



**South Hams District Council
Draft Statement of Accounts
2022/2023**



**South Hams
District Council**

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Statement of Accounts 2022/23

The Statement of Accounts 2022/23 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 2022/23 Statement of Accounts by Councillor Julian Brazil, Leader of South Hams District Council



As the newly elected Leader of the Council, I am pleased to welcome you to the 2022/23 Statement of Accounts for South Hams District Council. In 2022 we have had a cost of living crisis, with high inflation and households facing higher bills across the board and in particular in relation to energy. The Council has supported our communities and residents during these difficult economic circumstances.

In October, the Council agreed a cost of living action plan which has seen us work with partners to publish weekly newspaper articles signposting support, launching a scheme providing electric blankets and slow cookers to residents and acting quickly to process £4.2million of council tax energy support payments of £150 to 28,175 households in the District. We have also developed support programmes for those who have fled the war in Ukraine, by supporting 220 guests from Ukraine who have arrived in the District as part of the Homes for Ukraine scheme.

The Council took much pride in the opening of the Dartmouth Health Hub on 9th May 2023 where we have worked in partnership with the NHS Trust to deliver a modern GP facility for local residents. The Hub will provide access to a broad range of Health and Wellbeing Services under one roof, including community nurses, therapists, Dartmouth Caring and Wellbeing Pharmacy.

During 2022/23 we also received confirmation that the District would benefit from £1million of UK Shared Prosperity Funding. This funding will enable the delivery of a range of projects to encourage people to use sustainable travel for work and leisure as well as providing support and advice to businesses on decarbonising their activities.

Last year also saw the Council take the waste service back in house in October 2022 and performance has really improved and I would like to thank the whole team for all their hard work in making this happen. In the Autumn we will be rolling out a weekly recycling service for all residents which will help us to further improve recycling across the South Hams.

Following the recent elections, we now have the chance to start enacting some of the exciting and ambitious plans and policies that we have. Our vision for the South Hams is a place where people and nature can thrive, resilient in the face of an increasingly uncertain future. A new Corporate Strategy will be developed later this year setting out how we will deliver on these ambitions.

The housing crisis continues to be a cause of frustration for us and a significant concern for many local people. The provision of affordable and social housing will be a top priority for the Council moving forward. The Council is building eight affordable homes at St Ann's Chapel near Bigbury which will be completed this year.

We will also provide leadership on tackling environmental concerns and take direct action to tackle climate change and biodiversity loss. At the heart of this is the need to work in partnership with communities and to involve them in all aspects of the work of the Council and the journey ahead. We have finished the year with our finances reporting a small underspend of £57,000 against budget (0.5% of a £10.464m net budget for 2022/23) which is a good position to be in moving ahead to the future.

Councillor J Brazil, Leader of the Council

Foreword by the Chief Executive



There's been a huge amount on the agenda this year; we've been working hard to respond to the housing crisis, continued to take action on climate change, worked hard to support local business and the economy with securing UK Shared Prosperity Funding, and offered all the support we can to residents to help them through the cost-of-living crisis that we are all facing.

We've also played our part in successfully implementing the Homes for Ukraine scheme across the District and have progressed a number of key construction projects including the new harbour office and workshops at Batson and affordable homes at St Ann's Chapel.

In January 2023, the Council released its plans to spend £1m of UK Shared Prosperity funding to help support the economy and reduce carbon emissions across the District. The Council has agreed to the commissioning of a Local Cycling and Walking Infrastructure Plan to improve both walking and cycling routes across South Hams. This will inform the Council's next steps in developing more inclusive and eco-friendly travel provisions and infrastructure. The Council's roll-out of its specialist advisors programme will see wider business support and consultancy across the South Hams business community. Partnerships will be developed across the local agriculture sector, knowledge organisations, businesses and tech companies to develop a community of research and development in order to ensure the culture of regenerative farming. Feasibility studies and future planning of local marine activities and provisions will help to support the decarbonisation of the local marine economy.

During the year, £0.9m has been invested in properties across the District through the Green Homes Grant scheme, which uses Government funding to install energy efficiency measures for households on low incomes. This has seen the installation of 16 air source heat pumps, 63 solar panels, 8 storage heaters and 10 property insulations over 85 properties.

We have been unrelenting in seeking and attempting to deliver efficiencies and improve services. The Council has taken a hard look at where it can save money to keep balancing the books and has a track record of strong financial management over many years.

Our strategic financial planning enables the Council to make fully informed decisions and to deliver the quality of services that our residents, visitors and businesses have every right to expect. The Council has once more managed to balance its budget exceptionally well, whilst continuing to provide a level of good service to residents of the District. Our staff have continued to impress me with their efforts to support the people and communities of South Hams. There's more to do, including rolling out the Devon Aligned Service for waste in the Autumn.

Finally, I am immensely proud that South Hams and West Devon Councils won the category of 'Senior Leadership Team of the Year' at the MJ Awards in June. It is great recognition for South Hams and West Devon for the work we're doing to make a difference in our communities and for everything that our Councillors and staff achieve together as one team.

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 2023 and how the Council has performed against the budget set for 2022/23
- 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.

The current economic climate has seen the Bank of England increase the Bank Base rate to 5%, the highest level in 15 years, in order to tackle surging inflation. This follows a difficult few years, with the COVID 19 pandemic and a rise in energy and fuel costs and higher inflation and interest rates. This has put added pressure on the finances of Councils up and down the country, including South Hams District Council.

Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response and recovery. Key to the authority's financial resilience are our reserves, which are at a prudent level. We continue to support our residents and businesses through this period of uncertainty.

Through its Council Tax Reduction scheme, the District Council will ensure that those who are in financial hardship are able to pay less Council Tax, while receiving the full range of support services. At the moment, the Council is supporting 4,900 households and has awarded £5.6m to reduce residents' bills through the scheme. To help prevent further worry, financial advice is also offered. In April 2023, the Council has administered a new Government business rates relief scheme which has provided vital support to a further 1,200 businesses in the retail, leisure and hospitality sector, helping them respond to adapting consumer needs. It is hoped that this support will be a boost to our high streets and town centres.

The Council is on a stable financial footing and this will help the Council manage the uncertainty of the future reforms of Local Government finances such as the Fair Funding Review, New Homes Bonus scheme and the business rates baseline reset. There is no indication yet of the detailed local government funding levels for 2024/25 and beyond and therefore there are many uncertainties in preparing for the challenges we know we will face in the near future.

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 2022/23 budget for South Hams was £10.464 million. A surplus of £57,000 means that the actual spend was 0.5% less than the budget. This saving of £57,000 will go into the Council's Unearmarked Reserves which now stand at £2.11 million.* The main components of the General Fund budget for 2022/23 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)	10,588	11,571	983
Parish Precepts	3,134	3,134	-
Interest and Investment income	(123)	(1,146)	(1,023)
Amount to be met from Government grants and taxation including parish precepts	13,599	13,559	(40)
Financed from:			
Business Rates (baseline funding level)	(1,928)	(1,928)	-
Business Rates (achieved over baseline funding level)	(346)	(346)	-
Business Rates Pooling Gain	(300)	(300)	-
Council Tax (including parish precepts)	(10,196)	(10,196)	-
Surplus on Collection Fund	(181)	(181)	-
Rural Services Delivery Grant	(428)	(428)	-
Lower Tier Services Grant	(87)	(88)	(1)
Services Grant	(133)	(133)	-
Business Rates Levy Surplus Grant	-	(16)	(16)
SURPLUS FOR 2022/23	-	(57)	(57)

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 2022	(2,056)
Surplus for the 2022/23 financial year	(57)
General Fund Balance (un-earmarked revenue reserve) at 31 March 2023	(2,113)

*On including the earmarked reserves, Total General Fund Reserves are £17.5 million.

4. **The 2022/23 budget for South Hams was £10.464 million but the actual spend was 0.5% lower, providing an underspend of £57,000 for the year, as set out within these Accounts.**
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 2022/23 financial year.

	£000
Total Comprehensive Income and Expenditure Statement	(53,758)
Surplus on the revaluation of Property, Plant and Equipment	4,140
Deficit on the revaluation of Financial Instruments	(979)
Remeasurements of the net defined benefit pension liability	57,215
Transfers from earmarked reserves	(5,415)
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	(3,246)
Adjustments primarily involving the Capital Grants Unapplied Account	165
Adjustments primarily involving the Capital Receipts Reserve	149
Adjustments primarily involving the Pensions Reserve	(4,432)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	11
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	6,155
Adjustments primarily involving the Accumulated Absences Account	(62)
Surplus for the 2022/23 financial year	(57)

6. A summary of the main variances to budget in 2022/23 is provided below:

ANALYSIS OF VARIATIONS 2022/23 (% column shows variation against budget)	£000	% variation
Reductions in expenditure/additional income		
Treasury Management Income – extra investment income on the Council's investments following the recent successive increases in interest rates to 4.5% as the Bank of England looks to tackle surging inflation.	(1,023)	831.7%
Car parking pay and display income and fine income – additional net income from extra usage, especially in the coastal car parks and extra fine income of £88,000. This equates to 14.5% of the total income budget of £3.162m.	(460)	14.5%
Employment estates – additional income due to high occupancy rates and regular rent reviews.	(280)	31.6%
Dartmouth Lower Ferry - extra income of £209K (26%) has been achieved against the budgeted income of £0.82m – this has offset additional running costs of the ferry as shown below.	(209)	25.3%
Increases in expenditure/reduction in income		
National pay award – the national employer's pay offer for 2022/23 of £1,925 on all NJC pay points was significantly higher than the budgeted provision of 3%. The pay award resulted in additional salary costs.	410	221.6%
Planning income shortfall – Planning income is down by £350,000 (32%) against the budgeted income target of £1.08million.	350	32.3%
Additional salary and agency costs (partly in the waste and legal teams). The Council also shares its staffing workforce with West Devon BC. In 2022/23 there was a higher apportionment of staff costs of £86K to South Hams DC due to the Council bringing the waste service back in house from 3 October 2022 (as per the Audit Committee report on 9th March 2023).	220	2.9%
Dartmouth Lower Ferry – fleet refurbishment, equipment costs and additional fuel costs – offset by additional ferry income of £0.2m as shown above.	187	166.4%
Waste contract inflation – the actual rate of inflation on the contract was 12.2% and was significantly higher than the budgeted provision of 3%. Contract inflation was based on fuel inflation, wage inflation and consumer price index, all of which were higher than when the budget was set.	180	138.5%
Waste – additional vehicle repairs and maintenance costs due to an ageing fleet (new vehicles are being purchased in 2023/24).	79	31.9%
Higher inflation on utility costs on all Council services – An increase in utility (mainly electricity) prices due to the rise in energy costs and inflationary pressures.	155	54.5%
Additional Insurance costs – higher insurance costs which are inflation linked and a significant amount is linked to bringing the waste service back in house in Oct.	130	41.4%
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.	92	16.8%
Homelessness costs – additional expenditure on temporary accommodation over and above what is claimable through the DWP subsidy. This is due to a number of factors beyond the Council's control such as the housing crisis and a lack of accommodation.	90	37.3%
Other small variances	22	-
TOTAL SURPLUS FOR 2022/23	(57)	(0.5%)

The 2022/23 Budget for South Hams was £10.464 million but the actual spend was 0.5% lower, providing a surplus of £57,000 as shown above.

