Report to:	**Audit and Governance Committee**
Date of Meeting:	22 September 2016
Public Document:	Yes
Exemption:	None

Agenda item: **8**

Subject: Statement of Accounts 2015/16

Purpose of report:

The Council's Statement of Accounts for 2015/16 has now been audited and is attached for presentation to the Audit & Governance Committee for approval.

The Auditors are anticipating issuing an unqualified audit opinion once the Accounts have been approved by the Audit & Governance Committee.

A report is contained on the Agenda from the Council's external auditors KPMG detailing the work carried out and the audit conclusions.

This report compares the final position on the Council's Accounts compared with the position presented to members at Outturn stage. No amendments have been made to affect the Council's reported financial position given in the Outturn Report in June 2016.

Recommendation: **Members Approve the 2015/16 Statement of Accounts.**

Reason for recommendation:

There is legal requirement for the Council to approve the Council's Statement of Accounts by 30 September; the Council has delegated this function to the Audit & Governance Committee.

Officer: Simon Davey

Strategic Lead Finance sdavey@eastdevon.gov.uk

Financial implications: Details are included in the report.

Legal implications: The legal requirements for a statement of accounts is set out within the report otherwise there is nothing which requires comment.

Equalities impact: Low Impact

Risk: Low Risk

Links to background information:

Link to Council Plan:

Report in full

1. Introduction

1.1 The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the Annual Statement of Accounts.

1.2 Within the regulations there is a requirement that a representative group of Members approve the Annual Statement of Accounts, by 30 September. The Council has delegated this responsibility to the Audit and Governance Committee.

2. Statement of Accounts 2015/16.

2.1 The Accounts were published in draft on 30 June 2016 and presented for audit. Following the Audit one material audit difference was found which has been adjusted in the final Statement of Accounts presented here for Members approval. The adjustment relates to the reclassification of the Knowle asset which in the draft Accounts was recorded as an asset held for sale, however predominately because planning permission has yet to be granted we agree with the Auditors that it should be recorded as Plant, Property and Equipment. This has been corrected in the Statement of Accounts on this agenda for member's approval

2.2 There are two main uncorrected audit differences which have not been adjusted in the final Accounts. One relates to the Knowle incorrect treatment of asset type which has meant an over valuation difference of £0.4m and the second relates to the method of accounting for Housing Revenue Account (HRA) asset stock on a total basis rather that on Beacon basis resulting in £0.09m of accumulated depreciation not being removed from the balance sheet. The net effect of these is a reduction in **unusable** reserves of £0.307m. These will be corrected in the 2016/17 Accounts but at this stage would require a reworking of a number of the 2015/16 statements and the adjustment is not consider material.

2.3 Other minor amendments mainly in presentation have been made to improve the presentation of the Accounts following Audit comment.

2.4 As a consequence of the Audit usable reserves as presented at Outturn and included in the draft Accounts have not changed.

2.5 A report is contained on the Agenda from the Council's external auditors KPMG detailing the work carried out and the audit conclusions. This includes areas we have not adjusted but brought to our attention in the audit findings as we consider them to be immaterial to the results of the Council and its financial position at the year end.

2.6 The amended audited Statement of Accounts for 2015/16 is attached for approval. The Annual Governance Statement which forms part of the Accounts is included on the Agenda for the Committee's approval.

3. Comparison to Revenue and Capital Outturn position previously reported

3.1 The Revenue and Capital Outturn report presented to this Committee and to the Cabinet in June (where figures are prepared by mid May to meet report deadlines) detailed for members the position on the Councils finances compared with the budgets set.

3.2 The Outturn report focuses on key figures relating to the Council's finances and is presented at an earlier stage than the production of the Statement of Accounts. Below comparisons are made between those figures presented at Outturn with the corresponding figures now included in the Audited Statement of Accounts.

General Fund as at 31/3/16

Outturn after agreed transfers to reserves	£3.625m
Statement of Accounts (Page 13 Movement in Reserves Statement)	£3.625m

Within the Outturn report its was agreed to transfer; £0.050m to a reserve for an additional grant to Exmouth Sea Cadets, £0.294m to the NNDR Volatility Fund and £0.101m to the Capital Reserve. These movements have been reflected above.

Housing Revenue Account as at 31/3/16

Outturn after agreed transfer to reserves	£5.135m
Statement of Accounts (Page 13 Movement in Reserves Statement)	£5.135m

£1m was transferred into the HRA Business volatility fund as agreed by members within the Outturn Report.

Capital Reserve as at 31 March 2016

Outturn Reported *	£2.405m
Statement of Accounts (Note Page 41)	£2.405m

£0.101m was transferred onto the Capital Reserve from the General Fund as agreed by members within the Outturn Report.

*The Outturn position was amended prior to drafting the Statement of Accounts by a final funding adjustment of £0.077m – the correct figure was however reported in the Outturn Book presented to members.

There were no amendments made on any other cash reserves held.

Statement of Accounts 2015/16

East Devon District Council

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Statement of Accounts

2015/16

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Introduction

Welcome to East Devon District Council's Statement of Accounts for 2015/16

The Council continued to provide good services without any reductions to front line service delivery despite ongoing Government austerity measures. In 2015/16 the Council adopted a new Council plan 2016-2020 which sets out our main priorities and outcomes; encouraging communities to be outstanding, developing an outstanding local economy, delivering and promoting our outstanding environment and continuously improving to be an outstanding council. Details on the achievements for 2015/16 can be found in the Council's Annual Report available on the Council's website.

In relation to finance the 2015/16 year end position shows a saving/underspend against the Council's set budgets for both revenue and capital for the year, budget variations are explained in detail within the Council's Revenue and Capital outturns 2015/16. The Council has maintained reserves and balances in line with its adopted levels, sums have been retained to mitigate risk and reserves set up to deal with timings in funding service expenditure to be undertaken in future years.

East Devon District Council as a billing authority, collected Council Tax for Devon County Council, Devon & Cornwall Police & Crime Commissioner, Devon & Somerset Fire and Rescue Authority and town and parish councils as well as East Devon District Council itself. East Devon's element of a typical council tax bill (Band D) in 2015/16 was just £121.78. Being frozen at this level for 5 years running.

The pages which follow will explain the services we provide and how your council tax was spent during the year. The Council's accounts have been prepared in line with International Financial Reporting Standards.

We are always looking to improve the way we present our financial information because we feel it's important that residents understand the Council's finances. If there is anything that you would like to tell us so that we can improve things for the future, please do not hesitate to get in touch with us.

Finally, we thank you for showing an interest in East Devon District Council's finances.

Simon Davey CPFA (S151/CFO)
Strategic Lead for Finance
East Devon District Council
Council Offices
Knowle
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NARRATIVE STATEMENT

The intention of the Statement of Accounts is to give the reader a view of the finances of East Devon District Council for 2015/16.

Any documents referred to in links to the EDDC website can be obtained in hard copy on request.

The Narrative Statement is divided into the following sections:

1. Inspection of the Accounts

Under provisions contained in Section 15 and 16 of the Local Audit and Accountability Act 2015 and the Accounts and Audit Regulations 2015, the Statement of Accounts for 2015/16 was available for inspection from 1 July 2016 to 11 August 2016.

The Council's external auditors are KPMG LLP

2.0 2015/16 Performance (Outturn)

2.1 General Fund Revenue

The Council's Revenue Account - known as the General Fund - bears the net cost of providing day-to-day services (excluding provision of council housing).

2.1.1 Comparing Budget to Actual - explaining the big differences.

A report to the Council's Cabinet Committee on the 8th June 2016 gave the year end position and can be found here http://eastdevon.gov.uk/media/1732386/080616-combined-final-cabinet-agenda.pdf, Item 11 on the Agenda. This report highlights a £0.527m or 3% underspend against the net budget set of £15.604m. A variation analysis by portfolio and service is contained in the Revenue and Capital outturns 2015/16 booklet, an indication of the main variations are given below.

Main Outturn Budget Variations 2015/16 - General Fund	Variation £000
Additional business rate income received over assumed budget level	(294)
Home Safeguard income above budget	(201)
Savings from vacant posts and implication of staff turnover	(192)
Land charges Searches - Reduction in costs associated with national litigation and income received from government on new burden funding associated with the litigation.	(159)
Streetscene savings obtained across a number of areas relating to reduce need for contractors and equipment spend	(124)
Car Park income higher than projected – car park machine income £137k above budget, but other income areas below budget estimates	(73)
Reduction in recycling resale values of £0.522m, offset by savings within recycling and refuse service overall.	232
Building Control income below budget expectations, fewer applications than expected.	53
East Devon Business Centre income below budget expectations.	49

2.1.2 Treasury Management performance including interest payable

Interest of £0.500m was received for 2015/16, this being £80k in excess of the budget. Total payable on borrowing was £0.159m which was £61k below budget and no restructuring of loans took place.

Full details of performance are available in the Annual Treasury Management report presented to Cabinet on 8 June 2016, agenda item 12 http://eastdevon.gov.uk/media/1732386/080616-combined-final-cabinet-agenda.pdf and under the financial instruments notes in the accounts. Details can be found here of the EDDC 2015/16 Treasury Management Strategy.

2.1.3 Material items of Income and expenditure

Most large items of expenditure are covered in the Council's capital programme detailed below.

The following item is included in the 2015/16 Comprehensive Income and Expenditure:

The cost to EDDC for pension provision for 2015/16 was £2.108m payable to the Local Government Pension Scheme administered by Devon County Council.

2.2 Housing Revenue Account

The Housing Revenue Account (HRA) is the ring-fenced account for providing council housing and associated services.

A report to Council's Cabinet on the 8th June 2016 gave the year end position and can be found here http://eastdevon.gov.uk/media/1732386/080616-combined-final-cabinet-agenda.pdf, Item 11 on the Agenda. This report highlights a £1.017m underspend against the budget. A budget variation analysis by portfolio and service is contained in the Revenue and Capital outturns 2015/16 booklet, an indication of the main variations for the HRA is given below.

2.2.1 Comparing Budget to Actual - explaining the big differences

Main Outturn Budget Variations 2015/16 - HRA	Variation £000
Revenue Contribution to Capital - underspend on capital works and additional capital receipts received available for funding	(401)
Rent income (including garage rents) higher due to collection rates being better than budgeted	(312)
Programmed maintenance – gas boiler servicing contract lower than budgeted and electrical inspections programme not yet in place	(232)
Underspend on Major Repairs resulting in reduced contribution to the Major Repairs Reserve	(232)
Supervision & Management Special – no spend on New Build Feasibility and Support Services Manager post vacant	(153)
Other Income including garden licences, individual garden maintenance, sold flats recovery of costs, rent of land and enhanced housing management support charges	(79)
Supervision & Management General – the Service Lead post has remained vacant	(58)
Day to day repairs – increase in demand and storm damage costs (net of £250k interim insurance claim received)	370
Repairs & Maintenance special works – additional spend on fire safety and asbestos compliance works and increasing requirement for social services adaptations offset by fuel efficiency measures underspend	89

2.3 Capital Programme

Our capital account shows the income and expenditure transactions when we buy or sell land or property, build new property, improve our existing properties, buy large items of equipment and provide grants to others for the above. This is funded from capital receipts (sale of EDDC property), Public Works Loans Board (PWLB) loans, government grants and partner contributions, the Capital Reserve and revenue contributions.

An annual capital programme is approved each year in February at full Council with an indicative programme for the following three years giving estimated spend and sources of funding. The capital budget for 2015/16 was £12.887m; the outturn position was a net spend of £10.510m, a variation of £2.377m. The majority of this underspend is from scheme slippage and a need to re-profile expenditure into 2016/17 or later years. The main variations against the budget are given below.

2.3.1 Comparing Budget to Actual - explaining the big differences

Main Outturn Budget Variations 2015/16 - Capital	Variation £000
Knowle Relocation project – re-profiling of budget spend required, underspend carried forward	(384)
Seaton Workshop provision – this scheme is on hold waiting a new report. Circumstances have changed.	(519)
Seaton Jurassic Visitor Centre – re-profiling of budget spend and funding, net effect is an overspend in 2015/16 but this is made good in 2016/17	311
Loan to LED – less borrowing required in 2015/16, re-profiled to 2016/17	(401)
Housing Revenue Account; affordable Housing Schemes – scheme slippage to 2016/17	(204)
Housing Revenue Account; slippage on stock improvements works	(887)

Further details are available in the EDDC 2015/16 Outturn Book.

In 2016/17 it is predicted that the Capital Reserve will be depleted, but subject to projections on further spend and receipts the balance builds back up to £7.713m by March 2020. However it is certain that further projects will approved calling upon this money and there is uncertainty with New Homes Bonus Grants going forward which is a significant source of income in funding the capital programme.

2.3.2 Details of significant projects

£2.3m was spent in 2015/16 on Seaton Jurassic Centre as part of the Council's regeneration plans for Seaton. There was expenditure of £0.509m on Exmouth regeneration including works on Mamhead slipway and £0.344m on Feniton Flood Alleviation Scheme. Within the year grants were awarded to help disabled people in their own homes totalling £0.435m.

A loan was made of £1.4m to LED to facilitate enhancement and extension to Exmouth Leisure Centre building and there were improvements to existing EDDC council housing stock of £5.222m.

2.4 Reserves and Balances

2.4.1 Summary of major reserves – as reported at year end (Outturn Report to Cabinet – figures before agreement on year end transfer between reserves)

	Opening Balance	Net movement in Year	Closing Balance at Outurn
	£000	**£000**	**£000**
General Fund Reserve	(4,646)	576	(4,070)
HRA Reserve	(4,966)	(1,168)	(6,134)
Capital Reserve	(2,038)	(343)	(2,381)
Total	**(11,650)**	**(935)**	**(12,585)**

2.4.2 General Fund balance

The movement in the General Fund balance in year comprises:

General Fund Balance Position	£000	£000
Opening Balance 1/4/2015		**(4,646)**
Transfer to Capital Reserve – Agreed at Outturn Report 2014/15		941
Transfer to General Fund from service reserve no longer required (Thelma Hulbert Gallery)		(2)
Original Budget approval - Use of Balance in 2015/16	105	
Supplementary Estimates approved in 2015/16	59	
Outturn variation 2015/16	(82)	82
Closing Balance 31/3/16		**(4,625)**

It is planned to use £0.025m of the General Fund in 2016/17 thereby giving an estimated closing balance at the end of 2016/17 of £4.045m. The adopted range for the General Fund Balance is to be between £2.8m and £3.6m; members agreed allocation of the General Fund Balance above the £3.6m figure as detailed in the Outturn report to Cabinet and includes a £0.101m transfer to the Capital Reserve to support future capital projects.

Other movements and the final General Fund Balance are detailed in the Movement in Reserves Statement (MIRS) within the Statement of Accounts.

2.4.3 HRA balance

Contributions to the HRA balance in the year of £0.168m are detailed in the the EDDC 2015/16 Outturn Book on the Summary page 57. The HRA also contributed a further £1m to the HRA Business Plan Volatility Reserve to provide a cushion for repayment of the HRA self financing loans bringing the balance in the reserve to £4.4m.

Other movements and the final HRA balance are detailed in the Movement in Reserves Statement (MIRS) within the Statement of Accounts.

2.4.4 Earmarked Reserves

These represent funds set aside for specific purposes in future years. They are created from unspent external funding for specific projects or revenue underspends due to slippage of projects within the year.
Overall, earmarked reserves have increased by £1.253m. See Note 8 in the Accounts for a summary of movements.

2.4.5 Capital Reserve

This reserve helps fund our Capital Programme, the balance on the reserve is planned to be used in 2016/17 but is then replenished in later years subject to receipts being received as expected. Details of estimated future expenditure are in the EDDC 2015/16 Outturn Book.

2.4.6 Pensions Liability

The money owed by us at 31 March includes a £49.412m pension liability. The pension liability is estimated by our pension fund actuary and shows the commitment that we have, in the long-term, to pay retirement benefits.

2.5 Review of Key Objectives and Events

2.5.1 Performance - using Revenue and Capital resources

The annual Capital and Revenue budgets are approved by full Council each February for the following 1 April to 31 March. These budgets are the product of a process starting in September of the prior financial year and are scrutinised by service managers, the Finance Team, the Strategic Management Team and finally Cabinet, Overview and Scrutiny and full Council. The Annual Revenue and Capital Budget book is available on the EDDC website (Revenue and capital estimates 2015/16).

The performance of EDDC is measured by the actual use of these revenue and capital resources against budget and is monitored on a regular basis with reports to Cabinet. These reports cover the General Fund, HRA, the Capital Programme and levels of reserves. They also detail any additional expenditure required and the source of funding. These reports within the Cabinet Agendas which are available on the EDDC website (http://eastdevon.gov.uk/council-and-democracy/committees-and-meetings/cabinet/cabinet-agendas/).

The Council also produces Quarterly Performance Monitoring reports for it's Council promises set out in the Council Plan, Key Performance Indicators and Service Plan Objective these are reported to the Council's Scruitiny Committee. The agendas can be found on the Council's website (http://eastdevon.gov.uk/council-and-democracy/committees-and-meetings/scrutiny-committee/).

2.5.2 Key Issues in 2015/16

Spending plans and income was affected in 2015/16 by decreasing central government funding, however a balanced budget was set with the final outturn achieving savings that were required.

All balances and reserves were held within the required limits as set by Council

2.5.3 Major changes in Assets and Liabilities on the Balance Sheet

The decrease in the value of Other Land & Buildings assets of £6.835m is mainly due to a revaluation of leisure centres. Vehicles, Plant , Furniture and Equipment have reduced by £1.114m with the removal of refuse and recycling vehicles used in the SITA contract which has come to an end.

The increase of £2.358m on Short Term Debtors is mainly due to a general increase in debts for 'other' council services provided.
Cash and Cash Equivalents fluctuate every year purely depending on the timing of payments made and cash received as at 31 March.

The decrease of £2.193m on Short Term Creditors is mainly due to the removal of debt in respect of completion of Regional Growth Funded work by Devon County Council in 2014/15 for infrastructure works in the west of the district.

2.5.4 Current Borrowing Facilities and Capital Borrowing
Details of the Council's authorised borrowing limits are in the annual Prudential Indicators report which is presented as an appendix to the Revenue and Capital Estimates. It is presented to Cabinet and then full Council in February each year and is available on the EDDC website (2015/16 Item 14 on agenda - http://eastdevon.gov.uk/media/1513699/combined-cabinet-agenda-100216-public-vers-sm.pdf)

The report provides details of the prudent level of borrowing that the council can take out for capital financing. Capital financing is needed for funding the capital programme that is not met by capital receipts, grants or reserves.

3. Looking forward to 2016/17

3.1 Issues affecting 2016/17 budget

Central Government funding for local authorities continues to reduce against increasing pressures and costs for councils to continue to deliver services for its customers. In 2016/17 the Council received a further reduction in funding of 17%, or £0.750m in its main Government service grant.

In leading up to setting the 2016/17 budget, significant work was undertaken by a Member Group (Budget Working Party) who made recommendations on a number of initiatives to address the budget shortfall in 2016/17 with an eye to balancing future budgets. This meant the Council set a balanced budget for 2016/17 within available funding resources within a well managed approach and timescale.

3.2 Future years

Going forward, the Council will continue to find it difficult to afford its spending plans against further government spending cuts, the added pressure of inflationary increases in costs and pay awards, continued low investment income, an increasing call on services, members' ambitions to enhance and improve services and the wish to keep to moderate increases in Council Tax and other fees and charges.

The Council's Financial Plan which looks at the projected finances of the Council up to 2021 estimates a funding gap of £2.6m by 2020/21 if service costs remain the same when compared against funding levels. Alongside the Financial Plan sits a Transformation Strategy which outlines East Devon District Council's purpose is to be a successful district council delivering or commissioning the services our council tax payers expect despite the huge reductions in grants. Both these documents were presented to July 2015 Cabinet for approval.

The Transformation Strategy is intended to be a dynamic 5 year strategy which will require review and update on at least an annual basis over the period so that we can track progress and savings made.

The following 'strategic themes' make up our Transformation Strategy.

1) Deliver our Worksmart Strategy and transform our culture through new ways of working underpinned by the right technology at the right time
2) Deliver improved online services through our Open for Business project

3) Implement systems thinking reviews across all services
4) Maximise the value of our assets through commercial thinking with a focus on income generation, sustainability and developing local economies
5) Actively pursue alternative service delivery methods and models

The ‘strategic themes’ of this Transformation Strategy will be used to ensure that spending and savings proposals can be tested on an ongoing basis against pre-agreed criteria. Keeping the ‘strategic imperatives’ in mind will help everyone in the council keep a firm focus on how it directs its human and financial resources so that we steer a steady course to deliver despite the reductions in government funding.

