

South Hams Audit and Governance Committee



Title:	Agenda						
Date:	Thursday, 8th September, 2022						
Time:	2.00 pm						
Venue:	Council Chamber - Follaton House						
Full Members:	<p style="text-align: center;">Chairman Cllr Austen</p> <p style="text-align: center;">Vice Chairman Cllr Spencer</p> <p><i>Members:</i></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">Cllr Brazil</td> <td style="width: 33%;">Cllr Rowe</td> </tr> <tr> <td>Cllr McKay</td> <td>Cllr Taylor</td> </tr> <tr> <td>Cllr Pennington</td> <td></td> </tr> </table>	Cllr Brazil	Cllr Rowe	Cllr McKay	Cllr Taylor	Cllr Pennington	
Cllr Brazil	Cllr Rowe						
Cllr McKay	Cllr Taylor						
Cllr Pennington							
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 - 6
To approve as a correct record the minutes of the Audit Committee held on 30 June 2022;	
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	
In accordance with the Code of Conduct, Members are invited to declare any Disclosable Pecuniary Interests, Other Registerable Interests and Non-Registerable Interests including the nature and extent of such interests they may have in any items to be considered at this meeting;	
5. Draft Statement of Accounts and Draft Annual Governance Statement 2021/2022	7 - 164
6. Annual Treasury Management Report 2021/22	165 - 184
7. Update on Progress on the 2022-23 Internal Audit Plan	185 - 220
8. Governance Review - Housing Programme	221 - 228
9. Investment Properties - Update and monitoring report	229 - 236
10. Strategic Risk Update	237 - 254
11. Estates Property and Rents Follow Up Internal Audit	
Verbal Update	
12. Performance Management (Data Quality) Follow Up Internal Audit	
Verbal Update	
13. Audit & Governance Committee Workplan 2022-23	255 - 256

**MINUTES OF A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE
HELD IN THE COUNCIL CHAMBER, FOLLATON HOUSE, PLYMOUTH ROAD,
TOTNES ON THURSDAY, 30th JUNE 2022**

Members in attendance * Denotes attendance ∅ Denotes apology for absence			
*	Cllr L Austen (Chairman)	∅	Cllr J T Pennington
*	Cllr J Brazil	*	Cllr R Rowe (via Teams in a non-voting capacity)
*	Cllr D Brown (substituting for Cllr Rowe)	*	Cllr B Spencer (Vice-Chairman)
∅	Cllr J McKay	*	Cllr B Taylor

Member(s) also in attendance:
Cllrs H D Bastone and N Hopwood (via Teams)

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Director of Strategy and Governance; Section 151 Officer (via Teams); Head of Finance; Democratic Services Manager; Head of Strategy & Projects (via Teams); Audit Manager; and Audit Specialist (via Teams)

AG.1/22 MINUTES

The minutes of the Audit Committee meeting held on 10 March 2022 were confirmed as a true and correct record.

AG.2/22 DECLARATIONS OF INTEREST

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

AG.3/22 CHAIRMAN'S ANNOUNCEMENTS

In recognition of the availability of Grant Thornton representatives, the Chairman advised that he had exercised his discretion to enable for an additional Committee meeting to be added to the Calendar of Meetings for 2022/23. The Chairman proceeded to inform the Committee that this additional meeting would be held on Thursday, 24 November at 2.00pm.

AG.4/22 GRANT THORNTON AUDIT PLAN FOR 2021-22

Consideration was given to a Grant Thornton report that sought to provide an overview of the planned scope and timing of their statutory external audit of the Council.

In the ensuing debate, particular reference was made to:

- (a) the significant increase in Audit Fees. Whilst noting the explanatory comments in the published agenda report and the conclusions of the Redmond Review, Members still felt that the Committee deserved a greater explanation from Grant Thornton representatives to justify what was in effect a 14% increase in Audit Fees; and
- (b) the Council's Investment Property portfolio. The Section 151 Officer confirmed that the Investment Property Monitoring Report was to be presented to the next Committee meeting to be held on 8 September 2022.

It was then:

RESOLVED

That the contents of the Grant Thornton Audit Plan for 2021-22 be noted.

AG.5/22 GRANT THORNTON REPORT: GUIDANCE FOR MEMBERS WHEN REVIEWING THE FINANCIAL STATEMENTS

A Grant Thornton report was considered that provided guidance to Members to support them in assessing how the Council was performing and to identify any areas of potential concern. The document would also help Members to identify areas of the Council's Final Accounts to ask further questions on when scrutinising the Statement of Accounts.

In discussion, Members welcomed the offer of Grant Thornton for a training session to be arranged and felt that this should be delivered as part of the May 2023 Member Induction Programme.

It was then:

RESOLVED

1. That the contents of the Grant Thornton Report: Guidance for Members when Reviewing the Financial Statements be noted; and
2. That Grant Thornton representatives be invited to deliver a Member Training session as part of the May 2023 Member Induction Programme.

AG.6/22

GRANT THORNTON REPORT: INFORMING THE AUDIT RISK ASSESSMENT FOR SOUTH HAMS DISTRICT COUNCIL 2021/22

The Committee considered a Grant Thornton report that covered some important areas of the auditor risk assessment for which Grant Thornton was required to make inquiries of the Committee in accordance with auditing standards.

In discussion, reference was made to significant risks that were not highlighted in the presented agenda report. In citing the waste and leisure contracts and some of the Capital Programme projects as being the most significant risks for the Council, a Member questioned why this was not reflected in the Grant Thornton report. As a consequence, the Member proceeded to question the value of this report. In reply, the Section 151 Officer advised that, as part of its Value for Money audit, Grant Thornton reviewed the Council's Risk Management Register and all of the reports that were published during the year and representatives would report on their conclusions in their end of year report. Furthermore, the Committee was reminded that it received six monthly update reports on the Council's Risk Register.

It was then:

RESOLVED

That the contents of the Grant Thornton Report: Informing the Audit Risk Assessment for South Hams District Council 2021/22 be noted.

AG.7/22

INTERNAL AUDIT ANNUAL REPORT 2021/22

Consideration was given to a report that sought to inform Members of the principal activities and findings of the Council's Internal Audit for 2021/22 (to 1 June 2022) by:

- Providing a summary of the main issues raised by completed individual audits;
- Showing the progress made by Internal Audit against the 2021/22 annual internal audit plan (as approved by the Committee at its meeting in April 2021); and
- Providing an opinion on the adequacy of the Council's control environment.

During discussion, the following points were raised:

- (a) For a number of audits undertaken, there was felt to be a lack of timescales included and it was therefore requested that this be rectified before the Committee next considered an Internal Audit report;

- (b) The Internal Audit Manager confirmed that the Internal Audit Team had now concluded its support to the Business Rates Grant Team. As a result, the Team was now able to provide greater focus to the delivery of the Council's Internal Audit Plan. A number of Members wished to commend the excellent work of officers in being able to distribute over £80 million worth of Grants during the pandemic to much needed businesses and individuals in the South Hams;
- (c) With regard to some of the Internal Audit findings that related to the Revenue and Benefits service area, the Committee was informed that officers were confident that a number of these would be mitigated once the newly appointed Head of Revenues and Benefits joined the employ of the Council in September 2022;
- (d) The Committee expressed some concerns that the following internal audit follow-ups had still only resulted in a 'limited assurance' audit opinion being given:
- Estates Property and Rents Follow-Up; and
 - Performance Management (Data Quality) Follow-Up;

In light of these concerns, it was **PROPOSED** and **SECONDED** and when being put to the vote declared **CARRIED** that:

'The Head of Assets and the Head of Strategy and Projects be requested to attend the next Audit Committee Meeting (to be held on 8 September) to provide an update on the progress being made on the recommendations generated by the Internal Audits into the Estates Property and Rents Follow-Up and the Performance Management (Data Quality) Follow-Up.'

Having been informed that this would be the last Audit Committee meeting that would be supported by the Internal Audit Manager, Members wished to put on record their thanks to him for his excellent level of service and the Committee proceeded to wish him every success for the future.

It was then:

RESOLVED

1. That overall and based on work performed during 2021/22 (and that of our experience of previous years' audits), it be noted that the Head of Internal Audit's Opinion is one of 'Reasonable Assurance' on the adequacy and effectiveness of the Authority's Internal Control Framework;
2. That the performance and achievements of the Internal Audit Team during 2021/22 be noted; and

3. That the Head of Assets and the Head of Strategy and Projects be requested to attend the next Audit Committee Meeting (to be held on 8 September) to provide an update on the progress being made on the recommendations generated by the Internal Audits into the Estates Property and Rents Follow-Up and the Performance Management (Data Quality) Follow-Up.

(Meeting commenced at 2:00pm and concluded at 3.15pm)

Chairman

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Report to: **Audit and Governance Committee**

Date: **8 September 2022**

Title: **Draft Statement of Accounts and Draft Annual Governance Statement 2021/2022**

Portfolio Area: **Support Services – Cllr H Bastone**

Wards Affected: **All**

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

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

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

Contact: **01803 861345** alexandra.walker@swdevon.gov.uk
01803 861377 pauline.henstock@swdevon.gov.uk

Recommendations:

That the Audit Committee note the Draft Statement of Accounts and the Draft Annual Governance Statement (AGS) for the financial year ended 31 March 2022.

1. Executive summary

- 1.1 The report advises Members that an under spend of £214,000 was generated in 2021/2022 which was transferred to the General Fund Balance (un-earmarked revenue reserve). The level of this reserve stands at £2.06 million at 31 March 2022.
- 1.2 The Narrative Statement to the Accounts gives a summary of the main items in the Statement of Accounts for 2021/2022.

2. Background

- 2.1 The Accounts and Audit (England) Regulations 2015 set out the requirements for the production and publication of the local authority's annual Statement of Accounts (SOA). These regulations introduced revised procedures for the approval and publication of accounting statements. In line with common practice

in the commercial sector, local authorities are now required to approve the accounts following the completion of the audit.

- 2.2 The statutory timetable relating to the production and publication of the final accounts was brought forward from 2017/18. Since then the Council has been required to publish the draft SOA by 31 May, one month earlier than previously. However, due to the Covid-19 pandemic the 2020/21 and 2021/22 statutory timetable was extended. In accordance with statute the draft Accounts for 2021/22 were published by 31 July 2022.
- 2.3 The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process, since it confirms the availability of reserves and balances for future use.
- 2.4 The attached booklet in Appendix A contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Statement (CIES), the Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow.
- 2.5 The accounts have been prepared in accordance with all relevant and appropriate accounting standards, including International Accounting Standard (IAS) 19 which deals with pension costs. This standard ensures that the full cost of employing people is recognised systematically in the accounts and that creditors reflect the Council's liability to pay money into the pension fund. A full explanation of the pension's liability is included in the Council's Statement of Accounts. Members are advised that the accounting arrangements for IAS 19 are for reporting purposes only. Indeed the required entries are reversed out of the accounts and consequently, IAS 19 has no impact on the Council's surplus for the year.
- 2.6 The Annual Governance Statement (AGS) for 2021/22 shown in Appendix B reflects the reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The new requirements include:
 - An acknowledgement of responsibility for ensuring there is a sound system of governance
 - A reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment.
 - An opinion on the level of assurance that the governance arrangements can provide.
 - An agreed action plan.
 - A conclusion.

- 2.7 The CIPFA/SOLACE 2016 Framework recommends that the Council carries out annually a self-assessment of the extent to which it complies with seven core principles of good governance. Examples of the framework the Council adopts to comply with the Code's key principles are included within the AGS, as well as an accompanying assurance statement.

3. Outcomes/outputs

Revenue Expenditure

- 3.1 Revenue expenditure represents the ongoing costs of carrying out day-to-day operations, and is financed from council tax, business rates, fees and charges, government grants and interest earned on investment activity. The under spend on the General Fund in 2021/2022 of £214,000 is essentially a break-even position. **The 2021/22 Budget was £9.677 million and therefore the underspend of £214,000 means that the actual spend was 2.2% less than the budget.** This underspend will go into the Council's Unearmarked Reserves which now stand at £2.06 million, in accordance with normal accounting practice. The main variations from budget are shown on Page 9 of the Narrative Statement in the Statement of Accounts.

Capital Expenditure

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

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

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

Earmarked Reserves

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

4. Proposed Way Forward

- 4.1 Members are advised that the accounts are being audited by our External Auditors, Grant Thornton during July, August and September 2022. Following the Audit, the Statement of Accounts will be brought back to the Audit and Governance Committee for approval in November.

5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		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. The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS).
Financial implications to include reference to value for money		The financial implications to this report are that an under spend of £214,000 was generated in 2021/2022. This means that the Council's actual spend for 2021/2022 was 2.2% less than the budget set for the year. As part of Grant Thornton's external audit of the Statement of Accounts for 2021/2022, they will assess the arrangements the Council has in place for:-

		<ul style="list-style-type: none"> • Improving economy, efficiency and effectiveness • Financial Sustainability • Governance <p>The outcome of Grant Thornton's work in this area will be reported to Members at the Audit and Governance Committee meeting on 24th November 2022.</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 2021/22 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 Delivery Plans within the Council's strategic vision, 'Better Lives for All'.</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. Our Guiding Principles of the Corporate Strategy are 'to provide value for money and good customer service'.</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

Appendices:

Appendix A – Draft Statement of Accounts 2021/22

Appendix B – Draft Annual Governance Statement 2021/22

Background Papers:

None

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed/sign off	Yes
SLT Rep briefed/sign off	Yes
Relevant Heads of Practice sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	N/A



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



**South Hams
District Council**

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Statement of Accounts 2021/22

The Statement of Accounts 2021/22 can be made available in large print, Braille, tape format or other languages upon request.

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

Section 1

Narrative Statement

Introduction to the 2021/22 Statement of Accounts by Councillor Pearce, Leader of South Hams District Council



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

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

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

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

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

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

Councillor J Pearce, Leader of the Council

Foreword by the Chief Executive



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

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

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

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

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

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

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

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

Andy Bates, Chief Executive

Message from the Section 151 Officer and Corporate Director for Strategic Finance - Lisa Buckle



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

- Understand the financial position of the Council as at 31 March 2022 and how the Council has performed against the budget set for 2021/22
- Be assured that the financial position of the Council is secure, with a degree of resilience.

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

Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. When Councillors set the Budget for 2020/21 in February 2020, no-one could have foreseen how our future finances and everyday lives were about to be impacted. The pandemic has also changed the world we operate in. Across the Council, staff have been called upon to continue the efforts to help local communities against the impact of the pandemic.

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

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

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

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

NARRATIVE STATEMENT – INTRODUCTION

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

REVIEW OF THE YEAR – THE REVENUE BUDGET

- The 2021/22 budget for South Hams was £9.677 million. A surplus of £214,000 means that the actual spend was 2.2% less than the budget. This saving of £214,000 will go into the Council's Unearmarked Reserves which now stand at £2.06 million. The main components of the General Fund budget for 2021/22 and how these compare with actual income and expenditure are set out below:

	Estimate £000	Actual £000	Difference Cost/ (Saving) £000
Cost of services (after allowing for income and reserve contributions)	9,881	9,778	(103)
Parish Precepts	2,960	2,960	-
Interest and Investment income	(203)	(140)	63
Amount to be met from Government grants and taxation including parish precepts	12,638	12,598	(40)
Financed from:			
Business Rates (baseline funding level)	(1,928)	(1,928)	-
Business Rates (achieved over baseline funding level)	(426)	(426)	-
Business Rates Pooling Gain	(125)	(299)	(174)
Council Tax (including parish precepts)	(9,679)	(9,679)	-
Deficit on Collection Fund	30	30	-
Rural Services Delivery Grant	(428)	(428)	-
Lower Tier Services Grant	(82)	(82)	-
SURPLUS FOR 2021/22	-	(214)	(214)

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

	£000
General Fund Balance (un-earmarked revenue reserve) at 1 April 2021	(2,122)
Surplus for the 2021/22 financial year	(214)
Transfer from the General Fund Balance to earmarked reserves	280
General Fund Balance (un-earmarked revenue reserve) at 31 March 2022	(2,056)

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

4. The surplus on the General Fund of £214,000 is essentially a break-even position, representing 0.5% of the Council's gross turnover in 2021/22 of £41 million.
5. The table below shows a reconciliation of the position shown on the bottom of the Comprehensive Income and Expenditure Statement and the reported surplus for the 2021/22 financial year.

	£000
Total Comprehensive Income and Expenditure Statement	(14,157)
Surplus on the revaluation of Property, Plant and Equipment	1,633
Deficit on the revaluation of Financial Instruments	325
Remeasurements of the net defined benefit pension liability	12,608
Transfers to earmarked reserves	(935)
The detail of the items below are shown in Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations' in the General Fund Balance column.	
Adjustments primarily involving the Capital Adjustment Account	(1,868)
Adjustments primarily involving the Capital Grants Unapplied Account	260
Adjustments primarily involving the Capital Receipts Reserve	775
Adjustments primarily involving the Pensions Reserve	(3,878)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	328
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	4,702
Adjustments primarily involving the Accumulated Absences Account	(7)
Surplus for the 2021/22 financial year	(214)

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

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

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

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

Pension Liability

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

Business Rates

9. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline or if a Council's income from business rates falls due to successful business rates appeals.
10. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value.
11. In 2021/22 there has been a £354,000 decrease in the provision for appeals within the Collection Fund. The balance on the Business Rates Collection Fund at 31 March 2022 is a deficit of £6,351,000 (£18,106,000 deficit in 2021/22). South Hams District Council's share of the surplus is 40% (£2,540,000).
12. Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income due to the complex accounting arrangements for Business Rates. In 2021/22 the balance of the Business Rates Retention Scheme (BRRS) earmarked reserve reduced by £2.56m to £4.55m as at 31 March 2022. This included a transfer of £450,000 from the Business Rates Retention Earmarked Reserve to a new earmarked reserve called the Recovery and Renewal Reserve to support the costs of the Recovery and Renewal Plan and the Council's 20 year vision 'Better Lives for All'. Some of this additional business rates income is due to timing differences in the way the Collection Fund operates and part of the funding will be needed to meet future years' budgets for business rates, in particular as business rates baselines are due to be re-set in the future.

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

Waste, recycling, street and toilet cleaning services

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

Trading Company

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

Sherford Community Land Trust

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

Housing

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

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

Ivybridge Regeneration Project

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

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

Borrowing

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

Capital spending

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

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

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

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

33. At 31 March 2022 the Council had investments of £1.5 million with the CCLA Property Fund and £2 million with the CCLA Diversified Income Fund.
34. Upon transition to IFRS 9 – Financial Instruments on 1 April 2018, and in accordance with paragraphs 5.7.5 and 7.2.8 (b) of IFRS9, South Hams District Council makes an irrevocable election to present in other comprehensive income, changes in the fair values of its equity instruments. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds these investments as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.
35. A summary of the position of these equity instruments as at 31 March 2022 is shown below:

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

FINANCIAL NEEDS AND RESOURCES

36. The Council maintains both capital and revenue reserves. The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.
37. General Fund reserves (which include earmarked reserves) have decreased by £0.721m from the preceding year and stand at £22.895 million at 31 March 2022. This is mainly due to a reduction in Earmarked Reserves of £0.655m. This follows the application of some of the S31 Business Rates compensation grant received in 2020/21 which was held in the S31 Compensation Grant Business Rates Reserve.
38. The total Earmarked Reserves balance at 31 March 2022 of £20.839m includes £4.26m held in the Business Rates s31 Compensation Grant Reserve. This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the S31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2022/23 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.
39. The General Fund Balance (un-earmarked reserve) has reduced by £66,000 in 2021/22 and totals £2.056 million. This reflects the underspend from 2021/22 of £214,000 offset by a transfer of £280,000 from the General Fund Balance to the Financial Stability Earmarked Reserve. This is a new reserve set up in 2021/22 as part of the 2022/23 Budget process to be available for any future financial pressures from local government funding reforms and any other budget pressures. Revenue reserves may be used to finance capital or revenue spending plans. The level of Reserves are assessed as adequate for the Council's operations.
40. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2022 amounts to £3.45 million compared to £3.27 million at the end of the previous year.
41. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account, Financial Instruments Revaluation Reserve and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance capital or revenue expenditure.