KEY AREAS TO NOTE FROM THE 2022/23 STATEMENT OF ACCOUNTS

Pension Asset

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. The Net Cost of Services within the Comprehensive Income and Expenditure Statement includes current service costs and past service costs. Net Operating Expenditure includes the Council's share of the return on pension's assets and the net interest cost of the Council's liability due to under-funding.
8. During the autumn of 2022 the Actuary undertook the latest 3-yearly review of the Pension scheme and costs; with the next review due in 2025/26. The Local Government Pension Scheme has been reviewed nationally to ensure it meets the objectives of being viable and acceptable to both employees and the employer.
9. As at 31 March 2023 the Council has a Pension Asset of £0.162million. This is significantly lower than the previous year (pension liability of £52.621 million). This is as a result of the actuary reducing life expectancy projections and an increase in interest rates affecting the discount rate for liabilities. The Actuary has estimated a net surplus on the funded liabilities within the Pension Fund as at 31 March 2023 of £162,000 (a pension asset), which compares to a deficit of £52.6 million as at 31 March 2022. The position is derived by calculating the pension assets and liabilities at 31 March 2023. This large reduction in the pension liability for South Hams is mainly due to a change in financial assumptions (£56.1 million). This relates to an increase in the discount rate from 2.6% at 31 March 2022 to 4.8% at 31 March 2023. Accounting regulations prescribe that accounting valuations of pension liabilities should use a discount rate based on corporate bond yields. As interest rates have gone up, so have corporate bond yields and therefore the discount rate applied to our accounting liabilities.
10. The Council's liability relating to the Devon County Council defined benefit pension scheme is included within the Balance Sheet and further details are shown in Note 35. The pension asset is a snap-shot valuation in time, based on assumptions. The true value is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term.

11. The amount the Council contributes to the Pension Fund is re-assessed every three years; the most recent review was in the autumn of 2022 and took effect from April 2023. The Council has adjusted its pension contributions in line with the Actuary's recommendations, which have been factored into the Medium Term Financial Strategy (MTFS).

Business Rates

12. 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.
13. 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.
14. In 2022/23 there has been a £1,485,000 reduction in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £594,000). The balance on the Business Rates Collection Fund at 31 March 2023 is a surplus of £5,957,000 (£6,351,000 deficit in 2021/22). South Hams District Council's share of the surplus is 40% (£2,383,000).
15. 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 2022/23 the balance of the Business Rates Retention Scheme (BRRS) earmarked reserve reduced by £2.57m to £1.98m as at 31 March 2023. This included a transfer of £1.45m from the Business Rates Retention Earmarked Reserve to support the costs of bringing the Waste and Recycling Service back in house from October 2022. 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.

16. In addition, a new earmarked reserve was created in 2020/21 called the s31 Compensation Grant (Business Rates) Reserve. This was set up to hold the s31 grant received in 2020/21 and 2021/22 totalling £8.73m to offset the business rate reliefs given to businesses during the pandemic and the 2020/21 Tax Income Guarantee s31 grant for Business Rates (£0.79m). Under current Collection Fund accounting rules, the s31 grants received are not discharged against the Collection Fund deficit until the following year. In 2021/22 £5.25m s31 grant was discharged to the Business Rates Collection Fund and a further £3.07m in 2022/23. This compensation grant will continue to be applied to the Collection Fund to smooth the impact of the Business Rates deficit. The balance on this reserve as at 31 March 2023 is £1,194,000.

Waste, recycling, street and toilet cleaning services

17. Throughout 2022/23, the Council continued to address issues with its Waste and Recycling service, provided by an external contractor, FCC,
18. 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.
19. Both parties agree that the past few years have presented a number of extremely challenging circumstances.
20. 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 worked closely together to ensure a smooth transfer of the services. The services returned to the full control of the Council on 3 October 2022.
21. Since that point, performance has improved significantly. As reported to the Executive on 13th April 2023, there has been a fundamental improvement in performance and in February 2023, for the first time in over three years, the service has achieved the national industry standard performance target of no more than 80 missed bins per 100,000 collections. The Council also took steps to launch a chargeable garden waste service from March 2023. The focus is now on continuing to improve the service and deliver a Devon Aligned Service for all properties in the district not already on the scheme. It is anticipated that this will start in October 2023.

Trading Company

22. South Hams District Council and West Devon Borough Council set up a trading company, Servaco Ltd, 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. At Council on 15 December 2022 Members approved to close down this dormant company, Servaco Ltd with effect from 31 March 2023.

Sherford Community Land Trust Limited

23. 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 it does not have enough influence to be an associate.

Housing

24. 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 are being 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.
25. The Council's determination to do everything in its power to ease the area's housing crisis is paying off, with new affordable homes being built over the last four years. Since 2019, 619 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.

26. The Council is also accessing the Government Local Authority Housing Fund and S106 contributions to purchase up to 7 properties initially to provide temporary accommodation for Ukrainian refugees arriving in the UK under the Homes for Ukraine Scheme. It is anticipated these purchases will be undertaken during 2023/24.

Borrowing

27. In 2022/23 the long term borrowing of the Council reduced from £14,284,000 (21/22) to £13,825,000. Short term borrowing increased from £96,000 to £459,000. This is due to the profiling of the debt repayments where long term borrowing has moved to short term borrowing. Total borrowing as at 31 March 2023 has reduced from £14,380,000 to £14,284,000. No further external borrowing took place during 2022/23.

Capital spending

28. The Council spent £9.3m on capital projects in 2022/23. The main areas of expenditure were as follows:
- Dartmouth Health and Wellbeing Hub (£3.83m)
 - St Ann's Chapel housing scheme (£1.56m)
 - residential renovation grants including disabled facilities grants (£1.14m)
 - Green Homes grants (£0.91m)
 - Batson Harbour Depot/Commercial Units (£0.78m)
 - Affordable Housing (£0.28m)

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

29. At 31 March 2023 the Council had investments of £1.5 million with the CCLA Property Fund and £2 million with the CCLA Diversified Income Fund.

30. 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.

31. A summary of the position of these equity instruments as at 31 March 2023 is shown below:

	Purchase cost	Fair Value at 31 March 2023	Movement in Financial Instruments Revaluation Reserve 2022/23
	£000	£000	£000
Equity Instrument			
CCLA Local Authorities Property Fund	1,500	1,314	(259)
CCLA Diversified Income Fund*	2,000	1,312	(720)
TOTAL	3,500	2,626	(979)

*The CCLA Diversified Income Fund experienced a downward revaluation of £720,000 in 2022/23. The outlook for global economic growth continues to be weaker. Inflation is likely to remain above target rates for some time, interest rates in most areas will still be negative in real terms. This backdrop placed some downward pressure on investments during 2022. However, the CCLA fund continued to outperform the benchmark. CCLA will maintain the portfolio's emphasis on real assets such as good quality equities and alternatives, adding selectively to fixed income as attractive opportunities are identified to support continued performance for this long term investment.

FINANCIAL NEEDS AND RESOURCES

32. 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.
33. General Fund reserves (which include earmarked reserves) have decreased by £5.358m from the preceding year and stand at £17.537 million at 31 March 2023. This is due to a reduction in Earmarked Reserves of £5.415m. This follows the application of some of the s31 Business Rates compensation grant (£3.07m) received in 2020/21 and 2021/22 which was held in the s31 Compensation Grant Business Rates Reserve.
34. The total Earmarked Reserves balance at 31 March 2023 of £15.424m includes £1.19m 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 2023/24 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.
35. The General Fund Balance (un-earmarked reserve) has increased by £57,000 in 2022/23 and totals £2.113 million following the underspend from 2022/23 of £57,000. 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.
36. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2023 amounts to £3.33 million compared to £3.45 million at the end of the previous year.
37. 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.

38. 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 position in the balance sheet has increased the reported net worth of the Authority by £162,000 million at 31 March 2023. 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.
39. It is important to gain an understanding of the accounts to appreciate the nature of this reported position, 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)

40. 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 2022/23.

Cost of Living Response

41. During 2022/23, the increasing cost of living has remained a real issue for South Hams communities.
42. In October 2022, the Council adopted an action plan for supporting residents which included:-
 - a. Promoting support and advice available through online and printed media campaigns with partners such as Citizens Advice and local community energy groups
 - b. Launching grant fund schemes to enable local community groups to provide direct support for the health and wellbeing of residents
 - c. Ensuring that all Government funding was quickly processed to those who needed it
 - d. Extending the financial support for Citizens Advice to support an increase in capacity to support more residents.

Corporate Strategy – Better Lives for All

43. During the year we continued to deliver against Council agreed priorities as set out in our Corporate Strategy, Better Lives for All.

44. Good progress was made and the year 3 delivery plans adopted by Council in March 2023.



45. Following elections in May 2023 and the formation of the new Council, work has already commenced to begin to develop our next corporate strategy, responding to the changing needs of our residents and communities. It is anticipated that this will be adopted in Autumn 2023.

Organisational Development Plan

46. To ensure that the Council continues to have sufficient, and aligned resources to deliver on its corporate priorities, during 2022/23 we developed and began to implement an Organisational Development Plan. This plan focuses on three core strands of activity:-



47. The plan has a number of specific and measurable actions and will be a significant focus for delivery over the coming two years.

LOOKING FORWARD TO THE FUTURE AND NEXT STEPS

Continuing to respond to the housing crisis

48. The Council has set out its priorities for this next four year term with a particular focus on ensuring housing that meets the needs of local residents.
49. On 28 June 2023, the Executive considered and agreed a report that updates on steps the Council proposes to take to support social housing residents take action against their landlord where they have highlighted significant issues but there has been no progress to resolve.
50. We will finalise the development of the affordable housing in St Ann's Chapel and progress plans to purchase properties under the Local Authority Housing Fund, initially as temporary accommodation for Ukrainian refugees arriving in the UK under the Homes for Ukraine Scheme.

Climate Emergency Response

51. This year we will be in the fourth 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. We will also take steps to form a Climate and Biodiversity Advisory Panel, working closely with our key partner, Sustainable South Hams.

Developing our Corporate Priorities

52. Discussions are already underway between the Senior Leadership Team and Executive Lead Members to develop the next iteration of the Council's Corporate Strategy.
53. The development of the new strategy will be undertaken throughout the summer and into the Autumn, ensuring that it aligns to our 2024/25 budget setting process and Medium Term Financial Strategy updates.

Our financial future

54. The financial standing of the Council is secure in the immediate future, but there is still much work to do to ensure the long term financial sustainability of the Council. The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2025/26 at the earliest. 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.
55. 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 and funding reforms.

Going Concern

56. 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.
57. 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.
58. 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 2022/23 are prepared on a going concern basis.

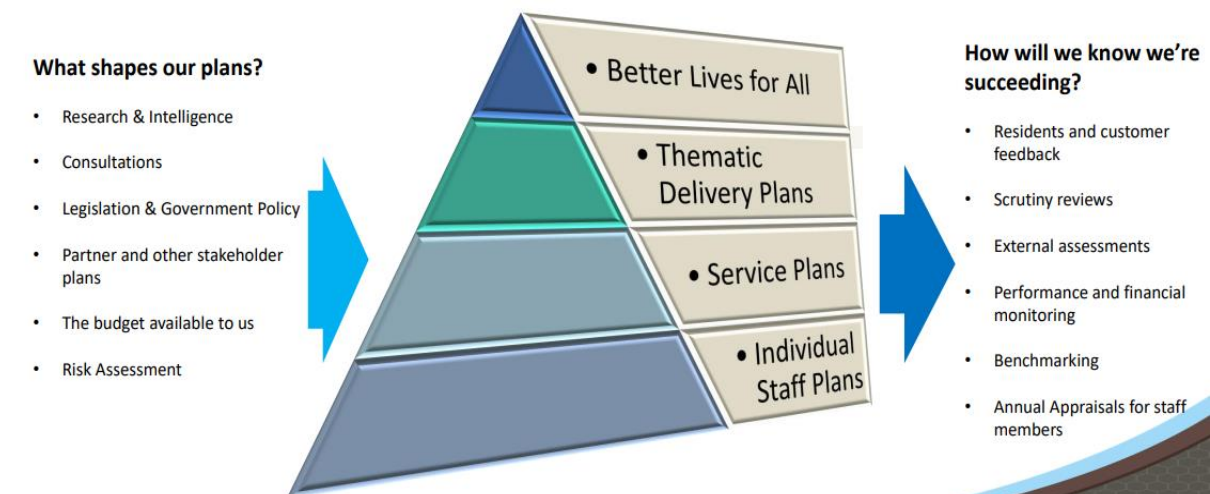
Issue of the Accounts

59. The Corporate Director for Strategic Finance authorised the unaudited Statement of Accounts 2022/23 for issue on 30 June 2023. Events taking place after this date are not reflected in the financial statements or notes.

