DRAFT

STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2017
(Subject to Audit)

CONTENTS - OVERVIEW

Cover Photo: Our new housing development at Fir Close in Willand

Introduction by the Leader of the Council

It is my pleasure to introduce our annual accounts for 2016/17 in what has been another year of significant change and achievement for Mid Devon.

During the year the Council has managed a number of changes while continuing or improving service delivery; the relocation of waste and streetscene services to our new depot at Carlu Close was achieved with virtually no impact on customers – in fact our recycling rates have increased by 4%, a measure that saw us being the most improved district in Devon. We also accommodated the arrival of the Department for Work & Pensions in our offices at Phoenix House; a move that not only co-locates vital services for customers, but also reduces the Council's overheads and provides greater efficiency in our own operations.

A new joint economic strategy was agreed with our partners in the Greater Exeter area and, as the mood music ebbed and flowed on strategic 'devolution' prospects, we found ourselves working closely in collaboration with authorities across Devon and Somerset to gain more influence over our future. To this end I am very pleased to see the emergence of a new productivity plan for the area to be finalised later this year. It will be critical to see Mid Devon benefit from measures to increase productivity as it so closely correlates to higher wages and all the other benefits that this can bring.

Finally, this year also saw the submission of our local plan – a plan that will shape the look and feel of Mid Devon over many years to come. While we await the formal examination by the Planning Inspectorate later this year, it is vital that we move forward and plan positively for growth. The slow rate of housing build directly contributed to us having challenges on our '5-year land supply' last summer, which puts the whole district at risk of inappropriate development. I look forward to securing this new planning framework for Mid Devon and ensuring that we can control our own destiny on one of the areas that matters most to our residents.

We were recognised as being among the best nationally in closing our accounts last year, and I am confident that our financial robustness and rigour will stand us in good stead during the challenging times ahead.

Clive Eginton
Leader of the Council

Views from the Chief Executive

This year has seen local government finance in the news more than ever before. While the context has been the pressure on adult social care and (inevitably) Brexit, the reality for Mid Devon is a drastic change to the way we are funded for delivering growth through the New Homes Bonus, as well as the spectre of all government grants ceasing by 2020. Last October we accepted (along with >98% of councils in the country) the government's offer of a 4-year fixed finance settlement, which confirmed our budget position over this timeframe and made clear the need for self-sufficiency as central government funding diminishes to zero.

However, the intent is that the much-lauded 100% local retention of business rates will provide councils with increased incentive to support, enable and (where necessary) cajole their economies into growth. While this may be a challenge for some councils, I firmly believe Mid Devon has the scope and appetite to grow its business base through both the expansion and growth of our indigenous businesses, but also through the incubating of new start-ups and the attracting of relocating companies into our area. It is no coincidence that I am currently bringing together the planning and economy functions of the council within a single department to share this ethos, aim, and understanding.

It has been an eventful year on the asset side of the business, with capital released from assets where appropriate gains could be realised, but with tactical acquisitions that are providing attractive yields in the short-term whilst providing scope for regeneration and value-creation in the medium term.

My new senior team was fully completed in March with the arrival of a new Director of Operations and I am now seeking to ensure we move from being a 'can-do' council, to a 'does-do' one. We have proven we can move with pace; from signing the deal with DWP to them being fully operational within our offices took less than 8 months. We have proven we can compete; our Electric Nights Street Food events won at the 2016 Devon Life Food awards and in 2017 Mid Devon is hosting the Wales & West heat of the British Street Food competition. We have proven our ambition; we were one of only 14 areas in the country to secure government support for new garden settlement proposals. We have proven our absolute pride in place; investing more in rubbish clearance and issuing more penalty notices for littering and dog fouling. We have also proven, through our recently-completed peer review, that we are a 'radically improved organisation and in a strong position to address future challenges'.

However, there remains much to be done; our new property company intends to disrupt and intervene in the broken housing market; a substantial capital investment in leisure facilities seeks to provide new opportunities for health and fitness as part of our commercial product offering; masterplanning seeks to shape and drive investment and regeneration in our market towns; maximising the opportunity of growth and ensuring delivery rather than simply planning for it; placing Mid Devon confidently within the Greater Exeter partnership and its emerging strategic plan framework; and of course working to secure a flagship outcome at the J27 development site.

Amongst all this there is an increasing 'back-office' transformational agenda to drive forward, and I will continue to be challenging in the exploration of new options for efficiency and partnership that will allow us to deliver the best possible outcomes for Mid Devon's residents, businesses and visitors.

Stephen Walford
Chief Executive

Narrative Report

Financial Commentary by Director of Finance, Assets & Resources Andrew Jarrett

Once again strong financial stewardship has enabled the Authority to end 2016/17 with core spending close to budget and with healthy reserves to face an uncertain future. During the year our annual Accounts closedown process was singled out as best practice across the South West by the external auditors and a recent independent Peer Review challenge process referred to our “strong financial position”.

In order to matching spending aspirations against the ongoing national austerity programme we have taken a number of positive measures with regard to current and future service delivery. Major changes to the waste collection service are now delivering significant improvements; a 4% increase in the recycling rate, reduced landfill tonnages and around 8,700 customers on the garden waste collection service. All of this hard work has also culminated in the Council negotiating a pan-Devon shared savings waste agreement with Devon County Council where all parties financially benefit from any service changes that reduce the overall cost of waste collection. In addition to waste the Council has also increased its investment with the CCLA property investment fund to £5m, generating a return of 4.32% and also undertook an internal office move in order to relocate the local DWP offices into our Phoenix House HQ resulting in a new annual rental stream.

The Council is still exposed to a large degree of uncertainties – both on the local and national context. A national Election, future Brexit outcomes, the move to 100% Business Rates localisation, the fair funding review, the full roll-out of Universal Credit and the elimination of revenue support grant by 2019/20. Based on these well documented issues the Council is already taking significant proactive steps to plan for the medium to longer term future. Senior Leadership have already mapped out a revised medium term funding envelope and set against this we are looking to; increase national benchmarking and review alternative service delivery models, deliver a major extension to Exe Valley Leisure Centre, generate circa £1.5m capital receipts from surplus asset disposals, set up a property Special Purpose Vehicle (to deliver a step change in market housing supply and recycle all profits back in to the Council). As the Council is now intrinsically linked to future expansion or contraction of the businesses that operate in its boundaries, exciting new potential relating to the Premier Inn development and in the more medium term, allocations associated with the 2 M5 motorway junctions will undoubtedly see major increases in the Business Rates fortune of the District.

So in summary, the Council has finished 2016/17 in a relatively healthy financial position, with sensible levels of reserves and continues to financially plan for a challenging future in order to provide its residents with the services they need/want at an acceptable level of Council Tax or charge mapped against an ever diminishing level of Government funding.