42. When reviewing the amount of overall reserves held, consideration should be given to the possible implications of the Pension Fund deficiency disclosed within the notes to the balance sheet. The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £52.6 million at 31 March 2022. This disclosure follows the implementation of the International Accounting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.
43. It is important to gain an understanding of the accounts to appreciate the nature of this reported deficiency, which is based on a “snapshot” of pension assets and liabilities at the year end. This is quite different from the valuation basis used for the purposes of establishing the employer’s contribution rate and fund shortfall, which are calculated using actuarial assumptions spread over a number of years.

Annual Governance Statement (AGS)

44. The Council’s Annual Governance Statement sets out the arrangements for governance which the Council has in place. The AGS is published alongside the Accounts for 2021/22.

COVID-19 Response

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

Better Lives for All

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

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

Achieving our Vision

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



Adapting & mitigating climate change and increasing biodiversity

An environment where people and nature thrive together



Improving homes

Better homes enabling better lives for all



Protecting, conserving & enhancing our built and natural environment

Planning for our future, celebrating our past



Stimulating a thriving economy

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



Strengthening community wellbeing

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



Delivering quality Council services

Delivering quality services to our residents and communities

Annual Report of Achievements

48. The Council has prepared an Annual Report of Achievements setting out the key activities it has been involved in during the year.

2021/22 Annual Report

Action Across South Hams



4 Community Composting Groups supported – and we've agreed to support more in the future with a £200,000 investment



Freeport bid submitted in a bid to enable 3,500 jobs in the area



6 Neighbourhood Plans Made helping to shape the future of the District



£243k investment in community and business schemes developing future employment opportunities



New tree planting sites commenced delivery with a total 5380 young trees planted



£60,000 funding awarded to enable new community led projects supporting health and wellbeing of residents



Invested £143k in a marketing campaign and town beautification activities with our key towns to help the recovery from Covid-19

49. The Annual Report was considered by the Executive at their meeting on 7th July 2022 and can be seen on our website.

LOOKING FORWARD TO THE FUTURE AND NEXT STEPS

Continuing to respond to the housing crisis

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

Climate Emergency Response

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

Homes for Ukraine

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

Levelling up

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

Plymouth and South Devon Freeport

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

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

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

Our financial future

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

Going Concern

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

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

62. Based on the S151 Officer's management assessment (which has included consideration of the Government support available, the Council's current level of reserves, the level of working capital including cash and investments, a sensitivity analysis on forecast cashflows, income from local taxation and borrowing headroom etc.), there is no material uncertainty and as a result the Accounts for 2021/22 are prepared on a going concern basis.

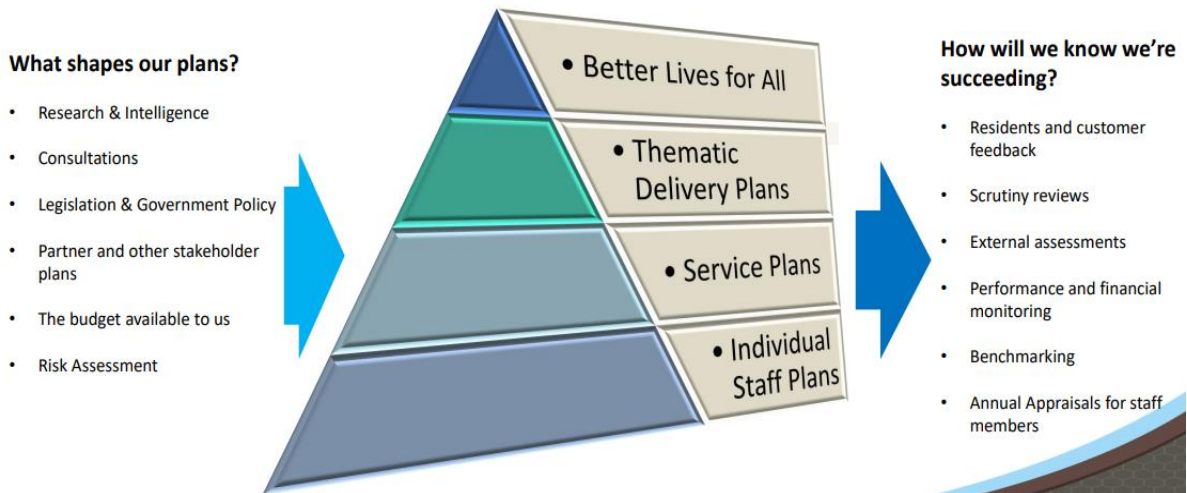
Issue of the Accounts

63. The Corporate Director for Strategic Finance authorised the unaudited Statement of Accounts 2021/22 for issue on 29 July 2022. Events taking place after this date are not reflected in the financial statements or notes.

CORPORATE PERFORMANCE FOR 2021/22

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

Performance Management: The Golden Thread From Strategic priorities to individual targets







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

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

The performance by theme is as set out below.





Adapting and Mitigating Climate Change

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

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



Strengthening Community Wellbeing

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

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


Improving Homes

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

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





Thriving Economy

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

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

Protecting, conserving and enhancing our built and natural environment




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

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

Quality Council Services

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

A risk and opportunity management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. The latest update was presented to the Audit Committee on 9th December 2021 and a high-level summary considered by Executive as part of the quarterly Integrated Performance Management Reports.



Our Risk Management Objectives




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


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



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

Risk Title	Description	Note at last Audit Committee Report – December 2021
<p>Delivery of waste & recycling service changes</p> <p>Risk Score (Current)</p>  <p>Likelihood 5 x Impact 5</p>	<p>The risk is that the contractor, FCC, lacks the capacity or ability to rectify the issues being experienced by residents at this stage resulting in further delays, increased reputational damage and overall significant frustration for our residents.</p>	<p>Issues with the service continue to be experienced at the time of this update. The Council is working with FCC Environment to resolve ongoing issues.</p> <p>The Executive continue to meet regularly with FCC Senior Management. The Council continues to use contractual mechanisms to improve service performance.</p> <p>The contractor was not able to rectify issues with the collection by the end of July 2021 as previously updated on the risk register.</p> <p>To alleviate the pressure on the service, the decision has been taken to temporarily suspend garden waste collections, enabling the contractor to focus available resources on collection of waste and household recycling.</p> <p>The Executive have asked that FCC provide a detailed plan to the Council by 31st December 2021 for resuming the service by 31st March 2022 (or sooner)</p> <p>(See paragraphs 14 to 18 in the Narrative Statement for an update on the Council's waste service).</p>
<p>Adherence to Medium Term Financial Strategy</p> <p>Risk Score (Current)</p>  <p>Likelihood 3 x Impact 4</p>	<p>Failure to sustain a robust on-going medium term financial strategy in SHDC with adequate reserves to meet unforeseen circumstances, due to cost pressures and reduced income targets, council decisions, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFs, particularly if national/regional businesses successfully appeal against business rate valuations or litigation</p>	<p>Due to the volatility of Business Rates income, Council on 23 September 2021 approved the use of funding from the Business Rates Retention Earmarked Reserve to smooth the volatility in business rates income over the next three years. The volatility is due to the business rates baseline reset anticipated in 2023/24 (this will mean the Council will have negative revenue support grant in 23/24) and the predicted reduction in business rates pooling gains at the same time in 23/24. There is a risk that the Government may introduce a more aggressive business rates tariff in 22/23 to account for the fact that the baseline reset is highly likely to be delayed until at least 23/24. If this happens, it would be recommended that a higher amount of funding from the business rates retention reserve is used in 22/23, to offset the higher tariff rate and the ensuing lower business rates income. More will be known on this when details of the Local Government Finance Settlement are announced around mid December. The forecast budget gap for 2022/23 is currently £28,500, 0.3% of the Net Budget of 2021/22 of £9.7 million. A cumulative budget gap of £349,925</p>

Risk Title	Description	Note at last Audit Committee Report – December 2021
	proceedings / legal challenges / planning appeals, etc.	is predicted for 2023/24 (the £349,925 assumes that the 22/23 budget gap of £28,500 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.1 million, if no action has been taken in each individual year to close the budget gap annually. The Council awaits the details of the Local Government Finance Settlement announcement in mid December, which will enable the Council to further firm up some of the assumptions within the Budget for 2022/23 onwards.
<p>Covid-19 Impact on in-house Services</p> 	<p>The risk is that Covid-19 (Coronavirus) will impact on the ability for the Council to deliver its in-house services leading to a drop in operational performance and customer satisfaction. There is the potential for additional financial implications due to increased demand for services or a reduction in income.</p>	<p>Our office based staff continue to work from home in order to mitigate the risk of spreading Covid 19 and in turn reducing the capacity of our workforce. Our frontline staff continue to employ safety measures to reduce the risk of transmission of Covid with risk assessments continually being updated.</p> <p>Member meetings have resumed face to face for many months and with the exception of wearing facemasks when moving around the building and maintaining social distancing, other safety measures have been removed. This has not so far resulted in any significant outbreaks.</p> <p>We will continue to monitor the impact on our in-house services (particularly given Omicron variant developments) over the winter and if required, instigate our incident management approach</p>
<p>Health and Wellbeing Service Provision</p> 	<p>Covid-19 has a significant impact on Leisure provision given the nature of activities and hygiene requirements. The risk is that as leisure centres make adjustments to reduce the risk of Covid-19 to both staff and customers, the capacity of the centres is significantly reduced while many overheads and operating costs remain the same.</p>	<p>At their meeting in March 2022, the Executive will consider an update from Fusion Leisure which will set out the impact Covid-19 continues to have on participation and what steps they are taking to encourage a return to pre-pandemic levels.</p> <p>The Councils lead for Fusion continue to promote the available activities within the centres.</p>
<p>Business Continuity</p> 	<p>The risk is that we do not develop and keep maintained robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems leading to inability to deliver key council services.</p>	<p>While we still find ourselves in the 'response' phase of the pandemic however focus is now changing to refining our broader business continuity plans to cover other scenarios. Our ability to work online is fundamental to our ongoing delivery of services and this is therefore a key focus for our Business Continuity Planning. We are aware of rising incidents of cyber attacks on local authorities and are monitoring their learning closely in order to refine our own response plans. Where cyber attacks on those have been successful (i.e. not prevented by their systems and processes) they have been without core operating systems for many months and with</p>

Risk Title	Description	Note at last Audit Committee Report – December 2021
		<p>the cost of recovery being in the several millions of pounds. As a result of this learning we have increased the financial impact score to 5. Additionally, our contracted waste collection services continue to be under significant pressure triggered in part by the national HGV driver shortage which could be compounded as we enter the typical flu season and also the added covid-19 infection and isolation risk.</p> <p>We have commissioned external advice to support us in updating our ICT Business Continuity Plans with this work aiming to complete in January 2022. Following this we can update our other service business continuity plans.</p> <p>A group of core officers will be recommending a dedicated work stream to reduce this risk to acceptable levels</p>
<p>Emergency Response</p> 	<p>The risk is that the council fails to meet the high public expectation in relation to supporting communities during storm damage/flooding/ other events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and expectations during an event.</p>	<p>The Council continues to engage with the Local Resilience Forum and is keeping its emergency response plans up to date. Winter plans are developed and in place.</p> <p>Most of our emergency response support will be provided by the Environmental Health Team who are also the team that are involved in supporting any requirements to respond to Covid-19. To support their ability to respond to any other emergencies through the winter, we have extended the contract of the covid-19 support officers until end of March 2022.</p>

Section 2

Core Financial Statements

SECTION 2A COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

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

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

SECTION 2B MOVEMENT IN RESERVES STATEMENT

Movement in Reserves Statement

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

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

SECTION 2B MOVEMENT IN RESERVES STATEMENT

2020/21 Comparatives	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2020/21 £000
Balance at 31 March 2020 carried forward	2,010	13,998	16,008	3,059	341	19,408	35,989	55,397
Movement in Reserves during 2020/21								
Total Comprehensive Income and Expenditure	(2,369)	-	(2,369)	-	-	(2,369)	(9,898)	(12,267)
Adjustments between accounting basis and funding basis under regulations (Note 7)	9,977	-	9,977	(211)	82	9,848	(9,848)	-
Transfers to/from Earmarked Reserves (Note 8)	(7,496)	7,496	-	-	-	-	-	-
Increase/ (Decrease) in Year	112	7,496	7,608	(211)	82	7,479	(19,746)	(12,267)
Balance at 31 March 2021 carried forward	2,122	21,494	23,616	2,848	423	26,887	16,243	43,130

SECTION 2C BALANCE SHEET

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

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

The notes on pages 37 to 122 form part of these financial statements. The unaudited accounts were issued on 29 July 2022.

SECTION 2D CASHFLOW STATEMENT

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

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

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 2022 for which there are significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	<p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets.</p> <p>Assets are depreciated over useful lives which are estimated annually. The carrying value of Property, Plant and Equipment as at 31 March 2022 is £80 million.</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in an impact on the financial statements of approximately £8m.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to reduce by 1 year across all assets, this would have an impact of approximately £254,000 on the Council's finances.</p>

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Fair value measurement of investment property</p>	<p>The Council's external valuers use recognised valuation techniques to determine the fair value of Investment Property each year. This involves making assumptions and estimates in terms of how market participants would price the property.</p> <p>The fair value of Investment Properties as at 31 March 2022 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>
<p>Business Rates Appeals Provision</p>	<p>Estimates have been made for the provision for refunding ratepayers who may successfully appeal against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed. The total appeals provision as at 31 March 2022 is £3.7 million, of which the Council's share is 40% (£1.5 million).</p>	<p>There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation. If the Business Rates appeals provision were to change by 1% this would have an impact of £15,000 on the Council's finances.</p>
<p>Pensions Liability</p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>The value of pension assets is estimated based upon information available at the Balance Sheet date, although these valuations could be earlier. The actual valuations at the Balance Sheet date, which may not be available until sometime later, may give a different value of pension assets, but this difference is not considered to be material.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3 million.</p> <p>The assumptions interact in complex ways. For example, in 2021/22, the Authority's actuaries advised that the pension liability has decreased by £7 million as a result of a change in "financial assumptions" and there had been no change as a result of a change in "demographic assumptions".</p> <p>Please refer to Note 35 for further information about the assumptions used by the actuaries.</p>

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	<p>The Pension Fund's Actuary has provided updated figures for the year based on the valuation in 2019. This valuation is based upon cash flow and assets values as at 31 March 2022.</p> <p>Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out during 2022/23 (as at 31 March 2022) and will set contributions for the period from 1 April 2023 to 31 March 2026.</p> <p>The carrying value of the pensions liability as at 31 March 2022 is £52.6 million.</p> <p>Movements in the value of investments due to current economic uncertainty will affect the valuation of the pension liability. This will include the impact on the value of Investment Properties held by the Local Government Pension Scheme on behalf of South Hams District Council.</p>	<p>If the value of investments is found to have changed from the estimates used by the actuaries, it will impact the overall value of the pension liability. For instance, a 5% increase in the pension liability would have an impact of £2.6m on the financial statements.</p> <p>The Council's share of these Pension Fund property investments would be material to the Council's net liability, this would also present a material uncertainty on the valuation of the Council's pension assets and liabilities as at 31 March 2022.</p>

2. MATERIAL ITEMS OF INCOME AND EXPENSE

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

3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2021/22 was approved for issue by the Section 151 Officer & Corporate Director for Strategic Finance on 29 July 2022. This is also the date up to which events after the reporting period have been considered.

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

4. EXPENDITURE AND FUNDING ANALYSIS

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

5. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

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

Adjustments between Funding and Accounting Basis				
2020/21 Comparatives	Adjustments for capital purposes (Note A) £000	Net change for the pensions adjustments (Note B) £000	Other Differences (Note C) £000	Total adjustments £000
Customer Service & Delivery	1,165	723	5	1,893
Place & Enterprise	2,008	270	-	2,278
Governance & Assurance	629	176	-	805
Net Cost of Services	3,802	1,169	5	4,976
Other income and expenditure from the Expenditure & Funding Analysis	(3,490)	1,188	7,303	5,001
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	312	2,357	7,308	9,977

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Note A: Adjustments for Capital Purposes

Adjustments for capital purposes reflect:

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

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

Note B: Net Change for the Pensions Adjustments

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

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

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

Note C: Other Differences

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

6. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

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

* Employee Benefits Expenses

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

** Other Service Expenses

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

*** Fees, Charges and Other Service Income

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

*******Revenue Grants and Contributions**

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2021/22	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
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	3,100			(3,100)
Revaluation losses/(gains) on Property, Plant and Equipment	(217)			217
Movements in the market value of Investment Properties	(50)			50
Amortisation of Intangible Assets	82			(82)
Capital grants and contributions applied	(977)			977
Revenue expenditure funded from capital under statute (REFCUS)	1,201			(1,201)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	357			(357)
Insertion of items not debited or credited to the CIES:				
Statutory provision for the financing of capital investment	(486)			486
Capital expenditure charged against the General Fund	(1,019)			1,019
Revenue contribution to Capital Outlay – RCCO	(123)			123
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(260)		260	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(179)	179
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(360)	360		-
Costs of disposal funded from capital receipts	3	(3)		-

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2021/22	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	(418)	418		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(673)		673
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	5,370			(5,370)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,492)			1,492
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	(328)			328
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*	(4,702)			4,702
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	7			(7)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2021/22	(312)	102	81	129

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2020/21 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account (CAA):				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i>				
Charges for depreciation and impairment of non-current assets	2,557			(2,557)
Revaluation losses/(gains) on Property, Plant and Equipment	(188)			188
Movements in the market value of Investment Properties	286			(286)
Amortisation of Intangible Assets	29			(29)
Capital grants and contributions applied	(1,241)			1,241
Revenue expenditure funded from capital under statute (REFCUS)	1,404			(1,404)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	232			(232)
<i>Insertion of items not debited or credited to the CIES:</i>				
Statutory provision for the financing of capital investment	(344)			344
Capital expenditure charged against the General Fund	(1,798)			1,798
Revenue contribution to Capital Outlay – RCCO	(150)			150
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(179)		179	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(97)	97
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(184)	184		-
Costs of disposal funded from capital receipts	1	(1)		-

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

8. TRANSFERS TO/ FROM EARMARKED RESERVES

This note details the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2021/22. The purpose of some of the more significant earmarked reserves are shown below:

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

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

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

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

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

Business Rates Retention Scheme - The Business Rates Retention Earmarked reserve covers any possible funding issues from the new accounting arrangements and to smooth the volatility from business rates income over a period of years.

Affordable Housing - To support the funding of affordable housing.

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Note* - Business Rates S31 Compensation Grant Earmarked Reserve

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

9. OTHER OPERATING EXPENDITURE

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

11. TAXATION AND NON-SPECIFIC GRANT INCOME

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

12. PROPERTY, PLANT AND EQUIPMENT

Movements in 2021/22	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 2021	68,313	10,756	11,292	454	441	91,256
Additions	346	731	75	62	1,410	2,624
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	365					365
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	65					65
Derecognition – disposals	(65)	(52)				(117)
At 31 March 2022	69,024	11,435	11,367	516	1,851	94,193
Accumulated Depreciation & Impairment at 1 April 2021	1,731	6,038	4,338	-	-	12,107
Charge for 2021/22	1,629	1,014	457	-	-	3,100
Depreciation written out to the Revaluation Reserve	(1,053)					(1,053)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(154)					(154)
Derecognition – disposals		(52)				(52)
At 31 March 2022	2,153	7,000	4,795	-	-	13,948
Balance Sheet amount at 31 March 2022	66,871	4,435	6,572	516	1,851	80,245
Balance Sheet amount at 31 March 2021	66,582	4,718	6,954	454	441	79,149

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Comparative Movements in 2020/21	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra- structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuation						
At 1 April 2020	67,314	9,799	10,912	454	397	88,876
Additions	111	2,336	341		1,274	4,062
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(582)					(582)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(10)					(10)
Derecognition – disposals	(20)	(1,379)				(1,399)
Assets reclassified (to)/from Held for Sale	159					159
Other movements in cost/ valuation - reclassification	1,341		39		(1,230)	150
At 31 March 2021	68,313	10,756	11,292	454	441	91,256
Accumulated Depreciation & Impairment at 1 April 2020	1,588	6,621	3,899	-	-	12,108
Charge for 2020/21	1,377	741	439			2,557
Depreciation written out to the Revaluation Reserve	(1,033)					(1,033)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(198)					(198)
Derecognition – disposals	(3)	(1,324)				(1,327)
At 31 March 2021	1,731	6,038	4,338	-	-	12,107
Balance Sheet amount at 31 March 2021	66,582	4,718	6,954	454	441	79,149
Balance Sheet amount at 31 March 2020	65,726	3,178	7,013	454	397	76,768

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Depreciation

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

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

Capital Commitments

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

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

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

Revaluations

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

During 2019/20 the Council incurred capital expenditure totalling £5 million for the purchase of an Investment Property in Dartmouth. This amount equated to the purchase price of the investment property plus transaction costs (e.g. stamp duty land tax) and directly attributable expenditure (costs incurred in successfully negotiating the sale terms and price and relevant professional fees e.g. legal costs) which were also capitalised in accordance with the Code. In 2020/21 there was a £286,000 reduction on the fair value adjustment due to the write down of the costs of acquisition of £296,000 (e.g. stamp duty land tax and legal and professional fees) plus a £10,000 upward valuation on Lee Mill, Ivybridge.