There are key challenges which also face the HRA with a 1% rent reduction from 2016/17, increased right to buy sales, the need to fund 70% of expenditure in acquiring new social homes and the possibility of having to repay right to buy receipts if unspent. In addition there are also the, as yet unknown, effects of sales of high value properties and ‘Pay to Stay’. These implications are being considered in redraft of the the Council’s HRA business plan which is being overseen by a member Task and Finish Forum.

UK’s recent decision to exist the EU will be monitored to determine the impact on the Council and service delivery and any actions that need to be taken.

4. Key Accounting Information

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy (CIPFA), Local Authority (Scotland) Accounts Advisory Committee (LASAAC), Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice for Local Authorities 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).
The 2015/16 accounts summarise the Council’s transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. Please note: there are some roundings between various statements and notes.

4.1 Summary of Purpose and Relationship Between Statements

4.1.1 The Statement of Responsibilities for the Statement of Accounts

This Statement sets out the respective responsibilities of the Council and the Chief Financial Officer for the accounts.

4.1.2 The Auditor’s Statement

This is the Independent Auditor’s Report to Members of East Devon District Council including the Conclusion on Arrangements for Securing Economy, Efficiency and Effectiveness in the Use of Resources. It is called the Audit Opinion.

4.1.3 The Annual Governance Statement

This gives a public assurance that the Council has proper arrangements in place to manage all of its affairs. It summarises the Council’s responsibilities in the conduct of its business, the purpose and key elements of the system of internal control and the processes applied in maintaining, reviewing and developing the effectiveness of those control systems.

4.1.4 Movement in Reserves Statement - Core Financial Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into ‘Usable Reserves’ (those that can be applied to fund expenditure or reduce local taxation) and “Unusable Reserves”.
The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive

Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax and dwellings rent setting purposes. The Net (Increase)/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

4.1.5 Comprehensive Income and Expenditure Statement - Core Financial 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 but this may be different from the accounting cost. It includes Pension liabilities that are outside the control of the Council. The taxation position is shown in the Movement in Reserves Statement.

The 2015/16 surplus of £4.965m is mainly due a gain in the defined benefit obligation of the pension fund of £7.338m. This is reversed out in the Movement on Reserves Statement to the Pension Reserve on the Balance Sheet resulting in a nil effect on the General Fund Balance.

4.1.6 Balance Sheet - Core Financial Statement

The Balance Sheet summarises the Council's financial position at 31 March 2016 showing the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories:

Usable reserves: reserves that the Council 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 may only be used to fund capital expenditure or repay debt.

4.1.6 Balance Sheet - Core Financial Statement

Unusable Reserves : reserves that the Council is not able to use to provide services. These reserves include the Revaluation Reserve which holds unrealised gains and losses. This would only become available to provide services if the assets were actually sold. Other Unusable Reserves hold timing differences which are shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

As at 31 March 2016, our balance sheet has a net increase of £4.965m due to an increase on Usable reserves of £0.264m relating to revenue and capital underspends, and an increase in Unusable reserves of £4.701m due to pension and capital adjustments.

4.1.7 Cash Flow Statement - Core Financial Statement

The Cash Flow Statement shows the changes in the Council's cash and cash equivalents during the reporting period. The statement shows how the Council 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 Council are funded by way of taxation and grant income, or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council'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 Council.

4.1.8 Housing Revenue Account (HRA) - Supplementary Financial Statements

The HRA is a record of revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Therefore the HRA is a statutory account which is ring-fenced from the rest of the General Fund so that rents cannot be subsidised from Council Tax or vice versa.

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations which may differ from the accounting cost. The (increase) or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

4.1.9 Collection Fund - Supplementary Financial Statements

This account is maintained separately as a statutory requirement. The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and ratepayers and distribution to Local Authorities and the Government of Council Tax and Non-domestic rates.

4.2 Change in Accounting Policies

There were no changes to Accounting policies.

4.3 Preparation of the Accounts

The accounts are prepared in accordance with proper practices as set out by CIPFA/LASAAC code of practice. See the Statement of Responsibilities for details.

4.4 Annual Report

The Council produces an Annual Report which details the Council's plans for 2015/16 and compares this to actual performance. Details of the objectives and the Performance Indicators are contained in the report which will be published on the EDDC website in July 2016.

Simon Davey CPFA
Strategic Lead for Finance

The Statement of Responsibilities

The Council's Responsibilities

The Council 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 Council, that officer is the Strategic Lead for Finance.

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

- approve the Statement of Accounts.

The Strategic Lead for Finance Responsibilities

The Strategic Lead for Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Strategic Lead for Finance has:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with the local authority Code.

The Strategic Lead for Finance has also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31st March 2016.

Simon Davey CPFA
Strategic Lead for Finance

The unaudited accounts were issued on 30 June 2016 and the audited accounts it is anticipated will be authorised for issue on 22 September 2016.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2014	**(3,925)**	**(8,789)**	**(3,891)**	**(2,900)**	**(1,933)**	**(1,968)**	**(23,406)**	**(169,509)**	**(192,915)**
Movement in reserves during 2014/15:									
(Surplus) / Deficit on the provision of services	**7,323**	**0**	**(1,947)**	**0**	**0**	**0**	**5,376**	**0**	**5,376**
Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**12,265**	**12,265**
Total Comprehensive Income and Expenditure	**7,323**	**0**	**(1,947)**	**0**	**0**	**0**	**5,376**	**12,265**	**17,641**
Adjustments between accounting basis & funding basis under regulations (Note 7)	**(8,711)**	**0**	**372**	**0**	**(958)**	**794**	**(8,503)**	**8,503**	**0**
Net (Increase) / Decrease before Transfers to/from Earmarked Reserves	**(1,388)**	**0**	**(1,575)**	**0**	**(958)**	**794**	**(3,127)**	**20,768**	**17,641**
Transfers to/from Earmarked Reserves (Note 8)	**667**	**(667)**	**500**	**(500)**	**0**	**0**	**0**	**0**	**0**
(Increase)/Decrease in 2013/14	**(721)**	**(667)**	**(1,075)**	**(500)**	**(958)**	**794**	**(3,127)**	**20,768**	**17,641**
Balance at 31 March 2015	**(4,646)**	**(9,456)**	**(4,966)**	**(3,400)**	**(2,891)**	**(1,174)**	**(26,533)**	**(148,741)**	**(175,274)**
(Surplus) or deficit on the provision of services	**11,691**	**0**	**(6,636)**	**0**	**0**	**0**	**5,055**	**0**	**5,055**
Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(10,020)**	**(10,020)**
Total Comprehensive Income and Expenditure	**11,691**	**0**	**(6,636)**	**0**	**0**	**0**	**5,055**	**(10,020)**	**(4,965)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	**(10,756)**	**0**	**5,467**	**0**	**(864)**	**834**	**(5,319)**	**5,319**	**0**
Net (Increase) / Decrease before Transfers to/from Earmarked Reserves	**935**	**0**	**(1,169)**	**0**	**(864)**	**834**	**(264)**	**(4,701)**	**(4,965)**
Transfers to/from Earmarked Reserves (Note 8)	**86**	**(86)**	**1,000**	**(1,000)**	**0**	**0**	**0**	**0**	**0**
(Increase)/Decrease in 2015/16	**1,021**	**(86)**	**(169)**	**(1,000)**	**(864)**	**834**	**(264)**	**(4,701)**	**(4,965)**
Balance at 31 March 2016	**(3,625)**	**(9,542)**	**(5,135)**	**(4,400)**	**(3,755)**	**(340)**	**(26,797)**	**(153,442)**	**(180,239)**

Comprehensive Income and Expenditure Statement

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

Comprehensive Income and Expenditure Statement
For the year ended 31 March 2016

2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000		2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
2,229	(1,277)	952	Central services to the public	1,982	(1,062)	920
8,883	(1,689)	7,194	Cultural and related services	13,493	(1,880)	11,613
10,050	(2,481)	7,569	Environmental and regulatory services	9,617	(1,783)	7,834
13,549	(11,649)	1,900	Planning services	7,162	(3,009)	4,153
1,313	(3,410)	(2,097)	Highways & transport services	1,297	(3,455)	(2,158)
			Housing services:			
15,670	(19,231)	(3,561)	Local Council housing (HRA)	10,628	(19,352)	(8,724)
34,562	(33,239)	1,323	Other housing services	34,832	(34,018)	814
3,170	(1,705)	1,465	Corporate & Democratic Core	3,288	(1,015)	2,273
2,605	(202)	2,403	Non Distributed Costs	904	(116)	788
92,031	**(74,883)**	**17,148**	**Cost of Services**	**83,203**	**(65,690)**	**17,513**
		1,854	Other operating expenditure (Note 9)			1,972
		4,022	Financing & investment income & expenditure (Note10)			3,922
			Taxation and non-specific grant income/expenditure (Note 11)			
		(8,857)	Council tax income			(9,247)
		158	Town & Parish Council Tax Support			136
		(1,956)	Non domestic rates			(3,202)
		(5,828)	Non-ring-fenced government grants			(5,113)
		(1,165)	Capital grants and contributions			(926)
		5,376	**(Surplus) or Deficit on Provision of Services**			**5,055**
		1,265	(Surplus) or Deficit on revaluation of Property, Plant & Equipment assets			(2,733)
		(63)	(Surplus) or Deficit on revaluation of Available for Sale financial assets			51
		11,063	Remeasurement of the net defined benefit liability			(7,338)
		12,265	**Other Comprehensive Income and Expenditure**			**(10,020)**
		17,641	**Total Comprehensive Income and Expenditure**			**(4,965)**

The Balance Sheet as at 31 March 2016

31 March 2015		Note	31 March 2016	
£000			£000	£000
187,315	Council Dwellings		191,062	
77,853	Other Land and Buildings		71,018	
6,337	Vehicles, Plant, Furniture & Equipment		5,223	
11,546	Infrastructure Assets		11,845	
1,840	Community Assets		1,693	
2,098	Asset Under Construction		5,041	
286,989	**Total Property, Plant & Equipment**	24		**285,882**
791	Intangible Assets		720	
226	Long Term Investments	27	225	
1,659	Long Term Debtors	27	2,305	
289,665	**Long Term Assets**			**289,132**
18	Assets Held for Sale (<1year)	26	360	
30,923	Short Term Investments	27	30,872	
5	Inventories		3	
7,116	Short Term Debtors and PIA	29	9,474	
8,499	Cash and Cash Equivalents	30	2,922	
44,373	**Current Assets**			**43,631**
(1,118)	Short Term Borrowing	27	(1,960)	
(12,927)	Short Term Creditors	31	(10,734)	
(361)	Other Short Term Liabilities	27	0	
(818)	Short Term Provision	34	(1,337)	
(347)	Grants and Receipts in Advance	21	(361)	
(15,571)	**Current Liabilities**			**(14,392)**
(84,784)	Long Term Borrowing	28	(83,520)	
(53,727)	Other Long Term Liabilities	19/27	(49,412)	
(4,682)	Grants and Receipts in Advance	21	(5,201)	
(143,193)	**Long-term Liabilities**			**(138,133)**
175,274	**Net Assets**			**180,239**
(26,533)	**Total Usable Reserves**	35		**(26,797)**
(148,741)	**Total Unusable Reserves**	36		**(153,442)**
(175,274)	**Total Reserves**			**(180,239)**

The Cash Flow Statement

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

2014/15 £000	THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2016	2015/16 £000
5,376	**Net (surplus) or deficit on the provision of services**	**5,055**
(13,355)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	**(10,602)**
(563)	Adjustments to net surplus or deficit on the provision of services that are investing and financing activities	**3,191**
(8,542)	**Net cash flows from Operating Activities (Note 37)**	**(2,356)**
10,552	Purchase of property, plant and equipment, investment property and intangible assets	10,716
0	Purchase of short-term and long-term investments	164
(2,215)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,496)
0	Proceeds from short-term and long term investments	(4)
(3,027)	Other receipts from investing activities	(2,069)
5,310	**Net cash flows from Investing Activities**	**6,311**
(755)	Cash receipts of short and long-term borrowing	(1,450)
(3,033)	Other receipts from financing activities	(635)
407	Cash payments for the reduction of the outstanding liabilities relating to finance leases	361
636	Repayments of short and long term borrowing	1,087
0	Other payments for financing activities	70
(2,745)	**Net cash flows from Financing Activities**	**(567)**
(5,977)	**Net (increase) or decrease in cash and cash equivalents**	**3,388**
(334)	Cash and cash equivalents at the beginning of the reporting period	(6,311)
(6,311)	**Cash and cash equivalents at the end of the reporting period** (Note 30)	**(2,923)**

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Note 1. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, 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 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS) .

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.

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

1.3 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 no more than 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 include bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Changes in Accounting Policies, Prior Period Adjustments 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 Council'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.

1.4 Changes in Accounting Policies, Prior Period Adjustments and Estimates and Errors Contd.

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

1.5 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 property, plant and equipment 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 property, plant and equipment attributable to the service.

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

1.6 Employee Benefits

1.6.1 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 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.

1.6.2 Post-Employment Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by Devon County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

1.6.3 The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

- The liabilities of the Devon County pension fund 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 projected earnings for current employees.

- Liabilities are discounted at the annualised yield at the 18 year point on the Merill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities. This is consistent with the approach used at the last accounting date.

1.6.3 The Local Government Pension Scheme Contd.

- The assets of Devon County 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
  - unitised securities - current bid price
  - 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 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

  - pensions interest cost and expected return on pensions assets, i.e. net interest expense for the Council - 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 in 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 - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- **Remeasurement comprising:**
  - The return on plan assets – excluding amounts included in the pensions interest cost and expected return on pensions assets – 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 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, 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 are earned by employees.

1.6.4 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.

1.7 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.

1.8 Financial Instruments

1.8.1 Financial Liabilities

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

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

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Financial guarantees are initially recorded at fair value and subsequently carried at this fair value less accumulated amortisation.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.8.2 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

1.8.2.1 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, accounting treatment requires a loss to be recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that would be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest would be credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance would be the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. The Council has applied De Minimis principles to its soft loans resulting in no entries being necessary. (See Note 27.3)

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

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

1.8.2.2 Available-for-Sale Assets (Financial Instruments)

Available-for-sale assets are recognised on the Balance Sheet when the Council 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 Council.

1.8.2.2 Available-for-Sale Assets (Financial Instruments) Contd.

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

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – valued at historic cost

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ 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 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 Statement. If the asset has fixed or determinable payments, 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. Otherwise, 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 and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

1.9 Government 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 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.

1.9 Government Grants and Contributions Contd.

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

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

1.10 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.

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 Council will be able to generate future economic benefits or deliver service potential by being able to sell 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).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

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 its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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 £10,000) the Capital Receipts Reserve.

1.11 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.

1.11.1 The Council as Lessee

1.11.1.1 Finance Leases

Property, plant and equipment held under finance leases 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 Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to 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 or 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 (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council 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.

1.11.1.2 Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from 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. there is a rent-free period at the commencement of the lease).

1.11.2 The Council as Lessor

1.11.2.1 Finance Leases

Where the Council 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. A gain, representing the Council's net investment in the lease, is 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), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable 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).

1.11.2.1 Finance Leases Contd.

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 property, plant and equipment 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.

1.11.2.2 Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits 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 premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.14 Long term contracts

Long term contracts are accounted for on the basis of charging the Surplus and Deficit on the Provision of Services with the value of the works and services received under the contract in the financial year.

1.15 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 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 previously 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.

1.15 Disposals and Non-current Assets Held for Sale contd.

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government.

The 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 (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of property, plant and equipment 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.

1.16 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the *CIPFA Service reporting Code of Practice 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 multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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 Continuing Services.

1.17 Property, Plant and Equipment (PPE)

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.

1.17.1 PPE 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.

1.17.2 PPE Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- a deminimus level of £20,000 has been agreed for Capital. Expenditure. Any costs below are charged to revenue.
- 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
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
- Where an item of Property, Plat and Equipment has major components whose costs is significant in relation to the total cost, the components are depreciated separately.

The Council 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 Council). 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 Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

- After review by our valuer, the new requirement for valuation of Transport infrastructure assets was not applicable to East Devon

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as 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 by:

- 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.

1.17.3 PPE Impairment

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

Where impairment losses are identified, they are accounted for by:
- 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.

1.17.4 PPE 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 the following bases and charged in the year of disposal, but not acquisition:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the vehicle, plant, furniture and equipment as advised by a suitably qualified officer
- infrastructure – straight-line allocation as estimated by the valuer .

Where an item of Property, Plant and Equipment valued at greater than £1,000,000 has major components whose cost is more than 20% 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.

1.18 Provisions, Contingent Liabilities and Contingent Assets

1.18.1 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 of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

1.18.1 Provisions contd.

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 balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

1.18.2 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 Balance Sheet but disclosed in a note to the accounts.

1.18.3 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 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.

1.19 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.

1.20 Revenue Expenditure Funded from Capital under Statute

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.

1.21 VAT

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

1.22 Tax Income - Council Tax and Non-Domestic Rates (NDR)

NDR, the tariff payment and Council Tax will 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 Council, and the amount of the revenue can be measured reliably.

Revenue relating to such things as council tax and business rates 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.

1.22.1 Non Domestic Rates (NDR)

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

The tariff payment included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued expenditure.

1.22.2 Council Tax

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

1.23 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

Exeter City Council, East Devon District Council and Teignbridge District Council each share control of Strata Service Solutions Ltd, which was incorporated on 15 May 2014 under the Companies Act 2006 for the provision of a shared Information Communications Technology service. The single entity financial statements for each authority reflect their respective shares of Strata Service Solutions Limited. However, the accompanying notes to the Council's financial statements only include information relating to Strata Service Solutions Limited where this would make a material difference to the usefulness of those notes.

Note 2. Accounting Standards issued, Not Adopted

The Code of Practice on Local Authority Accounting requires the disclosure of information relating to the expected impact of accounting changes that will be required by a new standard that has been issued but not yet adopted due to the timing of the accounts. The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.
In compiling the 2015/16 accounts the following accounting policies have not been adopted:

a) IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17.

b) The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.

c) Other minor changes due to Annual Improvement to IFRSs cycles, IFRS11 Joint arrangements, IAS 16 Property Plant, Equipment and IAS 38 Intangible Assets and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council's Statement of Accounts.

The Code does not anticipate that the amendments will have a material impact on the information provided in the local authority financial statements.

Note 3. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Council's leisure centres and leisure service is operated by LED Ltd, a charitable organisation that leases and operates the leisure centres previously run by the Council. It has been determined that the Council does not have control of the Trust and it is not a subsidiary of the Council.

- With the introduction of Business Rate Retention, the council has estimated a provision for NNDR rate appeals. We have analysed information from the valuation office and consulted with other Devon Authorities and CIPFA to arrive at the figure in the accounts.

- Strata Service Solutions Ltd is a registered company which has been established to assist the three authorities; Exeter City Council, East Devon District Council and Teignbridge District Council, in the provision and operation of shared ICT services. It is deemed to be a joint operation due to the inherent rights to the assets and obligations for liabilities each authority has relating to the joint arrangement, based upon the following facts and circumstances:

    - The three authorities have joint control of the entity. Each authority has one nominated Director and each Director has one vote. The Directors are responsible for the management of the Company's business, for which purpose they may exercise all the powers of the company with decisions made collectively and unanimously.

    - The Company is required by the Councils to carry out the tasks as set out in the Business Plans and Service Plans and is limited to the business and objectives as set by the Councils.

Note 3. Critical Judgements in Applying Accounting Policies contd.

- The Company's revenue derives from the financial allocations set and controlled by each of the Councils.
- There are no current plans for Strata to do anything other than provide services to the three authorities. The Company has been established as an in-house mutual trading local authority controlled company to assist them in the provision of services.
- Joint operations are not consolidated into group accounts, instead each authority has recognised in its financial statement its share of assets, liabilities, revenue and expenses pertaining to Strata Service Solutions Ltd.

Note 4. 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 Council 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 Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives 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 Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. As an indication of the sums involved annual depreciation is currently £3.650m for all the Council's assets.
Pensions Liability	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 Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2.202m. A 0.1% decrease would result in an increase of £2.244m.
Arrears	At 31 March 2016, the Council had a balance of sundry debtors of £2.253m. A review of significant balances suggested that an impairment of doubtful debts of £0.052m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.052m to set aside as an allowance.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

Note 5. Material Items of Income and Expense and Prior Year Adjustments
There were no material items to be disclosed on the face of the Comprehensive Income and Expenditure Statement in 2015/16.

Note 6. Events After the Balance Sheet Date
The Statement of Accounts was authorised for issue by the Strategic Lead - Finance on 30 June 2016 and are likely to be signed off on 22 September 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The Brexit referendum result will have an impact on financial planning for the Council for a number of years, but at this stage it is impossible to quantify with even indicative numbers.