Andrew Jarrett

Director of Finance

1.1 Introduction

The Council's Narrative Report sets out the overall financial position and details the financial transactions relating to the District Council's activities for the year ended 31 March 2017. The financial statements have been prepared in accordance with the requirements of the "Code of Practice on Local Authority Accounting in the United Kingdom for 2016/17.

1.2 The Core Financial Statements

Stated below is a list of the major areas of the Accounts with a brief description that outlines the purpose of each component.

1.3 Movement in Reserves Statement

This statement analyses the in-year changes in both usable and unusable reserves and clearly shows the real value of cash reserves held by the Council.

1.4 Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement (CIES) is a summary of the resources generated and consumed by the Council in the year. This year there are two new notes that accompany the CIES, as follows.

- The Expenditure and Funding Analysis
- Expenditure and Income Analysed by Nature

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent payers how the funding available to the authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities 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 council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

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.

1.5 The Balance Sheet

This statement is fundamental to the understanding of the Council's financial position at the year-end. It shows all balances and reserves at the Council's disposal, its long-term indebtedness and the non current assets and net current assets employed in its operation together with summarised information on the non current assets held.

1.6 Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

1.7 The Housing Revenue Account (HRA) Income and Expenditure Account

This account reflects the statutory obligation to account separately for the Council's provision of housing. The HRA Income and Expenditure Account shows in more detail the income and expenditure on HRA services included in the whole authority Comprehensive Income and Expenditure Statement.

1.8 Collection Fund

This account reflects the statutory requirement for the Council to maintain a separate Collection Fund which shows its transactions in relation to national non-domestic rates and council tax, and illustrates how these have been distributed to Devon County

Council, Devon and Cornwall Police Authority, Devon and Somerset Fire Authority, central government and the Council itself. The Balance Sheet and the Cash Flow Statement only reflect Mid Devon's share of any Collection Fund surplus or deficit.

2.0 Review of the Year

The purpose of the narrative report to the Annual Report and Accounts is to provide a commentary on the main financial highlights contained within the Report and to identify any significant events that may affect the reader's interpretation of the Accounts.

2.1 Revenue Expenditure – General Fund Financial Performance

During the year regular monthly financial monitoring information has been produced and reported to senior management and members. This monitoring report declared forecasts of varying amounts dependent on the information known at each point in time during 2016/17. The month 9 monitoring report tabled at the 2 February 2017 Cabinet meeting declared an estimated outturn deficit of £64k on the General Fund (this detailed report can be found on the council's website).

The main budget variances which reconcile the year end General Fund deficit are shown in the table below.

2016/17 Savings & Additional Costs	**Budget variances £k**
Capacity funding relating to the Eastern Urban Extension	(224)
Cullompton Garden Village Funding	(214)
Leisure memberships, classes and sales income down on budget	125
Leisure management restructure	92
Environmental Services staffing and other overspends	128
Move and fit out costs for new Waste depot	156
Significant reduction in DARS bad debt provision	(88)
Grant received for Community Housing projects	(131)
HR salaries and management development programme	62
Town and Parish Fund grant awards	79
Minor variances	(15)
Net overall surplus for the year	**(30)**

These and other variances have resulted in an overall surplus of £30k for the year on the General Fund as shown in the Movement in Reserves Statement (so a change of £94k from the month 9 monitoring report).

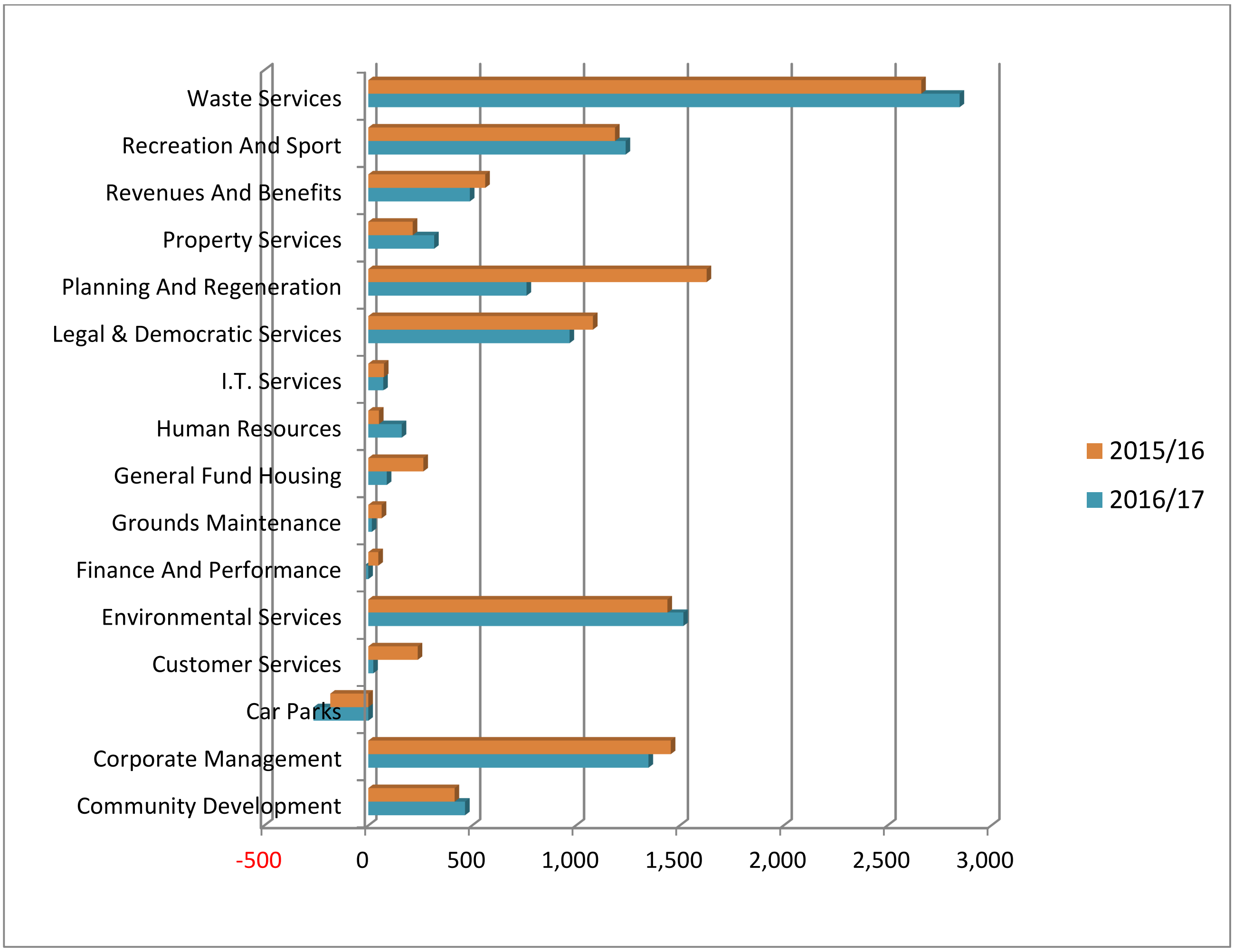
The overall General Fund position delivered in 2016/17 reflects the continued efforts of both officers and members to provide high quality services at an affordable cost and demonstrates the Council's ongoing commitment to further reduce operational cost to mitigate against further cuts in Central Government funding.