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

The Code confirms that movements in fair value are debited to the provision of services and are not proper charges to the General Fund. They are reversed out to the Capital Adjustment Account in the Movement in Reserves Statement. Therefore this change in valuation does not impact on the Council's 'bottom line' in the Income and Expenditure account, as it is reversed out through the Capital Adjustment Account.

Fair Value Measurement of Investment Property

Observable Inputs – Level 2

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

Highest and Best Use of Investment Properties

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

Valuation Techniques

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

14. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

Financial Liabilities

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

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

Financial Assets

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

in the CIES. Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

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

Summary of Financial Instruments

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

	Long-term		Current	
	31 March 2021 £000	31 March 2022 £000	31 March 2021 **Restated £000	31 March 2022 £000
Financial Assets at Amortised Cost				
Investments*	-	-	15,600	30,500
Cash and Cash Equivalents	-	-	23,838	22,981
Debtors**	-	-	3,213	3,542
Fair Value through Other Comprehensive Income – Financial Assets				
Investments – CCLA Local Authorities’ Property Fund	1,338	1,573	-	-
Investments – CCLA Diversified Income Fund	1,942	2,032	-	-
Total Financial Assets	3,280	3,605	42,651	57,023
Financial Liabilities at Amortised Cost				
Borrowing	(14,380)	(14,284)	(94)	(96)
Creditors	(74)	(92)	(15,940)	(19,524)
Total Financial Liabilities	(14,454)	(14,376)	(16,034)	(19,620)

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

**The 2020/21 Debtors figure has reduced by £243k following the removal of the General Fund Provision for bad debts.

Designated to Fair Value Through Other Comprehensive Income

At 31 March 2022 the Council had investments of £1.5 million with the CCLA Property Fund and £2.0 million with the CCLA Diversified Income Fund.

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

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

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

Statutory Override on Pooled Investments

As a result of the change in accounting standards for 2018/19 under IFRS 9, the Ministry for Housing, Communities and Local Government (MHCLG) agreed a temporary override to allow English Local Authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from April 2018. The Council will use the statutory override to account for any changes in the fair value on its pooled investments. For the Council's Money Market Fund investments the change in fair value was immaterial in 2021/22.

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Net Gains and Losses on Financial Instruments

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

	2020/21	2021/22
	£000	£000
Net gains/losses on: Financial Assets measured at fair value through other comprehensive income	141	325
Total Net Gains/(Losses)	141	325

Fair Value of Financial Instruments

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

Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation Technique Used to Measure Fair Value	31 March 2021 Fair Value	31 March 2022 Fair Value
			£000	£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	3,280	3,605
TOTAL			3,280	3,605

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:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	31 March 2021		31 March 2022	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
PWLB Debt – Maturity	(5,490)	(5,890)	(5,490)	(5,571)
PWLB Debt – Annuity	(8,984)	(9,812)	(8,890)	(8,912)
Long Term Creditors	(74)	(74)	(92)	(92)

Heritable Bank

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

The Council placed a deposit of £1,250,000 on 25th September 2008 with the Heritable Bank. Of this amount £1,239,458 (99%) has already been repaid to the Council by the Administrators.

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

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

Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators have paid sixteen dividends amounting to 99% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

15. DEBTORS

31.3.2021 £000		31.3.2022 £000
	Short Term	
1,802	Central Government bodies	1,964
787	Other Local Authorities	741
	Other debtors	
1,938	Council Tax*	652
8,389	Business Rates**	2,730
2,405	Other entities and individuals	2,775
15,321	Total	8,862

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

16. DEBTORS FOR LOCAL TAXATION

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

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

17. CASH AND CASH EQUIVALENTS

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

18. CREDITORS

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

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

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

19. PROVISIONS

Provisions payable within twelve months of the Balance Sheet date are classified as current liabilities; provisions payable more than twelve months from the Balance Sheet date are classified as long term liabilities. No long term provisions were created in 2021/22 or 2020/21. The breakdown of the 2021/22 provision is shown in the following table:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	Business Rates Appeals £000
Balance at 1 April 2021	1,636
Provisions made in year	94
Amounts used in year	(236)
Balance at 31 March 2022	1,494

Short term – Business Rates Appeals:

Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment is made about the likely success rate of appeals and their value. In 2021/22 there has been a £354,000 reduction in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £142,000).

20. USABLE RESERVES

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

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

Earmarked Reserves - The Council has set aside monies for specific purposes e.g. vehicle and plant replacement and the funding of strategic issues. In addition, on an annual basis monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of business rates income volatility in future years. The movements in the 2021/22 Earmarked Reserves balance is explained in detail in the Narrative Statement.

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

21. UNUSABLE RESERVES

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

Revaluation Reserve

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Capital Adjustment Account

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Pensions Reserve

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

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

Council Tax Collection Fund Adjustment Account

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

31.3.2021 £000	Council Tax Collection Fund Adjustment Account	31.3.2022 £000
39	Balance at 1 April	3
(36)	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	328
3	Balance at 31 March	331

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Business Rates Collection Fund Adjustment Account

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

31.3.2021 £000	Business Rates Collection Fund Adjustment Account	31.3.2022 £000
25	Balance at 1 April	(7,242)
(7,267)	Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements*	4,702
(7,242)	Balance at 31 March	(2,540)

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

Financial Instruments Revaluation Reserve

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Accumulated Absences Account

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

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

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

25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

26. TRADING OPERATIONS – BUILDING CONTROL

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

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

The Summary Accounts for the year will be detailed in the DBCP Accounts, which can be found on Teignbridge District Council's Website under the Devon Building Control Partnership Committee 2021/2022.

27. MEMBERS' ALLOWANCES

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

2020/21 £000		2021/22 £000
245	Allowances	250
1	Expenses	9
246	Total	259

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.

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

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

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

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

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

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Note A: Shared Services with West Devon Borough Council

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

In 2021/22 South Hams District Council reimbursed costs amounting to £489,100 (2020/21 £502,000) in respect of some members of the Senior Leadership Team (SLT) and the Extended Leadership Team (ELT) who are employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2021/22 from West Devon Borough Council of £271,400 (2020/21 £233,100) in respect of the above shared senior employees.

Note B: Chief Executive and Head of Paid Service

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

Note C: Head of Legal and Monitoring Officer

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

29. PAYMENTS TO EXTERNAL AUDITORS

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

30. GRANT INCOME

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

S31 Business Rate Relief Grants

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

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

Capital Grants Receipts in Advance	31 March 2021 £000	31 March 2022 £000
BEIS Green Homes Grant	(1,026)	(1,026)
Other grants	(16)	(45)
Total	(1,042)	(1,071)

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

31. RELATED PARTIES

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

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2021/22 is shown in Note 27.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

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

Summary of Capital Expenditure and Financing (incorporating the Capital Financing Requirement)	2020/21 £000	2021/22 £000
<i>Opening Capital Financing Requirement</i>	11,494	13,002
Capital Investment		
Property, Plant and Equipment	2,788	1,214
Intangible Assets	179	166
Revenue expenditure funded from capital under statute (REFCUS)	1,404	1,201
Assets under Construction	1,274	1,410
Bank investment		
Total expenditure for capital purposes	5,645	3,991
Sources of Finance		
Capital receipts	(507)	(673)
Capital grants and external contributions	(1,338)	(1,156)
Earmarked reserves	(1,798)	(1,019)
Revenue	(150)	(123)
Total funding	(3,793)	(2,971)
Minimum Revenue Provision	(344)	(486)
<i>Closing Capital Financing Requirement</i>	13,002	13,536
<i>Movement in Capital Financing Requirement</i>	1,508	534
Explained by:		
Increase in underlying need to borrow (supported by government financial assistance)	(316)	(132)
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	1,824	666
Increase/(decrease) in Capital Financing Requirement	1,508	534

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

33. LEASES

Operating Leases

Authority as Lessee

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

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

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Authority as Lessor

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

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

34. EXIT PACKAGES AND TERMINATION BENEFITS

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

Exit package cost band (incl. special payments)	Number of voluntary redundancies		Number of compulsory redundancies		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	20/21	21/22	20/21	21/22	20/21	21/22	20/21	21/22
£0 - £20,000	-	-	2	1	2	1	8,272	796
TOTAL	-	-	2	1	2	1	8,272	796

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

Shared Services with West Devon Borough Council

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

35. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out during 2022/23 (as at 31 March 2022) and will set contributions for the period from 1 April 2023 to 31 March 2026. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2023 is £1.347m. The Actuary has estimated the duration of the Employer's liabilities to be 20 years.

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

Transactions Relating to Post-employment Benefits

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Basis for Estimating Assets and Liabilities

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

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

To calculate the asset share they have rolled forward the assets allocated to South Hams District Council as at 31 March 2021 allowing for investment returns (estimated where necessary), contributions paid into and estimated benefits paid from the Fund, by and in respect of the Employer and its employees.

The demographic assumptions are projected using the CMI_2020 Model and are summarised in the table below:

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

The CMI_2020 Model introduces a '2020 weight parameter' for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results.

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

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	(0.1%)
Present value of total obligation	157,811	160,859	163,970
Projected service cost	3,733	3,863	3,998
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	161,085	160,859	160,635
Projected service cost	3,865	3,863	3,861
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	163,722	160,859	158,050
Projected service cost	3,997	3,863	3,733
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	168,214	160,859	153,835
Projected service cost	4,029	3,863	3,703

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

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

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Of the total fund asset at 31 March 2022, the following table identifies the split of those assets with a quoted market price and those that do not:

Employer Asset Share – Bid Value		31 March 2022	
		% Quoted	% Unquoted
Fixed interest government securities	UK	-	-
	Overseas	13.3%	-
Corporate bonds	UK	-	-
	Overseas	-	-
Equities	UK	8.44%	-
	Overseas	50.29%	-
Property	All	-	9.42%
Others	Absolute return portfolio	9.24%	-
	Private equity	-	0.47%
	Infrastructure	-	5.65%
	Derivatives	(0.04%)	-
	Multi sector credit fund	-	-
	Private debt	-	2.05%
	Cash/Temporary investments	-	0.98%
Net current assets	Debtors	-	0.20%
	Creditors	-	-
Total		81.23%	18.77%

McCloud Judgement

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

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

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

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36. CONTINGENT LIABILITIES

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

37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

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

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

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 25 March 2021 and is available on the Council's website (Minute 51).

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

Credit risk

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

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

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

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

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

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

The Council's Counterparty limits are as follows:

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

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2022 and is reflected in the current figure of £486,000. This compares to £545,000 in 2020/21. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 15 to the accounts.

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Amounts Arising from Expected Credit Losses

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

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

Liquidity risk

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

This seeks to ensure that cash is available when needed.

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

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Market Risk

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

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

Interest rate risk

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

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

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

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

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

Price risk

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

The above investments have been elected as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve,

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

Foreign exchange risk

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

Refinancing and Maturity Risk

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

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

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

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

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

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38. ACCOUNTING POLICIES

a) General Principles

The **Statement of Accounts** summarises the Authority's transactions for the 2021/22 financial year and its position at the year end of 31 March 2022. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

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

b) Accruals of Income and Expenditure

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

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

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

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

c) Cash and Cash Equivalents

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

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

Key: T = trade date

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

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

d) Material Items of Income and Expense

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

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

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

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

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

f) Charges to Revenue for Non-Current Assets

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

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

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

g) Employee Benefits

Benefits Payable during Employment

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

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

Termination Benefits

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

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

Post-Employment Benefits

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

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

- The liabilities of the Devon County Council Pension Fund attributable to the Council are included in the **Statement of Financial Position** (Balance Sheet) on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and estimates of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate.

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- The assets of the pension fund attributable to the Council are included in the **Statement of Financial Position** (Balance Sheet) at their fair value.

For further information please refer to Note 35.

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

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

In relation to retirement benefits, statutory provisions require the *General Fund balance* to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the *Movement in Reserves Statement*,

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

Discretionary Benefits

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

h) Events after the Reporting Period

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

Two types of events can be identified:

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

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

i) Financial Instruments

Financial Liabilities

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

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

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

Financial Assets

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

The three main classes of financial assets are measured at:

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

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

Financial Assets Measured at Amortised Cost

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

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

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

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

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

The asset is initially measured and carried at fair value.

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

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

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

Expected Credit Loss Model

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

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

Fair Value

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

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability. The Council measures the fair value of an asset or liability using the

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assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

j) Government Grants and Contributions

General

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

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

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

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

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

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

k) Heritage Assets

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

l) Intangible Assets

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

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

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

m) Inventories

Inventories are included in the **Statement of Financial Position** (Balance Sheet) at the lower of cost and net realisable value.

n) Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way

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

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

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

o) Jointly Controlled Operations

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

p) Leases

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

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

The Authority as Lessee

Finance Leases

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Operating Leases

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

q) Overheads and Support Services

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

r) Property, Plant and Equipment

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

Recognition

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Measurement

Assets are initially measured at cost, comprising:

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

Assets are then carried in the **Statement of Financial Position** (Balance Sheet) using the following measurement bases:

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

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

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

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

De minimis policy for capital controls and accounting purposes

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

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

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

Component Accounting

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

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

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

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

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

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

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

The criteria for components to be separately valued are that:

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

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

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

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

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

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

- Plant and equipment and engineering services
- Structure

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

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

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

Impairment

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

Depreciation

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

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

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

s) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

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

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

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the **Statement of Financial Position** (Balance Sheet) but disclosed in a note to the accounts. The Council operates a disclosure de minimis policy for contingent liabilities of £50,000.

Contingent Assets

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

Contingent assets are not recognised in the **Statement of Financial Position** (Balance Sheet) but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential. The Council operates a disclosure de minimis policy for contingent assets of £50,000.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

t) Reserves

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

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

u) Revenue Recognition

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

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

The analysis carried out to date indicates that there will be no material impact on the revenue recognised in relation to the significant contracts entered into by the Council. A review will take place each year to identify whether any disclosure is necessary.

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

w) Section 106 Deposits

Where repayment conditions exist, developer contributions are treated as revenue receipts (Long Term Liabilities in the Statement of Financial Position, also known as the Balance Sheet) unless a clear capital use is identified in the terms of the agreement. In the latter case they are defined as Capital Receipts in Advance. Where no conditions are attached to the agreement, they are either treated as capital grants unapplied or credited directly to services if revenue in nature.

x) Shared Services

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

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

y) VAT

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

z) Accounting for Local Taxes

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

Accounting for Council Tax and Business Rates

The council tax and business rates income included in the **Comprehensive Income and Expenditure Statement** is the Council's share of accrued income

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

aa) Minimum Revenue Provision

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Council in the 2022/23 financial statements i.e. from 1 April 2022.

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

It was originally envisaged that the financial impact of IFRS16 *Leases* would need to be disclosed in the 2019/20 Accounts. This standard will require local authorities that are lessees to recognise leases on their balance sheets as right-of-use assets with corresponding lease liabilities. However, CIPFA/LASAAC initially deferred implementation of IFRS16 for local government until 1 April 2022 due to the COVID-19 pandemic. However, following its emergency consultation on exploratory proposals for changing the Code in February 2022, CIPFA/LASAAC issued a preliminary decision to defer IFRS16 *Leases* until 1 April 2024. This was subsequently agreed by the government's Financial Reporting Advisory Board (FRAB) in April 2022. However, both the 2022/23 and the 2023/24 Codes will allow for adoption as of 1 April 2022 or 2023.

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

40. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs. The methodology for the apportionment of costs (predominantly staffing costs) are split on a defined basis which reflects the level of caseload attributable to each individual service. The methodology and mechanisms used to calculate the cost allocations are reviewed and reported to the Audit and Governance Committee on an annual basis. The final actual shared services split formulae are adjusted if they exceed a tolerance level of 3% from the original estimate.

SECTION 4. COLLECTION FUND

COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2022

This account reflects the statutory requirements for the Council as a billing Authority to maintain a separate Collection Fund. The statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and business rates.

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

SECTION 4. COLLECTION FUND

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

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

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

**Council Tax Position

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

1. Council Tax and Council Tax Base

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

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

These charges are before any appropriate discounts. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2021/22 was **38,298.32** as calculated below (38,508.49 in 2020/21).

SECTION 4. COLLECTION FUND

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

2. Rateable Value

The total business rates rateable value at 31 March 2022 was £86,993,036. This compares to £86,832,255 at 31 March 2021. The standard business rates multiplier was 51.2p in 2021/22 (2020/21 51.2p). Without reliefs this would generate a total income of £44,540,434.43 (2020/21 £44,458,114.56). These figures are a snapshot only and differ from the value of business rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief. In 2021/22 the Government continued to fund a Retail, Hospitality and Leisure Relief scheme in response to the COVID-19 pandemic.

SECTION 4. COLLECTION FUND

3. Collection Fund balance

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

***Business Rates Position**

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

****Council Tax Position**

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

SECTION 4. COLLECTION FUND

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

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

*Business Rates Position

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

**Council Tax Position

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

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

The Authority's responsibilities

The Authority is required to:

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

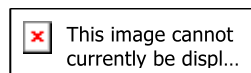
The Chief Financial Officer's responsibilities

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

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

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31 March 2022.



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

29 July 2022

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

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit and Governance Committee at its meeting held on TBA.

Signed on behalf of South Hams District Council

.....

Councillor L Austen

Chairman of the Audit Governance Committee

SECTION 6. AUDITORS REPORT.

The Auditors' report will be received following the annual audit of the accounts.

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.

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APPENDIX B

South Hams District Council Annual Governance Statement 2021-2022

1. Scope of Responsibility

South Hams District Council is responsible for ensuring that:

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

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

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

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

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

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



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

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

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

2. The Purpose of the Governance Framework

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

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

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

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



Included within this framework are seven core principles of governance:

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

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

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

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



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

PRINCIPLE B Ensuring openness and comprehensive stakeholder engagement

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

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



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

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

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

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

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

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

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



Corporate Strategy

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

Annual Report for 2021-22

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

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

Partnerships and Governance

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

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

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

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

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

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



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

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

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

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

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

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

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



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

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

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

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

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

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

To manage performance the Council ensures the following:

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



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

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

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

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

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

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

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

External audit is provided by Grant Thornton for both 2020/21 and 2021/22 and in October 2021 they reported that they had concluded that the Council had made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources for the 2020/21 financial year. (The 2021/22 Accounts will be reported on by Grant Thornton by November 2022).



To further ensure transparency the council undertakes the following:

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

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

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

The Audit and Governance Committee

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

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

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



Internal Audit

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

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

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

Senior Managers

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

External auditors and other review agencies/inspectorates

Our external auditors (Grant Thornton) will issue their 'External Audit Report ISA260 report' for 2021/22 by November 2022 which will be considered by the Audit and Governance Committee. The document will summarise their key findings in relation to their external audit of the Council for 2021/22 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 2021/22 (which will be presented to the Audit and Governance Committee in November 2022) will be inserted here in November 2022.



Value for Money (VFM) arrangements

The key message from Grant Thornton’s External Audit ‘The Audit Findings’ report for 2021/22 will be inserted here in November 2022.