CORPORATE PERFORMANCE FOR 2022/23

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



Highlights of activities delivered under each theme during the year are set out below.

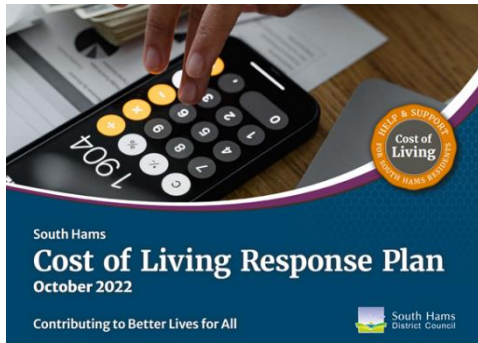
Adapting and Mitigating Climate Change

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 including:-

- Carrying out a public consultation which informed the development of our Electric Vehicle Charging strategy.
- Worked with other organisations in Devon to contribute to the development of the Devon Carbon Plan – endorsing it at Council in December 2022.
- Secured funding through the Public Sector Low Carbon Skills fund to produce a fully costed decarbonisation plan for our Leisure Centres.
- Awarded over £55,000 to groups working with hard to reach and disengaged groups through our climate engagement fund, with a further £100,000 awarded to support infrastructure projects such as e-bikes in Totnes and Dartmouth.
- Utilising Green Homes Grants, installed 16 air source heat pumps, 63 solar panels, 8 storage heaters and 10 property insulations all to increase energy efficiency of properties in the District.

Strengthening Community Wellbeing

There is no doubt that this year has been another challenging year for our residents, as we've emerged from two years of varying restrictions from the Global Pandemic, we're now all facing continuing increase in the cost of living. Many residents have also stepped up this year to support Ukrainians fleeing war. Specific actions delivered this year include:-



- Quickly acting to process £4.2m of Government energy support payments of £150 to 28,175 households in response to the Cost of Living crisis.
- Awarding £40,000 to community groups delivering projects through the winter focused on the health and wellbeing of residents.
- Delivered 52 disabled facilities grant projects enabling residents to stay in their own homes.
- Allocated £475,000 of S106 contributions to community facilities projects.

Improving Homes

In September 2021, the Council declared a housing crisis. South Hams has seen over the past few years, issues with affordability, availability of properties and a huge increase in short term holiday lets. The level of second home ownership in South Hams means that house prices have been pushed upwards, hugely problematic for our younger generation and first-time buyers. The Council's 12-point action plan to tackle the crisis has helped see a significant improvement in addressing these issues. From 2019 to date, 619 new affordable homes have been delivered in South Hams. This is thanks to the great working relationships we have with our registered provider partners. More new homes are due to be completed at Sherford and Ivybridge at the end of March and work continues to offer even more new homes in the future.



Specific achievements during the year include:

- Progressing build of 8 affordable homes at St Ann's.
- 15 Housing Association tenants being supported in to smaller properties as part of our 'downsize' scheme.
- Purchased two properties for housing first to support rough sleepers into temporary accommodation.
- Agreed an updated homelessness strategy setting out how we will reduce homelessness in the district.

Thriving Economy

During this year we have taken steps to secure funding through the UK Shared Prosperity Fund to support businesses with a number of projects focused on supporting them to decarbonise their activities – particularly in the marine and construction sectors. This year we also:-

- Progressed plans for a Freeport for South West Devon and Plymouth.
- Agreed a new business rates relief scheme which will provide vital support to a further 1,200 businesses in the retail, leisure and hospitality sectors which will be implemented on 1st April 2023.



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. Specific actions during this year include:-

- Supported the making of neighbourhood plans for Frogmore & Sherford, Modbury, Kingsbridge, West Alvington and Churchstow & Dartmouth.
- Secured £485,000 of Government funding to help develop a more accessible and integrated Joint Local Plan using technology for better engagement



- Adopted the Plymouth and South West Devon Climate Emergency Planning statement – setting out new planning requirements for developments to minimise carbon emissions.
- Progressed with a new harbour office and marine business units at Batson Creek.

Quality Council Services

This year has again seen the council and its services adapt quickly to ensure that the district was supported to meet challenges, in particular the significant increases in the cost of living and bringing our waste service back under the direct control of the council. Other activities during the year include:

- Carrying out a refit of our Dartmouth Lower Ferry – a vital part of ensuring we're ready for a busy Summer 2023.
- Increased how much a residents can earn while still accessing Council Tax reduction – during the year we supported 4,999 working age and pensioners with CT reduction.
- Extended funding for our key partners such as Citizens Advice and Community Transport schemes for a further two years in recognition of the key role they play in supporting our residents in particular in respect of support for Cost of Living.



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 & Governance Committee on 9th March 2023 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 in March 2023:

Risk Title:	Adherence to Medium Term Financial Strategy		
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.		
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><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> 1. 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. 2. 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. 3. SLT engaged in the development of the MTFS.
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 (March 2023)	<p>The Executive considered the Medium Term Financial Strategy for the Council in September 2022. The Council has continued to work in partnership with West Devon Borough Council which has allowed South Hams to achieve annual savings of £3.9 million and more importantly protect all statutory front line services. Between both Councils the annual shared services savings being achieved are over £6 million per annum. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.</p> <p>We had expected a longer term financial settlement to be made in December 2022 however Government again made only a single year settlement but with a commitment for consultation on further funding reforms to come forward during 2023.</p> <p>As at the update to Executive in March 2023, the Council is forecasting a budget surplus for the current (22/23) financial year of £127,000 – or 1.2% of our annual budget.</p> <p>In February 2023, Full Council considered the proposals for a balanced budget for 2023/24</p>		

Risk Title:	Inadequate Staffing Resource		
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.		
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 likely to continue in to the short-medium term.		
Risk Scoring	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. Continuing to review services and update service plans to ensure that we can meet future demand 2. Reviewing our recruitment campaigns – ensuring that they are effective and targeted 3. Filling key roles with temporary resource to ensure services can continue to be delivered effectively while we progress with the recruitment of permanent employees 4. Developing plans for ‘grow our own’ talent 5. Identifying local recruitment events with a view to attending and highlighting roles available within the Council 6. Assessing the ‘offer’ to employees with other similar organisations
Impact	Financial	4 (Major)	
	Service Quality	4 (Major)	
	Reputation	4 (Major)	
	Legal / Regulatory	4 (Major)	
	Health and Safety	2 (Minor)	
	Morale / Staffing	4 (Major)	
Current Update (March 2023)	<p>The Council currently continues to experience recruitment and retention challenges. In February 2022, the Council introduced a market supplement policy that enables an enhancement to be made to the salary of certain roles in accordance with specified qualifying criteria. All enhancements are initially for a period of 2 years and are kept under review. The Council also undertook a job evaluation exercise on all principal professional and technical roles (level 4) and, with a new criterion that looked at the difficulty in attracting candidates for vacant roles and retaining existing employees. As a result, it is proposed to implement a new pay band for senior, professional and technical roles (level 4B) and slight changes at the top of the salary range for senior and principal officers at Levels 5 and above. A report on this matter will be considered by Executive on 2nd March 2023.</p> <p>The recent staff survey, while reasonably positive, highlighted employees had particular concerns around pay. The changes to pay and grading identified above are also intended to demonstrate a positive response to the genuine concerns of staff facing cost of living pressures. Alongside this a comprehensive organisational development plan has been developed to ensure that the Council makes the best ‘employment offer’, with an end-to-end approach covering recruitment, training and development, talent management and progression, to make us an employer of choice.</p>		

Risk Title:	Health and Wellbeing Service Provision			
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.			
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.			
Risk Scoring	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. 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 Feb 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)		
Current Update (March 2023)	<p>The likelihood of this risk occurring has now increased to '5' as leisure Services nationally are now being significantly impacted by the increases to energy costs and other supplies and services, with the issue being further compounded as individuals consider their own levels of expenditure and focus on essential spending – with discretionary spending on items such as leisure being areas where individuals consider making savings.</p> <p>The Council continues to regularly meet with the Chief Executive of Fusion Leisure to understand the impacts. We are actively taking steps to support fusion progress plan for the decarbonisation of its sites which will, longer term, result in a reduction of energy costs – although does not address the immediate impacts.</p>			

Risk Title:	Business Continuity		
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.		
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.		
Risk Scoring	Likelihood of risk occurring	3 (Possible)	<p><u>What are we doing to reduce the risk?</u></p> <ul style="list-style-type: none"> • 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
Impact	Financial	5 (Catastrophic)	
	Service Quality	5 (Catastrophic)	
	Reputation	4 (Major)	
	Legal / Regulatory	2 (Minor)	
	Health and Safety	3 (Moderate)	
	Morale / Staffing	3 (Moderate)	
Current update (March 2023)	<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. 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> <p>An officer planning day was held in January to develop an update business continuity planning framework and to lead business continuity planning moving forward. We have also undertaken a successful power-cut test of our IT systems. This was successful and say back-up systems operate as expected.</p>		

Risk Title:		Delivery of Waste and Recycling Service	
What is the risk?	The risk is that the Council fails to adequately plan and deliver its Waste and Recycling service following the return to its control from the previous contractor.		
What could cause the risk to occur?	<p>There are a number of issues that could result in issues to delivering the Waste and Recycling service including:-</p> <ul style="list-style-type: none"> - Insufficient staff resource - Incorrect rounds planning 		
Risk Scoring	Likelihood of risk occurring	2 (Unlikely)	
	Impact	Financial	4 (Major)
		Service Quality	5(Catastrophic)
		Reputation	5 (Catastrophic)
		Legal / Regulatory	4 (Major)
		Health and Safety	3 (Moderate)
		Morale / Staffing	4 (Major)
		<p>What are we doing to reduce the risk?</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 	
Current Update (March 2023)	Since the service has been returned to the control of the Council, service performance has stabilised and improved significantly. We have taken steps to reduce the amount of agency resources to provide further resource stability. Officers continue to manage the service provision closely		

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).

2021/22 Restated*				2022/23		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Segment	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
26,171	(18,740)	7,431	Customer Service & Delivery**	30,875	(18,826)	12,049
5,412	(4,026)	1,386	Strategic Finance***	2,842	(956)	1,886
14,111	(11,202)	2,909	Place & Enterprise****	17,213	(12,515)	4,698
5,150	(2,518)	2,632	Governance & Assurance	6,200	(3,145)	3,055
50,844	(36,486)	14,358	Cost of Services	57,130	(35,442)	21,688
		3,023	Other operating expenditure (Note 9)			3,166
		61	Financing & investment income and expenditure (Note 10)			1,271
		(17,033)	Taxation and non-specific grant income (Note 11)			(19,507)
		409	(Surplus) or Deficit on Provision of Services			6,618
		(1,418)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(4,140)
		(12,608)	Remeasurements of the net defined benefit liability			(57,215)
		(325)	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income			979
		(14,351)	Other Comprehensive Income and Expenditure			(60,376)
		(13,942)	Total Comprehensive Income and Expenditure			(53,758)

*The 2021/22 Cost of Services has been restated in 2022/23 following a review of the Organisational Structure. The total cost of services figures remain the same, only the presentation of the individual service groups has changed.

**The increase in Customer Service and Delivery gross expenditure in 2022/23 of £4.7m is mainly due to the return of the Waste & Recycling Service in house from October 2022

***The reduction in Strategic Finance gross expenditure and gross income relates to the payment and receipt of Covid Business Grants respectively in 2021/22.

**** The increase in Place & Enterprise gross expenditure mainly relates to payment of the Green Homes grant of £0.9m, payment of District Household Support Grants of £0.4m in 2022/23, additional notional capital charges and the 2022/23 pay award.

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.