Note 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 Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2015/16	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(2,551)	(140)	0	0	0	2,691
Revaluation gain / (losses) on Property Plant and Equipment	(8,339)	(439)	0	0	0	8,778
Capital grants and contributions applied	1,666	0	0	0	0	(1,666)
Revenue expenditure funded from capital under statute	(749)	0	0	0	0	749
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(265)	(1,036)	0	0	0	1,301
Adjustment for share of Donated Assets	(210)	0	0	0	0	210
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:						
Statutory provision for the financing of capital investment	419	1,029	0	0	0	(1,448)
Capital expenditure charged against the General Fund and HRA balances	1,588	24	0	0	0	(1,612)

Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations Contd.

2015/16	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustment primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	203	0	0	0	(203)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	1,037	(1,037)
Adjustment primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of gains/loss on disposal to the Comprehensive Income & Expenditure Statement	489	1,772	(2,261)	0	0	0
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	1,192	0	0	(1,192)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current assets disposal	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(440)	0	440	0	0	0
Repayment of loans	0	0	(234)	0	0	234
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gains/loss on disposal to the Comprehensive Income & Expenditure Statement	0	0	(1)	0	0	1
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	0	4,764	0	(4,764)	0	0
Use of Major Repairs Reserve to finance new capital expenditure	0	0	0	4,764	0	(4,764)

Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations Contd.

2015/16	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in the year in accordance with statutory requirements	(432)	0	0	0	0	432
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 19)	(4,087)	(875)	0	0	0	4,962
Employer's pensions contributions and direct payments to pensioners payable in the year	1,751	357	0	0	0	(2,108)
STRATA adjustments	(169)					169
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	300	0	0	0	0	(300)
Adjustment primarily involving the Accumulated Absences Acct:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	70	11	0	0	0	(81)
Total Adjustments	**(10,756)**	**5,467**	**(864)**	**0**	**834**	**5,319**

Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations Contd.

2014/15	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(3,195)	(144)	0	0	0	3,339
Revaluation gain / (losses) on Property Plant and Equipment	(4,373)	(6,059)	0	0	0	10,432
Amortisation of intangible assets	(263)	(16)	0	0	0	279
Capital grants and contributions applied	10,560	0	0	0	0	(10,560)
Revenue expenditure funded from capital under statute	(8,431)	0	0	0	0	8,431
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(1,439)	(1,648)	0	0	0	3,087
Loss on share of Donated Assets	(531)	0	0	0	0	531
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:						
Statutory provision for the financing of capital investment	464	580	0	0	0	(1,044))
Capital expenditure charged against the General Fund and HRA balances	915	342	0	0	0	(1,257)

Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations Contd.

2014/15	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustment primarily involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	794	(794)
Adjustment primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of gains/loss on disposal to the Comprehensive Income & Expenditure Statement	143	2,852	(2,995)	0	0	0
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	2,131	0	0	(2,131)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current assets disposal	(100)	(1)	101	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(385)	0	385	0	0	0
Repayment of loans			(580)			580
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gains/loss on disposal to the Comprehensive Income & Expenditure Statement	0	0	(1)	0	0	1
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	0	4,849	0	(4,849)	0	0
Use of Major Repairs Reserve to finance new capital expenditure	0	0	0	4,849	0	(4,849)

Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations Contd.

2014/15	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in the year in accordance with statutory requirements	(73)	0	0	0	0	73
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 19)	(2,646)	(724)	0	0	0	3,370
Employer's pensions contributions and direct payments to pensioners payable in the year	1,783	337	0	0	0	(2,120)
STRATA adjustments	(1,218)					1,218
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	47	0	0	0	0	(47)
Adjustment primarily involving the Accumulated Absences Acct:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	32	4	0	0	0	(36)
Total Adjustments	**(8,710)**	**372**	**(959)**	**0**	**794**	**8,503**

Note 8. Transfers (to) / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

	Balance at 31 March 2014	Transfers Out 2014/15	Transfers In 2014/15	Balance at 31 March 2015	Transfers Out 2015/16	Transfers In 2015/16	Balance at 31 March 2016
	£000	£000	£000	£000	£000	£000	£000
General Fund Reserves							
Asset Maintenance Reserve	**(1,182)**	80	0	**(1,102)**	67	0	**(1,035)**
Capital Reserve	**(2,509)**	887	(416)	**(2,038)**	777	(1,144)	**(2,405)**
Capital Projects Reserve	**(105)**	107	(69)	**(67)**	32	(50)	**(85)**
New Homes Bonus Reserve	**0**	0	0	**0**	1,031	(1,031)	**0**
General Fund Capital Reserves	**(3,796)**	**1,074**	**(485)**	**(3,207)**	**1,907**	**(2,225)**	**(3,525)**
Business Rates Volatility Reserve	**(774)**	325	(620)	**(1,069)**	449	(314)	**(934)**
Building Control service enhancements	**(69)**	6	(50)	**(113)**	3	(26)	**(136)**
Growth Point Reserves	**(301)**	83	(31)	**(249)**	0	(38)	**(287)**
Homelessness Grant/Local welfare support	**(82)**	0	(20)	**(102)**	49	(28)	**(81)**
IT website development	**0**	0	(386)	**(386)**	64	0	**(322)**
LABGI Reserve	**(244)**	44	0	**(200)**	27	0	**(173)**
Local Plan Inspection Reserve	**(143)**	11	0	**(132)**	72	0	**(60)**
Localised council tax reform	**(66)**	0	(214)	**(280)**	135	(22)	**(167)**
Neighbourhood Planning Grant Reserve	**(65)**	0	(23)	**(88)**	0	(29)	**(117)**
New Homes Bonus Volatility Fund	**(273)**	0	(893)	**(1,166)**	0	(265)	**(1,431)**
Parishes Together Fund	**(144)**	120	(100)	**(124)**	54	(113)	**(183)**
Planning Reserve	**(200)**	0	(40)	**(240)**	150	(10)	**(100)**
STRATA Reserves	**0**	0	(388)	**(388)**	281	(114)	**(221)**
Street Scene Reserves	**0**	0	(122)	**(122)**	57	(84)	**(149)**
Transformation Fund	**(1,239)**	1,278	(390)	**(351)**	47	(226)	**(530)**
Revenue Reserves less than £100k	**(1,393)**	589	(435)	**(1,239)**	409	(296)	**(1,126)**
General Fund Revenue Reserves	**(4,993)**	**2,456**	**(3,712)**	**(6,249)**	**1,797**	**(1,565)**	**(6,017)**
HRA Reserves							
HRA Business Plan Volatility Reserve	**(2,900)**	0	(500)	**(3,400)**	0	(1,000)	**(4,400)**
HRA Reserves Total	**(2,900)**	**0**	**(500)**	**(3,400)**	**0**	**(1,000)**	**(4,400)**
Total Earmarked Reserves	**(11,689)**	**3,530**	**(4,697)**	**(12,856)**	**3,704**	**(4,790)**	**(13,942)**

Further details of individual reserve movements are available in the Revenue and Capital Outturns 2015/16 Book pages 4-5 on the EDDC website in the EDDC 2015/16 Outturn Book

Note 8. Transfers (to) / from Earmarked Reserves Contd.

The **Asset Maintenance Reserve** is for asset refurbishment in excess of normal planned maintenance and any backlogged maintenance.

The **Capital Reserve** is to fund the Council's Capital programme.

The **Capital Projects Reserves** are contributions from revenue underspends for Capital Project spend in 2016/17 – These are Exmouth Town refurbishment and Streetscene IT projects.

The **New Homes Bonus Reserve** funded from central government grant, is used for funding capital spend.

The **Business Rates Volatility Reserve** has been established for revenue funding in future years.

The Building Control Enhancements Reserve is from surpluses for service enhancement in future years.

Growth Point Reserves are holding external grant income for the Growth Point team for 2016/17.

The **Homelessness Reserve** was established from specific government grants to support homelessness initiatives in future years.

The **IT Website Development Reserve** holds funds for spending on the website in 2016/17.

The **LABGI Reserve** was established from grant funding to support local businesses.

The **Local Plan Inspection Reserve** is to fund costs of the Local Plan inspection which have slipped to 2016/17.

The **Localised Council Tax Reform Reserve** funded by a specific government grant is to support Localised Council Tax Support scheme changes.

The **New Homes Bonus Volatility Reserve** was established from government grants to mitigate against loss of government revenue funding in future years.

The **Parishes Together Fund** holds the balance of grants awarded in year but not yet claimed.

The **Planning Reserve** established from revenue income is to fund additional short term staff resources needed to cover the increased volume of applications.

The **Strata Useable Reserves** represents our share of the useable funds held from the Strata joint operation.

Street Scene Reserves established from revenue underspends, are for slippage of equipment purchase including the Exmouth patrol boat.

The **Transformation Fund** is to fund 'invest to save' and performance improvement initiatives including transformation of working practices.

The balance of **Revenue Reserves <£100k** are various **r**evenue reserves established from external income with no conditions attached set aside to provide specific services in future years.

Note 9. Other Operating Expenditure

2014/15 £000		2015/16 £000
2,102	Town & Parish council precepts	2,326
385	Payments to the Government Housing Capital Receipts Pool	440
(1,164)	(Gains) / losses on the disposal of non-current assets	(960)
531	Net loss on share of STRATA assets	166
1,854	**Total**	**1,972**

Note 10. Financing and Investment Income and Expenditure

2014/15 £000		2015/16 £000
89	Interest payable and similar charges	87
2,594	Interest on loans	2,630
1,723	Net interest on the net defined benefit liability	1,743
(384)	Interest receivable and similar income	(538)
4,022	**Total**	**3,922**

Note 11. Taxation and Non Specific Grant Income and Expenditure

2014/15 £000		2015/16 £000
(8,857)	Council tax income	(9,247)
158	Town & Parish Council tax support grant	136
(1,956)	Non domestic rates	(3,202)
(5,828)	Non-ring fenced government grants	(5,113)
(1,165)	Capital grants and contributions	(926)
(17,648)	**Total**	**(18,352)**

Note 12. Amounts Reported for Resource Allocation Decisions

12.1 Subjective Analysis

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*.
However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

Depreciation is the only charge made in relation to capital expenditure based on the previous year's charge. All other capital charges (revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations) are excluded but charged to services in the Comprehensive Income and Expenditure Statement.

The cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year.
The income and expenditure of the Council's principal portfolios recorded in the budget reports for the year is as follows:

12.1 Subjective Analysis Contd.

Portfolio Income and Expenditure 2015/16	HRA £000	Total Corporate Services £000	Environment Car Parks £000	St Scene Refuse £000	Finance Revenues & Benefits £000	Total Strategic Develpt & P'ship £000	Total Sustainable Homes & Comm'ties £000	All other Segments £000	Total £000
Fees, charges & other service income	(18,931)	(803)	(3,202)	(1,223)	0	(1,548)	(916)	(2,918)	(29,541)
Government grants	(9)	(221)	(1)	0	(31,874)	(494)	(136)	(1,611)	(34,346)
Support Service Recharges Income	(411)	(3,376)	0	0	0	(583)	(263)	(6,076)	(10,709)
Total Income	**(19,351)**	**(4,400)**	**(3,203)**	**(1,223)**	**(31,874)**	**(2,625)**	**(1,315)**	**(10,605)**	**(74,596)**
Employee expenses	2,593	1,590	154	179	0	2,453	567	7,663	15,199
Other operating expenses	6,795	3,394	589	5,409	31,614	936	509	7,904	57,150
Support Service Recharges	1,687	1,392	265	230	0	1,330	430	5,375	10,709
Total Expenditure	**11,075**	**6,376**	**1,008**	**5,818**	**31,614**	**4,719**	**1,506**	**20,942**	**83,058**
Net Expenditure	**(8,277)**	**1,976**	**(2,195)**	**4,594**	**(260)**	**2,094**	**191**	**10,337**	**8,462**

Portfolio Income and Expenditure 2014/15	HRA £000	Total Corporate Services £000	Environment Car Parks £000	St Scene Refuse £000	Finance Revenues & Benefits £000	Total Strategic Develpt & P'ship £000	Total Sustainable Homes & Comm'ties £000	All other Segments £000	Total £000
Fees, charges & other service income	(18,356)	(417)	(3,139)	(1,768)	0	(2,038)	(683)	(3,122)	(29,523)
Government grants	(435)	(669)	(3)	(5)	(31,318)	(489)	(280)	(1,695)	(34,894)
Support Service Recharges Income	(440)	(3,276)	0	0	0	(635)	(222)	(6,290)	(10,863)
Total Income	**(19,231)**	**(4,362)**	**(3,142)**	**(1,773)**	**(31,318)**	**(3,162)**	**(1,185)**	**(11,107)**	**(75,280)**
Employee expenses	2,424	2,164	189	(29)	0	2,007	586	7,772	15,113
Other operating expenses	11,303	2,737	751	5,969	31,047	674	706	7,869	61,056
Support Service Recharges	1,667	1,265	144	0	0	1,331	425	6,031	10,863
Total Expenditure	**15,394**	**6,166**	**1,084**	**5,940**	**31,047**	**4,012**	**1,717**	**21,672**	**87,032**
Net Expenditure	**(3,837)**	**1,804**	**(2,058)**	**4,167**	**(271)**	**850**	**532**	**10,565**	**11,752**

12.2 Reconciliation of Portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2014/15 £000		2015/16 £000
11,752	Net expenditure in the Portfolio Analysis	**8,462**
(4,849)	Net expenditure of services and support services not included in the Analysis	0
10,061	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	9,051
184	Amounts included in respect of Strata Service Solutions Ltd	331
17,148	**Cost of Services in Comprehensive Income and Expenditure Statement**	**17,513**

12.3 Reconciliation to Subjective Analysis

This analysis shows how the figures in the Portfolio Analysis relate to a subjective analysis of the Surplus and Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2015/16	Portfolio Analysis £000	Services and support services not in analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Adjustments Strata Service Solutions Ltd £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(29,541)	0	0	0	(2,409)	(31,950)	0	**(31,950)**
Government grants and contributions	(34,346)	0	(943)	0	0	(35,289)	(6,039)	**(41,328)**
Support Service Recharges Income	(10,709)	0	0	0	0	(10,709)	0	**(10,709)**
Interest and investment income	0	0	0	0	0	0	(538)	**(538)**
Council Tax &Non-domestic rates income	0	0	0	0	0	0	(12,313)	**(12,313)**
Total Income	**(74,596)**	**0**	**(943)**	**0**	**(2,409)**	**(77,948)**	**(18,890)**	**(96,838)**
Employee expenses	15,199	0	1,082	0	1	16,282	1,743	**18,025**
Other service expenses	57,150	41	749	0	2,739	60,679	0	**60,679**
Support Service recharges	10,709	0	0	0	0	10,709	0	**10,709**
Depreciation, amortisation and impairment	0	0	7,791	0	0	7,791	0	**7,791**
Interest Payments	0	0	0	0	0	0	2,717	**2,717**
Precepts & Levies	0	0	0	0	0	0	2,326	**2,326**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	440	**440**
Gain or Loss on Disposal of Property, plant and equipment	0	0	0	0	0	0	(794)	**(794)**
Total Expenditure	**83,058**	**41**	**9,622**	**0**	**2,740**	**95,461**	**6,432**	**101,893**
Surplus or deficit on the provision of services	**8,462**	**41**	**8,679**	**0**	**331**	**17,513**	**(12,458)**	**5,055**

12.3 Reconciliation to Subjective Analysis Contd.

2014/15	Portfolio Analysis £000	Services and support services not in analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Adjustments Strata Service Solutions Ltd £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(29,523)	0	0	0	(1,481)	**(31,004)**	0	**(31,004)**
					0			
Government grants and contributions	(34,894)	0	(9,395)	0	0	**(44,289)**	(6,993)	**(51,282)**
Support Service Recharges Income	(10,863)	0	0	0	0	**(10,863)**	0	**(10,863)**
Interest and investment income	0	0	0	0	0	**0**	(385)	**(385)**
Council Tax &Non-domestic rates income	0	0	0	0	0	**0**	(10,813)	**(10,813)**
Total Income	**(75,280)**	**0**	**(9,395)**	**0**	**(1,481)**	**(86,156)**	**(18,191)**	**(104,347)**
Employee expenses	15,113	0	(490)	0	1,160	**15,783**	1,723	**17,506**
Other service expenses	61,056	(375)	10,416	(4,849)	505	**66,753**	158	**66,911**
Support Service recharges	10,863	0	0	0	0	**10,863**	0	**10,863**
Depreciation, amortisation and impairment	0	0	9,905	0	0	**9,905**	0	**9,905**
Interest Payments	0	0	0	0	0	**0**	2,683	**2,683**
Loan repayments	0				0			
Precepts & Levies	0	0	0	0	0	**0**	2,102	**2,102**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	**0**	385	**385**
Gain /Loss on Disposal of Property/ plant equipt	0	0	0	0	0	**0**	(632)	**(632)**
Total Expenditure	**87,032**	**(375)**	**19,831**	**(4,849)**	**1,665**	**103,304**	**6,419**	**109,723**
Surplus/deficit on the provision of services	**11,752**	**(375)**	**10,436**	**(4,849)**	**184**	**17,148**	**(11,772)**	**5,376**

Note 13. Trading

The Council has established 4 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. All services are incorporated into the Comprehensive Income and Expenditure Statement under the relevant service within Cost of Services. Details are as follows:

2014/15 £000	2014/15 £000			2015/16 £000	2015/16 £000
(514) 478		The Council manages the **Building Control Service**. The trading objective is to break even.	Turnover Expenditure	(477) 476	
	(36)		Surplus		(1)
(300) 347		The Council manages **the Land Charges Service**. The trading objective is to break even.	Turnover Expenditure	(370) 180	
	47		Deficit		(190)
(228) 613		The Council lets 40 units in **Industrial Estates** located in various parts of the district. As part of the council's economic development strategy, rents can be set at less than the market rate to support small businesses.	Turnover Expenditure	(231) 257	
	385		Deficit		26
(749) 656		The Council manages a **Homesafeguard Service** providing alarms and support for vulnerable residents. The trading objective is to break even.	Turnover Expenditure	(954) 537	
	(93)		Surplus		(417)
	303	**Net Deficit on Trading Operations**			**(582)**

Note 14. Statutory Harbour Authority – Axmouth Harbour

East Devon District Council is the Harbour Authority for the Axmouth Harbour.

An annual Statement of Account relating to harbour activities is required to be prepared, in accordance with the 1964 Harbours Act.

2014/15 £000	2014/15 £000	Axmouth Harbour	2015/16 £000	2015/16 £000
		Income		
(2)		Fee and charges	(6)	
	(2)			(6)
		Expenditure		
2		Premises	3	
4		Supplies and Services	0	
4		Support Services	5	
30		Capital Charges	30	
	40			38
	38	**Net cost of Harbour Activities as included in the Comprehensive Income and Expenditure Statement**		**32**

Note 15. Members' Allowances

The Council paid the following amounts to members of the council during the year:

2014/15 £000		2015/16 £000
362	Allowances	363
35	Expenses	36
397	**Total**	**399**

Note 16. Interests in Joint Operations

Exeter City Council, Teignbridge District Council and East Devon District Council each have interests in a joint operation called Strata Service Solutions Ltd, a registered company (company number 09041662) whose registered office is Civic Centre, Paris Street, Exeter, Devon, EX1 1JN. The Company was established on 1 November.

The business of the Company is the operation and provision of a shared information communications technology service to each of the Councils including;

- A source of expertise regarding information technology
- A resilient and reliable ICT infrastructure
- A service desk that maintains and supports devices, operating systems and core applications
- Information security and information management services
- Developing and implementing business systems to meet Council business objectives
- A Street Name and Numbering function

The proportions of ownership interests are; East Devon District Council (36.692%), Exeter City Council (35.936%) and Teignbridge District Council (27.372%). Each authority has equal voting rights, with decisions taken collectively and unanimously.