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

Significant Governance Issues

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

Issues and action plan from the System of Internal Control

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



Issue Identified	Action to be taken	Responsible Officer and target date
<p>Throughout the 2021/22 financial year, the Deputy S151 Officer has continued to submit monthly DELTA returns to Central Government that detail the current additional expenditure and loss of income streams suffered by the Council on a monthly basis (due to Covid19), with predictions for future months.</p> <p>The S151 Officer will continue to monitor expenditure and income streams and the overall longer term impact of Covid-19.</p> <p>Much will also depend on the next Government financial settlement for 2023/24 and confirmation on funding items like Negative Revenue Support Grant, New Homes Bonus scheme and the timing for the business rates baseline reset.</p>	<p>The Budget Gap over the next two years, 2023/24 and 2024/25, is likely to be in excess of £0.6million in aggregate and work is already underway to address this. A Member budget workshop will be held in the Autumn to explore potential options for addressing the budget shortfall for the next financial year and longer term.</p> <p>There will be regular Budget Monitoring reports to the Executive.</p> <p>The financial standing of the Council is secure in the immediate future, but there is still much work to do to ensure the long term financial sustainability of the Council.</p> <p>In his speech to the Local Government Association (LGA) conference on 28 June 2022, the Secretary of State, Michael Gove MP, promised to give local authorities greater “financial certainty”. It was confirmed that a 2-year financial settlement will be introduced. The proposal for a 2-year settlement suggests that there will be rollover settlements in both 2023/24 and 2024/25, meaning financial settlements that are broadly similar to 2022/23. The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2025/26 but this has not been confirmed by the Government.</p> <p>As at 31 March 2022, the Council holds £20.839m in Earmarked Reserves and £2.056m in Unearmarked Reserves. Approximately £4.26m of Earmarked Reserves is due to a technical accounting adjustment on Business Rates and is not money which is available to the Council to spend.</p>	<p>Director of Strategic Finance (S151 Officer)</p> <p>By October 2022</p>



Issue Identified	Action to be taken	Responsible Officer and target date
<p><u>Delivery of Waste and Recycling</u></p> <p>In the 2020/21 Annual Governance Statement, we highlighted the issues being experienced by our waste contractor in delivering the Waste and Recycling Service.</p> <p>Throughout 2021/22, the Council had a significant focus on trying to resolve issues with its waste and recycling service.</p> <p>On 12 July 2022, Executive considered a report, with advice from the Council's Waste Working Group. The Waste Working Group advised that the Council and FCC Environment have reached a mutual agreement to end their contract for waste, recycling, street and toilet cleaning services.</p> <p>Both parties agree that the past few years have presented a number of extremely challenging circumstances.</p> <p>In the best interests of the residents of the South Hams, it was proposed that the services will be operated by the Council from Monday 3 October 2022. This decision was subsequently approved by Full Council on 14 July 2022. The Council and FCC Environment will work closely together to ensure a smooth transfer of the services.</p> <p>At the point of preparing the Statement of Accounts, planning continues and a further update will be considered by Executive and Council in September, ahead of the transfer of services in-house in October.</p>	<p>A project team will now be established to manage the transfer of services back in house.</p> <p>A project manager has been appointed to support the Head of Waste with the delivery of the project.</p> <p>A further update including updated financial modelling will be considered by the Executive and Council in September 2022 ahead of the service returning under the direct control of the Council on 3 October 2022.</p>	<p>Head of Waste and Recycling – July 2022</p> <p>Director of Service Delivery and Director of Strategic Finance (S151 Officer)</p> <p>September 2022 and October 2022</p>



Issue Identified	Action to be taken	Responsible Officer and target date
<p><u>Business Continuity</u></p> <p>During 2021/22, Business Continuity has continued to be a significant risk for the Council, with the ongoing Covid-19 pandemic continuing to impact on resourcing across the Council – both from the increased work required to support various Government support schemes and the direct impact of staff being unable to work due to sickness related to the virus.</p> <p>The Council has also considered the implications of emerging risks such as increased instances of cyber attacks on local government and other organisations.</p>	<p>We have commenced work to update our business continuity plans in light of these risks and will be implementing a revised Business Continuity work programme for 2022/23</p>	<p>Director Customer Service and Delivery 2022/23</p>
<p>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. Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed where appropriate</p> <p>Specifically highlighted within the Internal Audit Annual Report for 2021/22 were:</p> <p>Debtors – Limited Assurance</p>	<p>All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors’ ‘follow up’ procedures.</p> <p>Further work is being undertaken on the areas highlighted by the internal audit report being the use of enforcement agents for the recovery of sundry debts, progressing legal action through the courts and monitoring broken instalment arrangements. The Head of Finance is raising queries on the use of the web-version of the Civica Financials system through the User Group as it is felt that the additional functionality needed is not yet there to enable the finance team to migrate to the new system.</p>	<p>Extended Leadership Team (ELT) S151 Officer Internal Audit Manager In line with agreed timescales</p> <p>Head of Finance - Ongoing</p>



Issue Identified	Action to be taken	Responsible Officer and target date
Council Tax and Business Rates – Limited Assurance	A review of our Revenues and Benefits function has taken place during 2021/22 with a detailed improvement plan being developed. We have also taken steps to recruit a dedicated Head of Revenues and Benefits. This will ensure a greater strategic focus and direction on the areas of improvement identified within the audit.	Head of Revenues and Benefits – Ongoing
Estates, Property and rent – Limited Assurance	Work has continued on addressing the areas identified for improvement within the audit. The Audit Committee has asked for a specific agenda item to update on progress in this area at their September meeting.	Head of Assets – September 2022
Data Quality – Limited Assurance	We have continued progress with implementation of our new IT systems which will lead to a greatly reduced need to manually extract and interrogate data in order to provide key performance information to Members and staff. A Data Quality Strategy will be updated and shared with all staff setting out the principles of good quality data management. A further update on this will be considered by the Audit and Governance Committee at their meeting in September.	Head of Strategy – September 2022

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



CONCLUSION

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

Signed:

Cllr J Pearce
Leader of South Hams District Council

Signed:

Andy Bates Chief Executive
On behalf of South Hams District Council

Date: Draft issued on 29th July 2022 (to be signed in November 2022, on the conclusion of the Audit of the Accounts for 2021/22)

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1. Executive summary

- 1.1 Income from investments this year was £140,071 which is £62,929 lower than the budget of £203,000 at an average return of 0.07%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 0.14%. Therefore the Council achieved 0.07% return on investments below the benchmark for 21/22.
- 1.2 Bank Base rate was at an all time low of 0.1% during the majority of 2021 with a rise to 0.75% in December 2021. This was implemented by the Bank of England in order to counter the negative impact of the national lockdown on large swathes of the economy. The Council's return on investments of 0.07% reflects the fact that investments were kept very short term due to concerns over cashflow as there were many unknown variables such as the payment of Business Grants.

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 2021/22. 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 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:
 - An annual treasury strategy in advance of the year (Minute C51/20)
 - A mid-year (minimum) treasury update report (Minute A25/21)
 - 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 2020/21 and will be carried out again in the Summer of 2023 as part of the Member Induction Programme in order to support their scrutiny role.

3. The Economy and Interest Rates

3.1 **UK. Economy.** Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

- 3.2 **Average inflation targeting.** This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and *achieving the 2% target sustainably*". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of the war in Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.
- 3.3 **Central banks' monetary policy.** During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

4. Overall Treasury Position as at 31 March 2022

4.1 At the beginning and the end of 2021/22 the Council's treasury position was as follows:

Treasury Portfolio	31 March 2021		31 March 2022	
	£'000	Rate%	£'000	Rate%
Treasury Investments:				
Short term – fixed	15,600	0.01	30,500	0.51
Money Market Funds	23,200	0.000	22,400	0.38
Heritable Bank	11	-	11	-
CCLA – LAPF	1,338	4.30	1,573	3.25
CCLA – DIF	1,942	3.10	2,032	2.39
Total treasury investments	42,091		56,516	
Treasury External Borrowing				
PWLB	14,474	2.49	14,380	2.49
Total external borrowing (£14.284m of long term borrowing and £96k of short term borrowing)	14,567		14,380	
Net treasury investments / (borrowing)	27,617		42,136	

4.2 The following is a list of the Council's investments at 31 March 2022.

Fixed Term Deposits

Amount	Investment	Average Interest rate
£3,500,000	Barclays Bank plc	0.19%
£2,500,000	Barclays Bank plc	0.42%
£4,400,000	Debt Management Office	0.55%
£3,600,000	Debt Management Office	0.55%
£4,500,000	Debt Management Office	0.04%
£6,000,000	Standard Chartered Bank	0.47%
£6,000,000	Lloyds Bank plc	1.34%
£30,500,000	Total	

Money Market Funds

Amount	Investment	Average Interest rate
£6,000,000	Aberdeen Standard Investments	0.39%
£6,000,000	BlackRock	0.35%
£4,400,000	Deutsche	0.36%
£6,000,000	LGIM	0.42%
£22,400,000	Total	

CCLA Funds

Amount	Investment	Dividend Yield
£1,572,857	CCLA – Property Fund	3.25%
£2,032,292	CCLA – Diversified Income Fund	2.39%
£3,605,149	Total	

- 4.3 At 31 March 2022, the Council had investments of £1.5million with the CCLA Property Fund and £2million with the CCLA Diversified Income Fund. On 29 March 2018, the Council made the decision to invest £500,000 in the CCLA Local Authority Property Fund and £1million in the CCLA Diversified Income Fund in 2018/19. The investment was increased from £1.5m to £3.5m at Council on 21st February 2019 (Minute CM53/18).
- 4.4 The investment was made with a view to a long term commitment. The bid market value as at 31 March 2022 for the Council's investments were £1,572,857 (Local Authorities Property Fund) and £2,032,292 (Diversified Income Fund).

Investment in the South West Mutual

- 4.5 Tony Greenham of South West Mutual gave a presentation to Overview and Scrutiny Committee on 16th June outlining the progress of the South West Mutual. The Annual General Meeting of the South West Mutual is due to be scheduled later in the calendar year. The S151 Officer will attend alongside Member representatives.

5. The Strategy for 2021/22

Investment strategy and control of interest rate risk

- 5.1 Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.
- 5.2 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).
- 5.3 While 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.
- 5.4 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.
- 5.5 The Treasury Management Strategy Report for 2021/22 was approved by the Council on 25 March 2021 (Minute – C51/20).

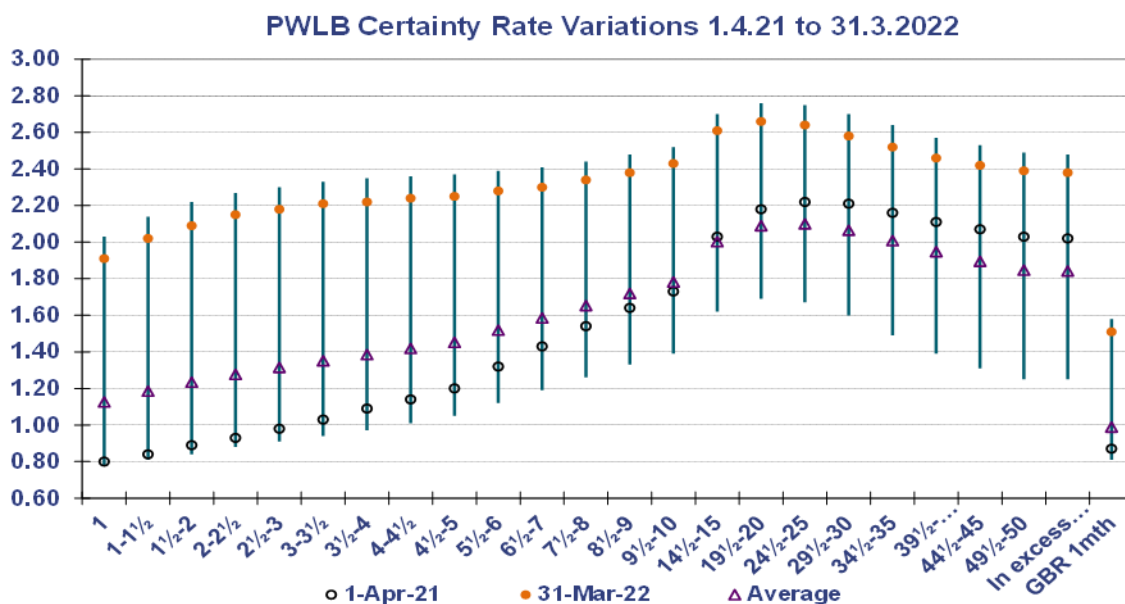
Borrowing strategy and control of interest rate risk

- 5.6 During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.
- 5.7 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.
- 5.8 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.
- 5.9 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 strategy based upon the following principles to manage interest rate risks:
- if it had been 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 would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
 - if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and 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 would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.
- 5.10 Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

5.11 Interest rate forecasts during 2021/22 are shown below (as at 10.5.2021).

Link Group Interest Rate View		10.5.21									
	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

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
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

- 5.13 PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.
- 5.14 Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.
- 5.15 At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

6. Borrowing Outturn for 2021/22

6.1 Details of the loans outstanding at 31 March 2022 are shown below:

Lender	Type and Date Borrowing taken out	Maturity	Interest Rate %	Principal held at 31 March 2021 £'000	Principal held at 31 March 2022 £'000
PWLB – 23 maturity loans	Fixed Interest Rate Borrowed in May 2018	5-19 Years	2.41*	5,490	5,490
PWLB – Annuity	Fixed Interest Rate Borrowed in December 2019	50 Years	3.09	5,056	5,011
PWLB – Annuity	Fixed Interest Rate Borrowed in September 2019	50 Years	1.97	3,928	3,879
Total				14,474	14,380

*Average interest rate

Repayments

6.2 During 2021/22 the Council repaid interest of £365,576 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.

Debt rescheduling

6.4 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 2021/22

- 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 25 March 2021 (Minute – C51/20). 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 2021	31 March 2022
General Fund Balance	2,122	2,056
Earmarked Reserves	21,494	20,839
Usable Capital Receipts	2,848	2,950
Provisions	1,636	1,494
Other	(6,816)	(1,705)
Total	21,284	25,634

8. Other Issues 2021/22

IFRS 9 fair value of investments

- 8.1 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG] (now renamed the Department of Levelling Up, Housing & Communities) on IFRS 9 the Government previously introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

9. Outcomes/outputs

- 9.1 Income from investments this year was £140,071 which is £62,929 lower than the budget of £203,000.
- 9.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The SONIA rate at the end of March was 0.14% which is 0.7% higher than our average return of 0.07% as at 31 March 2022.

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 2021/22 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 2021/22 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 investments this year was £140,071 which is £62,929 lower than the budget of £203,000 at an average return of 0.07%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 0.14%. Therefore the Council achieved 0.07% return on investments below the benchmark for 21/22.</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 25 March 2022

Appendix B - Prudential and Treasury Indicators 2021/22

Background Papers:

Annual treasury strategy in advance of the year (Council 25 March 2021 – Minute C51/20)

A mid-year treasury update report (Audit and Governance Committee 9 December 2021 – Minute A25/21)

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 25th March 2022		Fitch Rating				Moody's Ratings			S&P Ratings			Suggested Duration		
		Long Term	Short Term	Viability	Support	Long Term	Short Term	Long 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	
Building Societies	Al Rayan Bank PLC	SB					SB	A1	P-1				R - 6 mths	
	Bank of Scotland PLC (RFB)	SB	A+	F1	a		WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a		5	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	SB	A+	F1	a		1	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Close Brothers Ltd	SB	A-	F2	a-		5	NO	Aa3	P-1				R - 6 mths
	Clydesdale Bank PLC	SB	A-	F2	bbb+		5	SB	Baa1	P-2	SB	A-	A-2	G - 100 days
	Co-operative Bank PLC (The)	SB	B+	B	b		WD	PO	Ba3	NP				N/C - O 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)	NO	AA-	F1+	a		1	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	HSBC UK Bank Plc (RFB)	NO	AA-	F1+	a		1	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A+	F1			WD	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	SB	A+	F1	a		WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	National Bank of Kuwait (International) PLC	SB	A+	F1			WD				NO	A	A-1	R - 6 mths
	NatWest Markets Plc (NRFB)	SB	A+	F1	WD		WD	PO	A2	P-1	SB	A-	A-2	R - 6 mths
	Santander Financial Services Plc (NRFB)	SB	A+	F1			WD	SB	A1	P-1	SB	A-	A-2	R - 6 mths
	Santander UK PLC	SB	A+	F1	a		WD	SB	A1	P-1	SB	A	A-1	R - 6 mths
	SMBC Bank International PLC	NO	A	F1			1	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Standard Chartered Bank	NO	A+	F1	a		5	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Building Societies	Coventry Building Society	SB	A-	F1	a-		WD	SB	A2	P-1			
Leeds Building Society		SB	A-	F1	a-		WD	SB	A3	P-2				G - 100 days
Nationwide Building Society		SB	A	F1	a		WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
Principality Building Society		SB	BBB+	F2	bbb+		WD	SB	Baa2	P-2				N/C - O mths
Skipton Building Society		SB	A-	F1	a-		WD	SB	A2	P-1				R - 6 mths
West Bromwich Building Society								SB	Ba3	NP				N/C - O mths
Nationalised and Part Nationalised Banks	Yorkshire Building Society	SB	A-	F1	a-		WD	SB	A3	P-2				G - 100 days
	National Westminster Bank PLC (RFB)	SB	A+	F1	a		WD	SB	A1	P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	SB	A+	F1	a		WD	SB	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 2021/22

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	2020/21 Actual £000	2021/22 Estimate £000	2021/22 Actual £000
General Fund services	5,645	10,838	3,991
Housing	0	5,850	0
Capital investments*	0	0	0
TOTAL	5,645	16,688	3,991

The estimate for 2021/22 included capital schemes that were in progress, some of which are now not progressing and some of which have moved forward to 2022/23 in terms of time scale.

Capital Expenditure and Financing	2020/21 Actual £000	2021/22 Estimate £000	2021/22 Actual £000
Capital Expenditure	5,645	16,688	3,991
Financed by:			
External sources	(1,400)	(2,230)	(1,156)
Own resources	(2,393)	(2,469)	(1,815)
Unfinanced capital expenditure	1,852	11,589	1,020

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	2020/21 Actual £000	2021/22 Estimate £000	2021/22 Actual £000
Opening balance	11,494	13,000	13,002
Add unfinanced capital expenditure (as above)	1,852	11,589	1,020
Less MRP/VRP	(344)	(503)	(486)
Closing balance	13,002	24,086	13,536

The estimate for 2021/22 included possible headroom for expenditure on further Investment properties within the Council's Investment Property portfolio and housing schemes.

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 £0.84m in 2021/22. 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.

	2020/21 Actual £000	2021/22 Estimate £000	2021/22 Actual £000
Debt	14,474	19,568	14,380
Capital Financing Requirement	13,002	24,086	13,536
Over/(under) funding of CFR	1,472	(4,518)	844

The estimate for 2021/22 included possible headroom for expenditure on further Investment properties within the Council's Investment Property portfolio and housing schemes.

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.

	2020/21 Actual	2021/22 Estimate	2021/22 Actual
Financing costs (£)	551,506	813,311	711,914
Proportion of net revenue stream	5.9%	8.4%	7.2%

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	2020/21	2021/22
	£	£
Borrowing	70,000,000	70,000,000
Other long term liabilities	-	-
Total	70,000,000	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	2020/21	2021/22
	£	£
Borrowing	75,000,000	75,000,000
Other long term liabilities	-	-
Total	75,000,000	75,000,000

South Hams District Council's current level of borrowing as at 31 March 2022 was £14.380 million.

As part of the Budget Setting process, Members approved an overall Borrowing Limit of £75million.

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 2021		Actual 31 March 2022	
	%	%	£million	%	£million	%
Less than 1 year	0%	10%	0.094	0.6	0.096	0.7
Between 1 and 2 years	0%	30%	0.096	0.7	0.459	3.2
Between 2 and 5 years	0%	50%	1.384	9.6	1.392	9.7
Between 5 and 10 years	0%	75%	2.361	16.3	2.375	16.5
Between 10 and 20 years	0%	100%	3.968	27.4	3.642	25.3
20 years and above	0%		6.571	45.4	6.416	44.6
Total			14.474	100.0	14.380	100.0

Agenda Item 7

Report to: **Audit and Governance Committee**
Date: **8 September 2022**
Title: **Update on Progress on the 2022-23 Internal Audit Plan**
Portfolio Area: **Cllr J Pearce – Leader of the Council**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**

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

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

Recommendations:

It is RECOMMENDED that:

- 1. The Internal Audit Charter and Strategy is approved; and**
- 2. The progress made against the 2022/23 internal audit plan, and any key issues arising are noted and approved.**

1. Executive summary

The purpose of this report is to obtain the approval of the Committee for the Audit Charter and Strategy, and to inform members of the principal activities and findings of the Council's Internal Audit team.