2022/23	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 2022/23 £000
Balance at 31 March 2022 carried forward	2,056	20,839	22,895	2,950	504	26,349	30,723	57,072
Movement in Reserves during 2022/23								
Total Comprehensive Income and Expenditure	(6,618)	-	(6,618)	-	-	(6,618)	60,376	53,758
Adjustments between accounting basis and funding basis under regulations (Note 7)	1,260	-	1,260	(30)	(95)	1,135	(1,135)	-
Transfers to/from Earmarked Reserves (Note 8)	5,415	(5,415)	-	-	-	-	-	-
Increase/ (Decrease) in Year	57	(5,415)	(5,358)	(30)	(95)	(5,483)	59,241	53,758
Balance at 31 March 2023 carried forward	2,113	15,424	17,537	2,920	409	20,866	89,964	110,830

SECTION 2B: MOVEMENT IN RESERVES STATEMENT

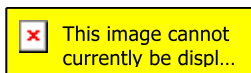
2021/22 Comparative	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves 2021/22 £000
Balance at 31 March 2021 carried forward	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 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 2022 £000		Notes	31 March 2023 £000
80,245	Property, Plant and Equipment	12	88,321
18,610	Investment Properties	13	16,890
285	Intangible Assets		245
-	Pensions Asset	35	162
3,605	Long Term Investments	14	2,626
102,745	Long Term Assets		108,244
30,500	Short Term Investments	14	17,900
79	Inventories	12	717
8,862	Short Term Debtors	15	8,378
22,981	Cash and Cash Equivalents	17	14,709
62,422	Current Assets		41,704
(32,532)	Short Term Creditors	18	(16,662)
(96)	Short Term Borrowing	14	(459)
(188)	Revenue Grants in Advance	30	(165)
(1,494)	Provisions	19	(901)
(34,310)	Current Liabilities		(18,187)
(92)	Long Term Creditors	18	(98)
(5,717)	Long Term Revenue Grants in Advance - Section 106 Deposits	30	(6,643)
(14,284)	Long Term Borrowing	14	(13,825)
(52,621)	Pensions Liability	35	-
(1,071)	Capital Grants - Receipts in Advance	30	(365)
(73,785)	Long Term Liabilities		(20,931)
57,072	Net Assets		110,830
26,349	Usable Reserves	20	20,866
30,723	Unusable Reserves	21	89,964
57,072	Total Reserves		110,830

The notes on pages 37 to 123 form part of these financial statements. The unaudited accounts were issued on 30 June 2023.



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

SECTION 2D CASHFLOW STATEMENT

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

2021/22 £000		2022/23 £000
409	Net (surplus) or deficit on the provision of services	6,618
(9,385)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 22)	7,434
2,012	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23)	2,650
(6,964)	Net cash outflows/ (inflow) from Operating Activities	16,702
15,649	Net increase/(decrease) in Investing Activities (Note 24)	(7,309)
(7,828)	Net cash outflow/(inflow) from Financing Activities (Note 25)	(1,121)
857	Net (increase) or decrease in cash and cash equivalents	8,272
23,838	Cash and cash equivalents at the beginning of the reporting period	22,981
22,981	Cash and cash equivalents at the end of the reporting period (Note 17)	14,709

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 2023 for which there are significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Property, Plant and Equipment</p>	<p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets.</p> <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>The carrying value of Property, Plant and Equipment as at 31 March 2023 is £88.3 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 £8.8m.</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 £251,000 on the Council's finances.</p>

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<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 Pension Fund's Actuary has provided updated figures for the year based on the last valuation in 2022. This valuation is based upon cash flow and assets values as at 31 March 2023.</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 2025/26 (as at 31 March 2025) and will set contributions for the period from 1 April 2026 to 31 March 2029.</p> <p>The carrying value of the pensions asset as at 31 March 2023 is £162,000. See further information on the Pensions Asset in the Narrative Statement.</p> <p>Movements in the value of investments due to current economic uncertainty will affect the valuation of the pension asset. This will include the impact on the value of Investment Properties held by the Local Government Pension Scheme on behalf of South Hams District Council.</p>	<p>The effects on the net pension asset of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in an increase in the pension asset of £1.5 million.</p> <p>The assumptions interact in complex ways. For example, in 2022/23, the Authority's actuaries advised that the pension liability as at 31 March 2022 has decreased by £56 million as a result of a change in "financial assumptions" and it has decreased by £10 million as a result of a change in "demographic assumptions".</p> <p>Please refer to Note 35 for further information about the assumptions used by the actuaries.</p> <p>If the value of investments is found to have changed from the estimates used by the actuaries, it will impact the overall value of the pension liability. For instance, a 5% decrease in the pension asset would have an impact of £8,000 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 2023.</p>

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2. MATERIAL ITEMS OF INCOME AND EXPENSE

There are no material items of income and expense in 2021/22 or 2022/23.

3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2022/23 was approved for issue by the Section 151 Officer & Corporate Director for Strategic Finance on 30 June 2023. This is also the date up to which events after the reporting period have been considered.

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.

2022/23 – 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	10,182	1,867	12,049
Strategic Finance	1,790	96	1,886
Place & Enterprise	(1,028)	5,726	4,698
Governance & Assurance	2,185	870	3,055
Net Cost of Services	13,129	8,559	21,688
Other income and expenditure	(7,771)	(7,299)	(15,070)
(Surplus)/Deficit on Provision of Services	5,358	1,260	6,618

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	General Fund Balance £000	Earmarked Reserves £000	Total General Fund Reserves £000
Opening Balance at 31 March 2022	(2,056)	(20,839)	(22,895)
(Increase)/decrease in year	(57)	5,415	5,358
Closing Balance at 31 March 2023	(2,113)	(15,424)	(17,537)

2021/22 Comparatives – Expenditure and Funding Analysis (Restated)*	Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis (Note 5) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Customer Service & Delivery	5,865	1,566	7,431
Strategic Finance	1,326	60	1,386
Place & Enterprise	(1,490)	4,399	2,909
Governance & Assurance	1,881	751	2,632
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 £000	Earmarked Reserves £000	Total General Fund Reserves £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

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				
2022/23	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	1,038	767	62	1,867
Strategic Finance	83	13	-	96
Place & Enterprise	4,351	1,375	-	5,726
Governance & Assurance	-	870	-	870
Net Cost of Services	5,472	3,025	62	8,559
Other income and expenditure from the Expenditure & Funding Analysis	(2,540)	1,407	(6,166)	(7,299)
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	2,932	4,432	(6,104)	1,260

Adjustments between Funding and Accounting Basis				
2021/22 Comparatives (Restated)*	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	1,076	483	7	1,566
Strategic Finance	2	58	-	60
Place & Enterprise	3,088	1,311	-	4,399
Governance & Assurance	-	751	-	751
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)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

*The 2021/22 Net Cost of Services has been restated in 2022/23 following a review of the Organisational Structure. The total net cost of services figures remain the same, only the presentation of the individual service groups has changed.

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	2021/22	2022/23
	£000	£000
Employee Benefits Expenses*	17,009	21,763
Other Service Expenses	29,677	29,899
Depreciation, Amortisation and Impairment**	4,116	7,194
Interest Payments	366	372
Pension Fund Administration Expenses	63	65
Net Interest on the net defined benefit liability	1,212	1,342
Losses/(Gains) on disposal of non current assets	-	(33)
Total Expenditure	52,443	60,602
Fees, Charges and Other Service Income	(17,002)	(17,756)
Interest and Investment Income***	(153)	(1,169)
Income from Council Tax and Business Rates****	(4,744)	(6,490)
Revenue Grants and Contributions*****	(28,481)	(25,963)
Capital Grants and Contributions*****	(1,237)	(2,501)
Other Income	(417)	(105)
Total Income	(52,034)	(53,984)
(Surplus) or Deficit on Provision of Services	409	6,618

* Employee Benefits Expenses

The increase in Employee Benefit Expenses is mainly due to additional salary costs following the return of the Waste & Recycling Service in house from October 2022 (£2.2m) plus the 2022/23 pay award and an increase in the accounting adjustment for pensions (IAS19) of £0.4m.

** Depreciation, Amortisation and Impairment

The increase in this notional cost relates to impairment on Investment Properties and Leisure Centres.

*** Interest and Investment Income

The additional investment income follows the increase in interest rates in 2022/23.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

The increase in this income stream is mainly from Retained Business Rates in respect of Renewable Energy Schemes (£1.23m). During 2022/23 the Council identified Renewable Energy projects that the billing authority should retain the Business Rates for. The 2022/23 figure also includes the backdated Business Rates retained from these properties. Under current Collection Fund accounting rules, this income will be discharged against the Collection Fund position in future years.

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 reduction in revenue grants in 2022/23 mainly relates to the Covid Business Grants received in 2021/22 (£2.9m).

*******Capital Grants and Contributions**

This increase in capital grants mainly relates to the Green Homes Grant scheme which predominantly took place in 2022/23.

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.

2022/23	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	3,038			(3,038)
Revaluation losses/(gains) on Property, Plant and Equipment	156			(156)
Movements in the market value of Investment Properties	1,720			(1,720)
Amortisation of Intangible Assets	135			(135)
Capital grants and contributions applied	(2,336)			2,336
Revenue expenditure funded from capital under statute (REFCUS)	2,144			(2,144)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	10			(10)
Insertion of items not debited or credited to the CIES:				
Statutory provision for the financing of capital investment	(488)			488
Capital expenditure charged against the General Fund	(1,083)			1,083
Revenue contribution to Capital Outlay – RCCO	(50)			50
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(165)		165	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(260)	260
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(43)	43		-
Costs of disposal funded from capital receipts				

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2022/23	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	(106)	106		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(179)		179
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	6,419			(6,419)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,987)			1,987
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	(11)			11
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*	(6,155)			6,155
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	62			(62)
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2022/23	1,260	(30)	(95)	(1,135)

*The large adjustment in 2022/23 regarding the Business Rates Collection Fund Adjustment Account reflects the movement on the Business Rates Collection Fund balance at 31 March 2023 (£5.96m surplus compared to £6.35m deficit at 31 March 2022). During 2021/22 local authorities received further s31 grants to offset the business rate reliefs given to businesses during the pandemic. Under current Collection Fund accounting rules, the s31 grants received in 2021/22 are being discharged against the Collection Fund deficit in 2022/23 onwards.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2021/22 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	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)
<i>Insertion of items not debited or credited to the CIES:</i>				
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

	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
2021/22 Comparatives				
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 Business Rates income credited to the CIES is different from Business Rates income calculated for 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.

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 2022/23. 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 vehicle fleet. The funding in this reserve is being used to purchase end of life fleet replacements and the fleet required for the roll out of the remaining properties onto the Devon Aligned Service (DAS) in October 2023 (Council report 13th April 2023).

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. This reserve also held the value of the 2021/22 contractual performance deductions. Funding has been spent from this reserve in 2022/23 on the one-off set up and implementation costs of bringing the waste and recycling service back in house in October 2022.

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 (Capital) – This reserve was set up to support capital 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 to hold the business rates s31 grants received in 2020/21 and 2021/22 to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the s31 grants received are not discharged against the Collection Fund deficit until the following year.

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'.

Affordable Housing (Revenue) – This is a new reserve set up as part of the 2022/23 Budget process to support the revenue funding of affordable housing. This was a one-off contribution into this reserve from New Homes Bonus funding in 2022/23.

Ukraine Humanitarian Crisis Reserve – This reserve was set up in 2022/23 to hold funding received to support the Ukraine Humanitarian Crisis which will be spent in 2023/24.

The total Earmarked Reserves balance at 31 March 2023 of £15.424m includes £1.19m 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 2023/24 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 2023 and the movement during 2022/23.