The closing General Fund Balance (GFB) of £2,241k can be reconciled by:

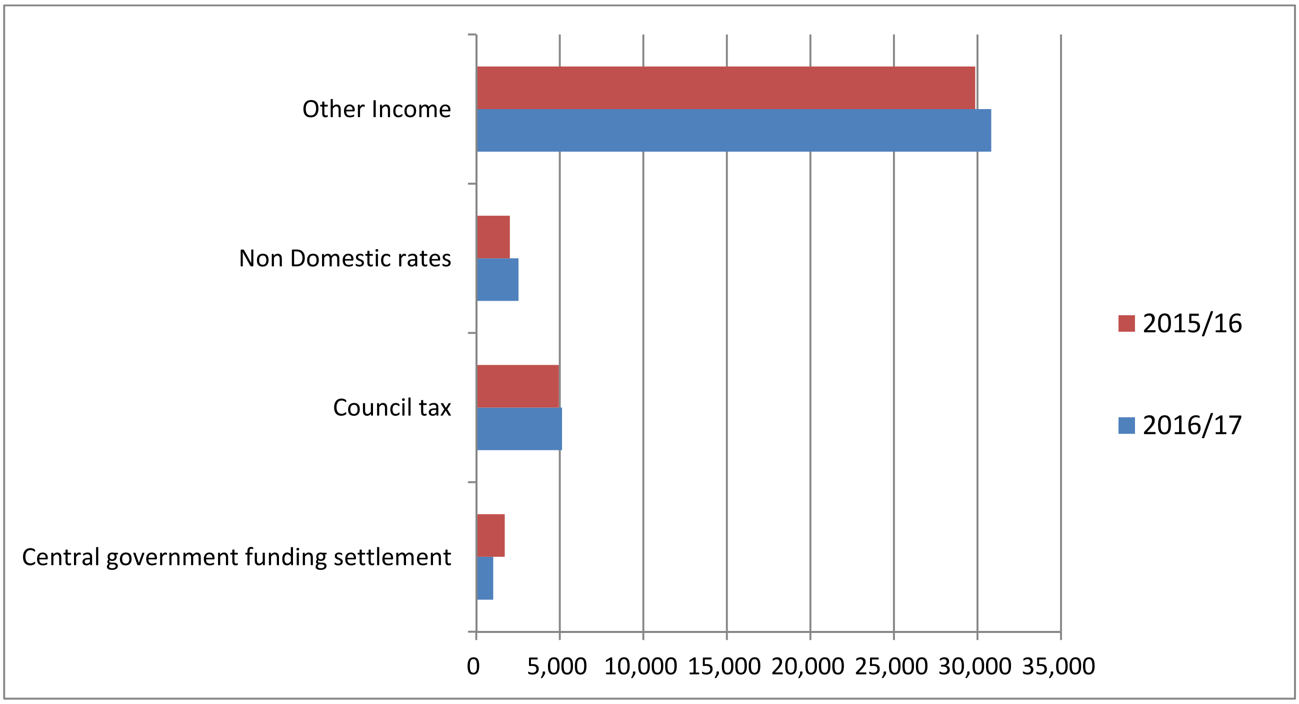
GFB @ 31/03/16	£ (2,211)k
Budget saving achieved in 2016/17	£ (30)k
GFB @ 31/03/17	£ (2,241)k

Note – Minimum GFB agreed at 25% of net expenditure = £2.2m.

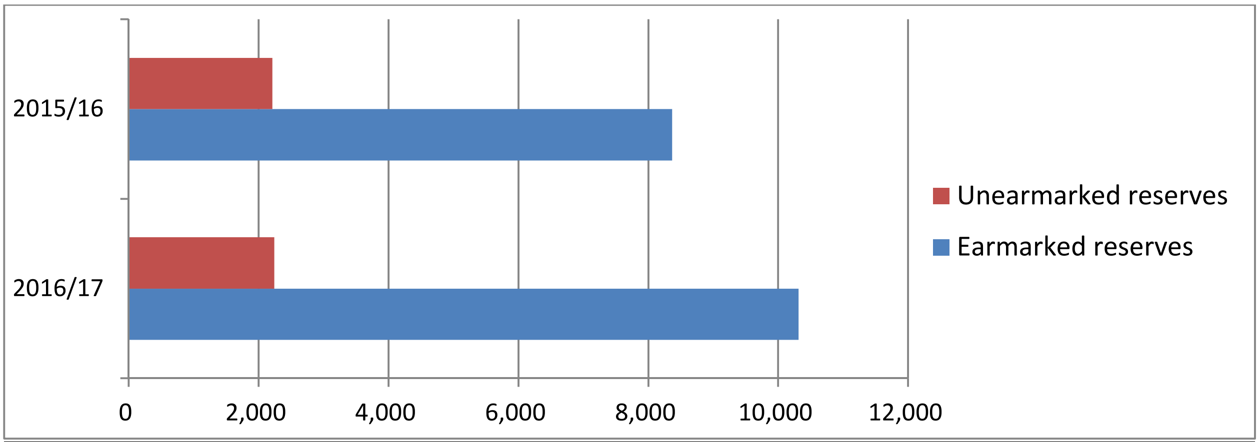
General Fund Net Service Expenditure £k



General Fund Revenue Income £k



General Fund Account Reserves £k



2.2 Revenue Expenditure - Housing Revenue Account (HRA)

The 2016/17 financial year has seen a very positive financial position delivered by the HRA. Overall spending levels have been below budget during the year and the HRA Balance has ended the year at the same level it started at, £2m. The month 9 monitoring report showed a year end forecast under-spend of £255k which, following three further months of activity and year-end accounting adjustments, has grown to £380k and this surplus has been transferred to the 30yr Modernisation reserve (this reserve now sits at £10,970k).