Note 16. Interests in Joint Operations contd.
The figures that have been consolidated into the Council's single entity financial statements are:

2014/15 £000	Adjustments to the Comprehensive Income and Expenditure Statement	2015/16 £000
(1,481)	Share of fees attributable from the councils	(2,409)
427	Cost of sales	1,070
78	Admin expenses	1,670
1,160	Transfer of pension scheme liability	0
184	**Cost of Services**	**331**
531	Loss on disposal of assets	166
(1,357)	Adjust Strata Service Solutions Ltd Refcus	0
19	Net interest on the defined benefit liability	51
(1)	Interest receivable	(3)
(624)	**(Surplus) or Deficit on Provision of Services**	**545**
258	Remeasurement of the net defined benefit liability	(405)
(366)	**Total Comprehensive Income and Expenditure**	**140**

2014/15 £000	Adjustments to the Balance Sheet	2015/16 £000
523	Property, plant & equipment	(57)
730	Intangible assets	(10)
	Investment removed upon consolidation and replaced with proportional share of assets and liabilities	(164)
1,253	**Total Long Term Assets**	**(231)**
5	Inventories	(2)
111	Short Term Debtors	168
505	Cash & Cash Equivalents	(319)
621	**Total Current Assets**	**(153)**
(270)	Short Term Creditors	(14)
(270)	**Total Current Liabilities**	**(14)**
238	Capital Grants Receipts in Advance	21
(1,476)	Pension Scheme Liability	237
(1,238)	**Total Long Term Liabilities**	**258**
366	**Net Assets**	**(140)**
	Financed by:	
(388)	Usable Reserves	167
(22)	Unusable Reserves	(27)
(366)	**Total Reserves**	**140**

Note 17. Officers' Remuneration - The remuneration paid to the Council's senior employees is as follows:

2015/16 Post	Salary & Car Allowances	Taxable Expense allowances	Compensation for loss of office	Total Remuneration	Pension Contributions	Total
Chief Executive (a)	115,000	1,000	0	**116,000**	16,000	**132,000**
Deputy C. Exec	89,000	0	0	**89,000**	12,000	**101,000**
Strategic Lead - Finance	79,000	0	0	**79,000**	11,000	**90,000**
Strategic Lead - OD	64,000	0	0	**64,000**	9,000	**73,000**
Strategic Lead - Legal, Licensing & Member Services (e)	60,000	0	0	**60,000**	8,000	**68,000**
Strategic Lead - Housing and Environment	79,000	0	0	**79,000**	11,000	**90,000**
East of Exeter Projects Director	66,000	0	0	**66,000**	9,000	**75,000**
Service Lead – Revenues & Benefits (c)	53,000	0	0	**53,000**	7,000	**60,000**
Service Lead – Environmental Health & Car Parks (c)	59,000	0	0	**59,000**	8,000	**67,000**
Service Lead – Street Scene (c)	52,000	0	0	**52,000**	7,000	**59,000**
Service Lead – Planning Strategy & Development (c)	52,000	0	0	**52,000**	7,000	**59,000**
Service Lead – Countryside & Leisure (c)	53,000	0	0	**53,000**	7,000	**60,000**
	821,000	**1,000**	**0**	**822,000**	**112,000**	**934,000**
2014/15 Post	**Salary & Car Allowances**	**Taxable Expense allowances**	**Compensation for loss of office**	**Total Remuneration**	**Pension Contributions**	**Total**
Chief Executive (a)	128,000	3,000	0	**131,000**	18,000	**149,000**
Deputy C. Exec (b)	22,000	0	100,000	**122,000**	3,000	**125,000**
Deputy C. Exec	88,000	0	0	**88,000**	12,000	**100,000**
Strategic Lead - Finance	78,000	0	0	**78,000**	11,000	**89,000**
Strategic Lead - OD	68,000	0	0	**68,000**	9,000	**77,000**
Strategic Lead - Legal, Licensing & Member Services	55,000	0	95,000	**150,000**	8,000	**158,000**
Strategic Lead - Housing and Environment	78,000	0	0	**78,000**	11,000	**89,000**
East of Exeter Projects Director	57,000	0	0	**57,000**	8,000	**65,000**
Corporate Manager ICT (d)	21,000	0	0	**21,000**	3,000	**24,000**
	595,000	**3,000**	**195,000**	**793,000**	**83,000**	**876,000**

Note 17. Officers' Remuneration Contd.

(a) The Chief Executive provided services to both EDDC and South Somerset District Council, formally employed by this council with 50% of salary and other remuneration recharged. This arrangement has ceased from 1st August 2015.

(b) The Deputy Chief Executive left on 24/07/2014.

c) Service Leads now meet the specified criteria, therefore included in 2015/16.

d) The Corporate Manager ICT was in post between 01/08/2014 and 31/10/2014 and on 01/11/2014 TUPE'd to Strata Service Solutions Ltd.

e) New Post holder

The total number of employees whose remuneration, **excluding employer's pension contributions**, was £50,000 or more in bands of £5,000 was:

Number of Employees 2014/15	Pay Band	Number of Employees 2015/16
1	£50,000 - £54,999	4
1	£55,000 - £59,999	2
0	£60,000 - £64,999	1
1	£65,000 - £69,999	1
2	£75,000 - £79,999	2
1	£85,000 - £89,999	1
0	£115,000 - £119,999	1
1	£120,000 - £124,999	0
1	£130,000 - £134,999	0
1	£150,000 - £154,999	0
9		**12**

Note 18. Termination Benefits

Exit Package Cost Bands	2015/16			
	Number of Compulsory Redundancies	Number of Other Departures	Total Number of Exit Packages	Total Cost of Exit Packages £000
0-£20,000	1	8	9	26
£20,001 - £40,000	0	1	1	38
£40,001 - £60,000	0	2	2	93
Total	**1**	**11**	**12**	157

Exit Package Cost Bands	2014/15			
	Number of Compulsory Redundancies	Number of Other Departures	Total Number of Exit Packages	Total Cost of Exit Packages £000
0-£20,000	2	1	3	25
£20,001 - £40,000	2	1	3	86
£40,001 - £60,000	2	0	2	195
Total	**6**	**2**	**8**	306

Note 19. Defined Benefit Pension Schemes

19.1 Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Devon County Council
  This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement
  This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in the accounting policies note.

19.2 Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits 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 and Housing Revenue Account via the Movement in Reserves Statement.

19.2 Transactions Relating to Post-employment Benefits Contd.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2014/15 £000	Funded Liabilities: Local Government Pension Scheme	2015/16 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
2,712	Current service cost	3,390
0	Past service costs	80
155	Settlement on transfer of staff to Strata*	0
39	Administration expense	31
	Financing and Investment Income and Expenditure:	
1,723	Net interest expense	1,742
4,629	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**5,243**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:	
	Remeasurement of the net defined benefit liability comprising:	
(3,971)	Return on plan assets in excess of interest	2,143
0	Other actuarial (gains)/losses on assets	0
15,008	Change in financial assumptions	(9,480)
26	Experience(gain)/loss on defined benefit obligation	(1)
11,063		**(7,338)**
15,692	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**(2,095)**
	Movement in Reserves Statement:	
(4,629)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(5,243)
	Actual amount charged against the General Fund Balance for pensions in the year:	
2,161	Employer's contributions payable to scheme	2,220

*As a result of some members of staff transferring to Strata during the year, liabilities have been settled at a cost different to the accounting reserve.

19.3 Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

2014/15 £000	Local Government Pension Scheme	2015/16 £000
127,936	Present value of the defined benefit obligation	122,718
(75,421)	Fair value of plan assets	(74,426)
52,515	Sub total	48,292
1,212	Other movements in the liability (asset)	1,120
53,727	**Net liability arising from defined benefit obligation at 31 March**	**49,412**

19.3 Pensions Assets and Liabilities Recognised in the Balance Sheet Contd.

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets:

2014/15 £000	Local Government Pension Scheme	2015/16 £000
69,523	**Opening balance as at 1 April**	**75,421**
3,034	Interest on assets	2,472
	Remeasurement gain/(loss):	
3,971	Return on plan assets less interest	(2,143)
(39)	Administration expenses	(31)
2,161	Contributions from employer	2,220
710	Contributions from employees into the scheme	734
(3,982)	Benefits paid	(4,247)
43	Settlement prices paid (Strata)	0
75,421	**Closing balance at 31 March**	**74,426**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):

2014/15 £000	Local Government Pension Scheme	2015/16 £000
109,719	**Opening balance as at 1 April**	**129,148**
2,712	Current service cost	3,390
4,757	Interest cost	4,214
710	Contributions from scheme participants	734
	Remeasurement (gains) and losses:	
15,008	Change in financial assumptions	(9,480)
26	Experience loss/(gain) on defined benefit obligation	(1)
0	Past service costs including curtailments	80
(3,982)	Benefits paid	(4,247)
198	Liabilities extinguished on settlements (Strata)	0
129,148	**Closing balance at 31 March**	**123,838**

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £123.838m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £49.412m.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary,
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2017 is £2.100m.
The weighted average duration of the defined benefit obligation is 18 years.

19.4 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for Devon County Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2013.
The significant assumptions used by the actuary have been:

2014/15	Local Government Pension Scheme	2015/16
	Long-term expected rate of return on assets in the scheme:	
3.3%	Expected return (see (a) below)	3.6%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners	
22.8	Men	22.9
26.1	Women	26.2
	Longevity at 65 for future pensioners (currently aged 45)	
25.1	Men	25.2
28.4	Women	28.6
3.2%	Rate of Inflation: RPI	3.2%
2.4%	Rate of Inflation: CPI	2.3%
4.2%	Rate of Increase in Salaries	4.1%
2.4%	Rate of increase in Pensions	2.3%
3.3%	Rate for discounting scheme liabilities	3.6%

19.4 Basis for Estimating Assets and Liabilities contd.

(a) For accounting years beginning on or after 1 January 2013, the expected return and the interest cost has been replaced with a single net interest cost which effectively sets the expected return equal to the IAS19 discount rate.

The following assumptions have been made:

- Members will exchange half of their commutable pension for cash at retirement.
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age.
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity Analysis	Increase in assumption of 0.1%	Decrease in assumption of 0.1%
	£000	**£000**
Adjustment to discount rate – present value of total obligation	121,636	126,082
projected service cost	2,956	3,101
Adjustment to long term salary increase -		
present value of total obligation	124,129	123,549
projected service cost	3,029	3,027
Adjustment to pension increases and deferred revaluation -		
present value of total obligation	125,819	121,895
projected service cost	3,101	2,957
Adjustment to life expectancy assumption –	+1 Year	-1 Year
present value of total obligation	127,640	120,152
projected service cost	3,105	2,952

The Local Government Pension Scheme's estimated asset allocation for East Devon District Council consists of the following categories, by proportion of the total assets held:

2014/15 %	Estimated Asset Allocation	2015/16 %
59	Equity investments (UK and overseas)	56
6	Gilts	3
13	Property and infrastructure	15
15	Target Return Portfolio	15
2	Cash	2
3	Other bonds	3
2	Alternative assets	6
100	**Total**	**100**

Note 20. External Audit Costs

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

2014/15 £000		2015/16 £000
67	Fees payable to KPMG LLP with regard to external audit services carried out by the appointed auditor for the year	51
11	Fees payable to Grant Thornton with regard to Strata Project Governance review	0
14	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	11
0	Fees payable to KPMG LLP in respect of grant certification work	8
30	Fees payable in respect of other services provided by Grant Thornton during the year including National Fraud Initiative	2
(6)	Audit Commission Rebate	0
116	**Total**	**72**

Note 21. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

2014/15 £000	Grants and contributions credited to Services	2015/16 £000
	Major grants	
(419)	HRA – supporting people	0
(231)	Corporate Services – elections & electoral registration	(127)
(971)	Corporate Services – Devon shared IT project	(84)
(105)	Sustainable Homes & Communities – supporting people	0
(142)	Sustainable Homes & Communities – Local Welfare Support	(104)
(509)	Sustainable Homes & Communities – disabled facilities & home stay grants	(468)
0	Economy – Exmouth Regeneration Tidal Study	(164)
(245)	Environment – AONB/Countryside projects	(241)
(8,206)	Environment – Cranbrook infrastructure	0
(31,173)	Finance - Housing Benefits and Council Tax Benefits	(31,874)
(145)	Finance – Discretionary housing payments	0
(489)	Finance - Housing Benefits admin grant	(432)
(50)	Finance – other DWP grants	(190)
(228)	Finance – NDR cost of collection	(227)
(251)	Finance – Localised Council Tax Benefit	(22)
(98)	Finance – Parishes Together Fund	(103)
(270)	Strategic Development & Partnership – Growth Point Delivery Team	(379)
(90)	Strategic Development & Partnership – Neighbourhood Planning	(95)
0	Streetscene – Sidmouth Cycle Route	(100)
0	Streetscene – Cranbrook Play Area	(101)
	Other grants and contributions	
(16)	HRA	(9)
(18)	Corporate Services	(10)
(132)	Sustainable Homes & Communities	(32)
(41)	Economy	(34)
(98)	Environment	(70)
(63)	Finance	(116)
(56)	Strategic Development & Partnership	(20)
(243)	Streetscene	(83)
(44,289)	**Total Grants and Contributions Credited to Services**	**(35,085)**

2014/15 £000	Credited to Taxation and Non Specific Grant Income	2015/16 £000	2015/16 £000
	Non-ring Fenced Government grants		
(2,666)	Revenue Support Grant	(1,877)	
(99)	DCLG Local Services Support grant	(97)	
(71)	DCLG Council Tax Freeze grant	(73)	
(1,831)	DCLG - New Homes Bonus	(3,023)	
(1,155)	DCLG – Small Business Rate Relief grant*	0	
(6)	DCLG – Rural Services Delivery grant	(43)	
			(5,113)
	Capital Grants		
(94)	Environment Agency – Sidmouth Shingle Recycling	0	
(501)	Seaton Jurassic (Discovery Centre)	0	
	Capital Contributions		
(147)	S106 receipts	(178)	
(100)	Feniton Flood Alleviation	(102)	
(298)	Seaton Jurassic (Discovery Centre)	(634)	
(25)	Other contributions	(12)	
			(926)
(6,993)	**Total Credited to Tax & Non-specific Grant Income**		**(6,039)**

Note 21. Grant Income Contd.

*Small Business Rate Relief and other S31 grants received in lieu of business rates are included in the NNDR figure on the face of the Comprehensive Income & Expenditure Statement for 2015/16 (see note 11).

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that could require the monies or property to be returned to the giver. The balances at the 31 March are as follows:

31 March 2015			Grants and Contributions Receipts in Advance	31 March 2016		
Short Term £000	Long Term £000	Total £000		Short Term £000	Long Term £000	Total £000
(12)	0	(12)	Environment Agency - Axe Wetlands	0	0	0
(334)	(4,682)	(5,016)	Section 106 Receipts	(361)	(5,201)	(5,562)
(346)	**(4,682)**	**(5,028)**	**Total**	**(361)**	**(5,201)**	**(5,562)**

Note 22. Related Parties

The Council 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 Council.

22.1 Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note12 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2016 are also shown in the Debtors Note 29.

22.2 Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in Note 15.

22.3 Other Public Bodies and Entities

2014/15			2015/16		Net Year End (Debtor) / Creditor
Income £000	Expenditure £000	Government Departments	Income £000	Expenditure £000	£000
(7,690)	385	Department for Communities & Local Government	(7,243)	440	96
(31,851)	0	Department for Work & Pensions	(31,927)	0	
(134)	0	Department for Environment, Food and Rural Affairs	(154)	0	
0	0	Environment Agency	(164)	0	
(3,661)	3,000	HMRC	(4,495)	2,942	(515)
(574)	3,230	PWLB	(1,023)	3,717	
		Other Public Bodies			
(489)	406	Devon County Council	(743)	469	8
(89)	24	South Somerset District Council (Shared Services)	(71)	24	0
0	13,171	Plymouth City Council (NNDR Pool)	0	13,414	(550)
(44,488)	**20,216**	**Total**	**(45,820)**	**21,006**	**139**

22.3 Other Public Bodies and Entities Contd.

East Devon District Council is a Member of SWAP which is a company limited by guarantee and is wholly owned and controlled, as an in-house company, by the members and is a local authority controlled company for the purposes of Part V of the Local Government and Housing Act 1989.
The liability of each member is limited to £1, being the amount that each member undertakes to contribute to the assets of the Company in the event of it being wound up while he is a member or within one year after he ceases to be a member.

Note 23. Leases

23.1 Council as Lessee

23.1.1 Finance Leases

The Council's originally acquired a fleet of refuse & recycling vehicles under its contract for the provision of waste collection with Sita under finance leases. However these assets are now no longer held on the Balance sheet under Property, plant and equipment.

31 March 2015 £000	Finance Leases	31 March 2016 £000
219	Vehicles, Plant, and Equipment	0
219	**Lessee Finance Leases Total**	**0**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the vehicles acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2015 £000	Finance Lease Liabilities (Net present value of minimum lease payments)	31 March 2016 £000
361	Current	361
39	Finance costs payable in future years	39
400	**Lessee Minimum lease payments**	**400**

The minimum lease payments will be payable over the following periods:

Minimum Lease Payments	Finance Lease Liabilities	Minimum Lease Payments	Minimum Lease Payments	Finance Lease Liabilities
31 March 2015 £000	31 March 2015 £000		31 March 2016 £000	31 March 2016 £000
400	361	Not later than one year	400	361
400	**361**	**Total Lessee**	**400**	**361**

23.1.2 Operating Leases

The Council leases a number of land, buildings, vehicles and office equipment under operating leases. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2015 £000	Operating Leases	31 March 2016 £000
768	Not later than one year	785
1,162	Later than one year and not later than five years	1,242
1,638	Later than five years	1,413
3,568	**Total Lessee Operating Leases**	**3,440**

23.2 EDDC as Lessor

23.2.1 Operating Leases

The Council leases out property under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses
- The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2015 £000	Operating Leases	31 March 2016 £000
391	Not later than one year	463
1,258	Later than one year and not later than five years	1,254
5,381	Later than five years	5,316
7,030	**Total Lessor Operating Leases**	**7,033**

Note 24: Property, Plant and Equipment

24.1 Movements in 2015/16	Council Dwellings & Land £000	Other Land & Building £000	Vehicle, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Total Assets £000
Cost or Valuation							
At 1 April 2015	**187,408**	**81,690**	**13,963**	**16,993**	**1,938**	**2,098**	**304,090**
Additions	5,222	580	337	237	39	2,943	9,358
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	2,853	52	0	64	0	**2,969**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(439)	(8,109)	0	0	(235)	0	**(8,783)**
Derecognition - disposals	0	(209)	(2,042)	0	0	0	**(2,251)**
Assets reclassified (to)/from Held for Sale	(1,036)	(360)	0	0	0	0	**(1,396)**
Other movements in cost or valuation	0	(2,584)	(1)	0	(44)	0	**(2,629)**
Other movements –Strata Service Solutions Ltd	0	0	(85)	0	0	0	**(85)**
At 31 March 2016	**191,155**	**73,861**	**12,224**	**17,230**	**1,762**	**5,041**	**301,273**
Accumulated Depreciation & Impairment							
At 1 April 2015	**93**	**3,837**	**7,626**	**5,447**	**98**	**0**	**17,101**
Depreciation charge	1,139	1,011	1,285	215	0	0	**3,650**
Depreciation charge written out of the Revaluation Reserve	0	(2,550)	(16)	0	0	0	**(2,566)**
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	162	74	0	0	0	**236**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	422	30	0	0	0	**452**
Derecognition - disposals	0	(6)	(1,998)	0	0	0	**(2,004)**
Other movements in depreciation and impairment	(1,139)	(33)		(277)	(29)	0	**(1,478)**
At 31 March 2016	**93**	**2,843**	**7,001**	**5,385**	**69**	**0**	**15,391**
Net Book Value							
At 31 March 2016	**191,062**	**71,018**	**5,223**	**11,845**	**1,693**	**5,041**	**285,882**
At 31 March 2015	**187,315**	**77,853**	**6,337**	**11,546**	**1,840**	**2,098**	**286,989**

Note 24: Property, Plant and Equipment Contd.

24.2 Movements in 2014/15	Council Dwellings & Land £000	Other Land & Building £000	Vehicle, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Total Assets £000
Cost or Valuation							
At 1 April 2014	**189,481**	**87,636**	**14,260**	**16,684**	**1,862**	**823**	**310,746**
Additions	5,635	294	469	314	65	1,885	**8,662**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(1,209)	0	0	61	0	**(1,148)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,060)	(4,368)	0	(5)	0	0	**(10,433)**
Derecognition - disposals	0	(459)	(1,316)	0	0	0	**(1,775)**
Assets reclassified (to)/from Held for Sale	(1,648)	(18)	0	0	0	0	**(1,666)**
Other movements in cost or valuation	0	(186)	0	0	(50)	(610)	**(846)**
Other movements –Strata Service Solutions Ltd	0	0	550	0	0	0	**550**
At 31 March 2015	**187,408**	**81,690**	**13,963**	**16,993**	**1,938**	**2,098**	**304,090**
Accumulated Depreciation & Impairment							
At 1 April 2014	**93**	**3,183**	**7,126**	**4,958**	**148**	**178**	**15,686**
Depreciation charge	1,090	897	1,493	490	0	0	**3,970**
Depreciation charge written out of the Revaluation Reserve	0	(334)	0	0	0	0	**(334)**
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	115	0	0	0	0	**115**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	460	0	0	0	0	**460**
Derecognition - disposals	0	(437)	(993)	0	0	0	**(1,430)**
Other movements in depreciation and impairment	(1,090)	(47)	0	(1)	(50)	(178)	**(1,366)**
At 31 March 2015	**93**	**3,837**	**7,626**	**5,447**	**98**	**0**	**17,101**
Net Book Value							
At 31 March 2015	**187,315**	**77,853**	**6,337**	**11,546**	**1,840**	**2,098**	**286,989**
At 31 March 2014	**189,388**	**84,453**	**7,134**	**11,726**	**1,714**	**645**	**295,060**

24.3 Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:
Council Dwellings: 23 - 60 years (includes components). Any charge is reversed as part of the annual revaluation process. Depreciation is charged in year of disposal to disposal date, and not charged in year of acquisition
Infrastructure: 5 -100 years
Other Land and Buildings: 2 - 60 years
Vehicles, Plant, & Equipment: 2 -15 years

24.4 Capital Commitments

The Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £3.279m. Similar commitments at 31 March 2015 were £3.361m. The major commitments are:

31 March 2015 £000	Scheme	31 March 2016 £000
93	Housing grants	7
183	HRA housing schemes	294
73	Grounds maintenance machinery	27
50	Street cleansing machinery	186
209	IT Systems	427
108	Cranbrook play equipment	43
687	Feniton flood alleviation scheme	230
27	Manor Pavilion roof and windows upgrade	0
1,851	LED loan	400
0	Regeneration schemes	1,665
80	Seaton youth facilities	0
3,361	**Total**	**3,279**

24.5 Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The carrying amounts of assets subject to the 5 year rolling revaluation programme not revalued during the year and revalued at the beginning of the year are not materially different from their fair value.