2. Background

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

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

The purpose and role of Internal Audit, and of the related Council responsibilities is also contained in the Internal Audit Charter and Strategy that is attached for approval at Appendix A.

3. Outcomes/outputs

Members will note a change in format for documents as we take the opportunity to refresh our progress report. We also intend to transition to our standard DAP audit reports which provide a clearer picture of assurance and risk.

4. Options available and consideration of risk

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

5. Proposed Way Forward

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

6. Implications

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

Biodiversity Impact		Audit Partnership is very mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to support the audit process, although it is inevitable that on-site verification may be required at times. The team use an audit management system (Mki) which enables managerial review to take place remotely, thus also saving on the need for travel.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

Supporting Information

Appendices:

Appendix A – Internal Audit Charter and Strategy

Appendix B – Internal Audit Progress Report

Background Papers:

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

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INTERNAL AUDIT CHARTER AND STRATEGY

SOUTH HAMS DISTRICT COUNCIL

(September 2022)



REFERRAL TO SOUTH HAMS AUDIT AND GOVERNANCE COMMITTEE SEPTEMBER 2022

This Internal Audit Charter and Strategy is referred to the Audit and Governance Committee for approval.

MISSION

The Mission of Devon Audit Partnership is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight across its partners.

TERMS OF REFERENCE

This document details the **Internal Audit Charter** and **Internal Audit Strategy** for South Hams as required by the Public Sector Internal Audit Standards (PSIAS). The Audit Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the [Devon Audit Partnership \(DAP\)](#), and the scope of Internal Audit work. This Charter complies with the mandatory requirements of the PSIAS. The accompanying Audit Strategy is designed to deliver the requirements outlined in the Charter.

DEFINITIONS

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

The PSIAS set out the requirements of a ‘Board’ and of ‘Senior Management’. For the purposes of the internal audit activity within The Council the role of the Board within the Standards is taken by the Council’s Audit and Governance Committee and Senior Management is the Council’s Leadership Team. They also make reference to the role of “Chief Audit Executive”. For The Council this role is fulfilled by the Head of Devon Audit Partnership (HoDAP).

INDEX TO SECTIONS OF THE CHARTER AND STRATEGY

Charter

1. [Statutory Requirements and Purpose of Internal Audit](#)
2. [Professionalism, Ethics and Independence](#)
3. [Authority](#)
4. [Accountability](#)
5. [Responsibilities](#)
6. [Management](#)
7. [Internal Audit Plan and Resources](#)
8. [Internal Audit Reporting](#)
9. [Relationship with the Audit & Governance Committee and Non Conformance to the Charter](#)
10. [Quality Assurance and Improvement Programme](#)

Strategy

- [Audit Strategy - Purpose](#)
- [Annual Audit Opinion](#)
- [Audit Planning & Delivery](#)
- [Performance Management & Quality Assurance](#)
- [Resources and skills](#)
- [Staff Development and use of MKI](#)

CHARTER - STATUTORY REQUIREMENTS AND PURPOSE OF INTERNAL AUDIT

Statutory Requirements

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

5. —(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer responsible for the proper administration of its financial affairs. In The Council, the Director of Strategic Finance is the 'Section 151 Officer'. One way in which this duty is discharged is by maintaining an adequate and effective internal audit service.

The Purpose and Aim of Internal Audit

The role of Internal Audit is to understand the key risks of the Council, to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation, and contribute to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- Support the Section 151 Officer to discharge his / her statutory duties
- Contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems
- Support the corporate efficiency and resource management processes by conducting value for money and efficiency studies and supporting the work of corporate working groups as appropriate
- Provide a quality fraud investigation service which safeguards public monies.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Internal Audit for The Council is provided by Devon Audit Partnership. We aim to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of The Council, adding value whenever possible.

CHARTER - PROFESSIONALISM, ETHICS AND INDEPENDENCE

Being Professional

Devon Audit Partnership will adhere to the relevant codes and guidance. In particular, we adhere to the Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to The Council's relevant policies and procedures and the internal audit manual. Internal Auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not, however, imply infallibility.

Our Ethics

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by IIA. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing.
2. Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services. The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

CHARTER - PROFESSIONALISM, ETHICS AND INDEPENDENCE (Continued)

Being Independent

Internal Audit should be independent of the activities that it audits. The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

The Head of Devon Audit Partnership should have direct access to and freedom to report in his or her own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit and Governance Committee). In the event of the necessity arising, the facility also exists for Internal Audit to have direct access to the Chief Executive, the S.151 Officer and the Chair of the Audit and Governance Committee.

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence.

The Head of Devon Audit Partnership should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

Auditors should be mindful of being independent, and must:

- Have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- Notwithstanding employment by the Partnership / Council, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;
- Be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- Not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.



CHARTER - AUTHORITY

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2015 section 5(2-3) that state that: Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit:

(a) make available such documents and records; and

(b) supply such information and explanations; as are considered necessary by those conducting the internal audit.

(3) in this regulation “documents and records” includes information recorded in an electronic form.

In addition, Internal Audit, through the HoDAP, where deemed necessary, will have unrestricted access to:

- The Chief Executive
- Members
- individual Directors
- Section 151 Officer
- Monitoring Officer
- All authority employees
- All authority premises.

CHARTER - ACCOUNTABILITY

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each founding partner. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. DAP operates within a framework that allows:

- Unrestricted access to senior management and members;
- Reporting in its own name;
- and Separation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit members of audit staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

The HoDAP fulfils the role of Chief Audit Executive at the Authority and will confirm to the Audit and Governance Committee, at least annually, the organisational independence of the internal audit activity. The Section 151 Officer will liaise with the HoDAP and is therefore responsible for monitoring performance and ensuring independence.

The HoDAP reports functionally to the Audit and Governance Committee on items such as:

- Approving the internal audit charter;
- Approving the risk based internal audit plan and resources;
- Receiving reports from the Head of Devon Audit Partnership on the section's performance against the plan and other matters;
- Approving the Head of Devon Audit Partnership's annual report'
- Approve the review of the effectiveness of the system of internal audit.

The HoDAP has direct access to the Audit and Governance Committee, and has the opportunity to meet privately with the Committee.

CHARTER - RESPONSIBILITIES

The Chief Executive, Directors and other senior officers are responsible for ensuring internal control arrangements are sufficient to address the risks facing their services. The HoDAP will provide assurance to the Section 151 Officer regarding the adequacy and effectiveness of the Council's financial framework, helping meet obligations under the LGA 1972 Section 151.

The HoDAP will provide assurance to the Monitoring Officer in relation to the adequacy and effectiveness of the systems of governance within the Council helping him/her meet his/her obligations under the Local Government and Housing Act 1989 and the Council's Constitution. The HoDAP will also work with the Monitoring Officer to ensure the effective implementation of the Council's Whistleblowing Policy.

Internal Audit responsibilities include:

- Examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with policies, plans, procedures and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management;
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money Studies;
- Working in partnership with other bodies to secure robust internal controls that protect the Council's interests;
- Advising on internal control implications of new systems;
- Providing consulting and advisory services related to governance, risk management and control as appropriate for the organisation; and,
- Reporting significant risk exposures and control issues identified to Audit and Governance Committee and to senior management, including fraud risks, governance issues.

CHARTER - MANAGEMENT

The PSIAS describe the requirement for the management of the internal audit function. This sets out various criteria that the HoDAP (as Chief Audit Executive) must meet, and includes:

- Be appropriately qualified;
- Determine the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;
- Regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- Include in the plan the approach to using other sources of assurance if appropriate;
- Be accountable, report and build a relationship with the Council's Audit and Governance Committee and S.151 Officer;
- Monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

These criteria are brought together in an Audit Strategy which explains how the service will be delivered and reflect the resources and skills required.

The HoDAP is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The HoDAP should also have the opportunity for free and unfettered access to the Chief Executive and meet periodically with the Monitoring Officer and S.151 Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

CHARTER - INTERNAL AUDIT PLAN AND RESOURCES

At least annually, the HoDAP will submit to the Audit and Governance Committee a risk-based internal audit plan for review and approval. The HoDAP will:

- Develop the annual plan through discussions with senior management based on an understanding of the significant risks of the organisation;
- Submit the plan to the Audit and Governance Committee for review and agreement;
- Implement the agreed audit plan;
- Maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan and carry out continuous review of the development and training needs;
- Maintain a programme of quality assurance and a culture of continuous improvement;

The internal audit plan will include timings as well as budget and resource requirements for the next fiscal year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit and Governance Committee.

Internal Audit resources must be appropriately targeted by assessing the risk, materiality and dependency of the Council's systems and processes. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

A requirement of the Council's Anti-Fraud and Corruption Strategy is that the HoDAP be notified of all suspected or detected fraud, corruption or impropriety. All reported irregularities will be investigated in line with established strategies and policies. The audit plan will include sufficient resource to undertake proactive anti-fraud work. Internal audit activities will be conducted in accordance with Council strategic objectives and established policies / procedures.

Monitoring of internal audit's processes is carried out on a continuous basis by internal audit management. Council's members and management may rely on the professional expertise of the HoDAP to provide assurance. Periodically, independent review may be carried out: for example, through peer reviews; ensuring compliance with the PSIAS is an essential approach to such a review.

CHARTER - INTERNAL AUDIT REPORTING

The primary purpose of Internal Audit reporting is to provide to management an independent and objective opinion on governance, the control environment and risk exposure and to prompt management to implement agreed actions. Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit and Governance Committee).

A written report will be prepared for every internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the overall control environment.

The aim of every Internal Audit report should be to:

- Give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment; and
- Recommend and agree actions for change leading to improvement in governance, risk management, the control environment and performance.

The Manager will be asked to respond to the report within 30 days, although this period can be extended by agreement.

The response must show what actions have been taken or are planned in relation to each risk or control weakness identified. If action is not to be taken, this must also be stated. The HoDAP is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The HoDAP will:

- Submit periodic reports to the Audit and Governance Committee summarising key findings of reviews and the results of follow-ups undertaken;
- Submit an Annual Internal Audit Report to the Audit and Governance Committee, incorporating an opinion on the Council's control environment. This will also inform the Annual Governance Statement.

CHARTER - RELATIONSHIP WITH THE AUDIT AND GOVERNANCE COMMITTEE, AND NON CONFORMANCE TO THE CHARTER

The Council's Audit and Governance Committee will act as "the Board" as defined in the Public Sector Internal Audit Standards (PSIAS),

The Specific Functions of the Audit and Governance Committee are set out in the Council's Constitution.

The HoDAP will assist the Committee in being effective and in meeting its obligations. To facilitate this, the HoDAP will:

- Attend meetings, and contribute to the agenda;
- Ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);
- report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;
- present an annual report on the effectiveness of the system of internal audit; and
- present an annual internal audit report including an overall opinion on the governance, risk and control framework

Any instances of non conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit and Governance Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Head of Devon Audit Partnership will advise the Audit and Governance Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit and Governance Committee.

CHARTER - QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The PSIAS states that a quality assurance and improvement programme must be developed; the programme should be informed by both internal and external assessments.

An external assessment must be conducted at least once in five years by a suitably qualified, independent assessor. For DAP this was recently conducted at the end of 2021 by the Head of Southwest London Audit Partnership, and the Chief Internal Auditor of Orbis (a partnership organisation covering Brighton and Hove, East Sussex, and Surrey County Council).

The assessment result was that *“Based on the work carried out, it is our overall opinion that DAP generally conforms* with the standards and the Code of Ethics”*.

The report noted that *“As a result of our work, a small number of areas where partial conformance was identified. These were minor observations, none of which were significant enough to affect the overall opinion”*.

DAP is actively addressing these improvement areas which include: Develop the use of data analytics; rotate staff across clients; consider how to support the development of audit committees; consider a range of cross partner audits, and share best practice; review current arrangements for the delivery of IT audit to ensure maximum value; develop the role of Senior Auditors.

* **Generally Conforms** – This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

AUDIT STRATEGY - PURPOSE

The PSIAS require the HoDAP to produce an Audit Charter setting out audits purpose, authority and responsibility. We deliver this through our Audit Strategy which:

- Is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities;
- Should be approved, but not directed, by the Audit and Governance Committee.
- Will communicate the contribution that Internal Audit makes to the organisation and should include:
 - Internal audit objectives and outcomes;
 - How the HoDAP will form and evidence his opinion on the governance, risk and control framework to support the Annual Governance Statement;
 - How Internal Audit's work will identify and address significant local and national issues and risks;
 - How the service will be provided, and
 - The resources and skills required to deliver the Strategy.

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The Strategy should be kept up to date with the organisation and its changing priorities.



AUDIT STRATEGY - OPINION ON THE GOVERNANCE, RISK AND CONTROL FRAMEWORK

A key objective of Internal Audit is to communicate to management an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Significant issues and risks will be brought to the attention of the S.151 Officer as and when they arise. Regular formal meetings will be held to discuss issues arising and other matters.

The HoDAP will report progress against the annual audit plan and any emerging issues and risks to the Audit and Governance Committee.

The HoDAP will also provide a written annual report to the Audit and Governance Committee, timed to support their recommendation to approve the Annual Governance Statement, to the Council.

The Head of Devon Audit Partnership's annual report to the Audit and Governance Committee will:

- Provide an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
- Draw attention to any issues the HoDAP judges particularly relevant to the preparation of the Annual Governance Statement;
- Compare audit work actually undertaken against the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- Comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

AUDIT STRATEGY - PLANNING & AUDIT DELIVERY

INCLUDING LOCAL AND NATIONAL ISSUES AND RISKS

The audit planning process includes the creation of and ongoing revision of an “audit universe”. This seeks to identify all risks, systems and processes that may be subject to an internal audit review.

The audit universe will include a risk assessment scoring methodology that takes account of a number of factors including: the Council’s own risk score; value of financial transactions; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. This will inform the basis of the resources allocated to each planned audit area.

The results from the audit universe will be used in creating an annual audit plan; such a plan will take account of emerging risks at both local and national level.

Assignment Planning & Delivery

Further planning and risk assessment is required at the commencement of each individual audit assignment to establish the scope of the audit and the level of testing required.

The primary objective of the audit is to provide management with an independent opinion on the risk and control framework through individual audits in the audit plan. Individual audits will be completed using our methodology in our Audit Manual to the standards set by PSIAS, to independently evaluate the effectiveness of internal controls. Our audit assignment report will communicate our opinion and include agreed management action, where required, to improve the effectiveness of risk management, control and governance processes.

AUDIT STRATEGY - PERFORMANCE MANAGEMENT & QUALITY ASSURANCE

The PSIAS state that the HoDAP should have in place an internal performance management and quality assurance framework; this framework must include:

- A comprehensive set of *targets to measure performance*. These should be regularly monitored and the progress against these targets reported appropriately;
- Seeking *user feedback* for each individual audit and periodically for the whole service;
- A periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit and Governance Committee;
- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self-assessment); and
- An action plan to implement improvements.

The PSIAS and the Internal Audit Manual state that internal audit performance, quality and effectiveness should be assessed for each individual audit; and for the Internal Audit Service as a whole. The HoDAP will closely monitor the performance of the team to ensure agreed targets are achieved. A series of performance indicators have been developed for this purpose (please see the following pages).

Customer feedback is also used to define and refine the audit approach. Devon Audit Partnership will seek feedback from: auditees; senior leadership; and executive management. The results from our feedback will be reported to Senior Management and the Audit and Governance Committee in the half year and annual reports.

The HoDAP is expected to ensure that the performance and the effectiveness of the service improves over time, in terms of both the achievement of targets and the quality of the service provided to the user.

AUDIT STRATEGY - PERFORMANCE MANAGEMENT & QUALITY ASSURANCE (2)

Performance Indicator	Full year target
Percentage of Audit Plan completed	90%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%
Draft reports produced with target number of days (currently 15 days)	90%
Final reports produced within target number of days (currently 10 days)	90%

Internal Audit
Performance
Monitoring
Targets

Task	Performance measure
Agreement of Annual audit plan	Agreed by Chief Executive, Leadership Team and Audit and Governance Committee prior to start of financial year
Agreement of assignment brief	Assignment briefs are agreed with and provided to auditee at least two weeks before planned commencement date.
Undertake audit fieldwork	Fieldwork commenced at agreed time
Verbal debrief	Confirm this took place as expected; was a useful summary of the key issues; reflects the findings in the draft report.
Draft report	Promptly issued within 15 days of finishing our fieldwork. Report is "accurate" and recommendations are both workable and useful.
Draft report meeting (if required)	Such a meeting was useful in understanding the audit issues
Annual internal audit report	Prepared promptly and ready for senior management consideration by end of May. Report accurately reflects the key issues identified during the year.
Presentation of internal audit report to Management and Audit and Governance Committee.	Presentation was clear and concise. Presented was knowledgeable in subject area and able to answer questions posed by management / members.
Contact with the audit team outside of assignment work.	You were successfully able to contact the person you needed, or our staff directed you correctly to the appropriate person. Emails, letters, telephone calls are dealt with promptly and effectively.

Other indicators measured as part of the audit process that will be captured and reported to senior management

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AUDIT STRATEGY - RESOURCES AND SKILLS

The PSIAS and the Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources;
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management; and
- The Chief Audit Executive (Head of Devon Audit Partnership) should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

DAP currently has c.40 staff who operate from any one of our three main locations (Plymouth, Torquay and Exeter), we also operate from offices at Torrridge DC (Bideford), Mid Devon DC (Tiverton) and South Hams/West Devon Councils (Totnes). The Partnership employs a number of specialists in areas such as Computer Audit, Contracts Audit and Counter Fraud Investigators as well as a mix of experienced, professionally qualified and non-qualified staff.

The Partnership draws on a range of skilled staff to meet the audit needs. Our current staff includes: -

- 4 x Chartered Accountants
- 7 x qualified IIA (CMIIA and PIIA)
- 1 x qualified computer audit (QICA & CISA)
- 1 x risk management (IRM)
- 10 x AAT (qualified and part qualified)
- 6 x ACFS / ACFT (accredited counter fraud specialists)
- 5 x ILM (Institute of Leadership & Management) level 5 or above
- 5 Apprentices (Finance, Data Analyst, IIA, Business Admin)

AUDIT STRATEGY - STAFF DEVELOPMENT AND TRAINING AND USE OF MK AUDIT

Staff Skills and Development

Devon Audit Partnership management assess the skills of staff to ensure the right people are available to undertake the work required.

Staff keep up to date with developments within internal audit by attending seminars, taking part in webinars and conferences, attending training events and keeping up to date on topics via websites and professional bodies. Learning from these events helps management to ensure they know what skills will be required of our team in the coming years, and to plan accordingly.

Devon Audit Partnership follows formal appraisal processes that identify how employees are developing and create training and development plans to address needs.

Internal Audit Software System

Devon Audit Partnership uses Pentana MK as an audit management system. This system allows Partnership management to effectively plan, deliver and report audit work in a consistent and efficient manner. The system provides a secure working platform and ensures confidentiality of data. The system promotes mobile working, allowing the team to work effectively at client locations or at remote locations should the need arise.