The main budget variances which reconcile this outturn position are shown in the table below:

2016/17 Savings & Additional Costs	**Budget variances £k**
Renewable energy income was greater than expected	(50)
Repairs and Maintenance under-spend	(33)
Tenancy staffing and other savings	(174)
Savings on purchase and maintenance of alarms	(52)
Bad debt provision decreased instead of increasing	(28)
Non-dwelling rent income was ahead of target	(19)
Investment income yields were better than expected	(19)
Minor variances	(5)
Overall surplus	**(380)**

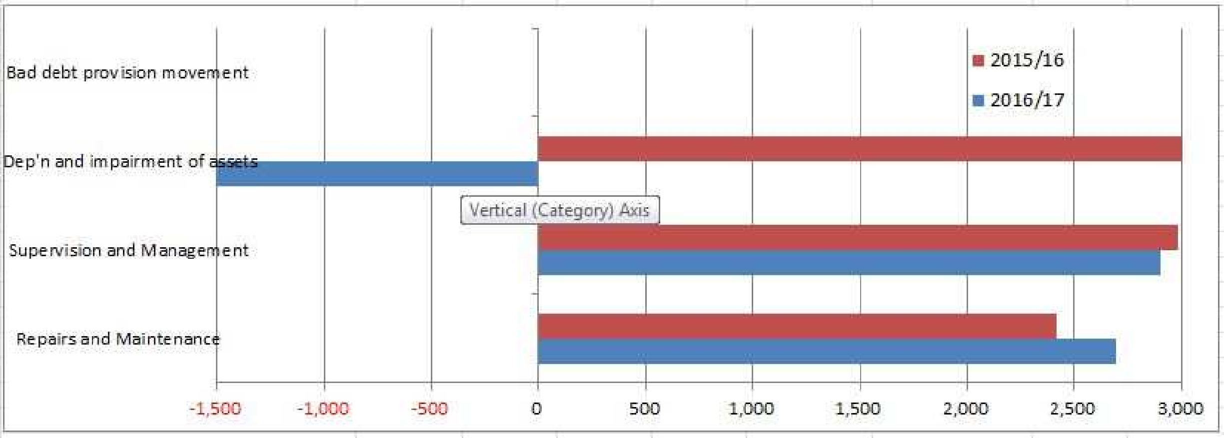
Note - A detailed explanation of the end of year financial position on the HRA is being reported to the Cabinet at its meeting on the 15 June 2017 and this information will be available on the Council's website.

The Housing Service continues to prioritise its spending to ensure the delivery of the Decent Homes Standard and to this end has continued to target additional resources into increased expenditure on major stock improvements. This additional investment has resulted in 100% of our Council housing stock achieving the Decent Homes Standard.

The closing HRA Balance (HRAB) of £2,000k can be reconciled by:

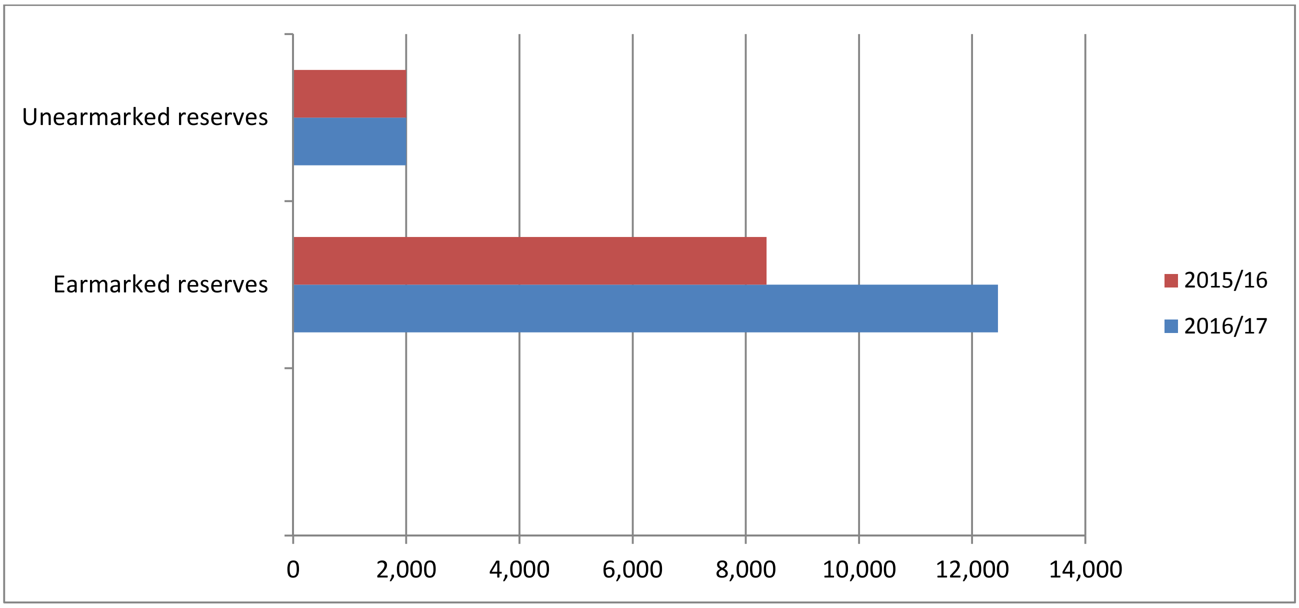
HRAB @ 31/03/16	£	(2,000)k
Movement in reserve balance for the year	£	0K
HRAB @ 31/03/17	£	(2,000)k

Housing Revenue Account Service Expenditure £k



Since the values for depreciation and impairment are significantly higher than the other values in this chart, the scale has been amended so as to present a meaningful picture. However, this does mean that in both years the value for depreciation and impairment runs beyond the edge of the chart (the values are -£15,394k for 2016/17 and £4,310k for 2015/16).

Housing Revenue Account Reserves £k



2.3 Revenue Expenditure – Non Financial Performance And Risk

When reviewing the performance of the Council in 2016/17, one needs not only to see how we perform against budget, one must also assess how we performed against the operational/strategic targets set within the context of the Corporate Plan during the year. The performance reports tabled at Cabinet and the PDGs are shown as an addendum to this report highlight the achievements for the financial year against the targets set for both the General Fund and the Housing Revenue account.

In addition the Council pro-actively reports any major risk to its Cabinet, Policy Development Groups and Scrutiny meetings at regular intervals during the year

