFCUS)	930			(930)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,628			(1,628)
Write down of bank investment	50			(50)
Repayment of mortgage and parish loans		1		(1)
Insertion of items not debited or credited to the CIES:				
Capital expenditure charged against the General Fund	(1,314)			1,314
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(613)		613	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(198)	198
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(591)	591		-
Transfer of unattached capital receipts	(238)	238		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(260)		260

	Usable Reserves	
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SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2018/19 Comparatives	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)	4,688			(4,688)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,730)			1,730
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	7			(7)
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*	12,663			(12,663)
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements*	10			(10)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2018/19	16,013	570	415	(16,998)

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

8. TRANSFERS TO/ FROM EARMARKED RESERVES

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

This note details the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20. The purpose of some of the more significant earmarked reserves are shown below:

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

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

Business Rates Retention Scheme - The Business Rates Retention Earmarked reserve covers any possible funding issues from the new accounting arrangements.

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

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

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

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

2019/20	Balance at	Transfers	Transfers	Balance at
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SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

EARMARKED RESERVES	31.3.2019	Out	In	31.3.2020
	£000	£000	£000	£000
General Fund				
Affordable Housing	988	(282)	-	706
Community Parks and Open Spaces	107	(86)	17	38
Pension Fund Strain	-	(70)	99	29
Repairs and Maintenance	45	(39)	197	203
Members Sustainable Community	6	-	22	28
Marine Infrastructure Reserve	210	-	58	268
Land and Development	94	(5)	121	210
Ferry Repairs and Renewals	455	(96)	87	446
Economic Initiatives	27	(21)	-	6
Vehicles and Plant Renewals	1,264	(669)	588	1,183
Pay and Display Equipment	123	-	21	144
On-Street Parking	44	-	-	44
ICT Development	126	(54)	50	122
Sustainable Waste Management	29	-	25	54
District Elections	78	(88)	10	-
Beach Safety	14	-	-	14
Planning Policy & Major Developments	125	(18)	80	187
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	578	(183)	212	607
Capital Programme	84	(328)	270	26
New Homes Bonus	1,155	(685)	1,227	1,697
Renovation Grant Reserve	7	-	-	7
Business Rates Retention	5,114	(30)	1,108	6,192
Homelessness Prevention Reserve	112	-	-	112
Strategic Change	-	(30)	60	30
Innovation Fund (Invest to Earn)	17	(8)	-	9
Community Housing Fund	1,285	(792)	-	493
Leisure Services Reserve	57	-	-	57
Support Services Trading Reserve	43	-	-	43
Environmental Health Initiatives Reserve	20	-	-	20
S106 Monitoring Reserve	124	(22)	31	133
Economic Regeneration Reserve	379	(60)	-	319
Joint Local Plan Reserve	31	(10)	-	21
S106 Technical Support Reserve	20	(4)	-	16
Maintenance, Management and Risk Management Reserve	-	-	8	8
Sub Total	12,799	(3,580)	4,291	13,510
Specific Reserves – Salcombe Harbour				
Pontoons	213	(114)	63	162
Harbour Renewals	117	(16)	35	136
General Reserve	164	(23)	49	190
Sub Total	494	(153)	147	488
TOTAL EARMARKED REVENUE RESERVES	13,293	(3,733)	4,438	13,998
2018/19 Comparatives	Balance at	Transfers	Transfers	Balance at

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

EARMARKED RESERVES	31.3.2018 £000	Out £000	In £000	31.3.2019 £000
General Fund				
Affordable Housing	998	(10)	-	988
Community Parks and Open Spaces	111	(21)	17	107
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	249	(316)	112	45
Members Sustainable Community	53	(47)	-	6
Marine Infrastructure Reserve	152	-	58	210
Land and Development	67	(36)	63	94
Ferry Repairs and Renewals	459	(91)	87	455
Economic Initiatives	49	(22)	-	27
Vehicles and Plant Renewals	1,023	(249)	490	1,264
Pay and Display Equipment	102	-	21	123
On-Street Parking	44	-	-	44
ICT Development	140	(64)	50	126
Sustainable Waste Management	4	-	25	29
District Elections	68	-	10	78
Beach Safety	14	-	-	14
Planning Policy & Major Developments	228	(153)	50	125
Section 106 Agreements (no conditions)	38	-	-	38
Revenue Grants	372	(119)	325	578
Capital Programme	791	(888)	181	84
New Homes Bonus	869	(991)	1,277	1,155
Renovation Grant Reserve	7	-	-	7
Business Rates Retention-Note * overleaf	(8,641)	-	13,755	5,114
Homelessness Prevention Reserve	82	-	30	112
Strategic Change	-	(210)	210	-
16/17 Budget Surplus Contingency	25	(25)	-	-
Innovation Fund (Invest to Earn)	25	(8)	-	17
Community Housing Fund	1,671	(386)	-	1,285
Leisure Services Reserve	87	(30)	-	57
Support Services Trading Reserve	20	-	23	43
Environmental Health Initiatives Reserve	20	-	-	20
S106 Monitoring Reserve	137	(13)	-	124
Economic Regeneration Reserve	-	(96)	475	379
Joint Local Plan Reserve	-	(136)	167	31
S106 Technical Support Reserve	-	-	20	20
Sub Total	(736)	(4,010)	17,545	12,799
Specific Reserves – Salcombe Harbour				
Pontoons	162	-	51	213
Harbour Renewals	111	(35)	41	117
General Reserve	143	-	21	164
Sub Total	416	(35)	113	494
TOTAL EARMARKED REVENUE RESERVES – See Note * overleaf	(320)	(4,045)	17,658	13,293

Note* - Earmarked Reserves position as at 31 March 2018

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

(including the Business Rates Retention Earmarked Reserve)

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

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

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

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

9. OTHER OPERATING EXPENDITURE

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

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

11. TAXATION AND NON-SPECIFIC GRANT INCOME

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Rural Services Delivery Grant

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

12. PROPERTY, PLANT AND EQUIPMENT

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Movements in 2019/20	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Community Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2019	62,616	9,356	10,662	454	5,624	88,712
Additions	1,203	1,068	250		371	2,892
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	4,351					4,351
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	189				(5,575)	(5,386)
Derecognition – disposals	(127)	(625)				(752)
Assets reclassified (to)/from Held for Sale	(792)					(792)
Other movements in cost/ valuation - reclassification	23				(23)	-
At 31 March 2020	67,463	9,799	10,912	454	397	89,025
Accumulated Depreciation & Impairment at 1 April 2019	1,661	6,604	3,479	-	-	11,744
Charge for 2019/20	1,251	637	420			2,308
Depreciation written out to the Revaluation Reserve	(1,206)					(1,206)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(70)					(70)
Derecognition – disposals	(48)	(620)				(668)
Other movements in depreciation - reclassification						
At 31 March 2020	1,588	6,621	3,899	-	-	12,108
Balance Sheet amount at 31 March 2020	65,875	3,178	7,013	454	397	76,917
Balance Sheet amount at 31 March 2019	60,955	2,752	7,183	454	5,624	76,968

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Depreciation

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Capital Commitments

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

- New depot, Ivybridge £1,200,000

As a comparison, as at 31 March 2019 the Authority had entered into the following contracts for the construction or enhancement of Property, Plant and Equipment. These commitments related to:

- Leisure centre investment £200,000
- New units, Ermington £750,000

Revaluations

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

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

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

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

	Land and buildings £000	Vehicles, plant, furniture & equipment £000	Total £000
Valued at historical cost	-	3,178	3,178
Valued at current value in:			
2019/2020	23,677		23,676
2018/2019	41,032		41,032
2017/2018	82		82
2016/2017	-		-
2015/2016	1,084		1,084
Total	65,875	3,178	69,053

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Impairment Losses

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

13. INVESTMENT PROPERTIES

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

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

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

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

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

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

During 2019/20 the Council incurred capital expenditure totalling £5 million for the purchase of an Investment Property. This amount equated to the purchase

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

price of the commercial property plus transaction costs (e.g. stamp duty land tax) and directly attributable expenditure (costs incurred in successfully negotiating the sale terms and price and relevant professional fees e.g. legal costs) which were also capitalised in accordance with the Code.