2022/23	Balance at	Transfers	Transfers	Balance at
EARMARKED RESERVES	31.3.2022	Out	In	31.3.2023
	£000	£000	£000	£000
General Fund				
Affordable Housing (Capital)	544	(422)	-	122
Community Parks and Open Spaces	46	(10)	22	58
Grounds Maintenance	149	(77)	14	86
Pension Fund Strain	208	(99)	99	208
Repairs and Maintenance	374	(216)	173	331
Marine Infrastructure	184	-	58	242
Land and Development	72	(16)	7	63
Ferry Repairs and Renewals	530	(41)	117	606
Emergency Climate Change Projects	553	(222)	1	332
Vehicles & Plant Renewals	276	(5)	550	821
COVID-19	209	(175)	-	34
Pay and Display Equipment	186	(32)	21	175
On-Street Parking	44	-	-	44
ICT Development	89	(71)	57	75
Sustainable Waste Management	1,065	(464)	61	662
District Elections	20	(37)	46	29
Planning Policy & Major Developments	531	(82)	50	499
Section106 Agreements (no conditions)	38	(23)	-	15
Revenue Grants	1,725	(638)	437	1,524
Capital Programme	249	(239)	181	191
New Homes Bonus	1,917	(1,092)	1,008	1,833
Business Rates Retention	4,546	(2,570)	-	1,976
Homelessness Prevention	234	(91)	-	143
Housing Capital Projects	408	(45)	-	363
Leisure Services	41	(2)	-	39
Organisational Development	75	(39)	5	41
Environmental Health Initiatives	20	-	68	88
S106 Monitoring	158	(24)	63	197
S106 Technical Support	14	(21)	29	22
Maintenance, Management & Risk	66	-	29	95
Recovery and Renewal Plan	500	(37)	10	473
Financial Stability	280	-	-	280
Maintenance Fund	78	(50)	-	28
Community Composting	200	(13)	-	187
Tree Maintenance	60	(12)	-	48
Joint Local Plan Reserve	-	-	25	25
Affordable Housing (Revenue)	-	-	408	408
Ukraine Humanitarian Crisis	-	-	875	875
Reserves with balances £10k or under (Grouped)	110	(106)	-	4
Sub Total General Fund Reserves	15,799	(6,971)	4,414	13,242

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2022/23	Balance at	Transfers	Transfers	Balance at
EARMARKED RESERVES	31.3.2022	Out	In	31.3.2023
	£000	£000	£000	£000
Business Rates s31 Compensation Grant*	4,260	(3,066)	-	1,194
Sub Total Specific Reserves Business Rates S31 Grant	4,260	(3,066)	-	1,194
Specific Reserves – Salcombe Harbour				
Pontoons	292	-	71	363
Harbour Renewals	192	(13)	44	223
General Reserve	296	(51)	157	402
Sub Total Specific Reserves Salcombe Harbour	780	(64)	272	988
TOTAL EARMARKED REVENUE RESERVES* (See Note on the Business Rates s31 Compensation Grant above)	20,839	(10,101)	4,686	15,424

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2021/22 Comparatives	Balance at	Transfers	Transfers	Balance at
EARMARKED RESERVES	31.3.2021	Out	In	31.3.2022
	£000	£000	£000	£000
General Fund				
Affordable Housing (Capital)	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
Emergency Climate Change Projects	400	(47)	200	553
Vehicles and 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
Reserves with balances £10k or under (Grouped)	120	(120)	-	-
Sub Total General Fund Reserves	14,616	(5,688)	6,871	15,799

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

2021/22 Comparatives 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 below)	21,494	(7,751)	7,096	20,839

Note* - Business Rates s31 Compensation Grant Earmarked Reserve

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.

9. OTHER OPERATING EXPENDITURE

2021/22 £000		2022/23 £000
2,960	Parish council precepts	3,134
-	(Gains)/losses on the disposal of non-current assets	(33)
63	Pension administration expenses	65
3,023	Total	3,166

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2021/22 £000		2022/23 £000
366	Interest payable and similar charges	372
(140)	Interest receivable and similar income	(1,147)
(417)	Other investment income	(105)
1,212	Net interest on the net defined benefit liability	1,342
(960)	Investment properties (Note 13)	809
61	Total	1,271

11. TAXATION AND NON-SPECIFIC GRANT INCOME

2021/22 £000		2022/23 £000
	Council Tax	
(9,679)	• Income	(10,196)
(328)	• Collection Fund adjustment	(11)
30	• Collection Fund - distribution of deficit/(surplus)	(181)
	Business Rates	
(11,375)	• Income*	(9,167)
11,464	• Tariff	11,464
1,109	• Levy payment	868
2	• Pooling administration costs	2
(299)	• Pooling benefit	(360)
-	• Disregarded Amounts**	(1,232)
1,372	• Transfer of Collection Fund deficit/(surplus)	(812)
	Non ring - fenced Government Grants:	
(5,789)	• S.31 Business Rate Relief Grants	(5,642)
(1,068)	• New Homes Bonus Grant	(1,008)
-	• Levy Support Grant	(16)
(428)	• Rural Services Delivery Grant	(428)
(82)	• Lower Tier Services Grant	(88)
-	• Services Grant	(133)
(381)	• COVID-19 LA Response Grant	-
(108)	• COVID-19 Sales, Fees & Charges Compensation	-
(236)	• COVID-19 New Burdens Admin Support Grant	(66)
(1,237)	Capital grants and contributions	(2,501)
(17,033)	Total	(19,507)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

*Income from Business Rates in the Comprehensive Income and Expenditure Statement is based on the Government NNDR1 return. The reduction in Business Rates income during 2022/23 of £2.21m relates to the allowance for the Retail, Hospitality and Leisure Relief. However, there was no equivalent adjustment for this Business Rates Relief in the 2021/22 NNDR1 return. For South Hams this reduced the net rates payable in 2022/23 by £2.29m (40% share of total net Rates payable of £5.72m).

**During 2022/23 the Council identified Renewable Energy projects that the billing authority should retain the Business Rates for. The 2022/23 figure of £1.23m also includes the backdated Business Rates retained from these properties. Under current Collection Fund accounting rules, this income will be discharged against the Collection Fund position in future years.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

Movements in 2022/23	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuation					
At 1 April 2022	68,692	11,435	516	2,183	82,826
Additions	423	358	63	6,165	7,009
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	2,770				2,770
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(630)				(630)
Derecognition – disposals		(773)			(773)
Other movements in cost/valuation - reclassification	21			(21)	-
At 31 March 2023	71,276	11,020	579	8,327	91,202
Accumulated Depreciation & Impairment at 1 April 2022	2,153	7,000	-	-	9,153
Charge for 2022/23	1,459	1,117	-	-	2,576
Depreciation written out to the Revaluation Reserve	(1,370)				(1,370)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(474)				(474)
Derecognition – disposals		(763)			(763)
At 31 March 2023	1,768	7,354	-	-	9,122
Balance Sheet amount at 31 March 2023	69,508	3,666	579	8,327	82,080
Balance Sheet amount at 31 March 2022	66,539	4,435	516	2,183	73,673

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Comparative Movements in 2021/22	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2021	68,313	10,756	454	441	79,964
Additions	14	731	62	1,742	2,549
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	68,692	11,435	516	2,183	82,826
Accumulated Depreciation & Impairment at 1 April 2021	1,731	6,038	-	-	7,769
Charge for 2021/22	1,629	1,014	-	-	2,643
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	-	-	9,153
Balance Sheet amount at 31 March 2022	66,539	4,435	516	2,183	73,673
Balance Sheet amount at 31 March 2021	66,582	4,718	454	441	72,195

In accordance with the Temporary Relief offered by the update to the code on infrastructure assets, this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not represent a true and fair view of the asset position to the users of the financial statements.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Infrastructure Assets

	2021/22 £000	2022/23 £000
Balance at start of year	6,954	6,572
Additions	75	131
Depreciation charge for year	(457)	(462)
Balance at end of year	6,572	6,241

	2021/22 £000	2022/23 £000
Infrastructure Assets	6,572	6,241
Other Property Plant and Equipment Assets	73,673	82,080
Total Property Plant and Equipment Assets	80,245	88,321

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 2023 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 - £1.73 million
- Dartmouth Health & Wellbeing Hub - £0.10 million
- Batson, Salcombe Harbour Workshop - £0.50 million
- Batson, Salcombe Employment Units - £0.19 million

As a comparison, as at 31 March 2022 the Authority had entered into four contracts for the construction or enhancement of Property, Plant and Equipment totalling £9.24 million.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 basis 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.

	Land and buildings £000	Vehicles, plant, furniture & equipment £000	Total £000
Valued at historical cost	-	3,666	3,666
Valued at current value in:			
2022/2023	30,584		30,584
2021/2022	11,750		11,750
2020/2021	25,683		25,683
2019/2020	1,491		1,491
Total	69,508	3,666	73,174

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.

Inventories – St Ann's Chapel

Inventories have increased from £79,000 as at 31 March 2022 to £717,000 as at 31 March 2023. The increase in Inventories in 2022/23 relates to the St Ann's Chapel Housing scheme which includes the building of 8 affordable homes, 3 open market units and 2 serviced plots.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Total expenditure on the St Ann's Chapel Housing scheme for 2022/23 is £2.14m. Of this spend, £1.56m relates to the 8 affordable homes and 2 serviced plots and this expenditure is included within the Assets under Construction additions shown in the Property, Plant and Equipment movements table. The remaining £0.58m relates to the open market units. These are in the process of production for sale and therefore have been classed as Inventories as at 31 March 2023 and are not included in the Property, Plant and Equipment or Capital Expenditure balances as at 31 March 2023.

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	2021/22 £000	2022/23 £000
Rental income from investment properties	(918)	(916)
Direct operating expenses arising from investment properties (this includes the change in valuation on investment properties)	(42)	1,725
Net (gain)/ loss	(960)	809

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

B. Movement in fair value	2021/22 £000	2022/23 £000
Balance at start of the year	18,560	18,610
Net gains/(losses) from fair value adjustments*	50	(1,720)
Balance at end of the year	18,610	16,890

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. The Code requires that Investment Properties are measured annually at fair value. The fair value valuation decreased by £1,720,000 at 31 March 2023 amounting to a total of £16.89 million. This decrease in value mainly relates to the Investment Property at Lee Mill, Ivybridge. The valuation has been carried out using the investment method and comparison approach, taking into account prevailing real estate property yields as well as UK 30-year gilt rates.

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Fair Value Measurement of Investment Property

Observable Inputs – Level 2

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

Highest and Best Use of Investment Properties

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

Valuation Techniques

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

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:

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

- **Financial assets held at amortised cost** – These represent loans and loan-type arrangements where repayments of 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 in the CIES. Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

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

Summary of Financial Instruments

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	Long-term		Current	
	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000
Financial Assets at Amortised Cost				
Investments*	-	-	30,500	17,900
Cash and Cash Equivalents*	-	-	22,981	14,709
Debtors	-	-	3,542	5,287
Fair Value through Other Comprehensive Income – Financial Assets				
Investments – CCLA Local Authorities’ Property Fund	1,573	1,314	-	-
Investments – CCLA Diversified Income Fund**	2,032	1,312	-	-
Total Financial Assets	3,605	2,626	57,023	37,896
Financial Liabilities at Amortised Cost				
Borrowing	(14,284)	(13,825)	(96)	(459)
Creditors*	(92)	(98)	(19,524)	(3,088)
Total Financial Liabilities	(14,376)	(13,923)	(19,620)	(3,547)

*The reduction in investments, cash and cash equivalents and creditors as at 31 March 2023 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 were made on behalf of Central Government at the beginning of 2022/23. In addition the Council also administered various Business Grants on behalf of Central Government in 2021/22 and part of the reduction in investments, cash and cash equivalents and creditors relates to unapplied funding being repaid to Central Government in 2022/23.

**The CCLA Diversified Income Fund experienced a downward revaluation of £720,000 in 2022/23. The outlook for global economic growth continues to be weaker. Inflation is likely to remain above target rates for some time, interest rates in most areas will still be negative in real terms. This backdrop placed some downward pressure on investments during 2022. However, the CCLA fund continued to outperform the benchmark. CCLA will maintain the portfolio’s emphasis on real assets such as good quality equities and alternatives, adding selectively to fixed income as attractive opportunities are identified to support continued performance for this long term investment.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Designated to Fair Value Through Other Comprehensive Income

At 31 March 2023 the Council had investments of £1.5 million with the CCLA Property Fund and £2.0 million with the CCLA Diversified Income Fund. These are the nominal values of the CCLA investments.