2.4 Capital Expenditure

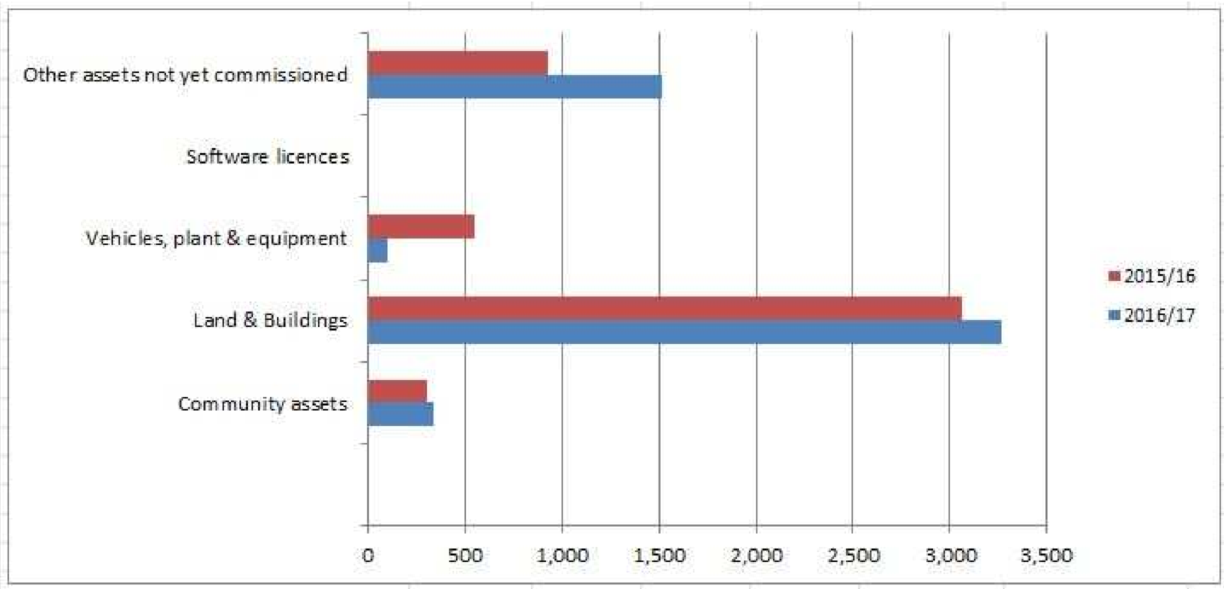
During the year, capital expenditure amounted to £5,293k. The Council used £820k of capital receipts to fund the capital programme, with the balance of the expenditure met by a combination of external grants and earmarked reserves.

The largest areas of expenditure in the 2016/17 capital programme were: £3,166k spent on improvements, additions and disabled adaptations to our existing housing stock, £1,293k on council house building projects, £97k on plant and equipment and £333k spent on various housing related grants/projects.

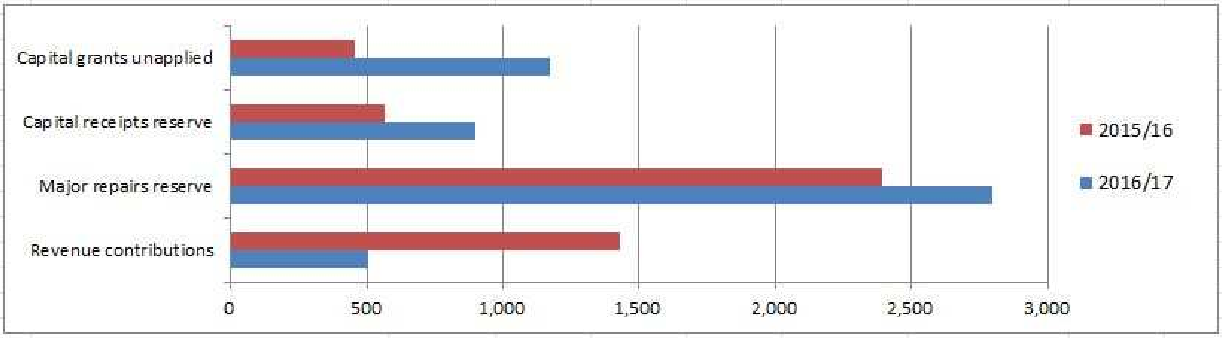
In its medium term financial plan the Council identifies spending plans of circa £47m over the next four years. In order to help fund this we have already been reserving sums from specific grants/receipts and from the New Homes Bonus to ensure that sufficient funding is available when and where required.

A review of each of the financial statements will provide further details of the financial position of the Council for 2016/17.

Capital Expenditure £k



Capital Financing £k



2.5 The Movement in Reserves Statement

This statement is the key to establishing the aggregate financial position of the Council, as it produces a summary of all the “cash backed” Reserves that the Council holds. It shows that the Council’s usable reserves have increased by £6,139k to £31,615k during 2016/17.

2.6 The Comprehensive Income and Expenditure Statement

The financial highlights for the Comprehensive Income and Expenditure Statement are given below:

The Comprehensive Income and Expenditure Statement (CIES) shows an overall surplus of £11,604k. However, this position also includes the consolidation of the Council’s HRA. In addition, there are a number of technical accounting adjustments made to the final accounts which need to be “reversed out” in order to reflect the final cash position. These entries are included in the Adjustments between Accounting Basis and Funding Basis under Regulations. Once all of these adjustments are accounted for, the overall outturn is a £30k surplus on the General Fund and a zero variance on the HRA.

For information purposes, in addition to the various fees and charges levied by services, the General Fund was funded by £1,017k from Central Government Formula Grant, £2,535k from Business Rates, and Council Tax of £5,136k (excluding Parish Precepts). In addition there were miscellaneous grants totalling £3,688k.

2.7 Balance Sheet

The financial highlights for the Balance Sheet are shown below:

- The Property, Plant and Equipment valuation, after adjustment for additions, disposals, and finance leases, increased by £20,310k during 2016/17, largely due to a change in discount basis from 31% to 35% for council dwellings.

- The overall Pension Scheme deficit decreased by £16,502k.

2.8 Cash Flow Statement

The Council had a net cash outflow during 2016/17 of £394k.

2.9 Housing Revenue Account (HRA) Income and Expenditure Account

The financial highlights for the HRA Income and Expenditure Account are given below:

- The HRA achieved a £23,327k surplus in 2016/17, but adjustments made in the Movement on the HRA Statement of £20,611k and the transfers to Earmarked Reserves of £2,716k, result in a break even position.

3.0 Major Repairs Reserve (MRR)

The Housing Revenue Account also holds a MRR, which is ring fenced for capital expenditure on HRA properties. This reserve effectively carries forward any unspent major repairs allowance. During 2016/17, the Council credited £2,797k to the MRR, which was fully utilised. As a result, there was no carrying balance on the MRR as at the 31/3/2017.

3.1 The Collection Fund

The financial highlights for the Collection Fund are given below:

- There was a £243k surplus on the Council Tax Collection Fund in 2016/17. This results in an overall surplus on the fund of £303k at 31/3/2017, of which 13.84% is due to MDDC, amounting to £42k.
- The Council Tax collection rate achieved in the year was 98.1% (98.1% in 2015/16).
- The Council set a Band D equivalent council tax rate of £187.15 in 2016/17.
- There was a £1,496k surplus on the Business Rates Collection Fund in 2016/17. This results in an overall deficit on the fund of £356k at 31/3/2017, of which 40% is due to MDDC, amounting to £143k.
- The Business Rates collection rate achieved in the year was 99.2% (99.1% in 2015/16).

3.2 Pension Fund

The financial highlights of the pension fund are:

- Pension assets have increased to £59,578k (£52,033k in 15/16)
- Pension liabilities have increased to £123,474k (£97,897k in 15/16)
- Unfunded liabilities have increased to £1,226k (£1,168k in 15/16)
- The net deficit on the fund is £63,534k (£47,032k in 15/16)

The requirement to recognise the net pension liability on the Balance Sheet arises from Financial Reporting Standard 17 "Retirement Benefits" and IAS19. IAS19 requires all councils and other businesses to disclose pension assets and liabilities within the Balance Sheet. Further analysis of the pension movements can be found in the notes following the core financial statements.