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

14. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

Financial Liabilities

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

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

Financial Assets

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

- **Financial assets held at amortised cost** – These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specific amounts. The figure presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the Comprehensive Income and Expenditure Statement (CIES) is the amount receivable as per the loan agreement.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- **Fair Value Through Other Comprehensive Income (FVOCI)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- **Fair Value Through Profit and Loss (FVTPL)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

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

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

Summary of Financial Instruments

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Designated to Fair Value Through Other Comprehensive Income

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Statutory Override on Pooled Investments

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

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

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

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

Net Gains and Losses on Financial Instruments

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

	2018/19	2019/20
	£000	£000
Net gains/losses on: Financial Assets measured at fair value through other comprehensive income	(23)	(338)
Total Net Gains/(Losses)	(23)	(338)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Fair Value of Financial Instruments

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

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

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

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

Heritable Bank

At the 31 March 2020 the Council had £22,483 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that was affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank PLC is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank, Landsbanki.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

15. DEBTORS

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

16. DEBTORS FOR LOCAL TAXATION

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

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

17. CASH AND CASH EQUIVALENTS

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

18. CREDITORS

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

19. PROVISIONS

Provisions payable within twelve months of the Balance Sheet date are classified as current liabilities; provisions payable more than twelve months from the Balance Sheet date are classified as long term liabilities. No long term provisions were created in 2019/20 or 2018/19. The breakdown of the 2019/20 provision is shown in the following table:

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

Short term – Business Rates Appeals:

Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment is made about the likely success rate of appeals and their value. In 2019/20 there has been a £436,000 increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £175,000).

20. USABLE RESERVES

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

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

Earmarked Reserves - The Council has set aside monies for specific purposes e.g. vehicle and plant replacement and the funding of strategic issues. In addition, on an annual basis monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of business rates income volatility in future years. The movements in the 2019/20 Earmarked Reserves balance is explained in detail in the Narrative Statement.

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

21. UNUSABLE RESERVES

31.3.2019 £000		31.3.2020 £000
30,649	Revaluation Reserve	35,653
54,312	Capital Adjustment Account	49,429
(48,569)	Pensions Reserve	(48,504)
117	Council Tax Collection Fund Adjustment Account	39
814	Business Rates Collection Fund Adjustment Account	25
(23)	Financial Instruments Revaluation Reserve	(361)
(135)	Accumulated Absences Account	(143)
37,165	Total Unusable Reserves	36,138

Revaluation Reserve

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

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

31.3.2019 £000	31.3.2019 £000	Revaluation Reserve	31.3.2020 £000	31.3.2020 £000
	20,656	Balance at 1 April		30,649
11,456		Upward revaluation of assets	6,698	
(571)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(1,141)	
	10,885	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		5,557
(409)		Difference between fair value depreciation and historical cost depreciation	(412)	
(483)		Accumulated gains on assets sold or scrapped	(141)	
	(892)	Amount written off to the Capital Adjustment Account		(553)
	30,649	Balance at 31 March		35,653

Capital Adjustment Account

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2018/19 £000	2018/19 £000	Capital Adjustment Account	2019/20 £000	2019/20 £000
	54,780	Balance at 1 April		54,312
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(2,368)		▪ Charges for depreciation of non-current assets	(2,308)	
(490)		▪ Revaluation losses on Property, Plant and Equipment (PPE)	(5,316)	
1,550		▪ Revaluation gains/(losses) on Investment Properties	10	
(84)		▪ Amortisation of Intangible Assets	(92)	
(930)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,788)	
(1,628)		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(424)	
<u>(50)</u>		▪ Write down of bank investment	=	
	(4,000)	Total		(9,918)
483		Amounts of Revaluation Reserve balance written off on disposal or sale of PPE	141	
<u>409</u>		Adjusting amounts written out of the Revaluation Reserve	<u>412</u>	
	892	Net written out amount of the cost of non-current assets consumed in the year		553
		Capital financing applied in the year:		
260		• Use of the Capital Receipts Reserve to finance new capital expenditure	911	
869		• Capital grants and contributions credited to the CIES that have been applied to capital financing	1,677	
198		• Application of grants to capital financing from the Capitals Grants Unapplied Account	583	
-		• Statutory provision for the financing of capital investment charged against the General Fund	34	
1,314		• Capital expenditure charged against the General Fund	1,278	
<u>(1)</u>		• Repayment of parish loans	<u>(1)</u>	
	2,640	Total		4,482
	54,312	Balance at 31 March		49,429

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Pensions Reserve

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

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

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.

31.3.2019 £000	Council Tax Collection Fund Adjustment Account	31.3.2020 £000
124	Balance at 1 April	117
(7)	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(78)
117	Balance at 31 March	39

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Business Rates Collection Fund Adjustment Account

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

31.3.2019 £000	Business Rates Collection Fund Adjustment Account	31.3.2020 £000
13,477	Balance at 1 April	814
(12,663)	Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements*	(789)
814	Balance at 31 March	25

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

Financial Instruments Revaluation Reserve

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Accumulated Absences Account

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

31.3.2019		Accumulated Absences Account	31.3.2020	
£000	£000		£000	£000
	(125)	Balance at 1 April		(135)
125		Settlement or cancellation of accrual made at the end of the preceding year	135	
(135)		Amounts accrued at the end of the current year	(143)	
	(10)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(8)
	(135)	Balance at 31 March		(143)

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

2018/19		2019/20
£000		£000
(2,368)	Depreciation	(2,308)
(490)	Impairment and downward valuations	(5,316)
1,550	Movement in market value of investment properties	10
(84)	Amortisation	(92)
(763)	Increase/(decrease) in Debtors	(33)
(1,085)	Increase/(decrease) in Creditors	(1,508)
12	Increase/(decrease) in Inventories	(7)
(2,958)	Movement in pension liability	415
(1,628)	Carrying amount of non-current assets held for sale, sold or derecognised	(424)
(7,814)	Total	(9,263)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

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

25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

26. TRADING OPERATIONS – BUILDING CONTROL

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

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

The Summary Accounts for the year will be detailed in the DBCP Accounts, which can be found on Teignbridge District Council's Website under the Devon Building Control Partnership Committee 2019-2020.

27. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Council during the year. Members allowances are published on the Council's website under 'Your Council' in the 'Councillors and Committees' section.

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

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:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Note A: Shared Services with West Devon Borough Council

The total cost of senior employees employed by West Devon Borough Council has been included in the equivalent note of West Devon Borough Council's Accounts in accordance with the accounting requirements and is therefore excluded from the table above.

In 2019/20 South Hams District Council reimbursed costs amounting to £429,700 (2018/19 £367,200) in respect of some members of the Senior Leadership Team (SLT) and the Extended Leadership Team (ELT) who are employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2019/20 from West Devon Borough Council of £216,400 (2018/19 £181,800) in respect of the above shared senior employees.

Note B: Senior Leadership Team interim arrangements

South Hams District Council is in a shared services arrangement with West Devon Borough Council and the two Councils have a shared Senior Leadership Team and a shared non-manual workforce. Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements. A report was presented to Council on 21 February 2019 (Council Minute 55/18) that outlined a review of the Staffing Establishment.

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

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Deletion of the following posts

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

Creation of the following posts

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

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

Note C: Group Manager for Customer First and Support Services

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

Note D: Chief Executive and Head of Paid Service

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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:

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

30. GRANT INCOME

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

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

Rural Services Delivery Grant 2018/19

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

Rent Allowance Subsidy

** Housing Benefit Payments and Subsidy have reduced significantly between 2019/20 and 2018/19 mainly due to a reduction in caseload. Please see Note 5 – Segment Reporting for further detail.