With the exception of the Council Housing stock, which was valued by the District Valuer, Andrew Doak, (RICS), all valuations were carried out internally by Robert Harrison, (RICS). Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Valuations of vehicles, plant and equipment are based on historic cost less depreciation and residual values where there is an active second-hand market. A revaluation of the Council's dwellings using individual beacon site visits was undertaken as at 31 March 2015 and is repeated every five years. All other assets are valued as at 1 April 2015.

The significant assumptions applied in estimating the fair values are:

- there are no title issues which are likely to have an effect on the valuations since last undertaken;
- there are no planning proposals that are likely to have an effect on the value of the premises, unless planning permission has been granted within the year;
- a reasonable standard of repair has been assumed except for buildings with a limited economic life;
- land and properties are not contaminated;
- land and properties are not at risk from environmental matters.

24.5 Revaluations contd.

	Council Dwellings & Land £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Carried at historical cost		561	2,852	**3,413**
Valued as at:				
2015-2016	191,062	25,654		**216,716**
2014-2015		31,226		**31,266**
2013-2014		4,614		**4,614**
2012-2013		13,404	520	**13,924**
2011- 2012		0	0	**0**

Note 25. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2014/15 £000	Capital Expenditure and Capital Financing	2015/16 £000
229	Opening Capital Financing Requirement	(1,479)
	Capital investment:	
8,668	Property, Plant and Equipment	9,358
9,237	Revenue Expenditure Funded from Capital under Statute	749
515	Capital Investment in STRATA	164
	Sources of finance:	
(2,132)	Capital receipts	(1,192)
(10,847)	Government grants and other contributions	(2,703)
	Sums set aside from revenue:	
(5,291)	Direct revenue contributions	(4,841)
(814)	Use of earmarked reserves	(1,535)
(1,044)	Minimum Revenue Payment	(1,448)
(1,479)	**Closing Capital Financing Requirement**	**(2,927)**

2014/15 £000	Explanation of Movements in the Year	2015/16 £000
(1,708)	Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(1,448)
(1,708)	**Decrease in Capital Financing Requirement**	**(1,448)**

Note 26. Assets Held for Sale

As at 31 March 2015 £000		As at 31 March 2016 £000
60	Balance outstanding at start of year	18
1,666	Reclassified in year	1,396
(1,708)	Assets sold	(1,054)
18	**Total Assets Held for Sale**	**360**

Note 27. Financial Instruments

27.1 Balance Sheet items

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

Long Term 31 March 2015 £000	Current 31 March 2015 £000	Financial Instruments	Long Term 31 March 2016 £000	Current 31 March 2016 £000
		Investments		
0	8,499	Loans and receivables	0	5,606
0	30,923	Available-for-sale financial assets	0	30,872
226	0	Unquoted equity investment at cost	225	0
226	**39,422**	**Total Investments**	**225**	**36,478**
		Debtors		
1,659	4,415	Loans and receivables	2,305	5,991
1,659	**4,415**	**Total included in Debtors**	**2,305**	**5,991**
		Borrowings		
(84,784)	(3,306)	Financial liabilities at amortised cost	(83,520)	(4,643)
(84,784)	**(3,306)**	**Total Borrowings**	**(83,520)**	**(4,643)**
		Other Long Term Liabilities		
0	(361)	Finance liabilities at amortised cost	0	0
0	**(361)**	**Total included in Other Long Term Liabilities**	**0**	**0**
		Creditors		
0	(7,526)	Financial liabilities at amortised cost	0	(4,222)
0	**(7,526)**	**Total included in Creditors**	**0**	**(4,222)**

Under accounting requirements, the carrying value of the financial instrument value is shown in the balance sheet, including the principal amount borrowed or lent, and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is included within current assets/liabilities where the receipts/payments are due within one year. The effective interest rate is effectively accrues interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

27.2 Income, Expenses, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2014/15					2015/16			
Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for Sale £000	Total £000		Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for Sale £000	Total £000
2,638	0	0	**2,638**	Interest expense	2,670	0	0	**2,670**
0	73	0	**73**	Reductions in fair value	0	441	0	**441**
0	0	45	**45**	Fee expense	0	0	47	**47**
2,638	**73**	**45**	**2,756**	**Total Expense in Surplus or Deficit on the Provision of Services**	**2,670**	**441**	**47**	**3,158**
0	(83)	(302)	**(385)**	Interest Income	0	(242)	(297)	**(539)**
0	**(83)**	**(302)**	**(385)**	**Total Income in Surplus or Deficit on the Provision of Services**	**0**	**(242)**	**(297)**	**(539)**
0	0	(63)	**(63)**	Deficit/(surplus) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	0	0	51	**51**
2,638	**(10)**	**(320)**	**2,308**	**Net (Gain)/Loss for the Year**	**2,670**	**199**	**(199)**	**2,670**

27.3 Soft Loans made by the Council

The Council has made a number of loans to voluntary organisations at less than market rates (soft loans). The details of these are shown in the tables below. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account.

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 Comprehensive Income and Expenditure Statement.

Any gains or losses that arise on derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

The detailed soft loans information is as follows:

27.3 Soft Loans made by the Council Contd.

Exeter Science Park Company Limited
The Council has been committed to the development of a Science Park within its district for a number of years; it is a shareholder of the Exeter Science Park Company which was created to facilitate the creation of a Science Park. This is in line with the Council's objective of the creation of jobs, specifically those which will provide an additional benefit to the wider economy including the supply chain.

The provision of this loan is to assist with the setup of the site infrastructure. The loan is for a period of 10 years and is due for redemption in 2024. The loan has been funded by internal borrowing and the interest rate chargeable is 2.55%

Exeter Science Park Company Limited	31 March 2015 £000	31 March 2016 £000
Opening Balance	0	955
+ New loans granted (rolled up interest)	1,000	25
- Fair value adjustment	(45)	(169)
Balance carried forward	**955**	**811**
Nominal value carried forward	**1,000**	**1026**

Valuation Assumptions
The interest rate at which the fair value of this soft loan has been made is arrived at by taking the authority's prevailing cost of borrowing at the date the loan was issued of 2.76% and 2.78%, as the loan was issued in two tranches, and adding an allowance for the risk that the loan might not be repaid by the Exeter Science Park Company Ltd. The Council revised the process for estimating the risk factor during 2015/16 by adding 220bps to the borrowing rate (2014/15 0bps). The risk factor is based on that applicable within the EU guidance on state aid and has been derived by considering the organisation's credit rating and available collateral. The impact of this adjustment in the current year is a reduction in the loan valuation of £169,000 which is offset by the build-up of the loan value of £25,000.

Beer Community Land Trust
This loan was provided to support a local community housing development project. The aim of which was to provide affordable housing. The loan was issued in two tranches and will be redeemed in full during 2016.

Beer Community Land Trust	31 March 2015 £000	31 March 2016 £000
Opening Balance	305	488
+ New loans granted	755	0
- Loans repaid	(572)	(183)
Balance carried forward	**488**	**305**
Nominal value carried forward	**488**	**305**

Valuation Assumptions
At the year-end £0.305m of this loan has been classified as a current asset as this is the proportion of the balance which is repayable within 12 months after the balance sheet date. The fair value of this soft loan is consistent with its carrying value as the interest rate payable by the Land Trust are consistent with the authority's prevailing cost of borrowing at the date the loan was issued of 1.74% and adding an allowance for the risk that the loan might not be repaid by the Beer CLT, in this case a zero rate. Since the year end the Council has agreed to refinance £0.290m of this loan in line with Beer CLT's business plan and original project objectives.

27.3 Soft Loans made by the Council Contd.

Otterton Community Shop Limited

Otterton Community Shop Ltd is an Industrial and Provident Society for the benefit of the community. The provision of this loan during 2014/15 was to assist with the setup of a village shop in Otterton. The loan has been provided on an interest free basis for a period of 5 years.

Otterton Community Shop Limited	**31 March 2015 £000**	**31 March 2016 £000**
Opening Balance	0	10
+ New loans granted	10	0
Balance carried forward	**10**	**10**
Nominal value carried forward	**10**	**10**

Valuation Assumptions

Although this is an interest free loan, the loan is being carried at its nominal value as this is not materially different to its fair value.

Kennaway House Trust

This loan has been in place since 2009 and is for a period of 25 years. The purpose of the loan was to assist the Trust in the restoration of this historic property. The loan was renegotiated during 2014/15 in terms of the timing of repayments.

Kennaway House	**31 March 2015 £000**	**31 March 2016 £000**
Opening Balance	250	262
+ New loans granted (rolled up interest)	37	10
- Fair value adjustment	(25)	(65)
Balance carried forward	**262**	**207**
Nominal value carried forward	**287**	**272**

Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is arrived at by taking the authority's prevailing cost of borrowing at the date the loan was previously renegotiated in 2013, of 4.19% and adding an allowance for the risk that the loan might not be repaid by Kennaway House. The Council revised the process for estimating the risk factor during 2015/16 by adding 220bps to the borrowing rate (2014/15 0bps). The impact of this adjustment in the current year is a reduction in the loan valuation of £0.075m which is offset by the build-up of the loan value of £0.010m.

The interest chargeable to Kennaway House is 4.19%.

Poltimore House Trust

This loan was provided to assist the Poltimore House Trust to preserve the structure of this historic grade 2* listed building. The loan has been provided for a period of 25 years interest free and is due to be redeemed in 2034.

Poltimore House Trust	**31 March 2015 £000**	**31 March 2016 £000**
Opening Balance	48	46
- Loans repaid	(2)	(2)
Balance carried forward	**46**	**44**
Nominal value carried forward	**46**	**44**

27.3 Soft Loans made by the Council Contd.

Valuation Assumptions
Although this is an interest free loan, the loan is being carried at its nominal value as this is not materially different to its fair value.

Axminster Town Council
This interest free loan was issued to the Town Council for fire escape works at the Guildhall. It is for a term of 20 years and is due for redemption in 2022.

Axminster Town Council	31 March 2015 £000	31 March 2016 £000
Opening Balance	9	8
- Loans repaid	(1)	(1)
Balance carried forward	**8**	**7**
Nominal value carried forward	**8**	**7**

Valuation Assumptions
Although this is an interest free loan, the loan is being carried at its nominal value as this is not materially different to its fair value.

Axminster Town Council
This interest free loan was issued to assist with the refurbishment of the Guildhall. It is for a term of 20 years and is due for redemption in 2024.

Axminster Town Council	31 March 2015 £000	31 March 2016 £000
Opening Balance	55	50
- Loans repaid	(5)	(5)
Balance carried forward	**50**	**45**
Nominal value carried forward	**50**	**45**

Valuation Assumptions
Although this is an interest free loan, the loan is being carried at its nominal value as this is not materially different to its fair value.

LED Ltd
This loan has been provided in order to fund the leisure centre enhancement programme. A total of £1.850m has been approved but, to date, only £1.450m has been requested. The loan has been provided on an annuity basis and is due to be repaid in full by April 2034. The loan has been drawn down in two tranches and the interest rate chargeable is 3.22%.

LED Ltd	31 March 2015 £000	31 March 2016 £000
Opening Balance	0	0
+ New loans granted	0	1,450
- Loans Repaid	0	(43)
- Fair value adjustment	0	(198)
Balance carried forward	**0**	**1,209**
Nominal value carried forward	**0**	**1,407**

27.3 Soft Loans made by the Council Contd.

Valuation Assumptions

The interest rate at which the fair value of this soft loan has been calculated is arrived at by taking the authority's prevailing cost of borrowing at the date each of the loans was issued of 2.49% and 2.87%, and adding an allowance for a risk factor of 220bps in line with the Science Park and Kennaway House.

27.4 Fair Values of Assets and Liabilities

There are material changes to the Fair Value notes, some based on the category of their initial valuation:

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

Fair Value of Financial Assets

Some of the Council's financial assets are measured in the balance sheet at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them. This only applies to the Council's external investments managed by RLAM and Payden & Rygel.

Financial assets measured at fair value				
Recurring fair value measurements	**Input level in fair value hierarchy**	**Valuation technique used to measure fair value**	**31 March 2015 £000**	**31 March 2016 £000**
Available for Sale				
Other financial instruments classified as Available for Sale	Level 1	Unadjusted quoted prices in active markets for identical shares	30,923	30,872
Total			30,923	30,872

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels 1 and 2 during the year.

Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

27.4 Fair Values of Assets and Liabilities Contd.

- For loans from the PWLB payable, borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price. As an alternative, we have assessed the cost of taking a new loan at PWLB new loan rates applicable to existing loans on Balance Sheet date (which could be viewed as a proxy for transfer value);
- For loans receivable the authorities prevailing cost of borrowing uplifted for the relevant risk factor has been used to provide the fair value at which the loan is carried;
- No early repayment or impairment is recognised; and,
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

Model Valuation for Financial Instruments

As at 31st March the Council held £1.075m financial assets and no financial liabilities for which Level 3 valuations will apply. The financial assets classed as Loans and Receivables are held with Money Market Funds and Notice Accounts, with the remainder relating to the Exeter Science Park Company investment which is held as an unquoted equity investment at cost. The financial liabilities are held with PWLB and Market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, the Council has used a financial model valuation provided by Capita Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments to be made in the future in today's terms, as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector. The Council's accounting policy uses New Borrowing Rates to discount the future cash flows.

The fair values calculated are as follows:

Financial Liabilities	**31 March 2016**		
	Carrying amount £000	**Fair value New Loan Rates £000**	**Fair value Early Repayment Rates £000**
PWLB debt	85,480	90,284	100,310
Short term creditors	4,222	4,222	4,222
Cash Overdrawn	2,683	2,683	2,683
Total Liabilities	**92,385**	**97,189**	**107,215**

Financial Liabilities	**31 March 2015**		
	Carrying amount £000	**Fair value New Loan Rates £000**	**Fair value Early Repayment Rates £000**
PWLB debt	85,902	89,937	100,347
Short term creditors	7,526	7,526	7,526
Cash Overdrawn	2,188	2,188	2,188
Short term finance lease liability	361	361	361
Total Liabilities	**95,977**	**100,012**	**110,422**

27.4 Fair Values of Assets and Liabilities Contd.

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above to lenders above current market rates.

The authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £85.480m would be valued at £90.284m. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that would not be paid. The exit price for the PWLB loans including the penalty charge would be £100.310m.

Financial Assets	**31 March 2015**		**31 March 2016**	
	Carrying amount £000	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Money market loans < 1 year	3,000	3,000	850	850
Short term investments (including cash)	8,182	8,182	5,606	5,606
Long term investments	226	226	225	225
Short term debtors	4,415	4,415	5,991	5,991
Long term debtors	1,659	1,659	2,305	2,305
Total Assets	**17,482**	**17,482**	**14,977**	**14,977**

The fair value of the assets is consistent with the carrying amount because the Council's portfolio of loans has been valued and is carried at the authority's prevailing cost of borrowing uplifted for the relevant risk factor to reflect the current market rates.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

The Council has a shareholding in Exeter Science Park Company Ltd representing 7.12% of the company's capital. The shares are carried at cost and have not been valued as a fair value cannot be measured reliably. As yet the company has no established trading history. Also there are no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the shareholding.

31 March 2015 £000	**Financial Investments Valued at Historic Cost**	**31 March 2016 £000**
	Exeter Science Park	
225	7.12% Shareholding	225
	HM Treasury Stock	
1	2.5% Consolidated Stock	0
226		**225**

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 Comprehensive Income and Expenditure Statement. There were no indications of impairment in 2015/16 (2014/15 none).

Note 28 Nature and Extent of Risks Arising from Financial Instruments

28.1 Nature of Risk

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;
Re-financing risk	the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms; and,
Market risk	the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

28.2 Overall Procedures for Managing Risk

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management 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 to 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 Government guidance.

These are required to be reported and approved 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 after each year, as is a mid-year update.

The annual 2015/16 Treasury Management Strategy including the full investment strategy and the prudential indicators was approved by Cabinet on 11th February 2015 and ratified by Full Council on 25th February 2015 and are available on the Council's website. The key parameters within the strategy are:

28.2 Overall Procedures for Managing Risk Contd.

- The Authorised Limit for 2015/16 was set at £99.040m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £92.623m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure for borrowing were set at 100% and 20% respectively.
- The maximum amounts of fixed and variable interest rate exposure for investments were set at 60% and 100% respectively. The fixed element of investments has increased this year to 60% from 40%. The reason for this increase is not due to a change in treasury management activities as such but reflects the non-treasury management, policy based investment decisions.

These policies are implemented by the Financial Services team.

28.3 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to 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 the Fitch, Moody's and Standard & Poor's Credit Rating Services. The Annual Investment Strategy also imposes maximum amounts and time limits with a financial institution.

The credit criteria in respect of financial assets held by the Council are as detailed below:

Cash Flow/Internal Investments (Maximum duration 1 year unless stated otherwise)		
Organisation	**Criteria**	**Max Amount**
Deposit Building Societies (maximum duration 6 months)	Top 20 by Total Assets with over £5 billion in total assets	£3 million
Deposit Building Societies (maximum duration 6 months)	Top 20 by Total Assets with over £1 billion in total assets	£2 million
Deposit with UK Incorporated Banks	Minimum F1, A1 or P1 short term backed up by A long term credit rating	£2 million
Deposit with Banks incorporated outside the UK but entitled to accept UK deposits	Minimum F1+, A1+ or P1+ short term backed up by AA- long term credit rating	£2 million
Money Market Funds	AAAmmf long-term rating	£3 million
UK Local, Police & Fire Authorities		£3 million
External (Long Term) Investment Fund		
Organisation	**Criteria**	**Max Amount**
Investment schemes (e.g. bond funds)	AAA long-term rating backed up with lowest volatility rating (V1/S1)	60% of External Fund total

The Council's maximum exposure to credit risk in relation to its investments in banks, building societies and externally managed funds of £36.3m cannot be assessed generally because the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. There is an inherent risk of irrecoverability in relation to investments, which applies to all of the Council's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

28.3 Credit Risk Contd.

No credit limits were exceeded during the period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The following analysis summarises the Council's potential maximum exposure to credit risk on other short term financial assets, based on experience of default and uncollectability:

	Amount at 31 March 2016 £000	Historical experience of Default %	Estimated Maximum Exposure to default & uncollectability at 31 March 2015 £000	Estimated Maximum Exposure to default & uncollectability at 31 March 2016 £000
Customers*				
Housing Benefits	2,014	16.33%	329	329
Rental	224	26.63%	57	60
Sundry Debtors	2,248	2.33%	42	52
Total	**4,486**		**428**	**441**

*Excluding statutory debtors such as council tax, NNDR and amounts receivable from HMRC.

28.4 Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting 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. This seeks to ensure that cash is available as needed.

The Council has ready access to borrowings 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.

28.5 Refinancing and Maturity Risk

The council maintains a significant 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 assets.

The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of 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.

28.5 Refinancing and Maturity Risk contd.

The maturity analysis of financial liabilities in relation to loans is as follows:

31 March 2015 £000	Maturity Risk	31 March 2016 £000
1,118	Less than one year	1,915
2,610	Between one and two years	1,434
5,010	Between two and five years	6,161
14,844	Between five and ten years	17,053
44,683	Between ten and twenty years	49,372
17,438	Between twenty and thirty years	9,330
199	Between thirty and forty years	170
85,902	**Total**	**85,435**

All trade and other payables are due to be paid in less than one year.

28.6 Market Risk

28.6.1 Interest Rate Risk

The Council is exposed to risk in terms of 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 interest rates would have the following effects:

- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances);
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise.

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.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team monitors market and forecast interest rates within the year to adjust exposures accordingly. 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 fixed term rate borrowing would be postponed.

According to this assessment strategy, at 31 March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

Interest Rate Risk	31 March 2016 £000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	413
Decrease in the fair value of fixed rate investment assets	0
Impact on Surplus or Deficit on the Provision of Services	**413**

28.6.2 Price Risk

The Council does not generally invest in equity shares or marketable bonds.