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 2022/23.

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

The Council had the following investments in equity instruments at 31 March 2023:

Investment	Nominal	Fair Value	Change in Fair Value during 2022/23
	£000	£000	£000
CCLA Property Fund	1,500	1,314	186
CCLA Diversified Income Fund** (see previous page for an explanation of the downward change in Fair Value)	2,000	1,312	688
Total	3,500	2,626	874

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Net Gains and Losses on Financial Instruments

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

	2021/22	2022/23
	£000	£000
Net gains/losses on: Financial Assets measured at fair value through other comprehensive income	325	(979)
Total Net Gains/(Losses)	325	(979)

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 2022 Fair Value £000	31 March 2023 Fair Value £000
Fair Value Through Other Comprehensive Income CCLA Property Fund and CCLA Diversified Income Fund	Level 2	Inputs other than quoted market prices that are observable for the asset or liability	3,605	2,626
TOTAL			3,605	2,626

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

	31 March 2022		31 March 2023	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
PWLB Debt – Maturity	(5,490)	(5,571)	(5,490)	(4,947)
PWLB Debt – Annuity	(8,890)	(8,912)	(8,794)	(6,264)
Long Term Creditors	(92)	(92)	(98)	(98)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Heritable Bank

At the 31 March 2023 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

31.3.2022 £000		31.3.2023 £000
	Short Term	
1,964	Central Government bodies	2,330
741	Other Local Authorities	746
	Other debtors	
652	Council Tax	572
2,730	Business Rates*	440
2,775	Other entities and individuals**	4,290
8,862	Total	8,378

*There is a significant decrease in the short term Business Rates debtor as at 31 March 2023. The large debtor as at 31 March 2022 (£2.73m) 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 balance on the Business Rates Collection Fund at 31 March 2023 is a surplus of £5,957,000 (£6,351,000 deficit in 2021/22) following the release of s31 compensation grant to the Collection Fund.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

**The large increase in the short term Other Entities and Individuals debtor in 2022/23 of £1.5m mainly relates to an increase in the sundry debtors balance as at 31 March 2023. The balance has increased to £1.74m compared to £0.58m as at 31 March 2022. This reflects the timing of the raising of sundry debt invoices and is a temporary position. For example, S106 deposit invoices totalling £0.5m were raised towards the end of 2022/23.

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:

31.3.2022 £000		31.3.2023 £000
580	Up to one year	491
468	One to three years	304
219	Over three years	218
1,267	Total Debtors for Local Taxation	1,013

17. CASH AND CASH EQUIVALENTS

31.3.2022 £000		31.3.2023 £000
581	Cash held by the Authority	509
22,400	Money Market Funds*	14,200
22,981	Total Cash and Cash Equivalents	14,709

*In line with the reduction in investments as at 31 March 2023, the amount of cash invested in Money Market Funds also reduced by £8.2m. The higher balance at 31 March 2022 relates to the unapplied funding in respect of the various Business Grants which was repaid to Central Government in 2022/23.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

18. CREDITORS

31.3.2022 £000		31.3.2023 £000
	Short Term	
(17,466)	Central Government bodies*	(1,345)
(930)	Other Local Authorities	(1,104)
	Other Creditors	
(1,626)	Council Tax	(2,216)
(8,173)	Business Rates	(7,023)
(4,337)	Other entities and individuals	(4,974)
(32,532)	Total	(16,662)
	Long Term	
(92)	Other entities and individuals	(98)
(92)	Total	(98)

*The significant reduction in the short term Central Government bodies creditor as at 31 March 2023 mainly relates to the repayment to Central Government of unapplied funding in respect of the various Business Grants in 2022/23. In addition the non-discretionary element of the Council Tax energy rebate grant (£4.3m) was received at the end of 2021/22 and the payments were made on behalf of Central Government at the beginning of 2022/23.

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 2022/23 or 2021/22. The breakdown of the 2022/23 provision is shown in the following table:

	Business Rates Appeals £000
Balance at 1 April 2022	1,494
Provisions made in year	99
Amounts used in year	(692)
Balance at 31 March 2023	901

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 2022/23 there has been a £1,485,000 reduction in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £594,000).

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 2022/23 Earmarked Reserves balance is explained in detail in the Narrative Statement.

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

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

21. UNUSABLE RESERVES

31.3.2022 £000		31.3.2023 £000
31,072	Revaluation Reserve	34,685
54,531	Capital Adjustment Account	52,251
(52,621)	Pensions Reserve	162
331	Council Tax Collection Fund Adjustment Account	342
(2,540)	Business Rates Collection Fund Adjustment Account	3,615
105	Financial Instruments Revaluation Reserve	(874)
(155)	Accumulated Absences Account	(217)
30,723	Total Unusable Reserves	89,964

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

31.3.2022 £000	31.3.2022 £000	Revaluation Reserve	31.3.2023 £000	31.3.2023 £000
	30,405	Balance at 1 April		31,072
1,882		Upward revaluation of assets	5,958	
(464)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(1,818)	
	1,418	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		4,140
(590)		Difference between fair value depreciation and historical cost depreciation	(527)	
(161)		Accumulated gains on assets sold or scrapped	=	
	(751)	Amount written off to the Capital Adjustment Account		(527)
	31,072	Balance at 31 March		34,685

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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.

2021/22 £000	2021/22 £000	Capital Adjustment Account	2022/23 £000	2022/23 £000
	54,796	Balance at 1 April		54,531
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
(3,100)		▪ Charges for depreciation of non-current assets	(3,038)	
217		▪ Revaluation gains/(losses) on Property, Plant and Equipment (PPE)	(156)	
50		▪ Revaluation gains/(losses) on Investment Properties	(1,720)	
(82)		▪ Amortisation of Intangible Assets	(135)	
(1,201)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(2,144)	
(357)		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(10)	
	(4,473)	Total		(7,203)
161		Amounts of Revaluation Reserve balance written off on disposal or sale of PPE	-	
<u>590</u>		Adjusting amounts written out of the Revaluation Reserve	<u>527</u>	
	751	Net written out amount of the cost of non-current assets consumed in the year		527
		Capital financing applied in the year:		
673		• Use of the Capital Receipts Reserve to finance new capital expenditure	179	
977		• Capital grants and contributions credited to the CIES that have been applied to capital financing	2,336	
179		• Application of grants to capital financing from the Capitals Grants Unapplied Account	260	
486		• Statutory provision for the financing of capital investment charged against the General Fund	488	
1,019		• Capital expenditure charged against the General Fund	1,083	
123		• Revenue Contribution to Capital Outlay (RCCO)	50	
	3,457	Total		4,396
	54,531	Balance at 31 March		52,251

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 balance on the Pensions Reserve shows the difference between 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.

31.3.2022 £000	Pensions Reserve	31.3.2023 £000
(61,351)	Balance at 1 April	(52,621)
12,608	Actuarial gains or (losses) on pension assets and liabilities**	57,215
(5,370)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(6,419)
1,492	Employer's pensions contributions and direct payments to pensioners payable in the year	1,987
(52,621)	Balance at 31 March*	162

*As at 31 March 2023, the Council has a Pension Asset of £0.162million. This is significantly lower than the previous year (pension liability of £52.621 million). This is as a result of the actuary reducing life expectancy projections and an increase in interest rates affecting the discount rate for liabilities. See further information on the Pensions Asset in the Narrative Statement.

**The actuarial gain on pension assets and liabilities has increased by £44.6m in 2022/23 to £57.22m. The Actuary has estimated a net surplus on the funded liabilities within the Pension Fund as at 31 March 2023 of £162,000 (a pension asset), which compares to a deficit of £52.6 million as at 31 March 2022. This large reduction in the pension liability for South Hams is mainly due to a change in financial assumptions (£56.1 million). This relates to an increase in the discount rate from 2.6% at 31 March 2022 to 4.8% at 31 March 2023.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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.

31.3.2022 £000	Council Tax Collection Fund Adjustment Account	31.3.2023 £000
3	Balance at 1 April	331
328	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	11
331	Balance at 31 March	342

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.

31.3.2022 £000	Business Rates Collection Fund Adjustment Account	31.3.2023 £000
(7,242)	Balance at 1 April	(2,540)
4,702	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*	6,155
(2,540)	Balance at 31 March	3,615

*The large movement in the Business Rates Collection Fund Adjustment Account between 2021/22 and 2022/23 reflects the improved position on the Business Rates Collection Fund at 31 March 2023 (£5.96m surplus compared to a £6.35m deficit at 31 March 2022). During 2021/22 local authorities received further s31 grants to offset the business rate reliefs given to businesses during the pandemic. Under current Collection Fund accounting rules, the s31 grants received could not be discharged against the Collection Fund deficit until the following year in 2022/23.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

31.3.2022 £000	Financial Instruments Revaluation Reserve	31.3.2023 £000
(220)	Balance at 1 April	105
325	Upward revaluation of assets	-
-	Downward revaluation of assets	(979)
105	Balance at 31 March	(874)

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.

31.3.2022 £000	£000	Accumulated Absences Account	31.3.2023 £000	£000
	(148)	Balance at 1 April		(155)
148		Settlement or cancellation of accrual made at the end of the preceding year	155	
(155)		Amounts accrued at the end of the current year	(217)	
	(7)	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		(62)
	(155)	Balance at 31 March		(217)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

2021/22 £000		2022/23 £000
(3,100)	Depreciation	(3,038)
217	Impairment and downward valuations	(156)
50	Movement in market value of investment properties*	(1,720)
(82)	Amortisation	(135)
486	Increase/(decrease) in Debtors**	1,886
(2,733)	(Increase)/decrease in Creditors***	14,401
12	Increase/(decrease) in Inventories****	638
(3,878)	Movement in pension liability	(4,432)
(357)	Carrying amount of non-current assets held for sale, sold or derecognised	(10)
(9,385)	Total	7,434

*The fair value valuation of Investment Properties decreased by £1.72m at 31 March 2023. For further information please see Note 13 Investment Properties.

**The large increase in debtors in 2022/23 mainly relates to an increase in the sundry debtors balance as at 31 March 2023. The balance has increased to £1.74m compared to £0.58m as at 31 March 2022. This reflects the timing of the raising of sundry debt invoices and is a temporary position. For further information please see Note 15 Debtors.

***The significant reduction in creditors as at 31 March 2023 mainly relates to the repayment to Central Government of unapplied funding in respect of the various Business Grants in 2022/23. For further information please see Note 18 Creditors.

****The increase in inventories as at 31 March 2023 relates to a housing scheme at St Ann's Chapel which includes the building of 8 affordable homes, 3 open market units and 2 serviced plots. The open market units are in the process of production for sale and therefore are classed as inventories as at 31 March 2023. For further information please see Note 12 Property, Plant and Equipment.

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

2021/22 £000		2022/23 £000
775	Proceeds from the sale of non-current assets	149
1,237	Other non-cash items charged to the net surplus or deficit on the provision of services*	2,501
2,012	Net cash flows from investing activities	2,650

*This increase relates to capital grants and in particular to the Green Homes Grant scheme which predominantly took place in 2022/23.

24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2021/22 £000		2022/23 £000
2,790	Purchase of Property, Plant and Equipment, Investment Properties and Intangible Assets*	7,235
14,900	Increase/(decrease) in investments**	(12,600)
(775)	Proceeds from the sale of Property, Plant and Equipment, Investment Properties and Intangible Assets	(149)
(1,266)	Other receipts from investing activities (capital grants and contributions)	(1,795)
15,649	Net cash flows from investing activities	(7,309)

*This movement relates to capital expenditure in 2022/23 mainly in respect of Dartmouth Health and Wellbeing Hub (£3.83m).