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 2019 £000	31 March 2020 £000
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(16)	(16)
Total	(100)	(100)

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

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	31 March 2019 £000	31 March 2020 £000
Langage Energy Centre	(1,724)	(1,722)
Riverside, Totnes	(128)	(128)
Gara Rock, East Portlemouth	(523)	(523)
Bonfire Hill, Salcombe	(188)	(188)
Former Old Chapel Inn, Bigbury	(110)	(110)
Trennels, Herbert Road, Salcombe	(93)	(93)
Sawmills Field, Dartington	(149)	(149)
Land at Moorview, Marldon	(170)	(170)
Land at Fairfield, South Brent	(48)	(48)
Land South East of Torhill Farm, Ivybridge	(460)	(460)
Land at Woodland Road, Ivybridge	(242)	(242)
Venn Farm, Brixton	(110)	(110)
Webbers Yard, Dartington	(85)	(85)
Former Gas Works, Salcombe	(79)	(79)
Holywell Stores, Bigbury	(74)	(74)
Various other sites	(916)	(1,526)
Total	(5,099)	(5,707)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

31. RELATED PARTIES

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

Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are detailed in Note 30.

Members

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

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

As at 31 March 2019 the Council had external borrowing of £5.49 million and had internally borrowed (i.e. used its own resources in lieu of external borrowing) £155,000 for the leisure investment. During 2019/20 the Council undertook further investment as part of its Commercial Investment Strategy. £149,000 has been met from internal borrowing and £5.054 million from a loan from the Public Works Loans Board (PWLB). The total borrowing of £5.203 million is reflected in the movement in the Capital Financing Requirement (CFR) below.

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

33. LEASES

Operating Leases

Authority as Lessee

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

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

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Authority as Lessor

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

Detail of lease	Term	Expiry date	Segment in CIES
The operation of a supermarket	99 years	20.12.2077	Investment Properties
The operation of a supermarket and residential accommodation	35 years	24.03.2031	Investment Properties
The rental of an industrial unit	25 years	31.05.2029	Customer First
The provision of temporary accommodation	10 years	30.03.2021	Customer First
The rental of office accommodation	20 years	24.07.2032	Customer First
The rental of office accommodation	10 years	29.09.2026	Customer First

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

34. EXIT PACKAGES AND TERMINATION BENEFITS

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

Exit package cost band (incl. special payments)	Number of voluntary redundancies		Number of compulsory redundancies		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	18/19	19/20	18/19	19/20	18/19	19/20	18/19	19/20
£0 - £20,000	-	-	1	1	1	1	878	2,636
TOTAL	-	-	1	1	1	1	878	2,636

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

Shared Services with West Devon Borough Council

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

35. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out during 2022/23 (as at 31 March 2022) and will set contributions for the period from 1 April 2023 to 31 March 2026. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2021 is £1.216m. The Actuary has estimated the duration of the Employer's liabilities to be 20 years.

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

Transactions Relating to Post-employment Benefits

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Basis for Estimating Assets and Liabilities

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

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

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

The major assumptions are summarised in the table below:

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	(0.1%)
Present value of total obligation	129,972	132,489	135,057
Projected service cost	2,486	2,553	2,622
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	132,664	132,489	132,316
Projected service cost	2,553	2,553	2,553
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	134,891	132,489	130,133
Projected service cost	2,622	2,553	2,486
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	137,833	132,489	127,364
Projected service cost	2,628	2,553	2,480

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

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

Of the total fund asset at 31 March 2020, the following table identifies the split of those assets with a quoted market price and those that do not:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Employer Asset Share – Bid Value		31 March 2020	
		% Quoted	% Unquoted
Fixed interest government securities	UK	0.2%	-
	Overseas	4.1%	-
Corporate bonds	UK	0.1%	-
	Overseas	2.4%	-
Equities	UK	13.3%	0.0%
	Overseas	43.0%	0.0%
Property	All	-	9.4%
Others	Absolute return portfolio	13.1%	-
	Private equity	-	0.0%
	Infrastructure	-	4.3%
	Multi sector credit fund	6.2%	-
	Private debt	-	2.7%
	Cash/Temporary investments	-	1.1%
Net current assets	Debtors	-	0.1%
Total		82.4%	17.6%

McCloud Judgement

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

36. CONTINGENT LIABILITIES

The transfer of the Council's housing stock in March 1999 resulted in a capital receipt of some £42m. As the stock transfer had to take place over a very short timescale, wide warranties were given to South Hams Housing (now LiveWest, previously Liverty) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). These warranties were granted for 35 years from 1999. The purpose of these warranties is to safeguard the housing company if any of the main assumptions on which the transfer price was calculated turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Unfortunately, owing to the uncertainties surrounding any potential claim, it is not practicable to make an estimate of the total value of liabilities (if any).

37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

Financial Instruments held by the Council are detailed in Note 14. The Council's activities expose it to a variety of financial risks:

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 on 21 March 2019 and is available on the Council's website (Minute 67/18).

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

Credit risk

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

The Council's Counterparty limits are as follows:

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

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2020 and is reflected in the current figure of £585,000. This compares to £503,000 in 2018/19. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 15 to the accounts.

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Amounts Arising from Expected Credit Losses

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

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

Liquidity risk

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 17 to the accounts.

This seeks to ensure that cash is available when needed.

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

Market Risk

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Interest rate risk

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

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

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

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

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

Price risk

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

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

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Foreign exchange risk

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

Refinancing and Maturity Risk

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

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

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

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

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

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38. ACCOUNTING POLICIES

a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

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

b) Accruals of Income and Expenditure

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

c) Cash and Cash Equivalents

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

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

Key: T = trade date

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

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

d) Material Items of Income and Expense

When items of income and expense are material (in excess of £500,000), their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

f) Charges to Revenue for Non-Current Assets

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

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

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. These charges are therefore replaced by the contribution in the General Fund Balance – Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement, for the difference between the two.

g) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-Employment Benefits

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

The Local Government Scheme

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

For further information please refer to Note 35.

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Discretionary Benefits

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

h) Events after the Reporting Period

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

Two types of events can be identified:

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Financial Assets

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

The three main classes of financial assets are measured at:

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

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

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

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

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

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

The asset is initially measured and carried at fair value.

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

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

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

Expected Credit Loss Model

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

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

Fair Value

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

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

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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.

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.

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

k) Heritage Assets

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

l) Intangible Assets

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

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

Operating Leases

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

q) Overheads and Support Services

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

r) Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

- 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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

- Plant and equipment and engineering services
- Structure

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

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

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

Impairment

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

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

- 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Depreciation

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

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

Asset	Useful life
Buildings	Up to sixty years
Infrastructure	Up to twenty years
Refuse vehicles	Up to ten years
Light vans	Up to seven years
Marine vessels	Up to fifteen years
IT equipment	Four years

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale and their recoverable amount at the date of the decision not to sell.

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

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

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

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

s) Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it 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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Authority.

Contingent Liabilities

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

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

Contingent Assets

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

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

t) Reserves

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

u) Revenue Recognition

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

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

The analysis carried out to date indicates that there will be no material impact on the revenue recognised in relation to the significant contracts entered into by the Council. A review will take place each year to identify whether any disclosure is necessary.

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

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

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

w) Section 106 Deposits

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

x) Shared Services

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

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

y) VAT

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

z) Accounting for Local Taxes

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

Accounting for Council Tax and Business Rates

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

aa) Minimum Revenue Provision

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Authority in the 2020/21 financial statements i.e. from 1 April 2020.

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

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

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

40. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- There is a high degree of uncertainty about future levels of funding for local government. The Council is awaiting the announcement from the Government on the Comprehensive Spending Review for 2021-22 to 2023-24. The other areas adding to the uncertainty are the postponement of the implementation of the Fair Funding Review, the future resetting of business rates baselines, the impact of the COVID19 pandemic on major income streams and the future of the New Homes

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Bonus scheme. Based on the S151 Officer's management assessment (which has included consideration of the Government support available, the Council's current level of reserves, the level of working capital including cash and investments, a sensitivity analysis on forecast cashflows, income from local taxation and borrowing headroom etc.), there is no material uncertainty and as a result the Accounts for 2019-20 are prepared on a going concern basis. Further detail is within the Narrative Statement under 'Going Concern'.

- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs. The methodology for the apportionment of costs (predominantly staffing costs) are split on a defined basis which reflects the level of caseload attributable to each individual service. The methodology and mechanisms used to calculate the cost allocations are reviewed and reported to the Audit Committee on an annual basis. The final actual shared services split formulae are adjusted if they exceed a tolerance level of 3% from the original estimate.
- The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this information an assessment was made about the likely success rate of appeals and their value.

SECTION 4. COLLECTION FUND

COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2020

This account reflects the statutory requirements for the Council as a billing Authority to maintain a separate Collection Fund. The statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and business rates.

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

SECTION 4. COLLECTION FUND

*Business Rates Pilot Status 2018/19

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

**Business Rates Position 31 March 2019

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

1. Council Tax and Council Tax Base

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

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

These charges are before any appropriate discounts. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2019/20 was **38,179.72** as calculated below (**37,851.93** in 2018/19).

SECTION 4. COLLECTION FUND

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

2. Rateable Value

The total business rates rateable value at 31 March 2020 was £86,532,995. This compares to £87,046,425 at 31 March 2019. The standard business rates multiplier was 50.4p in 2019/20 (2018/19:49.3p). Without reliefs this would generate a total income of £43,612,629.48 (2018/19 £42,913,887.52). These figures are a snapshot only and differ from the value of business rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

3. Collection Fund balance

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

SECTION 4. COLLECTION FUND

*Business Rates Position 31 March 2019

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

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

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

**Business Rates Pilot Status 2018/19

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

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

The Authority's responsibilities

The Authority is required to:

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

The Chief Financial Officer's responsibilities

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

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

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31 March 2020.

.....

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

15 October 2020

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

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting held on 15 October 2020.

Signed on behalf of South Hams District Council

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Councillor T R Holway

Chairman of the Audit Committee

SECTION 6 AUDITORS REPORT

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

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the financial statements:

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

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

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

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

Conclusions relating to going concern

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

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

SECTION 6 AUDITORS REPORT

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

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

SECTION 6 AUDITORS REPORT

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

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

In preparing the financial statements, the Corporate Director of Strategic Finance (Section 151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

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

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

SECTION 6 AUDITORS REPORT

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Report on other legal and regulatory requirements - Certificate

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

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Bristol

15 October 2020

SECTION 7. GLOSSARY OF TERMS

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

SECTION 7. GLOSSARY OF TERMS

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

SECTION 7. GLOSSARY OF TERMS

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

South Hams District Council Annual Governance Statement 2019-2020

1. Scope of Responsibility

South Hams District Council is responsible for ensuring that:

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

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

In discharging this overall responsibility, South Hams District Council is also responsible for ensuring that there is a sound system of governance (incorporating the system of internal control) and maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, including arrangements for the management of risk. A Statutory Officers' Panel was set up in 2015 and a key role of this Panel is strategic risk management.

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

Following the conclusion of our transformation programme, and the departure of three members of the Senior Leadership Team (SLT), a restructure of both the Senior and Extended Leadership Team (ELT) was undertaken in late 2019. This was to ensure that the Councils leadership was better aligned to become more customer focused, ensure our future financial sustainability and to better align ourselves to deliver our corporate priorities. Our Chief Executive left us in early March 2020 and following an external recruitment process, her replacement will be taking up post in June 2020.

The role of the Senior Leadership Team is to implement the plans and policies to support the strategic direction of the Council as set by Members. SLT are supported by an Extended Leadership Team. 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 and Support Services such as Finance, Legal, and Human Resources.

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

The S.151 Officer, who acts as the Chief Financial Officer (CFO), has responsibility for the administration of the financial affairs of the Council; will contribute to the corporate management of the Council, in particular through the provision of professional financial advice; will provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all Members and will support and advise Members and officers in their respective roles; and will provide financial information to the media, Members of the public and the community. (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 South Hams District Council for the year ended 31 March 2020 and is expected to continue up to the date of approval of the Accounts by the Audit Committee.

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

Included within this framework are seven core principles of governance:

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

All Council decisions incorporate a legal implications section 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 Officer and Monitoring Officer have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal and financial requirements and for reporting any such instances to Members.

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

- Staff are assessed against a set of key behaviours (known as 'IMPACT') to establish the right values and culture
- In order to promote ethical behaviours amongst Members and Officers, the Council has a number of policies such as those relating to procurement, whistleblowing, counter fraud and anti-money laundering. Through the Council's induction programme, employees are required to read the Employee Code of Conduct and confirm that they have understood the content. Any suspected cases of fraud, corruption and non-compliance with policy are investigated by the Council's Internal Audit Team.
- The Council'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 is reviewed annually (along with the Council's regulatory framework) by the Statutory Officers' Panel and remains fit for purpose.
- 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 was reviewed and agreed with the Unions in 2017-18. A Members' Code of Conduct is in place and is fit for

purpose but is due to review on the conclusion of the Local Government Association's consultation (and issue of) a new model code of conduct.

- The Overview and Scrutiny Panel is responsible for overseeing the Members' Code of Conduct and good governance by Members and its terms of reference are set out in the Constitution
- There is an effective Audit Committee in place with clear terms of reference, which oversees internal and external audit, the Constitution, Risk Management and regulatory policies.
- The Council has continued to operate a robust information governance regime overseen by its Information Governance Group. Information security breaches are reported to the Data Protection Officer (DPO) on a regular basis and are investigated by an officer within the Governance Directorate, with a report to the Information Commissioner where required. Information governance policies and procedures are reviewed and approved by the Information Governance Group on a regular basis.
- Annual IT health checks are undertaken which are conducted by accredited external security specialists. These are commissioned standard tests of system security, designed to assess our suitability for connection to government networks. Overall the security posture of the external network infrastructure was found to be excellent.

The Devon Audit Partnership completed a Cyber security audit of the Council this year and was satisfied that the systems, processes and procedures used to mitigate Cyber Security risks and threats were of a good standard. A robust control environment has layers of protection and the review identified this was true of the Cyber Security protections in place at the Council.

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.

Corporate Strategy

On 19th April 2019, The Executive adopted a series of desired outcomes for the period up until 2023

<https://mg.swdevon.gov.uk/documents/s23151/Corporate%20Strategy.pdf>

The Five Year Corporate Strategy 2018 – 2023 has six Corporate Strategy Themes as below:-

Council – Delivering efficient and effective services

Homes – Enabling homes that meet the needs of all

Enterprise – Creating places for enterprise to thrive and business to grow

Communities – Council and residents working together to create strong and empowered communities

Environment – Protecting, conserving and enhancing our built and natural environment

Wellbeing – Supporting positive, safe and healthy lifestyles and helping those most in need

Annual Report for 2019-2020

The Council's Annual Report sets out the Council's achievements for 2019/20 by each of the themes within the Corporate Strategy.

This will be published alongside the Annual Governance Statement and considered by Audit Committee in July 2020. The report will then be published online.

Partnerships and Governance

The Council has a number of strong partnerships that help to deliver our Strategic Priorities. During 2019/20 Council resolved to formalise those partnerships that the Council makes a financial contribution to through the development of Service Level Agreements. During 2020/21 the Council will be undertaking a mapping of key partnerships in order to review the ways that we can support each other for the benefit of the District.

PRINCIPLE E - Developing capacity and capability

Staff throughout South Hams and West Devon perform well with average days of short term sickness on or above target. 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 have an apprenticeship scheme.

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 4 years.

- The Council holds an annual Staff Awards ceremony to recognise outstanding performance

PRINCIPLE F - Managing risks and performance

There is a culture of risk ownership and management throughout the Council and in 2019/20, particular focus has been given to refreshing the risk register for the new Council term. 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 quarterly and updates are reported to Elected Members via the Audit Committee on a biannual basis.

A Member Risk Management training session was delivered during July 2019. This was a joint session with West Devon Borough Council in order to help Members understand how we consider risks and steps that we can take to treat them.

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 Chief Executive (Head of Paid Service), Corporate Director for Strategic Finance (S151 Officer) the Monitoring Officer, Director of Governance & Assurance and the Deputy Chief Executive 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 Panel. It has a rolling programme of works which are set out in a Forward Plan. On 20th June 2019, the Audit Committee considered the Annual Report of the Statutory Officers' Panel.

All Committee reports include a 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.