However it does have investments in unquoted equity shares with a value of £224,927. This relates to a joint venture with other councils and Exeter University. This shareholding has arisen in the acquisition of a specific interest and will not be traded.

As such it is unnecessary for the Council to limit its exposure to price movements by diversifying its portfolio.

Note 29: Debtors and Payments in Advance

As at 31 March 2015 £000	Debtors and Payments in Advance	As at 31 March 2016 £000
	Central Government Bodies:	
307	Government Departments	496
803	HMRC	774
1,798	**Other Local Authorities**	1,713
	Other entities and individuals:	
209	Housing Tenants	224
210	Council Tax payers	219
269	Non domestic ratepayers	490
1,797	Housing Benefit Overpayments	2,016
1,808	Debts for Council Services Provided	2,953
113	Debts of Strata Service Solutions Ltd	279
316	Other	853
(514)	Less Provision for Doubtful Debts	(543)
7,116	**Total**	**9,474**

Note 30. Cash and Cash Equivalents

As at 31 March 2015 £000	Cash and Cash Equivalents	As at 31 March 2016 £000
556	Cash in transit and cash floats	425
5,138	Bank current accounts	2,994
505	Strata Services Solutions Ltd cash at bank	187
2,300	Short term deposit	2,000
8,499	**Cash and Cash Equivalents**	**5,606**
(2,188)	Bank overdraft	(2,683)
6,311	**Total Cash and Cash Equivalents**	**2,923**

Note 31: Creditors and Receipts in Advance

As at 31 March 2015 £000	Creditors and Receipts in Advance	As at 31 March 2016 £000
	Central Government Bodies:	
(487)	Government Departments	(269)
(306)	HMRC	(258)
(3,728)	**Other Local Authorities**	(978)
	Other entities and individuals:	
(70)	Housing Tenants	(89)
(164)	Council Tax Receipts in Advance	(168)
(3,671)	Council Tax Major Preceptors	(4,266)
(153)	Non domestic rates Receipts in Advance	(114)
(122)	Creditors of Strata Service Solutions Ltd	(284)
(4,226)	Sundry Creditors	(4,308)
(12,927)	**Total**	**(10,734)**

Note 32. Contingent Liabilities

There are no contingent liabilities to highlight.

Note 33. Contingent Assets

Sale of Knowle
The potential sale of The Knowle in Sidmouth could realise a substantial capital receipt. However, this is dependent on planning permissions being granted. The Knowle is included in Note 26 Assets held for sale.

Note 34: Provisions

	NDR Appeals £000	Other Provisions £000	Total
Balance at 1 April 2015	(673)	(145)	(818)
Adjustment in respect of spreading of backdated NDR appeals	(707)	0	(707)
Amounts used in 2015/16	494	145	639
Additional provision made in 2015/16	(451)	0	(451)
Balance at 31 March 2016	**(1,337)**	**0**	**(1,337)**

Non Domestic Rates Appeals
The Business Rates Retention Scheme requires local authorities to forecast and make provision for the amount of money that they would expect to have to repay as a result of reductions in rateable value following a successful appeal.
This is the Council’s share of the estimated outstanding appeals, including backdated appeals, which are likely to be successful. The figure takes into account the Council’s option to spread the cost over 5 years.

Note 35: Usable Reserves

Movements in the Council's Usable Reserves are detailed in the Movement in Reserves Statement and Note 7.

Note 36: Unusable Reserves

31 March 2015 Restated £000		31 March 2016 £000
189	Accumulated Absences Account	108
(4)	Available for Sale Financial Instruments Reserve	47
(188,596)	Capital Adjustment Account	(187,434)
697	Collection Fund Adjustment Account	397
(1)	Deferred Capital Receipts Reserve	0
73	Financial Instrument Adjustment Reserve	505
53,727	Pensions Reserve	49,412
(14,826)	Revaluation Reserve	(16,477)
(148,741)	**Total Unusable Reserves**	**(153,442)**

36.1 Accumulated Absences Account

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

2014/51 £000	Accumulated Absences Account	2015/16 £000	2015/16
225	**Balance at 1 April**		**189**
(225)	Settlement or cancellation of accrual made at the end of the preceding year	(189)	
189	Amounts accrued at the end of the current year	108	
(36)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(81)
189	**Balance at 31 March**		**108**

36.2 Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

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

2014/15	Available for Sale Financial Instruments Reserve	2014/15 £000	2014/15£000
59	**Balance at 1 April**		**(4)**
(63) 0	Upward revaluation of investments Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	20 31	
(63) 0	Accumulated gains on assets sold and maturing Assets written out to the Comprehensive Income & Expenditure Statement as part of Other Investment Income		51 0
(4)	**Balance at 31 March**		**47**

36.3 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business ratepayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2014/15 £000	Collection Fund Adjustment Account	2015/16 £000
744	**Balance at 1 April**	**697**
(47)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(300)
697	**Balance at 31 March**	**397**

36.4 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 a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account apart from those involving the Revaluation Reserve.

36.4 Capital Adjustment Account Contd.

2014/15 £000	Capital Adjustment Account	2015/16 £000	2015/16 £000
(193,414)	**Balance at 1 April**		**(188,596)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
3,339	Charges for depreciation and impairment of noncurrent assets	2,691	
10,432	Revaluation losses on Property, Plant and Equipment	8,778	
279	Amortisation of intangible assets	0	
8,431	Revenue expenditure funded from capital under Statute	959	
3,087	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	1,301	
531	Loss on share of value of assets donated to Strata Services Solutions Ltd	0	
26,099			13,729
(1,226)	Adjusting amounts written out of the Revaluation Reserve		(1,082)
24,873	**Net written out amount of the cost of non-current assets consumed in the year**		**12,647**
	Capital financing applied in the year:		
(2,131)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,192)	
(4,849)	Use of the Major Repairs Reserve to finance new capital expenditure	(4,764)	
(10,560)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,666)	
(794)	Application of grants to capital financing from the Capital Grants Unapplied Account	(1,037)	
(1,043)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(1,448)	
(678)	Capital expenditure charged against the General Fund and HRA balances	(1,378)	
(20,055)			(11,485)
(188,596)	**Balance at 31 March**		**(187,434)**

36.5 Financial Instruments Adjustment Reserve

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefiting from gains per statute.

2014/15 £000	Financial Instruments Adjustment Reserve	2015/16 £000	2015/16 £000
0	**Balance at 1 April**		**73**
0	Premiums included in year and charged to CIES	0	
73	Proportion of premiums incurred in previous Financial Years charged against GF balance in accordance with statutory requirements	432	
(2,120)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year accordance with statutory requirements		432
73	**Balance at 31 March**		**505**

36.6 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 Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement 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 Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council 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.

2014/15 £000	Pensions Reserve	2015/16 £000
40,196	**Balance at 1 April**	**53,727**
11,063	Remeasurement of the net defined benefit liability	(7,338)
3,370	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	4,963
1,218	Transfer of Strata Service Solution Ltd pension liability	168
(2,120)	Employer's pensions contributions and direct payments to pensioners payable in the year	(2,108)
53,727	**Balance at 31 March**	**49,412**

36.7 Revaluation Reserve

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

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

The Reserve contains 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

2014/15 £000	Revaluation Reserve	2015/16 £000	2015/16 £000
(17,317)	**Balance at 1 April**		**(14,826)**
(6,955)	Upward revaluation of assets	(2,969)	
8,220	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	236	
1,265	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(2,733)
1,159	Difference between fair value depreciation and historical cost depreciation	904	
67	Accumulated gains on assets sold or scrapped	178	
1,226	Amount written off to the Capital Adjustment Account		1,082
(14,826)	**Balance at 31 March**		**(16,477)**

Note 37. Cash Flow Statement - Operating Activities

2014/15 Restated £000		**2015/16 £000**
5,376	**Total (surplus)/deficit on provision of services**	**5,055**
	Adjust for items included in net surplus or deficit on provision of services that are investing and financing activities:	
0	Proceeds from short term and long term investments	4
2,464	Proceeds from the sale of property, plant & equipment	2,261
(3,027)	Capital grants and contributions	926
	Adjust net surplus or deficit on provision of services for noncash movements:	
(14,050)	Depreciation, impairment & amortisation charged to revenue	(11,794)
(9)	Net movement of bad debt provision through CIES	(13)
(2,469)	Net adjustments made in respect of IAS19 pensions	(3,033)
(3,087)	Carrying amount of the gain /loss on disposal of property, plant and equipment	(1,301)
313	Grants applied to finance capital expenditure or received to meet principal repayments on borrowing by statute	813
47	Other noncash movements	298
	Movement in Noncash Assets and liabilities	
2,891	(Increase) / decrease in creditors	1,151
3,005	Increase / (decrease) in debtors and payments in advance	3,280
5	(Increase)/decrease in Stock/Inventories	(3)
(13,918)		(7,411)
(8,542)	**Cash flows from operating activities**	**(2,356)**

	Items included in the net cash flow from operating activities include:	
(395)	Interest received	(539)
2,637	Interest paid	2,655
2,242	**Net interest**	**2,116**

Housing Revenue Income and Expenditure Statement for the Year Ended 31 March 2016

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

2014/15 Net Expenditure £000	Housing Revenue Account Income and Expenditure Statement	2015/16 Net Expenditure £000
	Expenditure	
4,377	Repairs and Maintenance	4,495
4,210	Supervision and Management	4,138
36	Rents, rates, taxes and other charges	23
	Depreciation and Impairment of non-current assets	
6,059	Dwellings	439
75	Other Assets	140
(28)	Movement in the allowance for bad debts	3
14,729	**Total Expenditure**	**9,238**
	Income	
(17,421)	Dwelling Rents (Gross)	(17,744)
(572)	Non dwelling rents (Gross)	(714)
(819)	Charges for services and facilities	(482)
(419)	Contribution towards expenditure	(0)
(19,231)	**Total Income**	**(18,940)**
(4,502)	**Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**	**(9,702)**
843	HRA share of Corporate and Democratic Core	853
98	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services	125
(3,561)	**Net Expenditure/(Income) on HRA Services**	**(8,724)**
	HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:	
(1,204)	(Gain) on sale of HRA non-current assets	(737)
(32)	HRA interest and investment income	(35)
2,563	Interest payable	2,559
286	Pensions interest cost and expected return on pensions assets	301
0	Capital grants and contributions receivable	0
(1,948)	**Surplus for the Year on HRA Services**	**(6,636)**

Movement on the HRA Statement for the Year Ended 31 March 2016

The HRA Income and Expenditure Statement shows the actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Council is required to raise rents on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the property, plant and equipment are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

These adjustments are reflected in the statement shown below.

2014/15 Expenditure £000	Movement on the HRA Statement	2015/16 Expenditure £000
(3,891)	**Balance on the HRA as at the end of the previous year**	**(4,966)**
(1,948)	Surplus for the year on the HRA Income & Expenditure Statement	(6,636)
373	Adjustments between accounting basis and funding basis under statute	5,467
(1,575)	Net Increase in year on the HRA	(1,169)
500	Transfers to earmarked reserves	1,000
(4,966)	**Balance on the HRA as at the end of the current year**	**(5,135)**

HRA Note 1. Reconciliation of Movement on HRA Balance

This requires a reconciling note that breaks down the amounts which are not included within the HRA Income & Expenditure Statement but are adjustments between the accounting basis and the funding basis under statute.

2014/15 Expenditure £000		2015/16 Expenditure £000
	Amounts included in the HRA I & E Statement but required by statute to be excluded when determining the movement on the HRA Balance for the year	
(6,219)	Depreciation and impairment of property, plant and equipment	(579)
1,204	Gain on sale of HRA non-current assets	737
4	Accumulated absences	10
(724)	Net charges made for retirement benefits in accordance with IAS19	(875)
(5,735)		**(707)**
	Amounts not included in the HRA I & E Statement but required by statute to be included when determining the movement on the HRA Balance for the Year	
342	Capital expenditure funded by the Housing Revenue Account	24
4,849	Transfer to Major Repairs Reserve	4,764
337	Employer's contributions payable to the DCC Pension Fund and retirement Benefits payable direct to pensioners	357
580	Minimum Revenue Provision	1,029
6,108		**6,174**
373	**Net adjustments between accounting basis and funding basis under statute**	**5,467**

HRA Note 2. Rents

This is the total rent income collectable for the year after allowance is made for empty properties and irrecoverable amounts. Empty properties accounted for 1.86% of the gross rents. In 2014/15 the figure was 1.80%.

The average weekly rent for dwellings was £81.89 in 2015/16 (£80.02 in 2014/15). The average weekly rent for garages was £11.79.

HRA Note 3. Rent Arrears

There was an increase of £31,000 in rent arrears in the year to 31 March 2016.

2014/15 £000	Rent Arrears	2015/16 £000
209	Rent Arrears as at 31st March	240
1.14%	Percentage of total rent debit	1.29%

HRA Note 4. Bad Debt Provision

2014/15 £000	Bad Debt Provision	2015/16 £000
57	Rent Payers Bad Debts Provision as at 31st March	60

The bad debt provision has increased by £3,000. Former tenant arrears have decreased by £1,000 to £59,000 at the 31 March 2016 (£60,000 at the 31 March 2015).

HRA Note 5. Housing Stock

The Council was responsible for managing on average 4,234 dwellings during 2015/16. The stock at the year-end was made up as follows:

Numbers as at 31 March 2015	Housing Stock by Type	Numbers as at 31 March 2016
1,215	Flats & Maisonettes	1,212
2,036	Houses (including non-traditional)	2,017
989	Bungalows	988
1	House in multiple occupation	1
4	Other properties not used as dwellings	4
4,245	**Total**	**4,222**

HRA Note 6. Housing Property, Plant and Equipment

The Housing Stock and other Housing Revenue Account Assets are included in the Balance Sheet at 31 March 2016 at a value of £194.436m (£192.218m at 1 April 2015). A full revaluation of the Council's dwellings as at 31 March 2011 was undertaken and has been updated using beacon values to 31 March 2016.

	Council Dwellings & Land	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2015	**187,408**	**4,823**	**715**	**155**	**193,101**
Additions	5,222	0	0	0	5,222
Revaluation (decreases) recognised in the Surplus/Deficit on the Provision of Services	(439)	0	0	0	**(439)**
Assets reclassified (to) Held for Sale	(1,036)	0	0	0	**(1,036)**
At 31 March 2016	**191,155**	**4,823**	**715**	**155**	**196,848**
At 1 April 2015	**93**	**171**	**619**	**0**	**883**
Depreciation charge	1,139	95	45	0	**1,279**
Other movements in depreciation & impairment	(1,139)	0	0	0	**(1,139)**
At 31 March 2016	**93**	**266**	**664**	**0**	**1,023**
Net Book Value:					
At 31 March 2016	**191,062**	**4,557**	**51**	**155**	**195,825**
At 31 March 2015	**187,315**	**4,652**	**96**	**155**	**192,218**

The actual Housing Stock figure at 31 March 2016 was 4,222 properties, of which 4 properties were not used to house tenants directly (e.g. Community Areas, offices & shop). The remaining 4,218 properties are valued at £191.062m and are included within the 31 March 2016 Balance Sheet figure. These properties have been valued based on Existing Use Value for Social Housing. The value of these properties based on Vacant Possession would be £615.775m. The difference between these two figures of £424.712m represents the cost of providing council housing at less than open market rents.

HRA Note 7. Average Costs per Dwelling

The table below shows the average cost per dwelling of the principal expenditure types and an average rent income.

2014/15 £	Type of Expenditure/(Income)	2015/16 £
£1,009.46	Supervision & Management - General	£1,205.25
£965.71	Repairs & Maintenance	£973.36
(£4,094.19)	Rent un-rebated	(£4,196.23)

HRA Note 8. Major Repairs Reserve

In 2015/16 the sum of £1.279m, equivalent to the total HRA depreciation, was transferred into the Major Repairs Reserve along with an additional contribution of £3.485m. This sum was used in full during the year to fund major repairs on Council houses. No balance remained on the Reserve as at 31 March 2016.

2014/15 £000	Major Repairs Reserve	2015/16 £000
0	**Balance b/f**	**0**
(1, 192)	Depreciation	(1, 279)
(3,657)	Additional HRA contribution	(3,485)
4,849	Major Repairs Expenditure	4,764
0	**Balance c/f**	**0**

HRA Note 9. Capital Expenditure

Capital expenditure within the HRA for 2015/16 and how it was funded is shown below:

2014/15 £000	Capital Expenditure	2015/16 £000
	Expenditure:	
5,636	Council Houses - Improvements, enhancements & acquisitions	5,222
104	Other HRA capital expenditure	0
5,740	**Total Capital Expenditure**	**5,222**
	Funded by:	
4,849	Major Repairs Reserve	4,764
342	Revenue Contribution	24
25	S106 receipts	18
145	Capital Receipts – for provision of new social housing	11
0	Capital Reserve	0
379	Capital Receipts – other HRA	405
5,740	**Total**	**5,222**

HRA Note 10. Capital Receipts

Capital receipts during the year from disposals of land and houses within the HRA are as follows:

2014/15 £000	Source of Receipt	2015/16 £000
2,852	Council Houses – Right to Buy Sales	1,772
0	Principal on Mortgage Repayments	1
29	Miscellaneous Sales	3
(384)	Less contribution to HM Treasury	(440)
2,497	**Total HRA Capital Receipts**	**1,336**

HRA Note 11. HRA share of contributions to/from the Pension Reserve

The Council's pension fund reserve liability decreased to £48.173m from £52.251m during 2015/16. It has been estimated that 17.79% of the Council's salary costs relate to the HRA, therefore the HRA's share of the overall pension deficit equates to £8.570m.

Collection Fund for Year Ended 31 March 2016

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority, East Devon District Council, in relation to the collection from taxpayers and ratepayers and distribution to local authorities and the Government of council tax and non-domestic rates.

Collection Fund Account

2014/15 £000		2015/16 Business Rates £000	2015/16 Council Tax £000	2015/16 Total £000
	Income			
(85,149)	Council Tax (net)	0	(88,807)	(88,807)
(31,510)	NDR collectable from business ratepayers	(32,392)	0	(32,392)
(157)	Transitional protection payments	(60)	0	(60)
	Contributions to previous year's estimated deficit			
(678)	Central Government	(792)	0	(792)
(122)	Devon County Council	(143)	0	(143)
(543)	East Devon District Council	(634)	0	(634)
(13)	Devon & Somerset Fire & Rescue Authority	(16)	0	(16)
(118,172)		**(34,037)**	**(88,807)**	**(122,844)**
	Expenditure			
	Precepts			
15,807	Central Government	16,168	0	16,168
64,382	Devon County Council	2,911	64,205	67,116
8,980	Devon & Cornwall Police Authority	0	9,369	9,369
21,330	East Devon District Council (including towns & parishes)	12,935	9,060	21,995
4,472	Devon & Somerset Fire & Rescue Authority	323	4,336	4,659
	Contributions to previous year's estimated surplus			
0	Devon County Council	0	738	738
0	Devon & Cornwall Police Authority	0	108	108
0	East Devon District Council	0	104	104
0	Devon & Somerset Fire & Rescue Authority	0	50	50
228	Cost of Collection Allowance	227	0	227
276	Write offs	96	134	230
59	Adjustment to Bad Debt provision	38	0	38
935	Adjustment to Appeals provision	(106)	0	(106)
236	Backdated appeals spreading adjustment	707	0	707
122	Renewable Energy Schemes	198	0	198
116,827		**33,497**	**88,104**	**121,601**
(1,345)	**Movement on fund balance**	**(540)**	**(703)**	**(1,243)**

Council Tax Collection Fund balance and movement split between the major preceptors:

2014/15 £000		Devon County Council	Devon & Cornwall Police Authority	East Devon District Council	Devon & Somerset Fire Authority	2015/16 £000
(2,611)	Balance b/f	**(3,152)**	**(460)**	**(445)**	**(213)**	**(4,269)**
(1,659)	Movement	(519)	(69)	(83)	(32)	(703)
(4,269)	**Balance c/f**	**(3,670)**	**(529)**	**(528)**	**(245)**	**(4,972)**

Non-Domestic Rates Collection Fund Balance and Movement Split between the Major Preceptors:

2014/15 £000		Devon County Council	Central Government	East Devon District Council	Devon & Somerset Fire Authority	2015/16 £000
2,539	Balance b/f	257	1,427	1,141	28	2,853
314	Movement	(49)	(270)	(216)	(5)	(540)
2,853	**Balance c/f**	**208**	**1,157**	**925**	**23**	**2,313**

CF Note 1. Income from Business Rates

2014/15		2015/16
£85.688m	Total non-domestic rateable value at end of year (31 March)	£88.592m
0.482	National non domestic rate multiplier for the year	0.493
0.471	Small business non domestic rating multiplier	0.480

CF Note 2. Council Tax Base

The Council Tax Base, for tax setting purposes, is calculated by reference to the number of chargeable dwellings in each valuation band, with deductions for dwellings where discounts apply and adjustments made for exempt properties and anticipated amendments. This is then converted to an equivalent number of band D dwellings which is the amount the Council estimates would actually be collected if a tax of £1 is set.
The figures for 2015/16 are:

Band	Dwellings	Adjustments	Council Tax Support discounts	Net Properties	Conversion Factor	Band D equivalent
A*	0	14	(3)	11	5/9ths	6
A	6,086	(1,094)	(1,236)	3,756	6/9ths	2,504
B	12,850	(1,593)	(2,115)	9,142	7/9ths	7,110
C	14,721	(1,344)	(1,526)	11,851	8/9ths	10,534
D	12,066	(1,053)	(641)	10,372	9/9ths	10,372
E	9,909	(710)	(260)	8,939	11/9ths	10,925
F	6,026	(361)	(77)	5,588	13/9ths	8,072
G	3,969	(286)	(22)	3,661	15/9ths	6,102
H	199	(41)	0	158	18/9ths	316
Total Band D Equivalent						**55,941**

CF Note 2. Council Tax Base Contd.