3.3 Valuation of Property Portfolio

The Council instructed the District Valuer to undertake a full valuation of 1/5th of its asset portfolio and review the remaining assets in order to establish a "true and fair" view for the 31 March 2017 Balance Sheet.

3.4 Treasury Activities

The table below gives an overview of the Council's treasury activities during 2016/17:

31/03/16 £k	**Investment Categories**	**31/03/17 £k**
3	Cash floats	3
4,884	Bank deposits	3,743
1,500	Short term deposits	0
2,390	CCLA LAMIT property fund	4,639
8,777	**Total**	**8,385**

In addition to above cash equivalents, the Council also held £18m of short term investments as at the 31 March 2017.

The Council generated investment interest of £143k, which gave an average rate of return of 0.63%.

3.5 Borrowing

At the end of 2016/17, the Council had five Public Works Loan Board loans outstanding with a principal of £43.97m, having paid off £1,683k of the outstanding balances during the year. Interest of £1.3m was paid during 2016/17. The interest rates on these loans range from 1.32% to 2.68% pa.

3.6 Post Balance Sheet Events

On 21/04/17 Mid Devon completed the purchase of Coggans Well House for £290k. Since the transaction was completed after the 31/03/17 it is not reflected in the balance sheet of that date. Because the value of the transaction is not material, it is considered to be a non-adjusting event.

At the 31/03/17, the Council had exchanged contracts with Tiverton Town Council to sell Tiverton Town Hall to that party for a sum of £175k. Since the transaction had not been completed, it is not reflected in our balance sheet. At the date of publication, the transaction remains yet to complete.

3.7 The Financial Future of Mid Devon

2016/17 was another challenging but ultimately successful year for the Council, services were delivered within a much reduced budget envelope and we managed to finish the year with a healthy level of reserves to cope with a much more uncertain financial future. Continued cuts in Central Government funding, of circa £3m, since 2010/11, has forced all Councils to explore more creative cost saving measures and income generating opportunities.

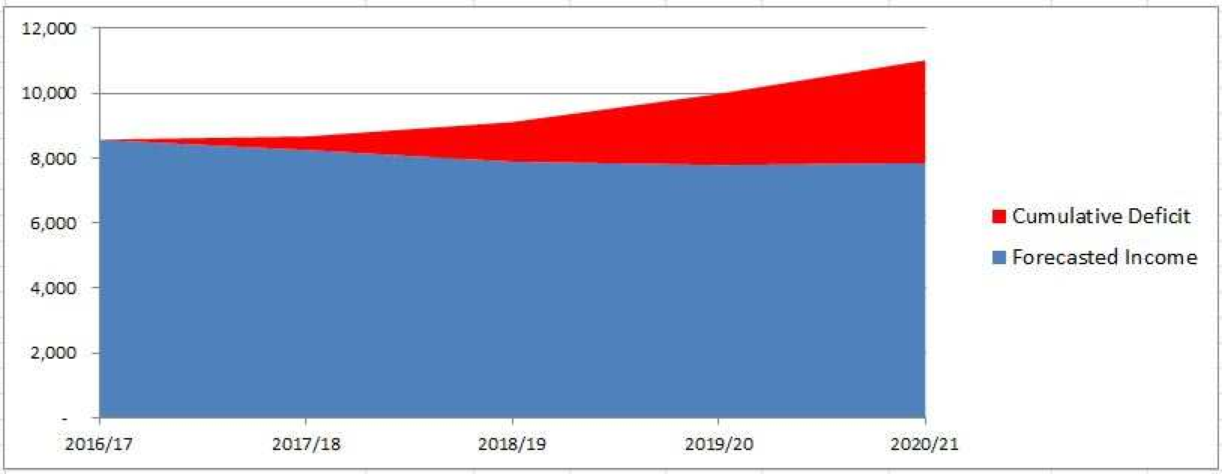
During 2016/17 the Council has taken a number of proactive steps to: rationalise surplus property assets, work more closely with local and neighbouring Councils, make major changes to our Waste collection service, increased the investment in a national property rental fund, maintained and in a number of areas improved income collection rates and further reduced our operational headcount. In addition to these service improvements we have also delivered on our Local Plan, which allocates a number of exciting large scale commercial and residential allocations.

Looking forward there still remains much financial uncertainty regarding the future of local government funding. An imminent national election may well change priorities, the elimination of Revenue Support Grant, the 100% localisation of business rates and a Fair Funding review all timetabled for 2019/20 may all collectively alter the shape of national and local government funding.

Although the myriad of uncertainties affecting local government make medium term financial planning far more challenging, the fairly recent confirmation of a fixed 4 year funding settlement has at least given some clarity to one of the Councils major funding sources. And to this end the Council's senior leadership team is already working to set a strategic 5-7 year vision which is both deliverable and affordable.

This Council continues to take pride in delivering value for money services, set against a challenging funding backdrop. With strong financial management and stewardship we will enter 2017/18 with a sound and healthy balance sheet, appropriate levels of reserves and a wide range of future plans to ensure we continue to provide high quality services which our residents, customers and visitors want, need and value.

Medium Term Forecast Expenditure and Funding £k (As discussed at the October 2016 Cabinet meeting)

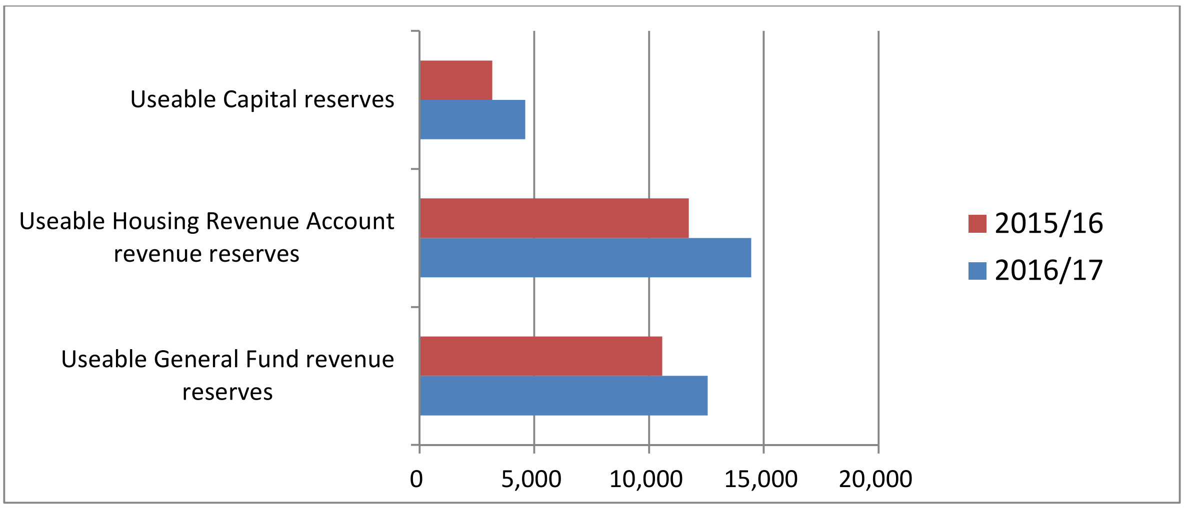


<u>Notes</u>

1. This diagram shows that delivering our existing range and level of services, without any remedial action, would result in the Council's expenditure exceeding the available resources by approximately £1m in 2020/21, meaning a cumulative shortfall of £3.2m over the next four years.