In October 2019, staff away days were held to specifically focus on further improving the customer experience. These were attended by all employees of the Council over a number of days.

To manage performance the Council ensures the following:

- Continuous managerial review of services to ensure continuous improvement and the economic, effective and efficient use of resources
- Financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Quarterly budget monitoring reports are presented to the Executive.
- Active performance management arrangements including quarterly reports to Overview & Scrutiny Panel on performance measures
- A robust complaints/ compliments procedure is in place and is widely publicised, with the Ombudsman's Annual Report being reported to the Overview and Scrutiny Panel
- Freedom of Information requests are dealt with in accordance with established protocols

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. In March 2019 (Minute A.53/18), it was recommended to Council for South Hams to join the Devon Audit Partnership as a 'nonvoting' partner from 1 April 2019 (or as soon as is reasonably practicable thereafter). This was approved by Council in March 2019.

Ten applications for exemptions to Contract/Financial Procedure Rules were received in the year, one was subsequently withdrawn.

External audit was provided by Grant Thornton for 2018/19 and in July 2019 they reported that they had concluded that the Council had made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources. (The 2019/20 Accounts will be reported on by Grant Thornton by September 2020).

To further ensure transparency the council undertakes the following:

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

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

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This responsibility is in practice carried out by Senior Managers, with the Chief Executive informing the Executive of any significant matters warranting their attention. The Council ensures the delivery of services in accordance with Council policies and budgets, which includes long term financial planning, good financial management and ensuring up to date risk management across the Council. The Overview and Scrutiny Committee is responsible for performing a review function and on 11th July 2019 they considered their Annual Report for 2018/19, which set out a summary of the work programme they have considered for the previous 2018/19 year.

The 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 will provide:-

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

The review of effectiveness of the system of internal control is informed by three main sources: the work of Internal Audit; by managers who have responsibility for the development and maintenance of the internal control environment; and

also by comments made by external auditors and other review agencies/inspectorates.

Internal Audit

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

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

The Internal Audit annual report for 2019/20 was considered by the Audit Committee on 25th June 2020. The report contains the Head of Internal Audit's Opinion for the 2019/20 year which is that of "Substantial Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

Senior Managers

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

External auditors and other review agencies/inspectorates

Our external auditors (Grant Thornton) will issue their 'External Audit Report ISA260 report' for 2019/20 in September 2020 which will be considered by the Audit Committee. The document will summarise their key findings in relation to their external audit of the Council for 2019/20 and will contain an opinion on the Council's financial statements, the control environment in place to support the production of timely and accurate financial statements and the Council's significant risk areas.

The key messages from Grant Thornton's External Audit 'The Audit Findings' report for 2019/20 are as below (extract of Page 6 of the Grant Thornton report):

We recommended that the Council enhance its disclosure around going concern and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic.

The Covid-19 pandemic resulted in land and building and investment property valuations being reported on a 'material uncertainty' basis. This is a national issue related to the Covid-19 pandemic and the Council is following national guidance from RICS in its valuation of land, buildings and investment properties. More information is included on page 8.

We reviewed management's other estimates and judgements in light of the Covid-19 pandemic and concluded that these were reasonable.

The audit was completed remotely which resulted in certain challenges and work taking longer than we would have expected in normal conditions.

Value for Money (VFM) audit conclusion

The key message from Grant Thornton's External Audit 'The Audit Findings' report for 2019/20 is as below (extract of Page 19 of the Grant Thornton report)

VFM - Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

An unqualified VFM conclusion for 2019/20 is anticipated to be issued in October 2020.

Significant Governance Issues

Given the sudden and significant global impact of the Covid-19 pandemic, we have set out the significant governance issues for the year in two sections. The first covering the 11 months of the year to the end of February 2020, the second section covering March 2020.

April 2019 – February 2020

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

Issues and action plan from the System of Internal Control

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><i>Financial Uncertainty</i></p> <p>The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.</p> <p>The Council was already under financial strain before the coronavirus crisis, with a predicted budget gap in 2021/22 of £0.57 million and a cumulative budget gap of £3.2 million over the five year period to 2024/25. This is on an annual net budget of £9.4 million for 2020/21.</p> <p>Since 2010 we have had to redesign our services to balance the books. We have done this by sharing a single workforce with West Devon, generating an ongoing annual saving of £3.9 million for South Hams and by reducing our staffing levels by 30% through our Transformation Programme.</p> <p>In September 2019, Council approved the Medium Term Financial Strategy (MTFS) which looks at financial planning and management over a five year strategy. It sets out the strategic intention for all of the different strands of funding available to the Council.</p> <p>The MTFS will need to be updated in the light of Covid 19.</p>	<p>An updated Medium Term Financial Strategy will be presented to Members in October/November 2020.</p>	<p>Director of Strategic Finance By October/November 2020</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>The Council responded to consultations on the Fair Funding Review and Business Rates reform in February 2019 and copies were sent to all Members and MPs for South Hams</p>	<p>Continue to respond to Government consultations as and when they are issued.</p>	<p>S151 Officer In line with consultation timetables</p>
<p>Review all Fees and Charges for 2021/22 onwards</p>	<p>Report to be presented to the Executive</p>	<p>Head of Finance Practice December 2020</p>
<p>Keep all Members updated on changes to the Local Government Finance system (e.g. New Homes Bonus and Negative Revenue Support Grant) that will be announced as part of the Spending Review for 2021/22 onwards</p>	<p>On-going as announcements are made by Government. The 2020 Spending Review will be for 2021/22 to 2023/24.</p>	<p>S151 Officer December 2020</p>
<p>Larger unknowns on resetting of business rate baseline and fairer funding review which could have a negative impact on finances. These developments will fundamentally change the Local Government Finance environment, which is now characterised by an increased shift towards locally-generated resources, with an accompanying transfer of both risk and opportunity.</p>	<p>Continue to respond to Government consultations as and when they are issued.</p>	<p>S151 Officer In line with consultation timetables</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><u>Climate & Biodiversity Emergency</u></p> <p>The Council declared a Climate Change and Biodiversity Emergency on 25th July 2019. This followed on from declarations made nationally and by Devon County Council.</p> <p>The Council committed to produce an Action plan which was adopted in December 2019 and the following was resolved;</p> <ol style="list-style-type: none"> 1. The Council aims to reduce its organisational carbon emissions (Scope 1, 2 and 3 emissions) to net-zero by 2030; 2. The Council commits to working with partners through the Devon Climate Emergency Response Group to aim to reduce the District of South Hams carbon emissions to net-zero by 2050 at the latest; 3. The Council aims for a 10% Biodiversity Net Gain in the habitat value of its green and wooded public open space by 2025; 	<p>Development of a Strategic Framework and action plan to support delivery against the adopted aims.</p>	<p>Director of Governance and Assurance May 2021</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
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<p><u>Senior and Extended Leadership Team Restructure</u></p> <p>The Chief Executive, in consultation with the Leaders and with advice from the Local Government Association, undertook a restructure of the Leadership Team resulting in the following changes:</p> <p>Deletion of the following posts:-</p> <ul style="list-style-type: none"> • Group Manager Business Development • Group Manager Commercial Services • Commissioning Manager • Specialist Manager x 2 • Case Management Manager x 2 • Head of Commercial Services <p>Addition of the following posts:-</p> <ul style="list-style-type: none"> • Corporate Director Governance and Assurance • Strategic Director Economy and Enterprise • Head of Strategy & Projects • Business Manager – Specialists • Business Manager – Case Management • Customer Improvement Manager <p>Shortly after the conclusion of the restructure, the Chief Executive took up a new post at another Local Authority. As a result, a recruitment process was undertaken with a new Chief Executive due to take up post in June 2020.</p>	<p>Appointment has been approved by Full Council, actions are now around ensuring full briefing of new Chief Executive from Acting Chief Executive.</p>	<p>Deputy Chief Executive – June 2020</p>
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<p>Business Continuity Management Strategy and Work Programme</p> <p>On 7th February 2019, the Executive considered a Business Continuity Strategy and Work Programme (Minute E.74/18). The Management Strategy and Work Programme was adopted.</p> <p>During 2018/19, an Internal Audit review noted that there were 'Fundamental Weaknesses' primarily due to not ensuring Business Continuity Plans were kept updated (or missing). During 2019/20, a further review noted that updated plans were now in place and considered that the overall status had improved to 'Improvements Required'</p> <p>At the end of 2019/20, the leadership team undertook an extensive review of our business continuity arrangements along with in depth planning sessions including responding to a pandemic flu outbreak. This put the Council in a good position to act quickly in response to Covid-19.</p>	<p>A work programme is in place and will continue to be updated.</p> <p>While the Covid-19 pandemic is not over, the Incident Management Team will undertake a review of our business continuity response in July 2020 to inform future planning</p>	<p>Head of Practice (Environmental Health)/ Group Manager for Customer First and Support Services</p> <p>Timescales as set out in Work Programme</p> <p>Head of Practice (Environmental Health) / Head of Strategy July 2020</p>
<p>Internal and External Audit Reports</p> <p>Some issues have been identified in audit reports by the Council's shared in-house internal audit team and the Council's external auditor, Grant Thornton (previously KPMG). Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed where appropriate.</p>	<p>All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors' 'follow up' procedures.</p>	<p>Extended Leadership Team (ELT) S151 Officer Internal Audit Manager In line with agreed timescales</p>