The comparative figures for 2014/15 were:

Band	Dwellings	Adjustments	Council Tax Support discounts	Net Properties	Conversion Factor	Band D equivalent
A*	0	10	(2)	8	5/9ths	4
A	5,968	(1,041)	(1,292)	3,635	6/9ths	2,423
B	12,631	(1,629)	(2,182)	8,820	7/9ths	6,860
C	14,430	(1,401)	(1,614)	11,415	8/9ths	10,147
D	11,904	(1,036)	(693)	10,175	9/9ths	10,175
E	9,827	(739)	(265)	8,823	11/9ths	10,784
F	5,956	(350)	(92)	5,514	13/9ths	7,965
G	3,925	(264)	(23)	3,638	15/9ths	6,063
H	199	(41)	0	158	18/9ths	316
Total Band D Equivalent						**54,737**

2014/15 £000	Tax Base	2015/16 £000
53,916	Collection Rates at 98.6% (98.5% in 2014/15)	56,158
131	Contribution from MOD properties	131
54,047	**Tax Base**	**55,289**

CF Note 3. The major preceptors on the Collection Fund

The figures include contributions from/to the previous year's surplus/deficit.

Council Tax 2014/15 £000	Non Domestic Rates 2014/15 £000	Major Preceptors	Council Tax 2015/16 £000	Non Domestic Rates 2015/16 £000
61,537	2,723	Devon County Council	64,944	2,768
8,980	0	Devon & Cornwall Police Authority	9,477	0
8,684	12,103	East Devon District Council (including towns & parishes)	9,164	12,300
4,156	303	Devon & Somerset Fire and Rescue Authority	4,386	307
0	15,129	Central Government	0	15,376
83,357	**30,258**		**87,971**	**30,751**

CF Note 4. Provision for Un-collectable Amounts

Provision has been made within the accounts for un-collectable amounts based on guidelines. At the end of 2015/16 the accumulated provision stood at £0.455m (£0.417m for 2014/15) made up as follows:

2014/15 £000	Provision for Uncollectable Amounts	2015/16 £000
143	Non Domestic Rates	181
274	Council Tax	274
417	**Total Provision**	**455**

Glossary of Terms

Accounting Period
The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the balance sheet date.

Accruals
Sums included in the final accounts to recognise revenue and capital income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31 March.

Accumulated Compensated Absences Adjustment Account
This account represents the value of any unused holiday, time off in lieu or flexi hours which have not been taken by officers as at the 31 March.

Assets
An item having value to the Council in monetary terms, categorised as:

- **Current assets** will be consumed within the next financial year (e.g.: cash and stock).
- **Property, plant and equipment** provide benefits over their useful life for more than one year and can be tangible (e.g. sports centres) or intangible (e.g. computer software licences).
- **Community assets** are assets that the local Council intends to hold in perpetuity, that have no determinable useful life and may have restrictions on their disposal (e.g. works of art and picnic sites).
- **Infrastructure assets** that form part of the economic or social framework of the area and whose function is not transferable (e.g. highways, bridges and footpaths).
- **Under Construction** details capital expenditure to date on work in progress.
- **Surplus Assets** are property, plant and equipment held by a council actively being marketed
- **Intangible assets** usually software

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Audit of Accounts
An independent examination of the Authority's financial affairs.

Balances
The total revenue reserves required to provide a working balance during the financial year, for example in periods when expenditure exceeds income.

Budget
The forecast of net revenue and capital expenditure over the accounting period.

Capital Adjustment Account
This records the timing difference between the costs of property, plant and equipment used and the capital financing set aside to pay for them.

Capital Expenditure
Expenditure on assets which have a long term value. Includes the purchase of land, purchase or cost of construction of buildings and the acquisition of plant, equipment and vehicles.

Capital Charges
This is a general term used for the notional charges made to service revenue accounts for the use of property, plant and equipment. The term covers the following:

Depreciation, Impairment charges and revenue expenditure funded from capital under statute (included in gross expenditure) offset by the Amortisation of government grants deferred (included in income).

Glossary Contd.

Capital Receipts
Proceeds received from the sale of property and other property, plant and equipment.

Carrying Amount
The Balance Sheet value recorded for an asset or a liability.

CIPFA
The Chartered Institute of Public Finance and Accountancy.

Collection Fund
A separate fund that records the income and expenditure relating to council tax and non-domestic rates.

Community Assets
Fixed Assets the Council intends to hold in perpetuity and which have no determinable useful life. They may also have restriction on their disposal. An example is a cemetery.

Corporate Democratic Core
Those activities which the Council is engaged in specifically because it is an elected multi-purpose authority. This includes the costs of corporate policy making, representing local interests, representatives and duties arising from public accountability.

Creditors
Amounts owed by the Council for work done, goods received or services rendered but for which payment has not been made at 31 March.

Debtors
Sums of money due to the Council but not received at 31 March.

Depreciation
The allocation of the cost of the useful economic life of the Council's property, plant and equipment for the accounting period through general wear and tear, consumption or obsolescence.

Earmarked Reserves
Those elements of total Council reserves which are retained for specific purposes.

External Audit
The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices. Also to ensure the Council has made proper arrangements to secure value for money in its use of resources.

Finance Lease
A lease whereby all the risks and rewards of ownership of a fixed asset are with the lessee. In substance the asset belongs to the lessee.

General Fund
The main revenue fund of the Council. Income from the council tax precept and Government grants are paid into the fund, from which the cost of providing services are met.

Government Grants
Payments by Central Government towards local Council expenditure. They are specific for a particular service; and are receivable in respect of both revenue and capital expenditure.

Glossary Contd.

Housing Revenue Account
Statutory ring-fenced account required to represent the landlord/tenant obligations for the Council in relation to managing and maintaining its housing stock in return for rental income from tenants.

Impairment
A reduction in the value of a fixed asset to below its carrying amount on the balance sheet due to damage, obsolescence or a general decrease in market value.

Income & Expenditure Account
The net cost for the year for services provided by the Council for which it is responsible and showing how the cost has been financed from precepts, grants and other income.

Liquid Resources
Cash and current Asset investments that can be easily converted to known amounts of cash without penalty, or can be traded on the active market.

Long Term Debtors
Sums of money due to the Council originally repayable within a period in excess of twelve months but where payment is not due until future years.

Net Book Value
The value of property, plant and equipment included on the balance sheet, being the historical cost or a current revaluation less the cumulative amounts of depreciation.

Non-distributed Costs
In the main this represents support service area charges. E.g.: Corporate Management, Finance, Legal, ICT, HR services, etc. In addition to this a number of non-service specific corporate fees are included.

Operating Lease
A lease where the risks and rewards, and therefore the ownership of the asset, remains with the lessor.

Precept
The amount levied by one authority which is collected by another. E.g. the County Council is the precepting authority and the District Council is the collecting authority.

Provision
This is an amount which is put aside to cover future liabilities or losses which are considered to be certain or very likely to occur, but the amounts and timing are uncertain.

Reserves
The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion on the Council. Some capital reserves such as the capital adjustment account cannot be used to meet current expenditure.

Revaluation Reserve
These records net gains from revaluations made after 1 April 2007 not yet realised through sales.

Revenue Contributions
This refers to the financing of capital expenditure directly from revenue rather than from loans or other sources.

Revenue Expenditure
The day to day expenditure of the Council on such items as employees and equipment.

Glossary contd.

Revenue expenditure funded from capital under statute (REFCUS)
Expenditure which may properly be capitalised but which does not result in tangible property, plant and equipment owned by the Council.

Revenue Support Grant (RSG)
The major grant paid by central government to local authorities in aid of service provision.

Service Reporting Code of Practice (SERCOP)
Details standard definitions of service and total cost which enables spending comparisons to be made with other local authorities.

ANNUAL GOVERNANCE STATEMENT

For the year ended 31st March 2016

Scope of Responsibility

East Devon District Council is required to ensure that its business is conducted in accordance with the law and proper standards; that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard again to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

East Devon's Council's Audit & Governance Committee has approved a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This statement explains how East Devon District Council has complied with the code. The Council is required under the Accounts and Audit Regulations 2015 to have approved an annual governance statement (AGS) which accompanies its Statement of Accounts.

The Head of Internal Audit is required to provide a written annual report to those charged with governance to support the AGS; this report is presented to the Council's Audit and Governance Committee on 30 June 2016. East Devon's Internal Audit function is performed by the South West Audit Partnership (SWAP).

Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

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

The Governance Framework

The governance framework described has been in place for the year ending 31 March 2016 and up to the date of the approval of the statement of accounts.

Some of the key features of the governance framework are set out in the following paragraphs:

- The Council has an adopted Constitution that sets out how it operates, how decisions are taken and the procedures to follow.

- The Council has a Council Plan for 2016-20 which sets out our main priorities and forms the focus of all that we aim to achieve by 2020. Our priorities and outcomes set out in the council plan are: Encouraging communities to be outstanding, developing an outstanding local economy, delivering and promoting our outstanding environment and continuously improving to be an outstanding council.

- Delivery of the Council Plan is supported by a performance framework with service plans and individual targets for staff agreed through the Performance Framework which is recorded and monitored through the Council's performance management systems. Delivery of the Council Plan is monitored by the Overview and Scrutiny Committee. This Committee drives the scrutiny process on behalf of the public with a view to improving the delivery of public services.

- A Standards Committee is in place to promote and maintain high standards of conduct by members, to consider reports and make recommendations concerning the governance and ethical standards of the Council and advice on the adoption or revision of the Council's Code of Conduct for members, officers and any other related codes or protocols. The Committee meet quarterly if required.

- Audit & Governance Committee exists with wide-ranging terms of reference including the requirement to consider the effectiveness of the Authority's governance arrangements, taking into account risk management, the control environment and associated anti-fraud and anti-corruption arrangements.

- The Council has designated Monitoring Officer whom ensures compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and Chief Finance Officer the Monitoring Officer will report to the full Council if it is considered that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. The Council also conforms to the requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government.

- An internal audit service is provided through the South West Audit Partnership (SWAP) which operates to the standards set out in the Code of Practice for Internal Audit in Local Government in the UK. Internal audit are responsible for monitoring the effectiveness of systems of internal control. The Service operates to an audit plan approved by the Audit and Governance Committee. The Council's Internal Audit function is subject to regular inspection by the Councils external auditors who have recently changed to KPMG LLP.

- The Council has a whistle-blowing and anti-fraud and corruption policy.

Appendix A contains a more detailed overview of the Council's Governance Framework

Review of Effectiveness

East Devon District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of:

- Internal Audit Annual (SWAP) Report and Opinion 2015/16
- Internal and external audit and inspection.
- A specific review of the effectiveness of internal control and compliance to the governance framework undertaken in May/June through the completion of assurance statements by the Strategic Management Team. These were then reviewed by the Assistant Director for SWAP, the Strategic Lead for Finance (CFO/S151), the Monitoring Officer, Chief Executive and the Chairman and Vice Chairman of the Audit & Governance Committee for compliance and any apparent organisational improvements are included in this Statement.
- The mechanisms for maintaining and reviewing the effectiveness of the system of internal control throughout the year include.
  - Cabinet is responsible for considering overall financial and performance management and receives comprehensive budget monitoring reports on a frequent basis and council service performance reports.
  - Overview & Scrutiny Committee holds the Cabinet Committee to account.
  - The Standards Committee meets quarterly when required and at every meeting considers an update report on complaints against councillors which includes learning points and recommended actions. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards.
  - The Audit & Governance Committee meet five times a year to provide independent assurance to the Council in relation to the effectiveness of the risk management and internal control environment.
  - The South West Audit Partnership provides an independent and objective assurance service (Internal Audit function) to the Council and completes a programme of reviews each year to inform an opinion on the internal control, risk management and governance arrangements. The service undertakes fraud investigation and proactive fraud detection work which includes reviewing the control environment in areas where fraud or irregularity has occurred.

Improvements made in Governance arrangements during 2015/16 to note include;

- 2015/16 was the first full year of the Council having Corporate Counter Fraud & Compliance Officer. In addition to the Council continuing to utilise the National Fraud Initiative (NFI) cross data matching service work was undertaken on Council Tax Single Person Discounts and Council Tax Support Cases. In total these two areas generated additional income to the Council of £87,000 through incorrectly claimed entitlements. Work is currently being planned in the area of tenancy fraud and other areas of corporate fraud.

- Currently East Devon is leading on a Devon wide counter fraud compliance initiative for data sharing.

- The Audit & Governance Committee were extremely active during the year and played a key part in adding to the Council's Governance arrangements.

- The Audit and Governance Committee continued to keep an eye on the process to be put in place in order to regularly monitor a 5 year land supply for strategic planning purposes. A recommendation has been made to form a strategic planning function in 2016/17 to help strengthen governance in this area.

- Following Government policy changes the Housing Revenue Account Business Plan needs to be updated. The importance of this work has been strengthened with members' involvement by the establishment of Task and Finish Forum on the topic.

- Audit review on committee decisions focussing on quality of information presented to members was given an audit opinion of substantial.

Significant Governance and Control Issues Identified.

- Although the following two areas have **not** been deemed as a significant governance or control issue it is considered worth including in this Statement because of there nature and members will be aware of the audits through the Internal Audit Plan:

    - Following a whistle blowing allegation of inappropriate use of Streetscene assets, which was investigated and concluded with no action required; it was considered sensible to arrange a full review by SWAP of the procedures and controls in place – this review is yet to be finalised but is nearing completion and no significant areas of concern have been identified. There will be some minor recommendations to strengthen the arrangements of asset controls.

- Following a complaint into the conduct of a housing officer a full investigation was undertaken by the Council's Human Resources team and SWAP. It was considered that the individual had acted inappropriately and disciplinary action was instigated. The individual no longer works for the Council and the police were notified as the case related to possible fraud. A full review of all systems and procedures in the area were then undertaken and a few minor recommendations implemented to strengthen arrangements.

- The Audit and Governance Committee have been continually updated and advised on the implications of reviews of the effectiveness of the Council's systems of internal control. Plans have been devised and put in place to ensure continuous improvement. The Council's annual review of the governance framework, including the system of internal controls and associated reviews during the year, identified some areas where action is appropriate to enhance the governance and internal control environment and ensure continuous improvement.

  We received a partial assurance for creditors; this was as a result of the Authority Signatory List was found to be outdated and conflicted with the list of the permissions set up within the e-Procurement system. 3 payments were found to have been made where the officer was not recorded on the manual authorisation list – the payments were valid and the officer authorising was an appropriate offer but the list was not updated correctly. This has been rectified but is included in this Statement as the audit received only partial assessment.

Signed & Dated [redacted]

Chief Executive 22/9/2016

Signed & Dated [redacted]

Leader of the Council 22/9/2016

Appendix A

Below is an overview of the Council's Governance Framework

As stated the Council has an adopted Code of Corporate Governance which is in line with CIPFA/SOLACE documentation on delivering good governance in local Government. This defines the corporate governance framework and sets out six core principles of good governance as shown below.

Corporate Governance Framework Corporate Governance comprises the systems and processes, cultures and values, by which the council is directed and controlled, and through which we account to, engage with and where appropriate, lead the community.		
1. Focus on purpose of the Council, vision for local area and outcomes for the community.	2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.	3. Promoting values and upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions scrutinised and risk managed.	5. Developing capacity of Members and Officers to be effective.	6. Engaging with local people to ensure public accountability.

(A) Key Documents: Regular/Annual Review or Production	**(B) Key Documents: Ad hoc Review or Production**
• Medium Term Financial Plan • Annual Revenue & Capital Estimates • Service Plans • Statement of Accounts • Internal/External Audit Protocol • Performance Monitoring Reports (Measure Reports & performance indicators) • Financial Monitoring Reports • External Audit Report to those charged with Governance • External Audit Review report • Annual opinion from SWAP to support Annual Governance Statement • Management Assurance Statements • Governance Statement	• Council Plan • Constitution including Financial and Contract Standing Orders • Scheme of Delegation • Code of Corporate Governance • Anti-Fraud, Theft and Corruption Policy • Complaints Procedure • Procurement Strategy • Freedom of Information • Health Safety, Welfare and Employment Policies • Information Security Policy • ICT Strategy/Business Plan • Protocol – Member Officer Relations • Members Code of Conduct • Employees Code of Conduct • Partnership Policy and Guidance • Risk Management Policy and Guidance • Published Agendas, Reports and Minutes of Committees • Whistleblowing Policy

(C) Contributory Processes/Regulatory Monitoring	
• Audit & Governance Committee • Standards Committee • Overview & Scrutiny Committee • Housing Review Board • Independent Remuneration Panel for Members Allowances • Strategic Management Team • Monitoring Officer appointed • S151 Officer Appointed • Head of Paid Service appointed • Customer Complaints/Feedback Process • Procurement & Efficiency Group • Equalities Group • Asset Management Forum	• Job Descriptions and Person Specifications • Job Evaluation Process • Employee Induction • Employee Surveys • Learning and Development Programme – Employees/Members • Performance Excellence Review • Criminal Conviction Checks • Health & Safety Officer • Fraud Forum • External Audit • Internal Audit • Gift and Hospitality Registers for Employees • Members Register of Interest • Annual Review of Internal Audit, Risk Management & Governance Arrangements

Date: 22nd September 2016
Contact number: 01395 517490
Email: sdavey@eastdevon.gov.uk
Direct Fax:
Reference: SD

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Dear Darren,

This representation letter is provided in connection with your audit of the financial statements of East Devon District Council ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

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

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

Financial statements

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

    i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

    ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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

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

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

5. In respect of the restatement to the Asset Held for Sale made to correct a material misstatement in the prior period financial statements, the Property, Plant and Equipment comparative has increased by £3,365,000 and the Current Assets, Assets Held for Sale, has decreased by £3,365,000, the Authority confirms that the restatement is appropriate.

Information provided

6. The Authority has provided you with:

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

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

8. The Authority confirms the following:

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

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

   ii) The Authority has disclosed to you all information in relation to:

   a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and

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

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

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

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

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

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

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

    The Authority further confirms that:
    a) all significant retirement benefits, including any arrangements that are:
        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,

    have been identified and properly accounted for; and

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

This letter was tabled and agreed at the meeting of the Audit Committee on 22nd September 2016.