Internal Audit

Progress Report 2022-23

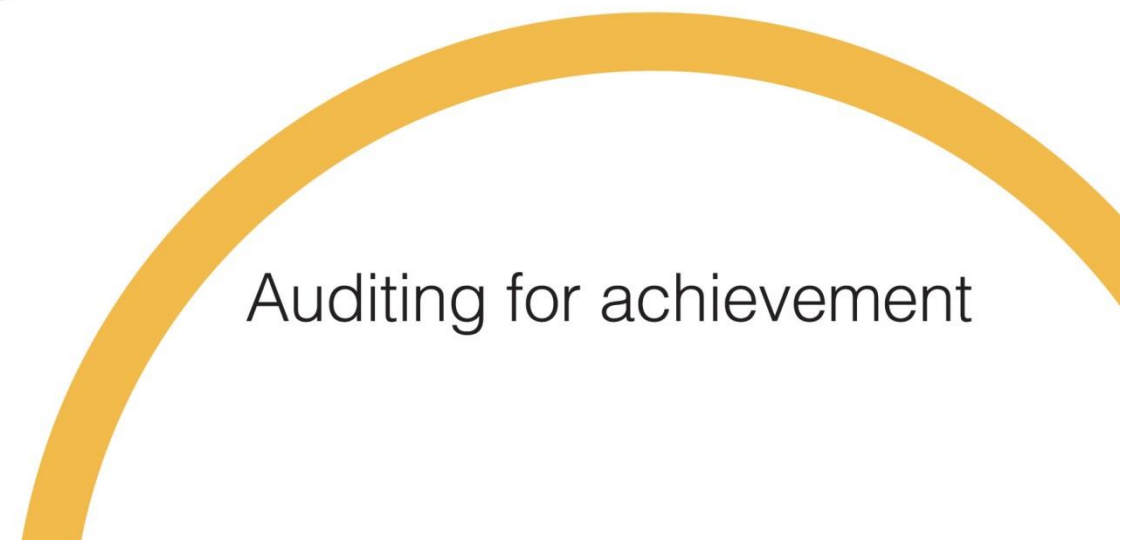
South Hams Audit Committee

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September 2022



Tony Rose
Head of Audit Partnership



Auditing for achievement

Introduction

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

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

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

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

Expectations of the Audit Committee from this progress report

Audit Committee members are requested to consider:

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

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

Tony Rose
Head of Devon Audit Partnership

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Opinion Statement

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

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

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

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

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

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

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

Executive Summary of Audit Results

Key Financial Systems

We have completed audits on Creditor (payments), Asset Investment Strategy and Housing Benefits, with no significant issues identified.

Risk Based Audits

We identify significant improvements have been made to Development Management, following our previous 2019/20 review.

We provide more detail below on work being undertaken to improve recommendation tracking to support management focus on implementing recommendations.

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

Counter Fraud Work

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

Recommendation Tracking

It is important that audit recommendations are monitored to completion to avoid the council tacitly accepting risk. Recent audits have identified some High and Medium recommendations that were not implemented. Progress to introduce recommendation tracking has been delayed as the council concentrated on C-19 emergency measures. However, management have agreed to review all audit management recommendations since April 2020, to confirm if they have been implemented or remain open. We will then work with the council to introduce a system to support ongoing monitoring and reporting on recommendations.

Value Added

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

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

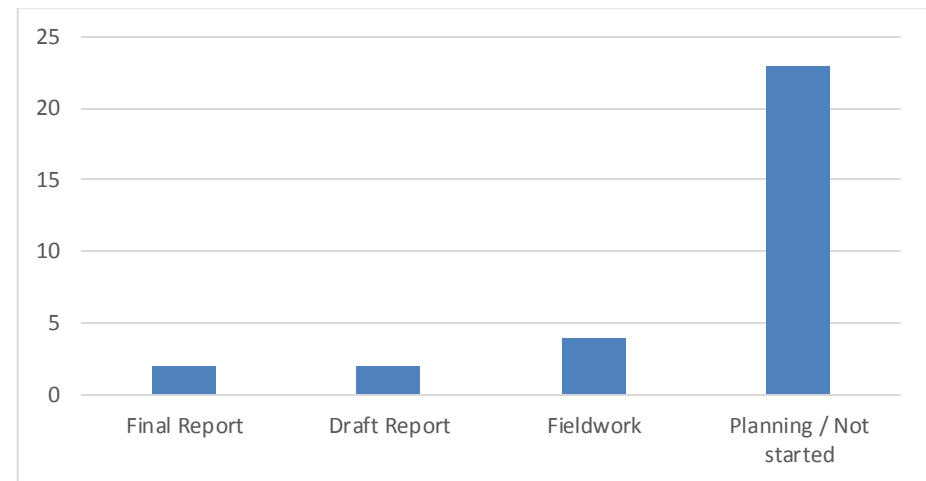
Audit Coverage and Performance Against Plan

We continue work to complete the 2021-22 audit plan. We have provided final reports for three of these audits, two others are issued in draft, and we will be issuing reports for the remaining two audits shortly. Appendix 2 provides detail on these audits, as well as detail on the 2022-23 audit plan.

Progress to deliver the 2022-23 plan has been impacted by continued diversion of one of the two core auditors to administer the

Covid Business Grants for the council. In addition, the LAG / LEAF work is expected to continue into 2023. We anticipate this means we are short of more than 65 days from this financial year. We have subsequently asked for additional compensatory resource to support audit plan delivery. We propose that part of this resource go towards paying for a Cyber Security audit provided by One West (a DAP strategic partner).

Chart: Delivery of the 2022-23 audit plan



Internal Audit Charter and Strategy

At this meeting we have provided an updated Audit Charter and Strategy for agreement by the Audit Committee as a separate agenda item.

Customer Satisfaction

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

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

Audit / Assurance Opinion	Summary, risk exposure and management actions
<p>Assets Investment Strategy 2021/22 From 2021/22 audit plan</p> <p>Substantial Assurance</p> <p>Page 213</p>	<p>Each Council has a detailed Investment Strategy in place, to guide officers and members when taking decisions regarding potential investment property acquisitions. The Strategies provide detail on the potential risks that might arise along with mitigation action such as the due diligence required. Maximum thresholds for investment in assets are set out, being £60m for SHDC and £50m for WDBC. To date, SHDC has purchased one property, whilst WDBC has purchased four. Officers are considering other opportunities in accordance with the Investment Strategies presented to members in March 2022. A monitoring report for the Investment properties is presented to the Audit Committee on a periodic basis.</p> <p>We confirm that the decision to undertake due diligence work with respect to the solar farms opportunity, and to appoint consultants to do this, were made in line with the governance arrangements set out in the respective Councils' Strategies.</p> <p>We agreed a High priority recommendation relating to compliance with procurement regulations for consultants involved with projects.</p>
<p>Creditor (Payments) (From 2021/22 plan)</p> <p>Reasonable Assurance</p>	<p>Effective controls are in place to manage the payment of creditors, with most payments made accurately and on a timely basis. A series of input checks ensure that invoices are accurate and paid correctly. Invoices are paid promptly i.e., within 30 days, and in line with specific creditor payment terms. The integrated Financial Management System, of which the creditors' module is a part, includes an electronic ordering facility that commits the related expenditure within the general ledger when an order is placed. The system requires the order to be authorised before being issued to a supplier, reducing the risk that purchases are made without approval.</p> <p>We restated a small number of recommendations from our 2020/21 audit which remain outstanding, specifically those outside the control of the Central Invoicing Team.</p> <p>We agreed two High priority recommendations relating to procurement of agricultural planning advice, and publication and management of planning notices.</p>

<p>Development Management / Control S106</p> <p>Reasonable Assurance</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 214</p>	<p>There have been considerable improvements in procedures since our previous review in 2019/20. The Councils have effective arrangements to record and monitor all S106 agreements. These support requests for contributions at the appropriate trigger points and spending of funds within agreed timeframes.</p> <p>There is good communication between those officers involved in drawing up the S106 agreements, those recording and monitoring them and those who co-ordinate use of the funds for approved purposes. Regular reporting takes place, including to members and the public. Members are also actively encouraged to engage with their town or parish councils to facilitate the expenditure of S106 contributions.</p> <p>On 31 March 2022, SHDC held £5.63m and WDBC £1.32m of general S106 contributions. In addition, SHDC held £0.13m of S106 contributions specifically for the Sherford development. A report to members in September 2021 predicted half the S106 funds held would be utilised by the end of 2022/23.</p> <p>There is potential to improve the efficiency of the recording, monitoring, and reporting of S106 obligations. The key to achieving this would be the use of software better suited to the purpose, rather than Smartsheets. We raised a recommendation in respect of this in our 2019/20 report, but it has not been implemented due to delays in selecting replacement software for the wider planning service, only some including a dedicated S106 module. We have repeated the recommendation, as well as the need to back up the Smartsheets, this being overlooked due to a change in responsibilities.</p> <p>We did not make any High recommendations.</p>
<p>Housing Benefits (From 2021/22 audit plan)</p> <p>Reasonable Assurance</p>	<p>The Housing Benefit team continually strive to improve processes and procedures, in all areas of claims processing, wherever possible. This includes voluntarily taking part in DWP trials as well as reviewing internal ways of working. Real Time Information (RTI) is received from the DWP and HMRC, which helps identify inaccurate data provided by claimants, failure to advise of changes and potential fraud on a timelier basis and reducing the number and value of housing benefit overpayments.</p> <p>Where a customer has received an overpayment, this will be recovered from on-going entitlement if the customer is still in receipt of benefits or, if eligibility has ceased, a debtor's invoice will be raised. There are procedures to guide recovery once an invoice is raised. However, during 2021/22 recovery action was limited as staff were diverted to administering business grants and other financial support during the Covid-19 crisis.</p>

The use of on-line benefit claim forms, workflow processes within the electronic document management system and other automation, has allowed the Benefits service to continue to make more efficient use of staff resources.

There are areas where action may be taken to strengthen existing controls or gain efficiencies. The most important relate to re-commencement of procedures which have been suspended or reduced due to work pressures created by the Covid pandemic i.e., quality checks.

Some recommendations from our report have been included in the Improvement Plan created from the recent Revenue and Benefits Service Review.

The agreed High recommendations related to:

- Correct application of annual Council Tax upratings.
- Reintroduction of quality checks for Benefits Assessors work.
- Implementation of proposals for more efficient or alternative Housing Benefit Overpayment recovery methods.
- Monitoring of the performance of the enforcement contract.

Appendix 2 – Progression of audit plan

2021/22 Audits

Audit	Business Area	Audit Stage	Assurance Opinion	Comments
Housing Benefits 21/22	KFS	Final Report	Reasonable	See summary in Appendix A
Creditor (Payments)	KFS	Final Report	Reasonable	See summary in Appendix A
Asset Investment Strategy	KFS	Final Report	Substantial	See summary in Appendix A
Dartmouth Lower Ferry	Place & Enterprise	Draft report issued	Tbc	Draft report provided 7 June.
Payroll	KFS	Draft report issued	Tbc	Draft report provided 11 Aug.
Change Control – Business Processes		Report being drafted	Tbc	
Salcombe Harbour	Place & Enterprise	Report being drafted	Tbc	

2022/23 Audits

Audit	Business Area	Audit Stage	Assurance Opinion	Comments
Completed				
Development Management - Section 106 Arrangements	Customer Service & Delivery	Final Report	Reasonable Assurance	See summary in Appendix A
Annual Governance Statement	Other items	Final Report		Annual report completed.
Draft Report				
Building Maintenance - Works Scheduling Follow Up	Customer Service & Delivery	Draft Report		Draft issued 13 June 22, waiting for Senior Management Team review.
Covid 19 - Business Grants Post-Scheme Assurance	Place & Enterprise	Draft Report		Draft issued 2 Aug 22.

Audit	Business Area	Audit Stage	Assurance Opinion	Comments
Fieldwork				
Contract Management - Leisure	Governance & Assurance	Fieldwork		Draft report expected Mid Sep 22
Corporate Strategy and Performance Management	Governance & Assurance	Fieldwork		Draft report expected Mid / late Sep 22
Climate Change	Governance & Assurance	Fieldwork		Draft report expected w/c 22 Aug 22
Grants LAG LEAF 2022/23	Other items	Fieldwork		Ongoing work to validate this grant.
Planning / Not Yet Started				
Main Accounting System	KFS	Not yet started		Indicative start Q4
Payroll	KFS	Not yet started		Indicative start Q3
Payable (Payments)	KFS	Not yet started		Indicative start Q3
Debtors (Income Collection)	KFS	Not yet started		Indicative start Q2
Business Rates	KFS	Not yet started		Indicative start Q3
Council Tax	KFS	Not yet started		Indicative start Q3
Housing Benefits	KFS	Not yet started		Indicative start Q3
Treasury Management	KFS	Not yet started		Indicative start Q2
Capital Expenditure	Place & Enterprise	Not yet started		Indicative start Q2
Regeneration and Investment Strategy	Place & Enterprise	Not yet started		Indicative start Q4
ICT / Cyber Audit	Customer Service & Delivery	Planning		Indicative start Q3

Locality Officers	Customer Service & Delivery	Not yet started		Indicative start Q3
Partnership Funding Arrangements	Customer Service & Delivery	Not yet started		Indicative start Q3
Health and Wellbeing	Customer Service & Delivery	Not yet started		Indicative start Q3
Project Management	Governance & Assurance	Not yet started		Indicative start Q4
Procurement – compliance with financial procedures and tender limits	Governance & Assurance	Not yet started		Indicative start Q3
Risk Management Review	Governance & Assurance	Not yet started		Indicative start Q4
Future IT Project	Governance & Assurance	Not yet started		Indicative start Q2
Corporate Information Management 22/23	Governance & Assurance	Planning		Indicative start Q3
QAT Arrangements	Governance & Assurance	Not yet started		Indicative start Q3
Business Continuity / ICT Business Continuity	Governance & Assurance	Not yet started		Indicative start Q3
Exemptions from Financial Regulations	Other items	Ongoing		NA
National Fraud Initiative	Other items	NA		NA
Contingency, Advice & Emerging Risks	Other items	NA	N/A	NA

Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, North Devon, Mid Devon and Torridge Councils. We aim to be recognised as a high-quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk .

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Agenda Item 8

Report to: **Audit Committee**

Date: **8th September 2022**

Title: **Governance Review – Housing Programme**

Portfolio Area: **Homes – Cllr Judy Pearce, Leader of the Council**

Wards Affected: **All**

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

Date next steps can be taken: N/A

Author: **Drew Powell** Role: **Director of Strategy and Governance**

Lisa Buckle **Director of Strategic Finance**

Contact: Drew.powell@swdevon.gov.uk

RECOMMENDATIONS:

The Audit Committee NOTES the content of this report and the improvements implemented.

1. Executive Summary

- 1.1. This report is brought following a meeting of the Audit Committee on 9th December 2021, where the Committee considered the learning from the governance review of the Community Housing Programme and its application to the Council's wider programme management function.
- 1.2. This governance review had previously been considered by the Executive, where there was a general recognition that the Audit Committee should be given the opportunity to undertake a thorough examination of the report findings.
- 1.3. Subsequently, the Chairman of the Audit Committee advised that he had agreed for one urgent item to be raised at the 9th December meeting that related to a recommendation arising from the Executive meeting held on 2 December 2021 (Minute E.69/21 refers).

1.4. In the ensuing discussion, particular reference was made to the lack of timescales for the actions, outlined at Section 10.2 (Recommendations) of the published agenda report, to be implemented. In the absence of any timescales, two additional recommendations were made:

1. that officers be tasked with applying timescales to those actions identified at Section 10.2 of the presented agenda report; and
2. that a progress update be provided to the Committee in six months' time

1.5. In addition to implementing the recommendations as set out in the report, a Project Programme Management Board has been established. The Board will manage the Council's Capital Programme alongside existing major projects. The Board is made up of three members of SLT (Lisa Buckle, Chris Brook, Drew Powell) and supported by the Head of Assets and Senior Specialist (Engineers). The Board has recently held its first meeting and is in development. The Board will also act as a 'gateway' for future projects and will provide a holistic overview of all corporate projects.

2. Background

2.1. When the report went to Audit Committee on 9th December, a number of changes and improvements had already been implemented to the way that the Community Housing programme, as was, operated. For example, the original Community Housing Team had been disbanded and the residual projects and officers brought back within the wider functions of the council under the management of the Head of Assets and the Head of Housing.

2.2. The governance framework put in place offered a higher degree of confidence in terms of managing the remaining projects and associated risks.

2.3. However, further recommendations for improvement were made within the Community Housing Governance Review. The following report provides an update on each of the recommendations and how these have been addressed.

3. Recommendations and Resulting Actions

3.1. Recommendation 1: Clear identification of those officers and members responsible for over-seeing the projects and giving authority for the progression of projects from one stage to the next

There is now a clear process adopted to identify and progress projects, as follows:

- All new housing projects will be initially identified by the Housing Team, specifically the Principal Housing Enabling Officers, using existing evidence of need (Devon Home Choice, Housing Needs Surveys).

This work will be further strengthened by the addition of the Housing Need Survey Officer (New Role) who will be working with the team to look at additional data sets with a view to having an up-to-date housing needs survey everywhere in the District within the next 2 years. The Executive considered a report on 26th May 2022 on the staffing resource within the housing team (E6/22 refers)

- Initial scoping work will be completed by the Principal Housing Development Officer (New Role) in collaboration with the Assets Project Development & Delivery Team, principally the Project Funding & Development Officer.
- Once the project scope is agreed, initial feasibility and viability work (including planning pre-application) can commence. At this stage, an internal Project Manager in the Assets Project Development & Delivery team will be identified to take responsibility for the project and will move the project forward through the various gateways (RIBA stages) in consultation with the Principal Housing Development Officer acting as client.

Please note, authority for moving projects through key stages will be made through the Project Programme Board (as set out in 1.5 above) with recommendations from the Housing and Assets team. Decisions will be referred to the Executive and/or Full Council at the appropriate times.

3.2. Recommendation 2: Evidencing the assessment of each proposed site against an approved set of viability criteria.

Each potential housing site is assessed against core considerations relating to items such as:

- need,
- funding availability,
- planning constraints and
- financial viability.

An agreed standard business case for assessment of financial viability has been developed (as used for the St Anns Chapel development) which is utilised to assess each site on a set of measures to understand viability and value for money.

Additionally, moving forward, formal pre-application planning advice will be sought on all new housing projects.

3.3. Recommendation 3: Ensuring that agreed and/or constitutional procedures are in place and followed, to protect the Council from accusation of bias when considering planning applications submitted to support projects.

Prior to progression of schemes a planning pre-application is submitted.

We are recruiting an Affordable Housing Scheme Led Planning Officer who will assist us, (and any other affordable led developer) with our planning applications. This is a separate officer to those officers who will be involved in determining any applications.

3.4. Recommendation 4: Drawing up and maintaining an adequate Risk Register for each project.

Risk Registers are produced for all projects when they pass the scoping and feasibility stage.

3.5. Recommendation 5: Generally better evidencing meetings, agreed actions, consultations etc.

Documented records are now produced and saved on central drives with access for all required members of the team (Housing & Assets).

We are recruiting a Project Support Officer within the Assets Project Development & Delivery team who will assist with ensuring effective and consistent document management across all projects.

3.6. Recommendation 6: Streamlining both update reports and financial reports, ensuring that these contain the information the intended audience wishes to receive.

A monthly financial report is produced and circulated to key members of SLT, Housing & Assets to report spend on Housing Projects.

The Project Support Officer role mentioned in 3.5 above, will also support the management of update reports and interface with financial reporting to ensure the reported information is appropriate for the particular audience who will receive it.

3.7. Recommendation 7: Managing all financial information through the Council's financial systems

As 3.6.

3.8. Recommendation 8: Regular reporting to both senior managers (via a project Board) and members via the Lead member and through the Executive as appropriate.

A regular Project Programme Board attended by the Directors of strategic finance, governance and placemaking, Head of Housing, Head of Assets and the Senior Accountant allocated to housing now occurs on a bi-monthly basis.

Additionally, since the declaration of the Housing Crisis in September 2021, there is a standing item on the Executive Agenda which will provide housing project updates where appropriate.

3.9. Recommendation 9: Ensuring that any consultants or contractors used are procured in line with Contract Procedure Rules.

In consultation with our Procurement Officer, various methods of securing necessary contracts have been utilised as appropriate, all within Contract Procedure Rules.

3.10. Recommendation 10: Ensuring that appropriate staff resource is in place to be able to undertake 'intelligent client' management of contractors.

The Head of Housing and the Head of Assets have worked hard to create a culture of mutual ownership between the teams of these key housing projects.

Reviews of Housing & Assets teams have been undertaken and recruitment is ongoing to fill identified resource gaps.

The identification of specific officers with the necessary skills and knowledge, at key stages of the project development and delivery process provides accountability and ensures that the 'intelligent

client' role is in place and contractor management dealt with accordingly.

3.11. Recommendation 11: Ensuring that officers are required to declare, annually, any interests they have that may conflict with their role in projects of this nature (this is a recommendation that should be taken up corporately)

This is understood within both the Housing and Assets teams. The Head of HR now sends out an annual declaration form for all senior staff to complete.

4. Proposed way forward

4.1. As detailed above whilst many of the issues had already been addressed at the time of the governance review, further improvement work has been completed and the recommendations of the Community Housing Governance Review have now been implemented.

4.2. In turn, the strengthening of the relationship between the Housing and Assets team and embedding of new roles and clarity around expectations will lead to better quality projects coming forward with greater confidence of delivery.