March 2020

As set out above, the Covid-19 pandemic has had significant and sudden impacts on the Council that will be long lasting. In line with CIPFA guidance issued on 7 April 2020, 'Matters to consider as a result of the coronavirus pandemic' briefing note, 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 arising in the period March 2020

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><u>Covid-19 Response & Recovery</u></p> <p>The Covid-19 pandemic required the Council to quickly take action to ensure compliance with government guidance. While the full impact will not be understood for some time, immediate impacts are being considered and a recovery plan being developed.</p> <p>The pandemic has significantly increased the Councils risk profile in a number of areas:-</p> <p><u>Financial Sustainability</u></p> <p>The social distancing measures and subsequent national lockdown has significantly impacted on Income that the Council would typically receive. The Government has announced a package of support and the Council is awaiting details of this and guidance on the Government support scheme.</p>	<p>Review of initial response and overview of implications for the Council to be presented to Overview and Scrutiny</p> <p>Covid-19 Recovery Plan to be developed</p> <p>The Council will continue lobbying with 'Team Devon' for further Government financial support in light of the impact of Covid19.</p>	<p>Director of Governance & Assurance – June 2020</p> <p>Director of Governance & Assurance – September 2020</p> <p>Director of Strategic Finance (S151 Officer) – September 2020</p>

<p>The factors affecting the Council's finances are issues affecting the whole Local Government sector. The Council is well-placed to meet the financial challenges arising from Covid19, due to its prudent financial management over previous years. On 2nd July, the Rt Hon Robert Jenrick MP announced a new comprehensive package of support for Councils, to address spending pressures and losses in income streams. There were three central pillars of support announced:-</p> <ol style="list-style-type: none"> 1) A new scheme to compensate Councils for losses of income, though not in their entirety (an 'income guarantee' scheme) 2) An extra £500million to cover extra COVID19 expenditure costs 3) To allow council tax and business rate losses in income to be repaid over the next 3 years of budget cycles, instead of just the next one year <p>Income losses above the first 5% will be compensated by the Government paying for 75 pence in every pound thereafter. This is only the income losses from sales, fees and charges so it isn't clear yet which categories of income this will include.</p> <p>Covid19 has had a significant impact on leisure provision given the nature of activities and hygiene requirements. The risk is that as leisure centres make adjustments to reduce the risk of Covid19 to both staff and customers, the capacity of the centres is significantly reduced while many overheads and operating costs remain the same.</p>	<p>The Council will complete the monthly Government returns on COVID costs and loss of income. Monthly budget monitoring reports will be reported to Members.</p> <p>The Council's Capital Programme will be reviewed and a comprehensive review of all Earmarked Reserves will be undertaken and contributions to Earmarked Reserves.</p> <p>An amended Budget for 2020/21 will be presented to the September 2020 cycle of Committee meetings, following a Member Budget Workshop in August.</p> <p>Regular dialogue and discussions with the Council's leisure provider (Fusion) and regular reporting to Members when further information is known. Lobbying of the Government on financial assistance for leisure providers.</p>	<p>Director of Strategic Finance (S151 Officer) – September 2020</p> <p>Director of Strategic Finance (S151 Officer) – September 2020</p> <p>Director of Strategic Finance (S151 Officer) – September 2020</p> <p>Director of Place and Enterprise and Director of Strategic Finance September 2020 and on-going</p>
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Impact on Business as Usual activities

The Council is fortunate that it was quickly able to require the majority of its employees to work from home, even ahead of formal government guidance. This mitigated any spikes in sickness absence or impact on service provision in many areas in the first couple of weeks of the lockdown. We have however had to refocus areas such as business rates and housing teams to focus on the Business Grants scheme and our Community Response. This has had an impact on service delivery

Impact on Corporate Priorities

The Council has adopted its corporate priorities and desired outcomes for the period to 2023 based on its Medium Term Financial Plan. Clearly the impact of Covid-19 on these plans could have a significant impact on the Councils ability to achieve its desired outcomes and they will likely need to be reviewed.

Changes to Council Governance arrangements

The Councils have been fortunate that Officers and Members have been using remote meeting technology for some time. As soon as the legislation to enable remote meetings was passed, we were able to recommence meetings for essential business and enable the democratic process to function. Consideration will need to be given to ongoing use of such technology to enable full public participation in such meetings.

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 J Pearce
Leader of South Hams District Council

Signed:

Andy Bates Chief Executive
On behalf of South Hams District Council

Date: 15th October 2020

Report to: **Audit Committee**

Date: **15 October 2020**

Title: **Annual Treasury Management Report 2019/20**

Portfolio Area: **Cllr H Bastone – Support Services**

Wards Affected: **ALL**

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

Date next steps can be taken: **N/A**

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

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Recommendations:

That the Audit Committee:

1. Approves the actual 2019/20 prudential and treasury indicators in this report.
2. Notes the Annual Treasury Management report for 2019/20.

1. Executive summary

- 1.1 Income from investments this year was £372,145 which is £189,145 higher than the budget of £183,000 at an average return of 0.89%. The comparable performance indicator (Benchmark) is the average 6-month LIBID rate which was 0.70%. Therefore the Council achieved 0.19% return on investments higher than the benchmark for 19/20.

2. Background

- 2.1 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 2019/20. 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).

- 2.2 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 ”

- 2.3 During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Minute C67/18)
- A mid-year (minimum) treasury update report (Minute A24/19)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

- 2.4 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.

- 2.5 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 was undertaken during 2019/20 in order to support Members’ scrutiny role.

3. The Economy and Interest Rates

- 3.1 **UK. Brexit.** The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.
- 3.2 **Economic growth** in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 down at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak**. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that has been done to businesses over the lock down period, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.
- 3.4 After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE)**, essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during the lock down period.

Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs whilst the country was locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover. Provided the coronavirus outbreak is brought under control then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

- 3.5 **Inflation** has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

4. **Overall Treasury Position as at 31 March 2020**

4.1 At the beginning and the end of 2019/20 the Council's treasury position was as follows:

Treasury Portfolio	31 March 2019		31 March 2020	
	£'000	Rate%	£'000	Rate%
Treasury Investments:				
Short term – fixed	14,500	0.84	15,500	0.91
Money Market Funds	11,320	0.65	16,100	0.41
Heritable Bank	22	-	22	-
CCLA – LAPF	468	4.26	1,348	4.41
CCLA – DIF	1,009	3.25	1,792	3.61
Total treasury investments	27,318		34,762	
Treasury External Borrowing				
PWLB	5,490	2.41	14,567	2.49
Total external borrowing (£14.475m of long term borrowing and £92k of short term borrowing)	5,490		14,567	
Net treasury investments / (borrowing)	21,828		20,195	

4.2 The following is a list of the Council's investments at 31 March 2020.

Fixed Term Deposits

Amount	Investment	Interest rate
£3,500,000	Barclays Bank plc	0.77%
£5,000,000	Nationwide BS	0.72%
£1,000,000	Nationwide BS	0.72%
£5,000,000	Lloyds Bank plc	1.25%
£1,000,000	Lloyds Bank plc	1.10%
£15,500,000	Total	

Money Market Funds

Amount	Investment	Interest rate
£6,000,000	Aberdeen Standard Investments	0.47%
£4,100,000	BlackRock	0.38%
£6,000,000	LGIM	0.38%
£16,100,000	Total	

CCLA Funds

Amount	Investment	Dividend Yield
£1,347,588	CCLA – Property Fund	4.41%
£1,791,655	CCLA – Diversified Income Fund	3.61%

4.3 At Council in March 2018, it was approved (Minute C74/17 and E72/17) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund and a sum of £1 million be used to invest in CCLA's Diversified Income Fund, with the investments being placed in April and May 2019.