2. Central government has reduced the main Revenue Support Grant from £6.2m, in 2010/11 down to £1.0m for 2016/17, but we retain £2.1m of business rates. This therefore equates to a funding cut of 50% over the past five years.

Total Usable Reserves £k



Andrew Jarrett
Director of Finance

4.0 STATEMENT OF ACCOUNTING POLICIES

4.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year ending 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those Regulations require 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 2016/17 and the Service Reporting Code of Practice for Local Authorities 2016/17 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. These statements have been compiled on the basis of the Council remaining a going concern and all amounts have been rounded to the nearest £1,000.

4.2 Accruals and Prepayments of Income and Expenditure

Activity is accounted for in the year in which 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.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services provided (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

A de minimis of £10k is normally applied to any adjustments made.

4.3 Overheads and Support Services

The costs of overheads and support services are charged to those users that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice for Local Authorities 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi- functional, democratic organization.

- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any deprecation and impairment losses chargeable to non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Cost of Services.

4.4 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 non current 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 fixed assets attributable to the service

The Council is not required to raise council tax to cover depreciation, revaluations, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision 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.

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis and form part of the Corporate Management line in the Comprehensive Income and Expenditure Statement (CIES) when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

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

<u>Post-Employment Benefits</u>
Employees of the Authority are members of The Local Government Pension Scheme, administered by Devon County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Authority.

4.6 The Local Government Pensions Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

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

- Liabilities are discounted to their value at current prices using the annualised yield on the iBoxx credit index over the fifteen year AA rated non-gilt bond index.

- The assets of the Devon County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- *quoted securities* – current bid price
- *unquoted securities* – professional estimate of fair value
- *unitised securities* – average of the bid and offer rates
- *property* – market value

The change in the net pensions 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 arising from current year decisions 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*, i.e. net interest expense for the authority – the change during the period in the net defined benefit liability 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 liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- *the return on plan assets* - excluding amounts included in net interest on the net defined benefit liability - 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 Local Government Pensions Scheme - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits, and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at 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 are 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.

4.7 Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as either short term or long term creditors, depending upon their nature. When conditions are satisfied, the grant or contribution is credited to the relevant service 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. When it has been applied it is posted to the Capital Adjustment Account.

4.8 Revenue Expenditure Funded from Capital under Statute (REFCUS)

REFCUS represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets controlled by the Council. Service revenue accounts have been charged on the basis of the benefit that the service received as a result of the expenditure, net of any capital grants received during the year. As the asset created is not owned by the Authority at the end of the accounting period, the expenditure, net of any capital grants received during the year, is immediately written off in full in the year of creation. Where the Council has determined to meet the cost of the REFCUS from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account.

4.9 Value Added Tax

Income and expenditure exclude any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC) and all VAT paid is recoverable from it, except where the Council is unable to recover VAT. VAT receivable from HMRC is excluded from income.

4.10 Exceptional Items

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

4.11 Minimum Revenue Provision

The Prudential Code requires that all capital expenditure is financed by a credit to the Capital Adjustment Account. If funding is not immediately available then a capital financing requirement (CFR) arises.

Essentially the CFR has to be mitigated over time on a prudent basis by making a "minimum revenue provision". This is a charge to the General Fund made from the "Adjustments between Accounting Basis and Funding Basis under Regulations" and the Capital Adjustment account.

The basis of estimation adopted by the Authority comprises three elements:

1. There is a minimum revenue provision of 4% on assets acquired prior to 1 April 2008.
2. Finance leases have their capital financing applied on a straight line basis over the life of the lease contract.
3. New assets, acquired after 1 April 2008, that are not finance leases, have their

capital financing calculated on a straight line basis over the life of the asset.

4.12 Events after the Balance Sheet Date

Events after the balance sheet date 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.

4.13 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 if 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. When a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the 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.

4.14 Reclassifiable Amounts in the Surplus or Deficit on the Provision of Services

Property, Plant and Equipment

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

Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred. Expenditure is treated as *revenue* in nature unless the expenditure exceeds £20k, except in the case of some projects where the total funding grant exceeds £20k but an individual project using this money may amount to less than this.

Measurement
Assets are initially measured at cost comprising:

- the purchase price
- any costs attributable to bringing the asset into the working condition necessary for it to be capable of operating in the manner intended by management
- any costs attributable to dismantling and removing the item and restoring the site on which it is located

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

- infrastructure, community assets and assets under construction - depreciated historical cost
- dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH). The adjustment factor to give EUV-SH has increased from 31% to 35%.
- all other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV)

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. In some cases, gains may be credited to the CIES 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 only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Componentisation

The move to IFRS accounting has seen the introduction of componentisation. This policy states that where a large asset is made up of a number of components that have differing economic lives, they should be depreciated component by component. Taking account of materiality, the Council has decided to only account for a component that makes up in excess of 20% of the total asset value subject to a minimum value of £250k.

The only exception to this is where major components of council dwellings are separated out from the whole asset for the purposes of setting a more accurate depreciation figure. These major components have been identified as roofs, kitchens, bathrooms, windows and boilers.

Impairment

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

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

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

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

The Council had the District Valuer estimate current values of 1/5th of the property portfolio at 31 March 2017.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged in full in the year of acquisition. An exception is made for assets without a determinable finite life (i.e. freehold land and certain Community Assets), Heritage assets and assets that are not yet available for use (i.e. assets under construction) where no depreciation is charged.

Depreciation is calculated on the following bases:

- council dwellings - depreciation has been calculated based upon the expected lives of key components of our housing units

Roofs	50 years
Kitchens	20 years
Bathrooms	30 years
Windows	30 years
Boilers	10 years
Structure	60 years

Applying this model, with current rebuilding costs, a depreciation charge of £2,222k for the year has been determined. This charge has been allocated pro rata across all of the council dwellings, including new additions based upon the property's value

- other buildings – straight-line allocation over the life of the property as estimated by the Valuer

- Vehicles, plant and equipment – straight-line allocation over the life of the asset as estimated by suitably qualified and experienced officers. Examples of time scales are given below:

Plant	Expected asset life of 10 years
Vehicles	Expected asset life of 5 to 7 years
ICT Equipment	Expected asset life of 5 years
Specialist equipment	Expected asset life of 3 to 10 years
CVSC Boilers & Solar Panels on Council Buildings (Phoenix House, 3 Leisure Buildings & Moorhayes Community Centre)	Expected asset life of 25 years

- Infrastructure – straight-line allocation over the life of the property as estimated by the Valuer

Where an asset has major components with different estimated useful lives, these are depreciated separately. Currently the Council has identified no such assets.