4.3. The establishment and regular meeting of the Projects Programme Board ensures that governance arrangements are robust and accountable. This is a new Board which has recently been set up and which has held its first meeting.

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	
Financial implications to include reference to value for money	Y	There are no direct financial implications of the content of this report.
Risk	Y	That the Council fails to deliver a Service that meets the expectations of Members and our Customers
Supporting Corporate Strategy	Y	Council, Homes, Environment, Enterprise

Climate Change - Carbon / Biodiversity Impact	N	No direct carbon or biodiversity impacts arise from this report
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		N/A

Supporting Information

Appendices:

None

Background Papers:

None

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NOT FOR PUBLICATION

This report contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (matters affecting the financial affairs of the Council) - (applies to Appendix 1)

Report to: **Audit and Governance Committee**

Date: **8th September 2022**

Title: **Investment Properties – Update and monitoring report**

Portfolio Area: **Economy – Cllr Bastone**

Wards Affected: **All Wards**

Relevant Scrutiny Committee: N/A

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

Date next steps can be taken: **N/A**

Author: **Chris Brook** Role: **Director of Place and Enterprise**

Lisa Buckle **Director of Strategic Finance**

Contact: **Telephone/email: chris.brook@swdevon.gov.uk
Lisa.buckle@swdevon.gov.uk**

Recommendations:

1. Note the 31 March 2022 valuation figures of the Council's two Investment Properties and the rental income being received.

1. Executive summary

- 1.1. This report considers the financial information in respect of the Investment Property portfolio to date.
- 1.2. The portfolio comprises a historically owned property at Lee Mill, Ivybridge and a property purchased in 2019 in Dartmouth.
- 1.3. The report sets out the latest portfolio valuation information as shown in Appendix 1.

2. **Background**

- 2.1. The recent property acquisition in Dartmouth was made in December 2019. The purchase price was £4.7million plus acquisition costs of approximately £300,000. A report to the Executive on 6th February 2020 set out further details of the purchase. The investment was for 12,575 sqft retail store plus eight flats (all within one lease to the tenant, the flats are sub-let).
- 2.2. The Dartmouth purchase was funded through long term Public Works Loans Board borrowing with both the principal and the interest being repaid fully over the 50 year life of the asset. The current lease expires in March 2031.
- 2.3. The historic property at Lee Mill, Ivybridge has been let to the Tenant on a ground lease (the tenant built the store) since 1978 and runs for 99 years to December 2077.
- 2.4. The properties generate a combined net income of £652,102 (see Appendix 1) in the financial year, an ancillary benefit which contributes to the financial sustainability of the Council, enabling it to continue to deliver, and where possible improve, frontline services.
- 2.5. The recent valuation information can be found in Appendix 1.

3. **Outcomes/outputs**

- 3.1. The net income of the combined properties is £652,102. This allows for borrowing costs and the Maintenance Management and Risk Mitigation reserve (MMRM Reserve) for the recently acquired property in Dartmouth.
- 3.2. Both tenants are up to date with their rental payment.
- 3.3. Both Tenants are (or are guaranteed by) secure covenants, reflecting a low risk of business failure.
- 3.4. The valuation figures as at 31st March 22 are shown in Appendix 1. Both properties are valued by external Chartered Surveyors with the current knowledge, skills and understanding to value this type of property. The valuers are Members of the RICS (Royal Institution of Chartered Surveyors) and Registered Valuers.

The basis of the valuations is 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’.
- 3.5. The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £66,171 at 31.3.2022. This is shown in the Earmarked Reserve Note to the Statement of Accounts for 2021-22. 10% of rent from the recently acquired property in Dartmouth goes into the Revenue Earmarked Reserve for MMRM which will fund void periods, management costs and repairs as and when they arise.

- 3.6. Details of the Council's Regeneration and Investment strategy can be found in the report approved by Full Council on 31 March 2022 (Minute CM 75/21).

<https://mg.swdevon.gov.uk/documents/s28134/Appendix%20A%20-%20Regeneration%20and%20Investment%20Strategy.pdf>

4 **Options available and consideration of risk**

- 4.1 The current income is backed by secure low risk covenants.
- 4.2 There remains a long period until the Lee Mill ground lease reaches expiry (54 years) and over 8 years for the Dartmouth asset.
- 4.3 Consideration need to be given at the appropriate time in respect of the ending of both tenancies.
- 4.4 The project has a management, maintenance and risk mitigation (MMRM) Reserve fund to help off-set any situations that may arise where there are void periods, management costs or repairs required.

5 **Proposed Way Forward**

- 5.1 Continue to monitor the payments for the quarterly rent.
- 5.2 Continue to build the MMRM Earmarked Reserve.
- 5.3 Ensure the properties are revalued as required in March 23. The Investment properties require an annual valuation.

6 **Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Under section 12 of the Local Government Act 2003 the Council has the power to invest not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs. The Council is required to have regard to guidance issued by the Secretary of State. The current guidance requires the Council to have at least one investment strategy. The Council's Regeneration and Investment Strategy is referred to in the report and is publicly available on the Council's website.

		<p>Appendix 1 to the report contains information relating to both the financial and business affairs of the Council and the occupiers of the investment properties. The information is not information that would be required to be published under the Companies Act 1985, the Friendly Societies Acts 1974 and 1992, the Industrial and Provident Societies Acts 1965 to 1978, the Building Societies Act 1986, or the Charities Act 1993. Such information is exempt from publication if and so long as, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing it.</p> <p>While there is a strong public interest in understanding how public money is spent or invested, this is met by the overall report which can be understood without reference to the detailed information set out in the Appendix which is specific to individual properties and occupiers. Accordingly, the public interest lies in non-disclosure at this time.</p>
Financial	Y	The net income (an ancillary benefit) was £652,102 in 2021/22 from both Investment properties. This is set out in Appendix 1.
Risk	Y	Refer to section 4
Supporting Corporate Strategy		The external audit process supports all of the Thematic Delivery Plans outlined in 'Better Lives for all'.
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A
Safeguarding		N/A

Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		

Supporting Information

Appendices:

Exempt Appendix 1 – Investment Property Valuation

Background Papers:

None

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. (Cabinet/Scrutiny)	Yes

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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Report to: **Audit & Governance Committee**

Date: **8 September 2022**

Title: **Strategic Risk Update**

Portfolio Area: **Cllr Judy Pearce
Leader**

Wards Affected: **All**

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

Date next steps can be taken:

Authors: **Neil Hawke – Head of Strategy**

Contacts: Neil.Hawke@swdevon.gov.uk **01803 861323**

RECOMMENDATION:

That the Audit & Governance Committee REVIEW the Strategic Risk Register (Appendix A) and make recommendations to Executive on any further action the Committee concludes should be considered

1. Executive summary

- 1.1. In accordance with the Risk & Opportunity Management Strategy adopted on 6th December 2018 by South Hams District Council, this report forms the required bi-annual update to Audit & Governance Committee Members.
- 1.2. The Strategy sets out the roles and responsibilities for various Council Committees and officer groups. The Audit & Governance Committee is to "Provide independent assurance to the Council on the effectiveness of the Council's risk and opportunity management, internal control and overall assurance framework".
- 1.3. This report aims to provide the Committee with the information required in order to provide that assurance to the Council. Included is a copy of the current strategic risk (Appendix A).

2. Background

- 2.1. The Council at its meeting on 6 December 2018 resolved to adopt the Risk & Opportunity Management Strategy and in September 2021, Council adopted its Better Lives for All Strategy.
- 2.2. The strategic risk register considers those risks which currently provide the greatest threat to achieving our strategic priorities.

3. Key Updates to the Strategic Risk Register since the last update

- 3.1. Following a review of the Strategic Risk profile since the last update to Audit & Governance Committee, we have taken the following action.
- 3.2. Removed the following risks since the last update to Committee: -
 - 3.2.1. Organisational Commitment to Change. It is considered that Council (both elected Members and Officer teams) have demonstrated a significant commitment and openness to change over the past few years. We no longer consider this an active threat to delivering our priorities.
 - 3.2.2. Covid-19 Impact on Services. While Covid is clearly still in circulation, we have all been taking steps to learn to live with the virus. This impact of Covid-19 will now be included within existing risks regarding Inadequate Staffing Resource and Business Continuity.
- 3.3. Added the following risks:-
 - 3.3.1. Cost of Living. The Council's response will require us to prioritise resources to ensure we do all we can to support our residents and this may well require amendments to our current Better Lives for All delivery plan.
 - 3.3.2. Homes for Ukraine. Prior to the Invasion of Ukraine and subsequent launch of the Homes for Ukraine scheme, South Hams was already taking steps to address the housing crisis. We have a significant number of Ukrainian families within South Hams and this presents challenges for us in the coming months that we need to resource and respond to.
- 3.2. The risk register as at August 2022 is set out at Appendix A to this report.
4. **Options available and consideration of risk**
 - 4.1. Members should note that, while risk is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of officer conclusions is therefore welcomed.
 - 4.2. If the Committee deems necessary, Members may make recommendations to Executive on amendments to the register(s) or refer the highest scoring 'red' risks to the Overview and Scrutiny Committee for further detail and investigation.
5. **Proposed Way Forward**
 - 5.1. It is suggested that the Committee's attention is focussed on those risks with the highest score i.e. the risks with a score of 16 and over.
 - 5.2. SLT will continue to monitor the Strategic Risks and a further update will be brought to Audit & Governance Committee in six months' time

6. Implications

Implications	Relevant to proposals	Details and proposed measures to address
Legal / Governance	Y	The Audit & Governance Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management. There are no direct legal implications arising from the report although a strategic focus on risk and opportunity management is good practice. Any specific legal implications are to be considered in individual risk assessments.
Financial	Y	The report includes a number of risks which will impact on the Council's financial position. Effective corporate risk and opportunity management can help protect the Council from budget variances.
Risk	Y	Members should note that while risk and opportunity is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.
Climate Change - Carbon / Biodiversity Impact	Y	There are no direct carbon/biodiversity impacts arising from the recommendations as this will be factored into individual risk assessments where appropriate.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.
Safeguarding	N	Factored into individual risk assessments where appropriate.
Community Safety, Crime and Disorder	N	Factored into individual risk assessments where appropriate.
Health, Safety and Wellbeing	N	Factored into individual risk assessments where appropriate.
Other implications	N	N/A

Supporting Information

Appendices:

Appendix 1: Strategic Risk Register August 2022

Background Papers:

Risk & Opportunity Management Strategy adopted 6th December 2018

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South Hams
District Council

Strategic Risk Register

August 2022 Update

Audit & Governance Committee 8th September 2022

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Better lives for all

Introduction

What Do we mean by Risk?

Risk is unavoidable in any organisation. It is ever present and a certain amount of risk-acceptance is inevitable if we are to achieve our objectives of our Better Lives for All Strategy.

What Is Risk Management?

Successful Risk Management is an essential part of delivering good governance across the Council and reduces the uncertainty of achieving our ambitions (as set out in Better Lives for All).

It is about adopting a planned and systematic approach to identifying, evaluating and controlling the things that will prevent us delivering on our priorities.

How does Risk Management fit in to our business planning?

Effectively identifying and managing risks will support the Council in acting in the best interests of our residents, businesses and communities through the ever changing environment of local government.

It is the 5th step in our Performance Management Framework



Step 5: Risk Management

Identify risks that may prevent us delivering our vision and how we will mitigate them



Our Risk Management Objectives

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

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

Benefits of Effective Risk Management



Improved Strategic Management

- Greater Ability to deliver against our corporate objectives and targets
- Improved decision making, planning and prioritisation



Improved Operational Management

- Plans in place to response to incidents when they occur
- Better service delivery



Improved Financial Management

- Better informed financial decision making
- Greater financial control
- Minimising waste and improving Value for Money



Improved Customer Service

Service disruption to customer minimized

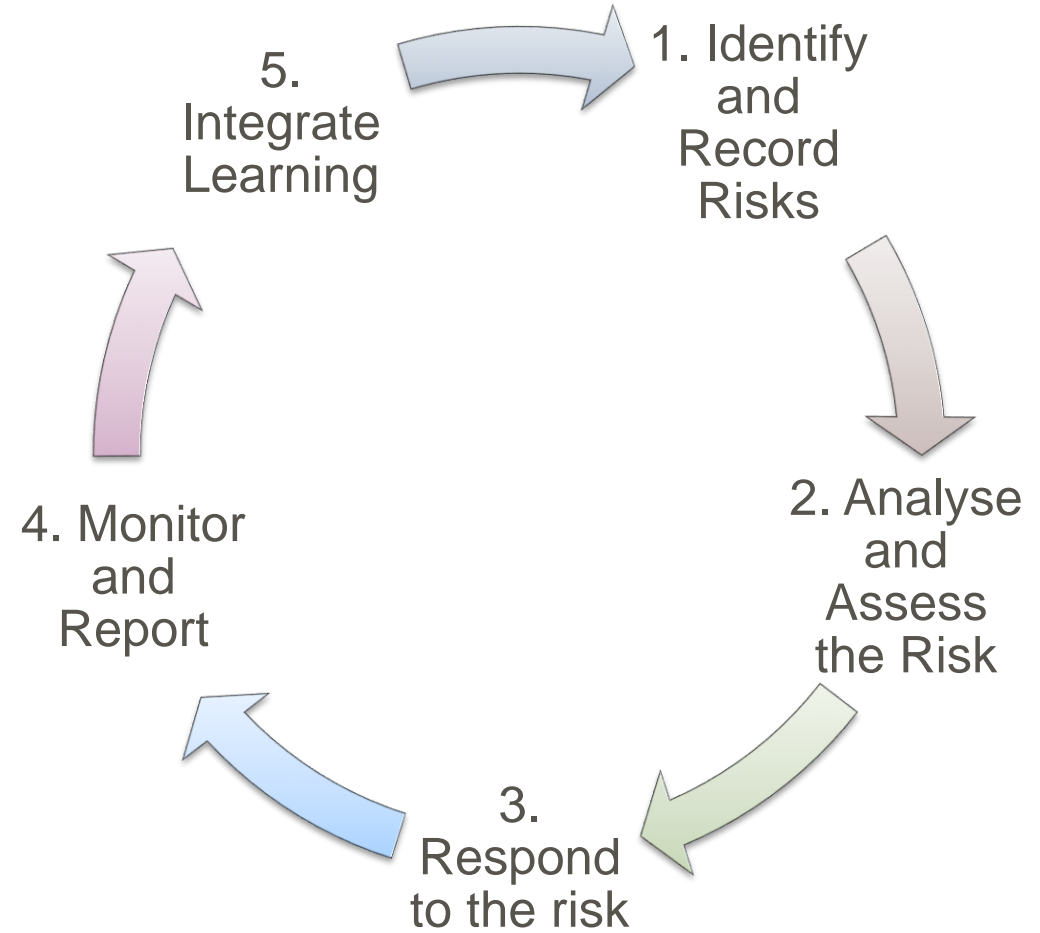


Our Risk Management Process

Identification of risks, deciding what action to take to minimise the risk and assessing how successfully we did it is an activity that we are all doing constantly in our personal lives. The same approach is applied by the Council in assessing risks to our priorities and services.

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To do this we follow a 5 step approach



Our Risk Management Scoring

Likelihood
How possible is it that the risk will occur?

#	Likelihood	Chances of occurring	
1 – Rare	Unlikely to occur under normal circumstances	0-10%	Very unlikely this will ever happen e.g. Once in 100 years
2 – Unlikely	Potential to occur however likelihood remains low	10-25%	Not expected to happen, but is possible e.g. Once in 25 years
3 - Possible	Possible - Could occur	25-50%	May happen occasionally, e.g. Once in 10 years
4 – Likely	Likely - Most likely will occur	50-80%	Will probably happen, but not a persistent issue e.g. Once in 3 years. Has happened in the past.
5 – Almost Certain	Almost certainly will occur	80-100%	Will undoubtedly happen, possibly frequently e.g. Annually or more frequently. Imminent/near miss.

Impact
If the risk does occur, what is the impact?

#	Impact Category					
	Financial	Service Quality	Reputation	Legal/Regulatory	Health and Safety	Morale / Staffing
1 – Insignificant Impact	Financial loss of less than £10k	Drop in performance or delays to a process or temporary loss of an access route to a service	Limited local interest, single story	Not reportable to regulator/Ombudsman, simple fix	Minor first aid required	Isolated staff dissatisfaction
2 – Minor Risk	Financial loss of between £10k & £100k	Drop in performance or delays to a service area or sustained loss of access routes for services	Local or 'industry' interest, single story over multiple news outlets	Reportable to regulator/Ombudsman, no or little follow up needed	Minor injuries to employees or third parties	Pockets of staff morale problems and increased turnover
3 – Moderate Risk	Financial loss of between £100k & £500k	Drop in performance or delays to delivering a wide range of services	Short term negative media exposure	Regulator/Ombudsman report with immediate correction to be implemented, or risk of prosecution	Simple 'medical professional' type care for employees or third parties, e.g. GP visit, minor injuries unit visit	General staff morale problems and increased turnover
4 – Major Risk	Financial loss of between £500k & £1Mill	Major drop in performance or inability to deliver discretionary services	Sustained negative media coverage, or South West or 'affected industry' publication exposure	Regulator/Ombudsman report requiring major project to correct or prosecution with fines, etc.	Limited hospital care required for employees or third parties	Widespread morale problems and high turnover. Not perceived as employer of choice
5 – Catastrophic	Financial loss of over £1Mill	Major drop in performance or inability to deliver mandatory services	Long term negative media coverage, or national media exposure	Significant prosecution or fines, incarceration of directors	Significant injuries or fatalities to employees or third parties	Some senior leaders leave / high turnover of experienced staff, insufficient staff to complete statutory functions

To calculate the overall risk score, we multiply the likelihood by the highest impact category score.