4.4 The investment was made with a view to a long term commitment as these are long term strategic investments. The bid market value as at 31 March 2020 for the Council's investments were £1,347,588 (Local Authorities Property Fund) and £1,791,655 (Diversified Income Fund).

5. The Strategy for 2019/20

Investment strategy and control of interest rate risk

5.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

5.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

5.3 Whilst the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that

came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

- 5.5 The Treasury Management Strategy Report for 2019/20 was approved by the Council on 21 March 2019 (Minute – C67/18).
- 5.6 In December 2019, the Council revised its Commercial Investment Strategy and the Investment Strategy to enable the Council to invest (and to borrow to invest) in renewable energy. This was approved by Council on 19th December 2019 (Minute C53/19).

Borrowing strategy and control of interest rate risk

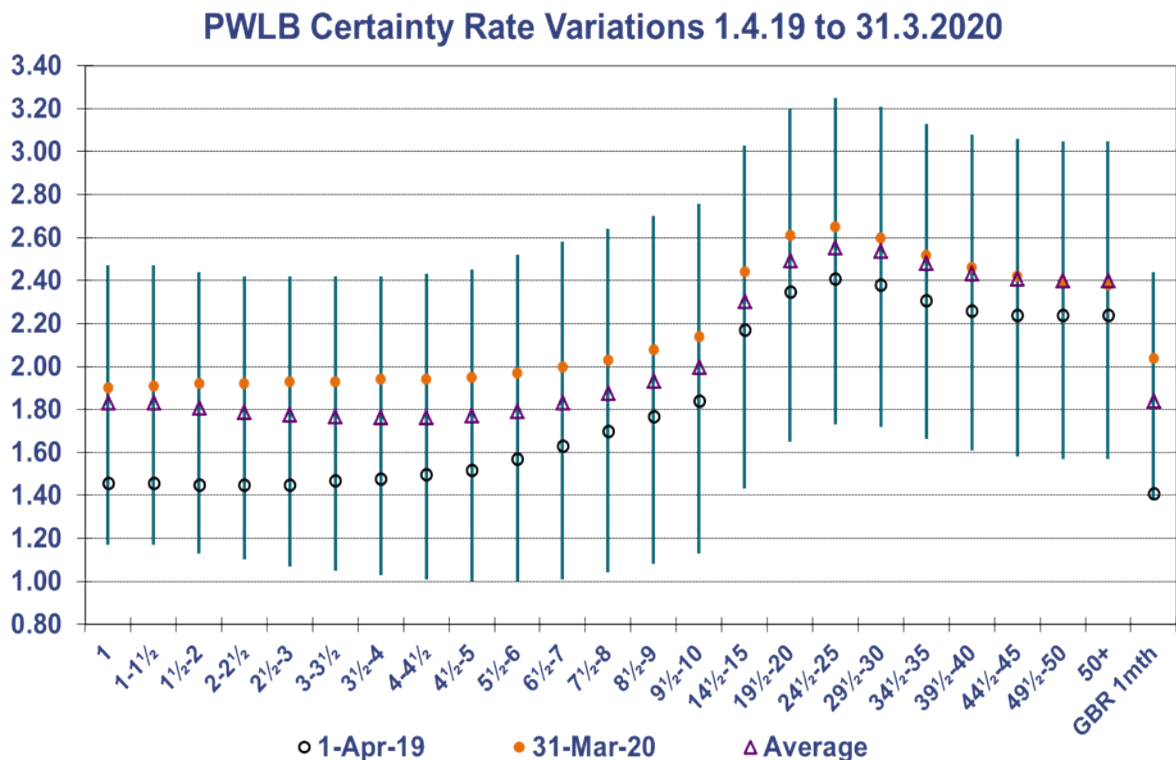
- 5.7 During 2019/20, the Council's capital borrowing need, (the Capital Financing Requirement), was fully funded with loan debt.
- 5.8 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 5.9 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 5.10 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Strategic Finance (S.151 Officer) therefore monitored interest rates in financial markets and adopted a pragmatic approach to changing circumstances:
 - *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*
 - *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long*

term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

5.11 Interest rate forecasts during 2019/20 are shown below.

Link Asset Services Interest Rate View 31.1.20													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.50	2.60	2.70	2.80	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	2.70	2.80	2.90	3.00	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.30	3.40	3.50	3.60	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.20	3.30	3.40	3.50	3.80

5.12 Actual 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.



	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

5.13 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields.

5.14 Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

5.15 However, HM Treasury imposed **two changes in the margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on the future lending terms for the Public Works Loan Board. The Council responded to this consultation.

5.16 Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

5.17 There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that was caused during the coronavirus shut down period. Inflation was very low during this period and could even turn negative in some major western economies during 2020-21.

6. Borrowing Outturn for 2019/20

6.1 Details of the loans outstanding at 31 March 2020 are shown below:

Lender	Type	Maturity	Interest Rate %	Principal held at 31 March 2019 £'000	Principal held at 31 March 2020 £'000
PWLB - 23 maturity loans	Fixed Interest Rate	5-19 Years	2.41*	5,490	5,490
PWLB - Annuity	Fixed Interest Rate	50 Years	3.09	-	5,100
PWLB - Annuity	Fixed Interest Rate	50 Years	1.97	-	3,977
Total				5,490	14,567

*Average interest rate

Repayments

6.2 During 2019/20 the Council repaid interest of £117,000 at an average rate of 2.49%.

Borrowing in advance of need

- 6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.
- 6.4 In September 2019, when borrowing rates fell to a point where it was considered optimal to do so in order to finance capital expenditure which would be incurred within the time frame of the forward approved Capital Financing Requirement estimates, the Council borrowed £4 million at an interest rate of 1.97% for future forecast capital expenditure. In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, the current economic climate (Brexit considerations as detailed in 3.1) and that the Council could ensure the security of such funds placed on temporary investment.

Debt rescheduling

- 6.5 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn for 2019/20

- 7.1 **Investment Policy** – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 21 March 2019 (Minute – C67/18). 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.).
- 7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.3 **Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources £'000	31 March 2019	31 March 2020
General Fund Balance	1,898	2,010
Earmarked Reserves	13,293	13,998
Usable Capital Receipts	3,537	3,059
Provisions	1,436	1,611
Other	1,759	405
Total	21,923	21,083

8. Other Issues 2019/20

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

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

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

9. Outcomes/outputs

- 9.1 Income from investments this year was £372,145 which is £189,145 higher than the budget of £183,000.
- 9.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the 6-month London Interbank Bid Rate (LIBID). The average weighted LIBID rate at the end of March was 0.70%. The Council achieved an interest rate of 0.89% which is 0.19% higher than the benchmark of 0.7%.

10. Options available and consideration of risk

- 10.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £6m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).
- 10.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 10.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

11. Proposed Way Forward

- 11.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

12. Compliance with Treasury Limits and Prudential Indicators

- 12.1 During 2019/20 the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2019/20 are detailed and shown in Appendix B.

13. 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 Implications to include reference to value for money	Y	<p>Income from Treasury Management activities amounted to £372,145 in 2019/20.</p> <p>The Council achieved an interest rate of 0.89% which is 0.19% higher than the benchmark of 0.7%.</p> <p>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.</p>
Risk	Y	<p>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.</p> <p>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.</p> <p>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.</p>
Supporting Corporate Strategy		The income from treasury management supports all the Council's corporate strategy themes.
Climate Change - Carbon / Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.