**The reduction in investments as at 31 March 2023 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 were made on behalf of Central Government at the beginning of 2022/23. In addition the Council also administered various Business Grants on behalf of Central Government in 2021/22 and part of the reduction in investments relates to unapplied funding being repaid to Central Government in 2022/23.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2021/22 £000		2022/23 £000
94	Repayments of short and long-term borrowing	96
(7,922)	Other receipts/payments for financing activities*	(1,217)
(7,828)	Total	(1,121)

*The movement between 2021/22 and 2022/23 is due to the significant decrease in short term Business Rates debtors and the increase in 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 2022/2023.

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.

2021/22 £000		2022/23 £000
250	Allowances	253
9	Expenses	14
259	Total	267

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

28. OFFICERS' REMUNERATION

SENIOR EMPLOYEES

Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 [SI 2009 No. 3322] introduced a legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees.

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

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

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

Post	Year	Salary, Fees and Allowances £	Expenses £	Pension Contribution £	Total £
Chief Executive and Head of Paid Service	21/22	125,200	1,200	21,000	147,400
	22/23	127,100	1,500	21,300	149,900
Corporate Director of Governance & Assurance	21/22	77,400	400	12,700	90,500
	22/23	81,400	100	13,700	95,200

Note A: Definition of Senior Employees

A review of the employees that meet the criteria for the definition of a "Senior Employee" in line with Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 [SI 2009 No. 3322] has resulted in the decision to remove employees from the Senior Employees note from 22/23 onwards and in place provide a Remuneration Above £50,000 table.

Note B: Shared Services with West Devon Borough Council

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 2022/23 South Hams District Council reimbursed costs amounting to £145,800 (2021/22 £155,200) in respect of the Senior Leadership Team (SLT) who are employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2022/23 from West Devon Borough Council of £135,400 (2021/22 £131,000) in respect of the above shared senior employees.

Note C: Salary Sacrifice Schemes

South Hams District Council offer various Employee Salary Sacrifice Schemes as part of the employee benefits package. Figures quoted in the remuneration table are before any salary sacrifice deductions are made.

REMUNERATION ABOVE £50,000

The Council is required by statute to disclose the number of employees for the year to which the accounts relate whose remuneration fell in each bracket of a scale in multiples of £5,000, starting with £50,000 (excluding employer pension contributions).

The following numbers do not include the senior employees as disclosed above.

Remuneration Bandings	2021/22	2022/23
£50,000 - £54,999	2	1
£55,000 - £59,999	3	3
£60,000 - £64,999	1	-
£65,000 - £69,999	-	2
TOTAL	6	6

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:

	2021/22 £000	2022/23 £000
Fees payable with regard to external audit services	74	73
Core Audit Fees	62	61
Audit of Grants and Returns	12	12
Rebate from Public Sector Audit Appointments Ltd	(7)	-
Total	67	73

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.

	2021/22 £000	2022/23 £000
Credited to Taxation and Non-Specific Grant Income		
Capital grants and contributions:		
Disabled Facilities Grants	(1,196)	(1,049)
Capital Section 106 deposits	(41)	(357)
Green Homes Grant	-	(907)
Homes England (Clay Park)	-	(125)
Other capital grants and contributions	-	(63)
Non ring - fenced Government grants and contributions:		
New Homes Bonus Grant	(1,068)	(1,008)
S31 Business Rate Relief Grants	(5,789)	(5,642)
Rural Services Delivery Grant	(428)	(428)
Services Grant	-	(133)
Lower Tier Services Grant	(82)	(88)
Levy Account Surplus Grant	-	(16)
COVID-19 LA Response Grant	(381)	-
COVID-19 Sales, Fees & Charges Compensation	(108)	-
COVID-19 New Burdens Admin Support Grant	(236)	(66)
Total	(9,329)	(9,882)
Credited to Services		
Rent Allowance subsidy	(14,207)	(13,443)
Housing Benefit administration subsidy	(182)	(182)
Rent rebate subsidy	(95)	(141)
Discretionary housing payments	(128)	(101)
Council Tax benefit administration subsidy	(89)	(84)
Business Rates cost of collection allowance	(212)	(214)
Homelessness Prevention Grant	(205)	(196)
Neighbourhood Planning Grant	(90)	(60)
Redmond Review Local Audit Fees Grant	(17)	(18)
Recycling credits	(580)	(511)
Revenue Section 106 deposits	(699)	(484)
Electoral Commission – General Elections and European Elections	(199)	(51)
Council Tax Rebate Final Assessment	-	(93)
Business Rates Reliefs New Burdens Grant	-	(57)
Council Tax Energy Rebate Scheme (Discretionary)	-	(174)
Ukraine Humanitarian Crisis	-	(1,167)
Household Support Scheme	-	(460)
Public Sector Low Carbon Skills Fund	-	(71)
COVID-19 Hardship Support Fund	(104)	-
COVID-19 Additional Restrictions Support Grant	(1,668)	-
COVID-19 Additional Restrictions Support Grant (Top Up)	(550)	-

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

	2021/22 £000	2022/23 £000
COVID-19 Track & Trace Administration Support Grant	(62)	-
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)	(54)
COVID-19 Council Tax Hardship Grant Fund	(131)	-
COVID-19 Local Restrictions Support Grant (Open)	(215)	-
Other grants and contributions	(631)	(1,020)
Total	(20,378)	(18,581)

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 2022 £000	31 March 2023 £000
BEIS Green Homes Grant	(1,026)	-
Local Authority Housing Fund (LAHF)	-	(286)
Other grants	(45)	(79)
Total	(1,071)	(365)

Revenue Grants Receipts in Advance	31 March 2022 £000	31 March 2023 £000
Council Tax Rebate Grant	(174)	-
UK Shared Prosperity Fund Core RDEL	-	(89)
UK Shared Prosperity Fund Capacity	-	(20)
Other grants	(14)	(56)
Total	(188)	(165)

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	31 March 2022 £000	31 March 2023 £000
Langage Energy Centre	(1,456)	(1,445)
Gara Rock, East Portlemouth	(523)	(522)
Land South East of Torhill Farm, Ivybridge	(474)	(436)
Land at Woodland Road, Ivybridge	(191)	(191)
Bonfire Hill, Salcombe	(152)	(117)
Land at Moorview, Marldon	(81)	(79)
Riverside, Totnes	(91)	(91)
Former Old Chapel Inn, Bigbury	(110)	(12)
Sawmills Field, Dartington	(46)	(46)
Trennels, Herbert Road, Salcombe	(93)	(93)
Webbers Yard, Dartington	(56)	(56)
Venn Farm, Brixton	(50)	(46)
Holywell Stores, Bigbury	(74)	(9)
Former Gas Works, Salcombe	(68)	(68)
Cornwood Road, Ivybridge	(214)	(214)
Land off Palm Cross Green, Modbury	(68)	-
Knighton Road, Wembury	(104)	(104)
Land East of Allern Lane, Tamerton Foliot	(103)	(101)
Land at Cornwood Road, Ivybridge	(143)	(138)
Yealm Hotel, Newton Ferrers	(139)	(139)
Tides Reach Hotel, Salcombe	-	(469)
Little Cotton Farm (Phase 1)	-	(265)
The Oaks, Pinewood Drive, Woolwell	-	(161)
Siding Cross, Wrangaton	-	(75)
Venn Farm (PH1), Brixton	-	(148)
Various other sites	(1,481)	(1,618)
Total	(5,717)	(6,643)

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2022/23 is shown in Note 27.

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

The Capital Financing Requirement has increased by £4.98m in 2022/23. This mainly reflects the capital expenditure incurred in respect of Dartmouth Health and Wellbeing Hub during the year of £3.83m and borrowing for St Ann's Chapel housing scheme (£0.86m).

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)	2021/22 £000	2022/23 £000
<i>Opening Capital Financing Requirement</i>	13,002	13,536
Capital Investment		
Property, Plant and Equipment	882	975
Intangible Assets	166	95
Revenue expenditure funded from capital under statute (REFCUS)	1,201	2,144
Assets under Construction	1,742	6,165
Bank investment		
Total expenditure for capital purposes	3,991	9,379
Sources of Finance		
Capital receipts	(673)	(179)
Capital grants and external contributions	(1,156)	(2,596)
Earmarked reserves	(1,019)	(1,083)
Revenue	(123)	(50)
Total funding	(2,971)	(3,908)
Minimum Revenue Provision	(486)	(488)
<i>Closing Capital Financing Requirement</i>	13,536	18,519
<i>Movement in Capital Financing Requirement</i>	534	4,983
Explained by:		
Increase in underlying need to borrow (supported by government financial assistance)	(132)	3,038
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	666	1,945
Increase/(decrease) in Capital Financing Requirement	534	4,983

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 are:

	31 March 2022 £000	31 March 2023 £000
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	248	164
Later than one year & not later than five years	582	595
Later than five years	142	-
Total	972	759

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:

	2021/22 £000	2022/23 £000
Minimum lease payments	252	262
Total	252	262

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 2022 £000	31 March 2023 £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	3,993	3,948
Later than five years	31,509	30,550
Total	36,506	35,502

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 (£)	
	21/22	22/23	21/22	22/23	21/22	22/23	21/22*	22/23
£0 - £20,000	-	-	1	1	1	1	796	3,690
TOTAL	-	-	1	1	1	1	796	3,690

*The 2021/22 values are the restated values to include the cost of pension strain. Pension strain was not included in the total cost of Exit Packages in the 2021/22 Statement of Accounts.

Shared Services with West Devon Borough Council

Of the £3,690 cost of exit packages in 2022/23 (£796 in 2021/22), West Devon Borough Council (WDBC) made nil contributions in 2022/23 and 2021/22. In addition, South Hams District Council made no contribution to West Devon Borough Council in respect of their exit package costs in 2022/23 and 2021/22.

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 as at 31 March 2025 and will set contributions for the period from 1 April 2026 to 31 March 2029. 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 2024 is £2.347m. The Actuary has estimated the duration of the employer's liabilities to be 15 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	2021/22 £000	2022/23 £000
Cost of Services		
<i>Service cost comprising</i>		
- Current Service Cost	4,089	5,012
- Past Service Cost	6	-
<i>Financing and Investment Income and Expenditure</i>		
- Net Interest Expense	1,212	1,342
- Administration Expenses	63	65
Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	5,370	6,419
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	(7,123)	(56,067)
- Change in demographic assumptions	-	(9,718)
- Experience loss/(gain)	417	3,352
- Return on fund assets in excess of interest	(5,902)	4,252
- Other actuarial (gains)/losses	-	966
<i>Total re-measurement recognised</i>	<i>(12,608)</i>	<i>(57,215)</i>
Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement	(7,238)	(50,796)
<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	5,370	6,419
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
- Employers contributions payable to scheme	1,492	1,987

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Net Pension Liability	31 March 2022 £000	31 March 2023 £000
Present value of the defined benefit obligation	158,337	100,709
Fair value of Fund assets	(108,238)	(103,062)
Deficit/(surplus)	50,099	(2,353)
Present value of unfunded obligation	2,522	2,191
Net defined benefit liability/(asset)*	52,621	(162)

Reconciliation of opening and closing balances of the fair value of Fund assets	31 March 2022 £000	31 March 2023 £000
Opening fair value of Fund assets	103,353	108,238
Interest on assets	2,037	2,780
Return on assets less interest	5,902	(4,252)
Other actuarial (gains)/losses	-	(966)
Administration expenses	(63)	(65)
Contributions by employer including unfunded	1,492	1,987
Contributions by Scheme participants	505	691
Estimated benefits paid plus unfunded net of transfers in	(4,988)	(5,351)
Closing fair value of Fund assets	108,238	103,062

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	31 March 2022 £000	31 March 2023 £000
Opening defined benefit obligation	164,704	160,859
Current service cost	4,089	5,012
Interest cost	3,249	4,122
Change in financial assumptions	(7,123)	(56,067)
Change in demographic assumptions	-	(9,718)
Experience loss/(gain) on defined benefit obligation	417	3,352
Estimated benefits paid net of transfers in	(4,795)	(5,161)
Past service costs, including curtailments	6	-
Contributions by Scheme participants	505	691
Unfunded pension payments	(193)	(190)
Closing defined benefit obligation	160,859	102,900

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

*As at 31 March 2023, the Council has a Pension Asset of £0.162million. This is significantly lower than the previous year (pension liability of £52.621 million). This is as a result of the actuary reducing life expectancy projections and an increase in interest rates affecting the discount rate for liabilities. See further information on the Pensions Asset in the Narrative Statement.