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.

4.15 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 re-valued 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 in the Comprehensive Income and Expenditure Statement. Gains or losses on sale are 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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for sale. When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for sale) is written off to the Other Operating Expenditure 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 in excess of £10k are categorised as capital receipts. A proportion of receipts relating to housing disposals and other assets, net of statutory deductions and allowances, is payable to the Government. Part of the retained balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow, and part is required to be set aside in a ring fenced reserve for future Council house building. Receipts are appropriated to the Reserve from the Adjustments between Accounting Basis and Funding Basis under Regulations.

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

Heritage Assets

A tangible heritage asset is defined as an asset with historical, artistic, scientific, technological, geophysical or environmental qualities, which is held and maintained principally for its contribution to knowledge and culture.

Where such assets are identified, the asset is included in the accounts as a tangible heritage asset and shown separately from vehicles, plant and equipment. If the asset was donated or acquired for less than fair value the asset is brought into the balance sheet at its fair value. The authority values heritage assets on the basis of insurance valuations.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity.

Any impairment is recognised and measured in accordance with the Authority's general policies on impairment shown in note 4.14 above.

Where an impairment loss has been determined, and a revised valuation obtained, the impairment loss is charged to the Surplus or Deficit on the Provision of Services. The charge is then reversed out and charged to the Capital Adjustment account.

4.16 Art Collection

The Authority's art collection includes paintings (oil on canvas, oil on board), statues and busts and some furniture, most of which are contained within the Town Hall at Tiverton. The assets which were donated in years past were valued for insurance purposes by Chilcotts professional Fine Art Valuers and Auctioneers in March 2012. During 2016/17 the paintings were revalued, resulting in a £37k impairment.

The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

The collection is relatively static and acquisitions and donations are rare. Purchases would be initially recognised at cost and donations recognised at valuations provided by the external valuers, with reference to the most relevant and recent information from sales at auctions and other commercial markets.

Acquisition, Preservation and Management

The Authority does not have a defined policy to acquire further Heritage assets. Those owned by the Authority have been bequeathed or donated to the Authority. The Authority's Estates team maintain a record of the assets, working with relevant professional advisers to ensure their continued preservation. Members of the public do not currently have access to the assets contained within the Town Hall.

4.17 Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell the asset or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset, and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost.

Capitalised internally developed software costs associated with in-house commissioning and configuration of software have been amortised over one year as there is no readily ascertainable market value.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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 £10k) the Capital Receipts Reserve.

4.18 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to the 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 upon the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the Lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied in writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant and equipment - applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (in this case ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue 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.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to the services benefitting from the use of the leased property, plant or equipment. 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. if there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Lease rentals are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write-down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement. For this set of accounts the Council has no lessor finance leases.

4.19 Investments including Cash on Deposit with Banking Institutions

Where investments are held at the balance sheet date they are treated as long term if, at the initial contract date, their term is more than twelve months. If, at the initial contract date, their term is more than three months but less than twelve months they are regarded as short term investments. Any cash and bank balances whose term, at their initial contract date, is less than three months are categorised as cash and cash equivalents.

4.20 Accounting for Local Taxes

Non Domestic Rates (NDR)

- Retained Business Rate income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income.

Council Tax

- Council Tax income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income.

NDR and Council Tax will all be recognised in the Comprehensive Income & Expenditure Statement in the line Taxation & Non-Specific Grant Income. As a billing authority, the difference between the NDR and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserve Statement. Each major preceptor’s share of the accrued NDR and Council Tax income will be available from the information that is required to be produced in order to prepare the Collection Fund Statement. The income for Council Tax and NDR is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.

Revenue relating to such things as council tax, general rates, etc. shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

4.21 Inventories

Inventories are included in the Balance Sheet at average cost. This is a departure from the requirement of the SORP, which requires inventories to be shown at the lower of cost and net realisable value. However, the effect of this alternative treatment is not considered to be material.

4.22 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 mature in three months or less from the date of acquisition, and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4.23 Financial Instruments

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale-assets – assets that have a quoted market price and / or do not have fixed or determinable payments

Available-for-Sale-Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority,

Assets are maintained in the Balance Sheet at fair value. Values are based on the following technique:

Instruments with quoted market prices – the market price

The input to the measurement technique is categorised in accordance with the following technique:

Level 1 input – quoted price (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Changes in fair value are balanced by an entry in the Available-for-Sale Financial Instruments Reserve and the gain or loss is recognised in the Surplus or Deficit on revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Financial Instruments Reserve.

Where assets are identified as impaired because of a likelihood, arising from a past event, that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available–for-Sale Financial Instruments Reserve.

Loans and receivables

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

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

Any gains and losses that arise on the de-recognition of the asset would be credited or debited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

4.24 <u>Provisions</u>

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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, based on the best estimate at the balance sheet date of the amount required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

For this set of accounts, the Council has no provisions.

4.25 <u>Contingent Liabilities</u>

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. For this set of accounts the Council has no contingent liabilities.

4.26 General Fund Reserve

Council has approved a policy whereby the level of the General Fund balance should not fall below 25% of the net General Fund budget. The balance at 31/03/17 was £2,241k.

4.27 Housing Revenue Account (HRA)

Council has approved a policy of the HRA maintaining a reserve balance of £2m and this has been maintained throughout 2016/17.

5.0 THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

5.1 The Authority's Responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the Director of Finance, Assets and Resources.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

5.2 The Director of Finance's Responsibilities

The Director of Finance, Assets and Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with the proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Director of Finance, Assets and Resources has:

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Director of Finance, Assets and Resources has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

5.3 Opinion

In my opinion the Statement of Accounts gives a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2017.

Date…………………………… Signature:………………………………………………………..

Andrew Jarrett – CPFA
Director of Finance, Assets and Resources
Mid Devon District Council

6.0 CHIEF FINANCIAL OFFICER'S CERTIFCIATE

I certify that the accounts set out in the following pages, gives a true and fair view of the financial position of the Council at 31 March 2017.

The date on which the Statement of Accounts was authorised for issue by the Director of Finance was 30 May 2017.

This is also the date up to which events after the Balance Sheet date have been considered.

Approved by the Director of Finance, Assets and Resources

………………………………………………… ……………………….

Andrew Jarrett – CPFA Dated

Approved by the Chairman of the Audit Committee

………………………………………………… ……………………….

Bob Evans Dated

Approved by the Leader of the Council

………………………………………………… ……………………….

Clive J Eginton Dated

Approved at a meeting of the Audit Committee on the 30 May 2017