Our Risk Management Treatment

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Council

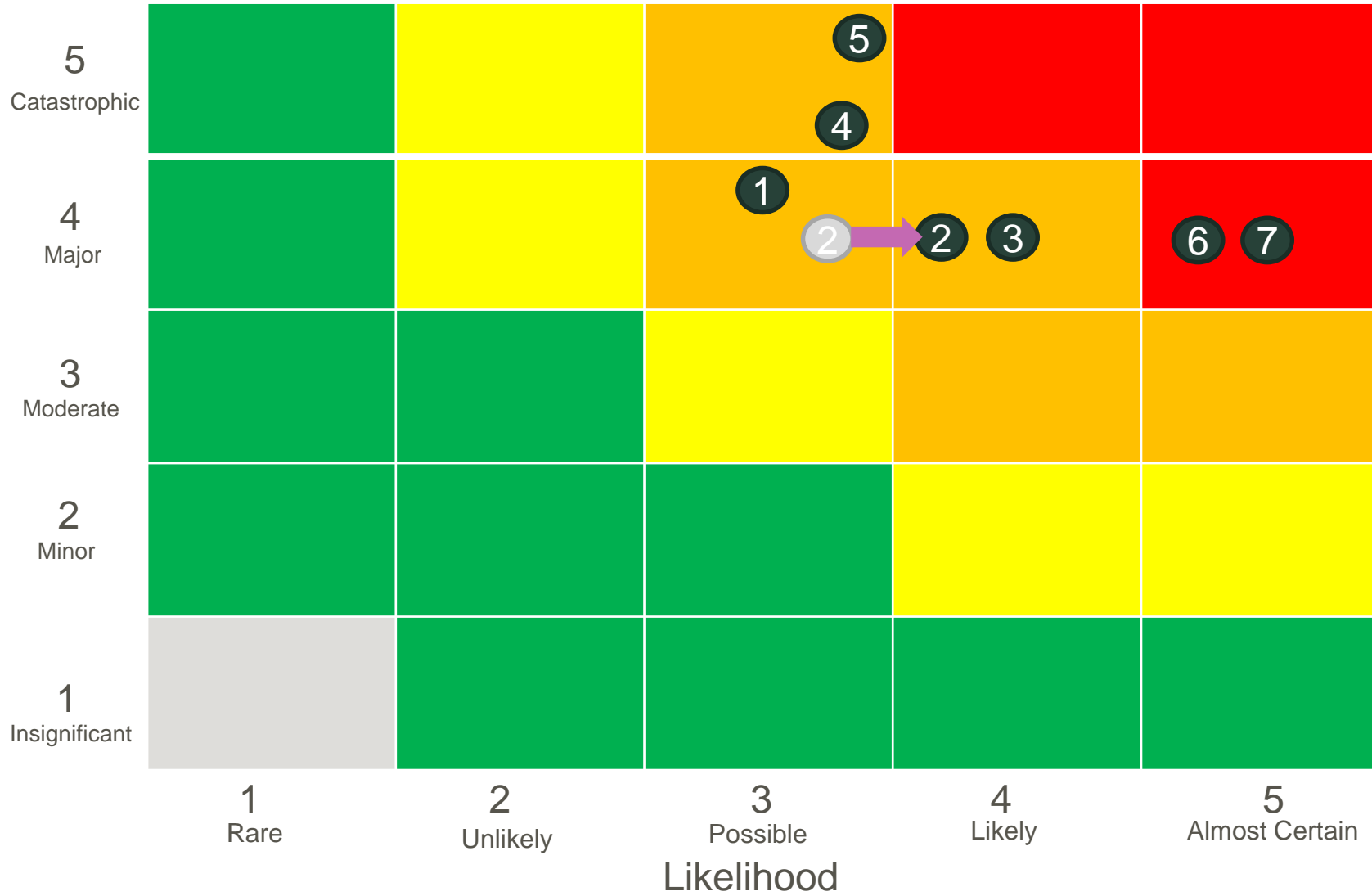
5 Catastrophic 4 Major 3 Moderate 2 Minor 1 Insignificant					<i>Must be managed down urgently</i>	<p><u>Must be managed down urgently</u> These risks will be the subject to regular monitoring and action by Lead Members and the Senior Leadership Team. Significant Management action is required</p> <p><u>Influence down in medium term</u> These will be regularly monitored by the relevant Director and Head of Service with plans developed to reduce the risk in the medium term.</p> <p><u>Monitor and Manage</u> These will be monitored by Heads of Service and plans developed to reduce the risk and prevent escalation</p> <p><u>Accept</u> These will be monitored however on the whole the risk level is deemed acceptable with normal managing of the activity</p>
				<i>Seek to influence short to medium term reduction</i>		
			<i>Monitor & Manage to influence a reduction</i>			
		<i>Accept – continue to monitor</i>				
	<i>Close as a Strategic Risk</i>					
	1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain	
	Likelihood					



Summary of Strategic Risks August 2022

⊗ Previous Period Score
 ⊗ Current Period Score

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Risk Title

- Adherence to Medium Term Financial Strategy
- Inadequate Staffing Resource
- Health and Wellbeing Service Provision
- Business Continuity
- Delivery of Waste and Recycling Service
- Cost of Living Impacts
- Homes for Ukraine Placements

Removed since last update:-

- Covid-19 Impact on Services
- Commitment to change (below threshold)
- Emergency Response (below threshold)
- RHSS Town Recovery Fund (scheme ended)



Risk Title: Adherence to Medium Term Financial Strategy

Overall Scoring

What is the risk? Failure to sustain a robust on-going medium term financial strategy in SHDC with adequate reserves to meet unforeseen circumstances, due to cost pressures and reduced income targets, council decisions, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFs, particularly if national/regional businesses successfully appeal against business rate valuations or litigation proceedings / legal challenges / planning appeals, etc.

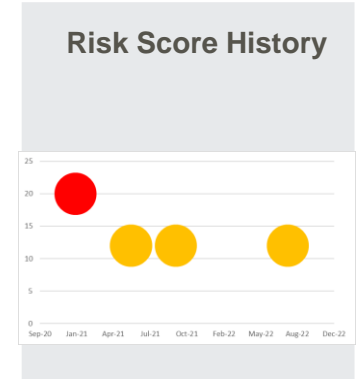
Risk Score (Current)



Likelihood 3 x Impact 4

What could cause the risk to occur? 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. a reduction in sales, fees and charges income or business rate appeals. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn, the effects of the pandemic 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.

Risk Scoring	Likelihood of risk occurring		3 (Possible)	<p>What are we doing to reduce the risk?</p> <ol style="list-style-type: none"> Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council is not intending to rely heavily on sources of income which may not be sustainable e.g. New Homes Bonus. SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT engaged in the development of the MTFs. The latest Medium Term Financial Strategy will be considered by Executive in September 2022.
	Impact	Financial	4 (Major)	
		Service Quality	4 (Major)	
		Reputation	4 (Major)	
		Legal / Regulatory	4 (Major)	
		Health and Safety	2 (Minor)	
		Morale / Staffing	2 (Minor)	



Current Update (August 2022)

The Council has prepared its Medium Term Financial Strategy for the period covering 2023/24 to 2025/26 and this is being presented to the Executive at its September 2022 meeting. The forecast budget gap for 2023/24 is £374,616. This is 3.3% of the Projected Net Budget for 23/24 of £11.47million. A cumulative budget gap of £386,749 is predicted for 2024/25. A Government technical consultation on the finance settlement is expected in the Autumn. The hope is that this will enable greater confidence to be had in the assumptions underlying the MTFs and might also set out the principles of how a two-year finance settlement would be implemented. In the meantime, there are continuing uncertainties about the level of local government funding for 2023/24. There is no indication yet of the detailed local government funding levels for 2023/24 and beyond. Therefore there are many uncertainties in preparing for the challenges we know we will face in the near future.

The Council has closed its Accounts for 2021/22 and the Draft Un-Audited Accounts were published by the end of July 2022. The Council reported a surplus for the 21/22 year of £214,000 (2.2%) against the Council's total net budget of just over £9.6million.

The Council has to be entirely independent to fund all of its services, as the District Council no longer receives any main Government Grant (Revenue Support Grant). The Council has had a reduction in core Government funding of £4million per year since 2010.

As at 31 March 2022, the Council has £20.839 million in Earmarked Reserves and £2.056million in Un-earmarked Reserves.

Risk Direction




Risk Title:	Inadequate Staffing Resource
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Overall Scoring

What is the risk? The risk is that the Council fails to have the right culture, organisational conditions or resources to deliver our priorities for our communities. Insufficient staffing arrangement resulting in a loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.

Risk Score (Current)



16

Likelihood 4 x Impact 4

What could cause the risk to occur? The last few years have seen Local Government stepping up to provide significant and varied support to our residents, communities and businesses in addition to maintaining our core service delivery, This has been a sustained period of the council delivering additional support and services and is only likely to continue in to the short-medium term.

Risk Scoring	Likelihood of risk occurring		4 (Likely)	<p data-bbox="955 499 1643 549"><u>What are we doing to reduce the risk?</u></p> <ul data-bbox="955 549 2178 863" style="list-style-type: none"> • We are continuing with our programme of service reviews, implementing recommendations to make a positive impact on our ability to meet customer demands, this has included:- <ul style="list-style-type: none"> • Restructuring our Planning Service with a separate Head of DM for South Hams and now aligning specific team members to meet the needs of South Hams • Appointing a Head of Revenues and Benefits to drive forward our improvement plans for this service • We are holding regular staff briefings and have recently held our first staff briefings since before the pandemic
	Impact	Financial	4 (Major)	
		Service Quality	4 (Major)	
		Reputation	4 (Major)	
		Legal / Regulatory	4 (Major)	
		Health and Safety	2 (Minor)	
		Morale / Staffing	2 (Minor)	



Current Update (August 2022) There have been a number of significant changes to our operating environment in recent months which has significantly increased the risk that we do not have sufficient staffing resource to meet the needs of our residents and communities. For South Hams these changes include responding to the Cost of Living crisis, supporting the Homes for Ukraine scheme and bringing our Waste, Recycling and Cleansing services back in house by October 3rd. We are also entering Autumn and there is the risk the Covid-19 (as well as other seasonal illnesses) reduces the availability of staff. Since April we have lost 281 working days to Covid-19 illness.

Recruitment of staff has been a significant challenge with many posts that we attempt to recruit to not being filled – current notable challenges include planning, legal and finance posts. We are working with other Councils and private sector organisations to address this shortage in the short -term and have commenced a review of our recruitment approach and reward strategy.

We continue to review our structures and resources to ensure we can best align to meeting the needs of our residents. In September we will launch our staff survey as part of our commitment to be a listening council and employer. The results of the survey will contribute to the development of an Organisational Development Strategy for the Council which will focus on ensuring that our staff have the skills, tools and motivation to succeed and deliver on our Better Lives for All ambitions.

Risk Direction



Risk Title: **Health and Wellbeing Service Provision**

Overall Scoring

What is the risk? The risk is that following the negative impacts to leisure centres as a result of Covid-19, leisure centres may now face further pressures due to the increased cost of living including through loss of revenue as residents consider where they can save money and through increased cost of operating the centres given the energy price increases and increasing inflation.

Risk Score (Current)

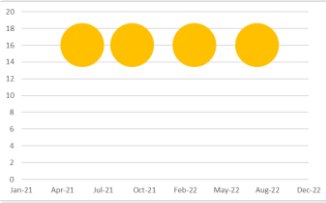


What could cause the risk to occur? This risk original escalated to the Strategic Risk register as a result of the Covid-19 pandemic forcing the closure of leisure centres, meaning a loss of income. The risk has now changed slightly and the main cause for it to remain on the strategic risk register is the risk that revenues reduce as the cost-of-living crisis deepens.

Likelihood 4 x Impact 4

Risk Scoring Page 250	Likelihood of risk occurring		4 (Likely)	<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> 1. Worked with Fusion Leisure to revise the management fee profile in response to the reductions in income seen through Covid-19 (agreed by Council in March 2022) 2. Continue to engage with Fusion to understand issues and support where possible 3. Continue to monitor local and national position (given that all leisure providers will be in the same position) 4. Promote active participation in sport and leisure through Council communication channels
	Impact	Financial	4 (Major)	
		Service Quality	2 (Minor)	
		Reputation	2 (Minor)	
		Legal / Regulatory	2 (Minor)	
		Health and Safety	4 (Major)	
		Morale / Staffing	2 (Minor)	

Risk Score History



Current Update (August 2022) As of July 2022, leisure centre memberships were at 80% Dartmouth, 77% Ivybridge, 83% Kingsbridge and 70% Totnes, compared to Pre-pandemic levels

The leisure sector is still facing difficult times following the recovery from Covid-19 in the operations of leisure centres. The energy crisis and the cost of living challenges has resulted in costs increasing and customers re-evaluating their memberships and usage levels, impacting on income levels for leisure operators.

The provision of leisure centres is a discretionary service. However the activities align with the Council’s corporate strategic plan – ‘Better Lives for All’ in providing quality services and community wellbeing. This includes increasing active participation in sport and leisure activities.

Risk Direction



Risk Title:	Business Continuity
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What is the risk?	The risk is that we do not develop and keep maintained robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems leading to inability to deliver key council services.
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What could cause the risk to occur?	Developing and maintaining robust Business Continuity Plans requires significant and sustained focus. During Covid-19 response, the Councils risk profile has changed as we have relied much heavier on working in different ways (for example more staff working from home the majority of time) and with significant pressures being placed on some of our key delivery partners/ contractors. Work is required to update our BCP's to the changing environment that we are operating in. We are also entering a period where extreme weather events increase the risk of a business continuity event triggering.
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Risk Scoring	Likelihood of risk occurring		3 (Possible)
	Impact	Financial	5 (Catastrophic)
		Service Quality	5 (Catastrophic)
		Reputation	4 (Major)
		Legal / Regulatory	2 (Minor)
		Health and Safety	3 (Moderate)
		Morale / Staffing	3 (Moderate)


What are we doing to reduce the risk?

- Having two HQ locations is main mitigating factor - however an outage of power/ICT at either location would lead to a serious disruption of service.
- Agile working further reduces reliance on two office buildings.
- Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident.
- Business Continuity plans have been updated - priority areas - ICT Networking - Payroll & Creditors Payments; other plans need to be made more robust – further work underway for the new year

Current update (August 2022)	<p>Positive progress has been made and we have increased the resilience of our business continuity arrangements with new hardware in place to enable a more stable IT environment and more frequent off-site backups.</p> <p>Cyber-security training has been rolled out to all employees and members so that everyone is better able to identify potential threats to our IT operating environment.</p> <p>Significant progress has also been made in updating our Business Continuity and recovery plan for our IT service, working with sector experts to ensure they are as robust as possible.</p>
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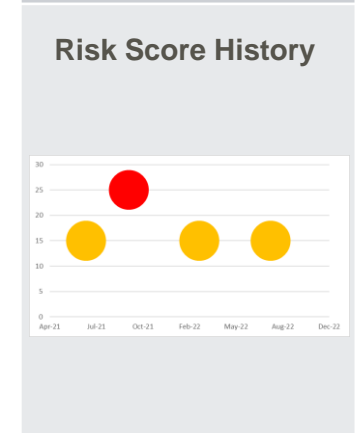
Overall Scoring

Risk Score (Current)



15

Likelihood 3 x Impact 5



Risk Direction



Risk Title:	Delivery of Waste and Recycling Service		
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Overall Scoring

What is the risk?	In July 2022, the decision was taken to end the agreement with our Waste and Recycling Services provider and return the service to an in-house one. The risk has therefore changed from the ability of our contractor to deliver our services to a risk around our ability to transfer the services back to an in-house arrangement.		
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Risk Score (Current)



What could cause the risk to occur?	The most likely cause of this risk occurring would be inadequate resourcing (either capacity or expertise) to deliver the transfer of services back into the Council on 3 rd October 2022 or have sufficient resources after the transfer to deliver the services.		
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Risk Scoring Page 252	Likelihood of risk occurring		3 (Possible)	<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> 1. Appointed a dedicated project manager to support the Head of Service with the co-ordination and management of the transfer of services back to the Council. 2. Developed a detailed project and resourcing plan with weekly project team meetings monitoring and managing progress 3. Continuing to engage with the existing contractor to ensure relevant and timely transfers of data and knowledge to enable a successful transfer 4. Developing a comprehensive Communication Plan to manage expectations of Day one service 5. We are working with the contractor, HR and agencies to ensure sufficient staff transfer to the council and putting in place contingency plans for key roles. 6. Developing risk assessment and business continuity plans for the delivery of services. 7. Delivering staff engagement plan and developing a robust workforce strategy to retain the workforce 	
	Impact		Financial		4 (Major)
			Service Quality		5(Catastrophic)
			Reputation		5 (Catastrophic)
			Legal / Regulatory		4 (Major)
			Health and Safety		3 (Moderate)
			Morale / Staffing		4 (Major)

Likelihood 3 x Impact 5

Risk Score History

No history – previous risk was about contractor ability to deliver

Current Update (August 2022)	Since the decision was made to end the current contract and bring the service back in-house, a project team has been working (under the direction of Director for Customer Service Delivery and Head of Service-Waste & Recycling) to develop and manage a project plan and oversee the transfer and safe operation of the service. Regular meetings are held to manage the progress and issues escalated to the Senior Leadership Team where required. A full update on the progress will be set out to Executive at their meeting on 15 th September 2022.		
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Risk Direction

Risk Title:	Cost of Living Pressures
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Overall Scoring

What is the risk?	The risk is that the significant increase in the cost of living results in many more residents requiring urgent support to meet their basic needs and to keep on top of there essential bills. The increase in residents requiring support will put pressure on Council services – particularly Housing, Revenues and Benefits as well as for some of our key partners such as Citizens Advice and Fusion Leisure. Additionally, as residents have less disposable income, we are likely to see an impact on businesses across the district.
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<p>Risk Score (Current)</p> <div style="text-align: center;">  <p>20</p> </div> <p>Likelihood 5 x Impact 4</p>
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What is causing the risk?	There has been a marked increase in the cost of living, largely driven by an increase in energy bills (by 54% since April and a further predicted increase from October). Inflation is at a 40 year high and forecast to increase further in the coming months. This will lead to a reduction in the living standards of all residents within the District.
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Page 253	Likelihood of risk occurring	5 (Almost Certain)	<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> We have taken steps to quickly progress payments through the government Council Tax energy rebate scheme and launched a discretionary scheme for those households not eligible for the main scheme Launched a Household Support Fund to provide emergency funding to households that are not able to meet their essential bills Made one-off payments of £90 to all pensioners who are in receipt of Council Tax discount 	
	Impact	Financial		4 (Major)
		Service Quality		4 (Major)
		Reputation		4 (Major)
		Legal / Regulatory		3 (Moderate)
		Health and Safety		3 (Moderate)
		Morale / Staffing		4 (Major)

<p>Risk Score History</p> <p>New risk – no history available</p>

Current Update (August 2022)	There has been a significant escalation in the cost of living in the last few weeks with OFGEM announcing on 26 th August an increase in the energy price cap of £1,578. The Council is currently developing proposals for how we can support our residents and these will be set out to Executive at their meeting on 15 th September 2022.
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<p>Risk Direction</p> <p>New risk – no history available</p>

Risk Title:	Homes for Ukraine Placements		
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What is the risk?	The risk is that the Council is not able to meet the longer-term housing needs of Ukrainians arriving in the district through the Homes for Ukraine scheme (or other routes) resulting in significant need for temporary accommodation or consideration of placements out of the area.		
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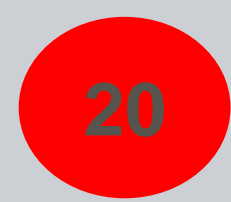
What is causing the risk?	The Council has so far welcomed 155 Ukrainians to South Hams in 66 family groups, as at 25 th August, we are anticipating further arrivals in the coming months. There has been a fantastic level of response from South Hams residents opening their doors to Ukrainians that are fleeing the war, but we are already seeing a number of Guest/Host relationships breaking down for various reasons. It is anticipated that there will be further breakdowns in the coming months as placements come to the end of the initial 6 months of the scheme but also due to increased cost of living for hosts resulting in maintaining a larger number of individuals in their homes much more expensive that anticipated and far over and above the £350 per month ‘Thank you’ payment.		
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What is the level of risk? Page 254	Likelihood of risk occurring		5 (Almost Certain)	<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> 1. Developed a dedicated team to work with hosts and guests to try to ensure as many placements as possible are maintained. 2. Recruited 3 x case workers to undertake home visits 3. Begun to prioritise the property checks of potential ‘rematch’ hosts, meaning that where a placement breaks down we have a ‘pool’ of alternative hosts available 4. Continued work with Team Devon to develop longer term proposals
	Impact	Financial	4 (Major)	
		Service Quality	4 (Major)	
		Reputation	4 (Major)	
		Legal / Regulatory	3 (Moderate)	
		Health and Safety	3 (Moderate)	
		Morale / Staffing	4 (Major)	

Current Update (August 2022)	<p>The Council is continuing to work closely as part of Team Devon to monitor the situation and our new caseworkers started on 5th September 2022. This will significantly increase our capacity to work with hosts and guests to maintain placements wherever possible.</p> <p>An in-depth report is due for consideration by Executive at their meeting on 15th September setting out the steps we are taking to respond to the needs of our Ukrainian guests.</p>		
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Overall Scoring

Risk Score (Current)



Likelihood 5 x Impact 4

Risk Score History

New risk – no history available

Risk Direction

New risk – no history available

Proposed Workplan for the Audit & Governance Committee for the 2022/23 Financial Year

Committee Meeting Date	Agenda Items
20 October 2022	<ul style="list-style-type: none"> i) Grant Thornton update report ii) Annual Ombudsman Letter. iii) Treasury Management Mid -Year report 2022/23 iv) Strategic Debt update
24 November 2022	<ul style="list-style-type: none"> i) Grant Thornton Report: Accounts – the Audit Findings for South Hams District Council; ii) Grant Thornton Report: Auditor’s Annual Report for 2021/22 iii) Audited Annual Statement of Accounts 2021/22 and Audited Annual Governance Statement; iv) Internal Audit Progress report 2022/23
5 January 2023	<ul style="list-style-type: none"> i) Grant Thornton update report ii) Update on Progress on the 2022/23 Internal Audit Plan; iii) Strategic Risk Update;
9 March 2023	<ul style="list-style-type: none"> i) Grant Thornton – External Audit Plan 2022/23 ii) Grant Thornton Update Report; iii) Grant Thornton – Informing the Risk Assessment for 2022/23 (Planning for the 2022/23 Accounts); iv) 2023/24 Internal Audit Plan; v) 2023/24 Capital Strategy, 2023/24 Investment Strategy and 2023/24 Treasury Management Strategy; vi) Draft Budget Book 2023/24; vii) Cost Methodology for Shared Services 2022/23; viii) Update on Progress on the 2022/23 Internal Audit Plan; ix) Strategic Debt update

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