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 2023, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2022, 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 2022 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 2022 CMI_2020	31 March 2023 CMI_2020
Mortality assumptions (in years):		
<i>Longevity at 65 for current pensioners</i>		
- Men	22.7	21.8
- Women	24.0	22.9
<i>Longevity at 65 for future pensioners (in 20 years)</i>		
- Men	24.0	23.1
- Women	25.4	24.4
Financial assumptions (in percentages):		
- Salary increases	4.2%	3.9%
- Pension increases (CPI)	3.2%	2.9%
- Discount rate	2.6%	4.8%

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	(0.1%)
Present value of total obligation	101,427	102,900	104,408
Projected service cost	2,399	2,481	2,567
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	103,012	102,900	102,789
Projected service cost	2,483	2,481	2,480
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	104,323	102,900	101,510
Projected service cost	2,568	2,481	2,397
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	107,190	102,900	98,799
Projected service cost	2,568	2,481	2,397

The estimated asset allocation for South Hams District Council as at 31 March 2023 is as follows:

Employer asset share	31 March 2022		31 March 2023	
	£000	%	£000	%
Gilts	14,396	13%	-	0%
UK equities	9,647	9%	8,130	8%
Overseas equities	54,434	50%	46,168	45%
Property	10,198	10%	9,034	9%
Infrastructure	6,112	6%	9,266	9%
Target return portfolio	10,005	9%	7,163	7%
Cash	1,278	1%	1,224	1%
Other bonds	2,214	2%	22,037	21%
Alternative assets	(46)	0%	40	0%
Total	108,238	100%	103,062	100%

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Of the total fund asset at 31 March 2023, 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 2023	
		% Quoted	% Unquoted
Fixed interest government securities	UK	0%	0%
	Overseas	0%	0%
Corporate bonds	UK	7%	0%
	Overseas	0%	0%
Equities	UK	7%	0%
	Overseas	44%	0%
Property	All	0%	9%
Others	Absolute return portfolio	7%	0%
	Private equity	0%	1%
	Infrastructure	0%	9%
	Derivatives	0%	0%
	Multi sector credit fund	12%	0%
	Private debt	0%	3%
	Cash/Temporary investments	0%	1%
Net current assets	Debtors	0%	0%
	Creditors	0%	0%
Total		77%	23%

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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

36. CONTINGENT LIABILITIES

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

37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 31 March 2022 and is available on the Council's website (Minute 76).

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

Credit risk

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

The full Investment Strategy for 2022/23 was approved by Council on 31 March 2022 and is available on the Council's website (Minute 76).

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 2023 and is reflected in the current figure of £543,000. This compares to £486,000 in 2021/22. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 15 to the accounts.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Amounts Arising from Expected Credit Losses

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

	Balance at 31 March 2023	Historical Experience of Default	Estimated Maximum Exposure to Default and Uncollectability at 31 March 2023
	£000	%	£000
Deposits with Bank and Financial Institutions			
Blackrock Money Market Fund	6,000	0.000%	-
Deutsche Money Market Fund	2,500	0.000%	-
LGIM Money Market Fund	5,700	0.000%	-
Debt Management Office	1,900	0.001%	-
Standard Chartered Bank	6,000	0.012%	1
Barclays Bank PLC	4,000	0.013%	1
Lloyds Bank PLC	6,000	0.023%	1
Total	32,100		3

Liquidity risk

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Market Risk

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

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

Interest rate risk

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

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

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

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

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

Price risk

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

Foreign exchange risk

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

Refinancing and Maturity Risk

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

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

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

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

	Approved minimum limits	Approved maximum limits	31 March 2022		31 March 2023	
	%	%	£million	%	£million	%
Less than 1 year	0%	10%	0.096	0.7%	0.099	0.7%
Between 1 and 2 years	0%	10%	0.459	3.2%	0.461	3.2%
Between 2 and 5 years	0%	50%	1.392	9.7%	1.400	9.8%
Between 5 and 10 years	0%	50%	2.375	16.5%	2.390	16.7%
Between 10 and 20 years	0%	50%	3.642	25.3%	3.678	25.8%
More than 20 years	0%	100%	6.416	44.6%	6.256	43.8%
Total			14.380	100.0%	14.284	100.0%

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

38. ACCOUNTING POLICIES

a) General Principles

The **Statement of Accounts** summarises the Authority's transactions for the 2022/23 financial year and its position at the year end of 31 March 2023. 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 Local Government Act 2003).

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

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

b) Accruals of Income and Expenditure

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

The Council operates a de minimis policy for accruals. For revenue and capital expenditure the de minimis has remained at £5,000 in 2022/23

c) Cash and Cash Equivalents

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

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

Key: T = trade date

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

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

d) Material Items of Income and Expense

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

f) Charges to Revenue for Non-Current Assets

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

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

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

g) Employee Benefits

Benefits Payable during Employment

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

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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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

Financial Assets

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

The three main classes of financial assets are measured at:

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

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

Financial Assets Measured at Amortised Cost

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

The asset is initially measured and carried at fair value.

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

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

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

Expected Credit Loss Model

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

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

Fair Value

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

j) Government Grants and Contributions

General

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

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

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

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

k) Heritage Assets

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

l) Intangible Assets

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

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

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

m) Inventories

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

n) Investment Properties

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

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

o) Jointly Controlled Operations

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

p) Leases

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

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

The Authority as Lessee

Finance Leases

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

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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*.

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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*.

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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 Assets Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets 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 z) 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 officers 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 His 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.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

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 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 2023/24 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Council in the 2023/24 financial statements i.e. from 1 April 2023.

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.

In response to the Covid-19 pandemic and an urgent consultation being ran across Local Government in February 2022, CIPFA/LASAAC deferred the implementation of IFRS 16 'Leases in the Public Sector' until the 2024/25 financial year, with an effective date of 1 April 2024.

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 2023

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.

2021/22 Business Rates £000	2021/22 Council Tax £000		2022/23 Business Rates £000	2022/23 Council Tax £000
		INCOME		
	(83,021)	Income from Council Tax		(86,382)
(22,865)	-	Business Rates Receivable	(25,442)	-
28	-	Less: Transitional Relief	160	-
(22,837)	(83,021)		(25,282)	(86,382)
		EXPENDITURE		
		Precepts, Demands and Shares:		
14,219	-	Central Government	11,459	-
2,559	57,879	Devon County Council	2,062	60,919
-	9,060	Devon & Cornwall Police	-	9,650
284	3,447	Devon & Somerset Fire Authority	229	3,593
11,375	9,679	South Hams District Council (net including Towns/Parishes)	9,167	10,196
(2,029)	-	Business Rates written off and change in impairment allowance	204	-
-	491	Council Tax written off and change in impairment allowance	-	435
(354)	-	Business Rates increase/(decrease) in provision for appeals	(1,485)	-
-	-	Disregarded Amounts	1,402	-
212	-	Business Rates – Costs of collection	214	-
		Distribution/collection of previous year's estimated surplus/(deficit):		
(7,592)	-	Central Government	(5,139)	-
(1,366)	(181)	Devon County Council	(925)	1,084
-	(28)	Devon and Cornwall Police	-	170
(152)	(11)	Devon and Somerset Fire Authority	(103)	65
(6,074)	(30)	South Hams District Council	(4,111)	181
11,082	80,306		12,974	86,293
(11,755)	(2,715)	MOVEMENT ON BALANCE	(12,308)	(89)

SECTION 4. COLLECTION FUND

1. Council Tax and Council Tax Base

In 2022/23, the Council's average Band D Council Tax was £2,155.30 (£2,090.55 in 2021/22). The charge for each band is a ratio of band D. The 2022/23 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	1,197.39
A	6/9	1,436.87
B	7/9	1,676.34
C	8/9	1,915.82
D	1	2,155.30
E	11/9	2,634.26
F	13/9	3,113.21
G	15/9	3,592.17
H	18/9	4,310.60

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 2022/23 was **39,139.70** as calculated below (38,298.32 in 2021/22).

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A	-	11.75	11.75	5/9	6.53
A	5,079	(879.00)	4,200.00	6/9	2,800.00
B	8,832	(1,061.50)	7,770.50	7/9	6,043.72
C	9,021	(863.75)	8,157.25	8/9	7,250.89
D	8,190	(616.00)	7,574.00	1	7,574.00
E	7,130	(462.50)	6,667.50	11/9	8,149.17
F	3,952	(190.75)	3,761.25	13/9	5,432.92
G	3,087	(163.50)	2,923.50	15/9	4,872.50
H	352	(20.50)	331.50	18/9	663.00
Total	45,643.00	(4,245.75)	41,397.25		42,792.73
Less allowance for non-collection					(1,069.82)
Plus adjustment for armed forces dwellings					70.00
Other adjustments including Council Tax Support					(2,653.21)
Tax base					39,139.70

SECTION 4. COLLECTION FUND

2. Rateable Value

The total business rates rateable value at 31 March 2023 was £88,573,592. This compares to £86,993,036 at 31 March 2022. The standard business rates multiplier was 51.2p in 2022/23 (2021/22 51.2p). Without reliefs this would generate a total income of £45,349,679.10 (2021/22 £44,540,434.43). 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 2022/23 the Government continued to fund a Retail, Hospitality and Leisure Relief scheme in response to the Covid-19 pandemic.

3. Collection Fund balance

2021/22 Business Rates* £000	2021/22 Council Tax £000		2022/23 Business Rates* £000	2022/23 Council Tax £000
18,106	(28)	Fund balance at 1 April	6,351	(2,743)
(11,755)	(2,715)	Deficit/(surplus) for year	(12,308)	(89)
6,351	(2,743)	Fund balance as at 31 March – deficit/(surplus)	(5,957)	(2,832)

*Business Rates Position

During 2021/22 local authorities received further s31 grants to offset the business rate reliefs given to businesses during the pandemic. Under current Collection Fund accounting rules, the s31 grants received could not be discharged against the Collection Fund deficit until the following year. The balance on the Business Rates Collection Fund as at 31 March 2023 has moved from a £6.35m deficit to a £5.96m surplus following the release of this s31 compensation grant to the Collection Fund in 2022/23.

SECTION 4. COLLECTION FUND

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

2021/22 Business Rates* £000	2021/22 Council Tax £000		2022/23 Business Rates* £000	2022/23 Council Tax £000
3,175	-	Central Government	(2,978)	-
572	(1,982)	Devon County Council	(536)	(2,045)
-	(312)	Devon and Cornwall Police	-	(324)
64	(118)	Devon and Somerset Fire Authority	(60)	(121)
3,811	(2,412)	Total deficit/(surplus) due to Preceptors	(3,574)	(2,490)
2,540	(331)	South Hams District Council	(2,383)	(342)
6,351	(2,743)	Fund balance as at 31 March – deficit/(surplus)	(5,957)	(2,832)

*Business Rates Position

The balance on the Business Rates Collection Fund as at 31 March 2023 has moved from a £6.35m deficit to a £5.96m surplus following the release of s31 compensation grant received in 2021/22 to the Collection Fund. This balance is shared between the Preceptors and South Hams District Council as shown in the table above. The Preceptors element of this surplus is reflected in the significant reduction in the Business Rates Debtor as at 31 March 2023 detailed in Note 15.

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

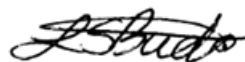
The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

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 2023.

The Statement of Accounts is unaudited and may be subject to change.



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

30 June 2023

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 Bonham

Chairman of the Audit and 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.
FEEES 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.