Comprehensive Impact Assessment Implications		
Equality and Diversity	N	None directly arising from this report.
Safeguarding	N	None directly arising from this report.
Community Safety, Crime and Disorder	N	None directly arising from this report.
Health, Safety and Wellbeing	N	None directly arising from this report.
Other implications	N	None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Lending list as at 27 March 2020

Appendix B - Prudential and Treasury Indicators 2019/20

Background Papers:

Annual treasury strategy in advance of the year (Council 21 March 2019 – Minute C67/18)

A mid-year treasury update report (Audit Committee 7 November 2019 – Minute A24/19)

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	Yes

APPENDIX A

Counterparty as at 27th March 2020		Fitch Rating				Moody's Ratings			S&P Ratings		Suggested Duration			
		Long Term	Short Term	Viability	Support	Long Term	Short Term	Short Term	Long Term	Short Term				
United Kingdom														
AAA Rated and Government Backed Securities	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 PLC	SB	A	F1		1	NO	Aa3		P-1		R - 6 mths		
	Bank of Scotland PLC (RFB)	SB	A+	F1	a	5	NO	Aa3		P-1	SB	A+	A-1	O - 12 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a	5	SB	A1		P-1	SB	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	SB	A+	F1	a	1	NO	A1		P-1	SB	A	A-1	R - 6 mths
	Close Brothers Ltd	SB	A	F1	a	5	NO	Aa3		P-1				R - 6 mths
	Goldman Sachs International Bank	SB	A	F1		1	SB	A1		P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	SB	AA	F1+		1					SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	SB	A+	F1+	a	1	NO	Aa3		P-1	NO	AA-	A-1+	O - 12 mths
	HSBC UK Bank Plc (RFB)	SB	A+	F1+	a	1	NO	Aa3		P-1	NO	AA-	A-1+	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A	F1		1	SB	A1		P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	SB	A+	F1	a	5	NO	Aa3		P-1	SB	A+	A-1	O - 12 mths
	NatWest Markets Plc (NRFB)	SB	A	F1	WD	1	PO	Baa2		P-2	SB	A-	A-2	G - 100 days
	Santander UK PLC	SB	A+	F1	a	2	NO	Aa3		P-1	SB	A	A-1	R - 6 mths
	Standard Chartered Bank	SB	A+	F1	a	5	SB	A1		P-1	SB	A	A-1	R - 6 mths
Sumitomo Mitsui Banking Corporation	SB	A	F1		1	SB	A1		P-1	PO	A	A-1	R - 6 mths	
Building Societies	Coventry Building Society	SB	A-	F1	a-	5	NO	A2		P-1				R - 6 mths
	Leeds Building Society	SB	A-	F1	a-	5	NO	A3		P-2				G - 100 days
	Nationwide Building Society	SB	A	F1	a	5	NO	Aa3		P-1	PO	A	A-1	R - 6 mths
	Skipton Building Society	SB	A-	F1	a-	5	SB	Baa1		P-2				G - 100 days
Yorkshire Building Society	SB	A-	F1	a-	5	NO	A3		P-2				G - 100 days	
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	SB	A+	F1	a	5	PO	A1		P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	SB	A+	F1	a	5	PO	A1		P-1	SB	A	A-1	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 2019/20

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 and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure and how this was financed.

Capital Expenditure	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000
General Fund services	8,286	3,425	4,691
Community Housing	-	8,386	-
Capital investments*	-	11,866	4,996
TOTAL	8,286	23,677	9,687

*Capital investments relate to areas such as capital expenditure on investment properties. In 2019/20 there was capital expenditure (£5m) spent on one new investment property. The estimate for 2019/20 included possible headroom for expenditure on further investment properties within the Council's Investment Property portfolio. Similarly, community housing schemes will be on a later timescale.

Capital Expenditure and Financing	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000
Capital Expenditure	8,286	23,677	9,687
Financed by:			
External sources	(1,067)	(2,760)	(2,261)
Own resources	(1,574)	(3,495)	(2,189)
Unfinanced capital expenditure	5,645	17,422	5,237

NB. Please note that the estimate for 2019/20 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 2019/20 reflects the recommendations within the Commercial Investment Strategy. Note: The Council has purchased one investment property to date.

The Council's Borrowing Need (the Capital Financing Requirement)

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

CFR	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000
Opening balance	646	6,168	6,291
Add unfinanced capital expenditure (as above)	5,645	17,422	5,237
Less MRP/VRP	-	(254)	(34)
Closing balance	6,291	23,336	11,494

The estimate for 2019/20 included possible headroom for expenditure on further investment properties within the Council's Investment Property portfolio. Similarly, community housing schemes will be on a later timescale than that estimated for 2019/20.

The Council's Gross Debt and the Capital Financing Requirement

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £3.56m in 2019/20. This is only a short term position as this will finance future capital expenditure which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000
Debt	5,490	22,912	14,567
Capital Financing Requirement	6,291	23,336	11,494
Over/(under) funding of CFR	(801)	(424)	3,073

The estimate for 2019/20 included possible headroom for expenditure on further investment properties within the Council's Investment Property portfolio. Similarly, community housing schemes will be on a later timescale than that estimated for 2019/20.

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

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

The financing costs were increased in the 2019/20 estimate to reflect the proposals within the Commercial Investment Strategy, and therefore increased this indicator. These proposals will now take place in 2020/21 and 2021/22.

	2018/19 Actual	2019/20 Estimate	2019/20 Actual
Financing costs (£)	(210,218)	717,322	(165,967)
Proportion of net revenue stream	(2.3%)	8.1%	(1.9%)

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	2018/19	2019/20
	£	£
Borrowing	9,000,000	70,000,000
Other long term liabilities	-	-
Total	9,000,000	70,000,000

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	2018/19	2019/20
	£	£
Borrowing	14,000,000	75,000,000
Other long term liabilities	-	-
Total	14,000,000	75,000,000

South Hams District Council's current level of borrowing as at 31 March 2020 was £14.567 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:

Refinancing rate risk indicator	Approved minimum limits	Approved maximum limits	Actual 31 March 2019		Actual 31 March 2020	
	%	%	£million	%	£million	%
Less than 1 year	0%	10%	0	0	0.092	0.6
Between 1 and 2 years	0%	30%	0	0	0.094	0.7
Between 2 and 5 years	0%	50%	0	0	1.016	7.0
Between 5 and 10 years	0%	75%	2.160	39.3	2.347	16.1
More than 10 years	0%	100%	3.330	60.7	11.017	75.6
Total			5.490	100.0	14.566	100.0

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Proposed Workplan for the Audit Committee for the 2020/21 financial year

Committee Meeting	Proposed workplan/timetable for Audit Committee 2020/21
12 th November 2020	<ul style="list-style-type: none"> i) Grant Thornton Update report; ii) Six monthly update – Strategic Risk Assessment; iii) Six monthly update – Strategic Debt review; iv) Internal Audit Charter & Strategy; and v) Update on Progress on the 2020/21 Internal Audit Plan. vi) Investigatory Powers Inspection vii) Discretionary Business Grants
4 th February 2021	<ul style="list-style-type: none"> i) Grant Thornton Update report; and ii) Update on progress on the 2020/21 Internal Audit Plan. iii) Six monthly treasury management update report
11 th March 2021	<ul style="list-style-type: none"> i) Grant Thornton - External Audit Plan 2020/21 ii) Grant Thornton Update report; iii) Informing the risk assessment for 2020/21 (Planning for the 2020/21 Accounts) iv) Treasury Management update ; v) 2021/22 Internal Audit Plan; vi) Commercial Property Monitoring Report; vii) Draft Budget Book 2021/22; viii) Cost Methodology for Shared Services 2020/21; ix) Annual Review of Council Constitution; x) Update on Progress on the 2020/21 Internal Audit Plan; xi) Six monthly update – Strategic Risk Assessment; and xii) Six monthly update – Strategic Debt review.

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