Yours faithfully,

[redacted]

Strategic Lead Finance

Appendix to the Authority Representation Letter of East Devon District Council: Definitions

Financial Statements

A complete set of financial statements comprises:

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

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

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

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

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

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

Material Matters

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

IAS 1.7 and IAS 8.5 state that:

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

Fraud

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

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

Error

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

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

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

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

Management

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

Related Party and Related Party Transaction

Related party:

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

a) A person or a close member of that person's family is related to a reporting entity if that person:
    i. has control or joint control over the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

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

Related party transaction:

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

Appendix 2 to the Authority Representation Letter of East Devon District Council: Unadjusted Audit errors

	Impact (£)					
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Dr Accumulated Depreciation £93 000		Cr Revaluation Reserve (Unusable Reserve) £93 000	This is the removal of the accumulated depreciation not removed by East Devon District Council when posting the revaluation journals
2			Cr Plant Property and Equipment £400 000		Dr Revaluation Reserve (Unusable Reserve) £400 000	On the reclassification of the Knowle property from Asset Held for Sale to Plant Property and Equipment the asset was reclassified at Market Value. This is the difference between the Historic cost and the Market Value.
3			Cr Debtors £409 000	Dr Grants in Advance £409 000		Being the removal of the Sewerage company debtor invoiced to Wainhomes (South West) Holdings Ltd
			Cr £716,000	Dr £409,000	Dr £307,000	**Total impact of uncorrected audit differences**

External Audit Report 2015/16

East Devon District Council

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12/09/2016

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at East Devon District Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July to September 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

Following appointment, this was our first year as the External Auditors of the East Devon District Council and we would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified a total of four audit adjustments with a total value of £4.367 million to date. The impact of these adjustments is to: — Decrease the balance on the unusable reserves account as at 31 March 2016 by £307,000; — Decrease the current assets and liabilities as at 31 March 2016 by £409,000; and — Reclassify Current Assets to Non-Current assets, within the Balance Sheet, as at 31 March 2016 by £3.365 million. We have included a full list of audit adjustments at Appendix two, all significant findings were adjusted by the Authority. We have raised two recommendations, which are summarised in Appendix one.
Key financial statements audit risks	We identified the following key financial statements audit risks in our 15/16 External audit plan issued in February 2016. — Valuation of Property, Plant & Equipment – As revaluations occur up to every five years, the time delay could result in a material difference between the carrying value and fair value. We tested the revaluation entries of both the HRA and Non-HRA assets and we are satisfied that the valuation approach in place at the Council does not lead to a material difference between the carrying value and fair value. From our testing however, we have found that the revaluation of the HRA assets are done on a total basis, rather than by asset, this is covered in further detail in section 3. — This risk is present in all entities as management is in a unique position to manipulate accounting records. The audit approach will test the appropriateness of journal entries recorded in the general ledger, review the appropriateness of accounting estimates, and assess the reasonableness of provisions. As part of our audit approach we tested the operating effectiveness of the Cabinet's Quarterly review of the Council's results. In addition tested the journal entries recorded in the general ledger, focused on the areas we considered to be at High risk of manipulation. Through our audit approach, we found no evidence of Management override. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Accounts production and audit process	We received complete draft accounts by 30 June 2016 in accordance with the Accounts & Audit Regulations deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. We will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to efficiencies in the 2016/17 audit process. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We identified the following VFM risks through our risk assessment procedures; — Implementation of Strata — Local Authority Funding strains and; — Relocation of Offices We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete, subject to completion of the following areas: — S106 Contributions Objection work; and — Final completion work over the financial statements. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 12th September 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. Whilst our audit work on the financial statements and VFM conclusion is almost complete, as set out above, we have received a formal objection from a local elector. We are in the process of considering this objection, which relates to the Council's approach to recording and obtaining receipt of monies due to it from developers through agreements under s106 of the Town & Country Planning Act 1990. If we are able to conclude this work before the end of the month then, subject to the outcome of this, we anticipate issuing our audit report by the 30th September for the Council to publish audited financial statements. If, however, the work extends beyond this timescale then we will have to withhold our audit certificate within the audit report until the work on the objection has been completed. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

Our audit has identified a total of four audit adjustments.

The impact of these adjustments is to:

- **Decrease the balance on the unusable reserves as at 31 March 2016 by £307,000;**
- **Decrease the current assets and liabilities as at 31 March 2016 by £409,000;**
- **Reclassify Current Assets to Non-Current assets, within the Balance Sheet, as at 31 March 2016 by £3.365 million.**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 22nd September 2016.

Audit differences

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

The final materiality (see Appendix 3 for more information on materiality) level for this year's audit was set at £1.6 million. Audit differences below £80,000 are not considered significant.

Our audit identified a total of one material audit difference, which we set out in Appendix 2. It is our understanding that this will be adjusted in the final version of the financial statements. The adjustment relates to the reclassification of the Knowle Asset Held for Sales to Plant, Property and Equipment. Our audit also identified three uncorrected audit differences which will not be adjusted by management.

The tables on the right illustrate the total impact of all audit differences (both corrected and uncorrected) on the Authority's movements on the General Fund, HRA and unusable reserves for the year and balance sheet as at 31st March 2016.

The net impact on the unusable reserves as a result of audit adjustments is a reduction of £307,000.

Movements on the general fund 2015/16 (£ 000's)

	Pre-audit	Post-audit	*Ref (App.3)*
Deficit on the provision of services	5,055	5,055	-
Adjustments between accounting basis and funding basis under Regulations	(10,020)	(10,020)	-
Decrease in General Fund and HRA	**(4,965)**	**(4,965)**	

Balance sheet as at 31 March 2016 (£' 000s)

	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	282,517	285,575	*1,2,3*
Long term assets	3,250	3,250	-
Current assets	49,680	45,906	*1,4*
Current liabilities	(17,075)	(16,666)	*4*
Long term liabilities	(138,133)	(138,133)	-
Net worth	**180,239**	**179,932**	
General Fund	(3,625)	(3,625)	-
Other usable reserves	(23,172)	(23,172)	-
Unusable reserves	(153,442)	(153,135)	*2,3*
Total reserves	**(180,239)**	**(179,932)**	

Proposed opinion and audit differences (cont.)

Subject to resolution of the formal objection we have received, we anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements, by the deadline of 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Of the audit adjustments we have identified, which will not be corrected by management, the most significant in monetary value are as follows:

- The difference between the market value of the Asset Held for Sale and the Historic Cost (being the original cost of the asset less depreciation) value (£0.4 million);
- The removal of a debtor raised with Wainhomes on behalf of South West Water Limited and a retrospective creditor balance (£0.4 million) and;
- The accumulated depreciation on the HRA assets not being removed from the balance sheet (£0.09 million).

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in February 2016, we identified the significant risk affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for the risk that is specific to the Authority.

Significant Risk - Valuation of Property, Plant & Equipment (PPE)

— Risk

Authorities are responsible for ensuring the valuation of their PPE is materially correct, and for conducting impairment reviews that confirm the condition of these assets. Local authorities typically achieve this by performing an annual review for impairment, a periodic desk top valuation (every three years) and a full valuation in not more than five yearly intervals. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit.

— Approach

We obtained and reviewed the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies.

We reviewed the instructions provided to the valuer and considered the source of the information and undertake appropriate testing to ensure both its completeness and accuracy.

We challenged the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements.

We undertook appropriate work to understand the basis upon which any impairments to land and buildings have been calculated and reviewed the associated assumptions to determine if there have been any significant variances in fair value between valuations.

Significant audit risks (cont'd)

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in February 2016, we identified the significant risk affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for the risk that is specific to the Authority.

Significant Risk - Valuation of Property, Plant & Equipment (PPE)

— Findings

HRA Assets

It was found from our audit work for HRA assets that a full valuation is performed by the District Valuer for HRA assets at least every five years, with a desktop review performed on the assets not subject to the revaluation in the yea, to ensure the assets have not materially changed in value since the last valuation.

Through testing of the HRA revaluation treatment, it was found that the revaluation adjustment is made on a total portfolio level, rather than on an asset by asset basis, which would be expected under iFRS.

As a conceptual accounting treatment, it would be recommended that the revaluation treatment is based on a Beacon by Beacon basis, as the valuation information is provided to the District Council, which would align the accounting treatment to iFRS.

A recommendation has been noted in Appendix 1 to this effect.

Non-HRA Assets

It was found that the Council performs a revaluation internally at least every five years for Non-HRA assets, with a desktop review performed on the assets not subject to revaluation in the year, to ensure the assets have not materially changed in value since the last valuation.

It was found that the Non-HRA assets are revalued on an asset by asset basis and that no issues were noted from our testing.

Significant audit risks (cont'd)

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

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

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

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

Significant Risk - Management override of controls

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

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

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

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

Other areas of focus

In our External Audit Plan 2015/16, presented to you in February 2016, we identified one area of audit focus.

This is not considered as a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for the area of audit focus.

Area of focus - Strata Service Solutions Limited (Strata)

— Area

STRATA is a shared service provider of IT services, which was set up in 2014 by three local authorities; East Devon District Council, Exeter City Council and Teignbridge District Council.

The Authority holds an equal shareholding in Strata with two other local authorities. When Strata began trading, staff transferred over from the three local authorities under TUPE arrangements. Strata took over the full pensions liabilities relating to these staff, which in some cases had been built up over decades of authority service.

The Authority treated this transaction as a joint operation within its 2014/15 financial statements. However, when the Authority consolidated the figures for Strata it did not account for the built up pension liabilities that had accrued which amounted to £1.136m. Your previous external auditors highlighted this to you in their ISA 260 report for 2014/15.

This year we understand from management that the figures involved for the accrued pension liabilities will be material to your financial statements. The Authority has been consulting with its lawyers and drafted a 'Deed of Guarantee' which makes it clearer that Strata has no past service liability for the pension deficit and it will be covered by the three authorities, but Strata has responsibility for any in year amounts going forward.

This risk affects only the Authority.

— Findings

From our testing we found that the treatment of Strata as a joint operation is correct, with the proportionate assets, liabilities and profit being brought in to each shareholder's Balance Sheet and Comprehensive Income and Expenditure Statement is correct.

It was found that the 'Deed of Guarantee' had been drafted, but has not been signed by East Devon District Council as consultation of the Deed is on-going with the lawyers.

We have ensured the consolidation is correct, with no issues noted.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Assessment of subjective areas			
Asset/liability class	**15/16**	**Balance (£m)**	**KPMG comment**
Pension	4	(£49.4 million)	The amount relates to the Local Government Pension Scheme. The scheme at the entity is currently in liability with the present value of the defined benefit obligations being (£122,718 million) and the fair value of the plan assets being £74,426 million. East Devon District Council engages Barnett Waddingham as their actuary. KPMG have reviewed the assumptions made by the actuary and compared these to assumption's developed by our actuaries. It was found that the assumptions used by Barnett Waddingham are within the tolerable ranges set by our actuaries, it was noted however that for each assumption made by East Devon's actuary was towards the optimistic side of the threshold.
Plant, Property and Equipment	3	£282,517 million	As noted on page 13, the Council has a revaluation program in place for it's HRA and Non-HRA assets. The HRA assets are valued by an external valuer (The District Valuer) who values Council Dwellings at Existing Use Value for Social Housing, or where any Depreciatied Replacement Cost has been applied, the instant building concept is adopted which is required by HM Treasury and by CIPFA for Local Authorities. All non-Council Dwellings are revalued by an in-house valuer. The non-HRA assets are valued at BCIS and DRC, where there is no active market, fair value is used for industrial estates and historical cost for infrastructure assets. It was found that the assumptions made by the external and internal valuers were appropriate.

Judgements (Cont'd)

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Assessment of subjective areas			
Asset/liability class	**15/16**	**Balance (£m)**	**KPMG comment**
Provisions	3	(£1.4 million)	The amount relates to the provision for Non-Domestic Rates that will not be recoverable due to claims or reductions on rate amounts. The client totals the amount of claims outstanding as at 31st March 2016 and applies a success percentage to the amount to determine the total provision. This amount is then allocated to the Precepts, the East Devon District Council taking 40% of the provision in line with the Precept value. KPMG agree these amounts with no issues noted.
Sundry Creditors	3	(£4.3 million)	The main Accrual in the Sundry Creditors is an amount for a BACs payment (£1.1 million) which was processed in the year, which were not paid until after the year end. KPMG agreed the accounting treatment and the accrual to supporting information, no issues were noted.
Grants in Advance	**TBC**	(£5.6 million)	The majority of the Grants in advance balance relates to S106 Receipts (£5.8 million). Following the objection received from a local elector, we will consider this balance and conclude on the judgement following our additional work over the S106 receipts.

Accounts production and audit process

This is our first year audit and we noted that the accounts were prepared well but there could be an improvement in the quality of the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	This is the first year audit at the Authority and we noted that the financial reporting process at the Council is appropriate.
Completeness of draft accounts	A complete set of draft accounts were provided to us on 30th June 2016 and were a complete set for us to be able to commence our audit procedures. We noted that the Narrative Report could be developed further in the future, in line with new requirements, particularly around providing more specific information on non-financial performance.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued at the planning phase of the audit and discussed with Laurelie Gifford, set out our working paper requirements for the audit. The quality of working papers provided was generally adequate, but variable. In some cases needed formatting and additional work so that the audit team could use them, but met the standards specified in our *Accounts Audit Protocol*.

Element	Commentary
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where staff who prepared the working papers were not available during the audit due to annual leave or having left the Council.

Additional findings in respect of the control environment for key financial systems

We reported in our *Interim Audit Report 2015/16* that we were yet to complete our testing of controls operated during the closedown process.

It was found that Bank reconciliations are not performed at the Council and a recommendation has been raised to address this control weakness.

Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of East Devon District Council for the year ending 31st March 2016, we confirm that there were no relationships between KPMG LLP and East Devon District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

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

Objection from local elector

Whilst our audit work on the financial statements and VFM conclusion is almost complete, as set out above, we have received a formal objection from a local elector. We are in the process of considering this objection, which relates to the Council's approach to recording and obtaining receipt of monies due to it from developers through agreements under s106 of the Town & Country Planning Act 1990

If we are able to conclude this work before the end of the month then, subject to the outcome of this, we anticipate issuing our audit report by the 30th September for the Council to publish audited financial statements. If, however, the work extends beyond this timescale then we will have to withhold our audit certificate within the audit report until the work on the objection has been completed.

Other matters

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

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

KPMG

Section four: Value for Money

VFM Conclusion

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

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

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

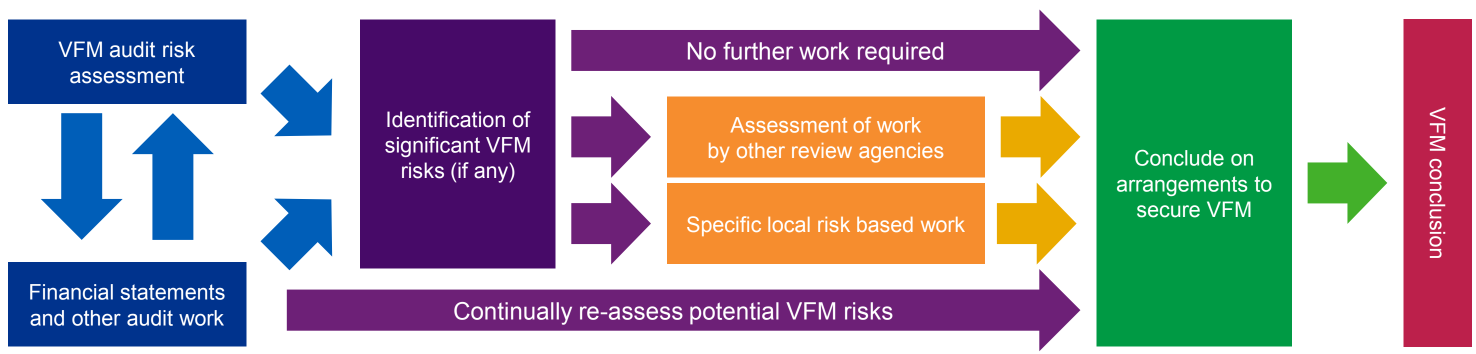
Background

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

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

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



Conclusion

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

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓ Met	✓ Met	✓ Met

Specific VFM Risks

We have identified a number of specific VFM risks.

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

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and

Work completed (cont'd)

— Completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Strata	The implementation of STRATA was considered a VFM risk as the objective of the company is for cost savings to be made through the sharing of IT, HR and Legal services across East Devon District Council, Exeter City Council and Teignbridge Council. This is relevant to, sustainable resource deployment and working with partners and third parties sub-criteria of the VFM conclusion.	The three partner authorities have agreed terms for joint executive and scrutiny committees to enable and scrutinise the joint management of STRATA and to ensure that the initiative is meeting it's cost saving objective. **Specific risk based work required: Yes** In addition to reviewing the joint executive committee meeting minutes, KPMG gained an understanding of the cost monitoring process, reviewed the business plan and most recent financial statements to determine if the implementation was achieving the cost saving that were intended. Our testing provide comfort that the Council has appropriate arrangements to manage and monitor the services it receives from STRATA and the costs and savings associated with it.

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

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

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial Planning	It was considered that as with all Local Authorities in a current time of austerity, there is a strain on finances and funding. This is relevant to sustainable resource deployment sub-criteria of the VFM conclusion.	The Authority reports to Cabinet who challenge the Authority to run a balanced budget. KPMG reviewed these meeting minutes. **Specific risk based work required: Yes** KPMG reviewed the arrangements in place on how financial information is captured, challenged and then reported up members. The financial performance in the year against budget was reviewed and discussed with management. In addition, KPMG discussed the Outturn book for 2016/17 to consider the Authority's financial planning for the following year. From testing, it was concluded that the Authority has sound financial plans in place to meet a balanced budget.
Office relocation	The Council is seeking to dispose of its current office headquarters in Sidmouth and relocate to a new office. This will involve the sale of a significant asset and the need to manage the transition to the new office location. This is relevant to sustainable resource deployment sub-criteria of the VFM conclusion.	**Specific risk based work required: Yes** KPMG obtained an understanding of the current status of the property sale and considered the Value for Money implication of the sale. We have considered the approach being followed and the decision making processes that are being applied, and that we have not identified any issues that impact on our VFM conclusion.

Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Materiality and reporting of audit differences

Appendix 4: Independence and objectivity

Appendix one

Key issues and recommendations

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
❶	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❶	**Bank Reconciliations** It was found during our audit that bank reconciliations are not being correctly performed. The Authority is preparing a reconciliation of cash using transactions that have only gone through the bank statements. The finance teams are posting income and expenditure from the bank statements to the ledgers. Over the years this has created a build up of cash transactions (cash in transit) that have not been able to be matched to the relevant transactions and then not allocated to the correct balance sheet or income and expenditure accounts within the general ledger. The cash in transit balance at year end was £517k, prior to an amount of £100k which was written off to expenditure at the year end. *Cont'd*	*Management Response* Agree with the recommendation. This issue has been caused by the initial set up of the Finance IT system and the financial coding structure used; this is a complex area with differing process associated with different types of income streams and the timing of when monies are credited to our bank account. We need to review this area and reconfigure our processes to comply with the recommendations made. *Officer* Strategic Lead – Finance *Due Date* Immediate

Key issues and recommendations (cont.)

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❶	**Bank Reconciliations (cont'd)** Management have confirmed that the year end write-off does not relate to any new cash transactions and that the balance relates to historically balances going back to 2009. It has been confirmed by KPMG that the remaining £417k of Cash in Transit relates to items received post year end. KPMG took assurance over the Cash in Transit balance from the mitigating controls in place at the Council, notably the controls in place around budget monitoring which are performed monthly to a very detailed level by the accountancy team and liaison with budget managers. These controls were tested by KPMG to ensure they were operating effectively through out the year. In addition to this, although a weakness in the process, the segregation of duties in place around the bank reconciliation process further gives assurance against the risk of fraudulent activity over the balance. *(Cont'd)*	

Key issues and recommendations (cont.)

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❶	**Bank Reconciliations (cont'd)** **Recommendation** Review the approach to performing the bank reconciliation to ensure it compares the general ledger balance to the bank statement each month. The cash in transit balance should be reconciled each month to ensure that there is no movement to provide management with comfort that transactions are being matched on a timely basis. In addition to the above, it is recommended that one individual has control over the bank reconciliation, rather than a number of individuals. This will ensure accountability for the reconciliation and ensure there is a view over the reconciliation in its entirety. The bank reconciliation should be prepared and reviewed by separate individuals.	

Key issues and recommendations (cont.)

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	**HRA Revaluation Adjustments** It was found through our testing that the Council posts the revaluation journal for the HRA assets at a total portfolio level which does not reflect the Beacon level at which the valuations are performed. As a result of this there is a net revaluation posted to/from either Comprehensive Income Expenditure Statement or the Revaluation Reserve, rather than disaggregated accounting which caters for the potential for revaluation adjustments for different assets / beacons to require different treatment. Although this ultimately does not affect the carrying value in the Balance Sheet, it does impact the accounting entries in the Comprehensive Income Expenditure Statement and the unusable reserves. *(cont'd)*	*Management Response* This is the methodology we agreed with our previous auditors but we accept the recommendation made and will account on the Beacon basis in future. *Officer* Strategic Lead – Finance *Due Date* Immediate

Key issues and recommendations (cont.)

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	**HRA Revaluation Adjustments (cont'd)** The Code does not specifically state that this approach is required for HRA assets, and consequently we are not recording this as an audit adjustment. We believe, however, that the Council should review its accounting arrangements on this for future years to consider how it should approach this, to be more in line with the approach we typically see at other authorities. **Recommendation** The revaluation adjustment is posted in line with the information provided, being on a Beacon basis. This would align the treatment of the HRA assets to IFRS and improve the detail of the valuation of the HRA property portfolio at the Council.	

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31st March 2016.

We are reporting all audit differences over £80,000.

It is our understanding that all of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of East Devon District Council's financial statements for the year ended 31st March 2016. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

	Impact (£)					
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Dr Plant, Property and Equipment (£3.365 million) Cr Assets Held for Sale (£3.365 million)			CIPFA's Guidance Notes for Practitioners indicates that where an Asset to be sold is subject to planning permission, the asset does not meet the criteria to be classified as "Held for Sale". As the Knowle property currently does not have planning permission and the agreed sale with Pegasus is conditional on planning permission, it is considered to not meet this specific criteria and should be reclassified as PPE. As the Asset was classified in the prior year, the adjustment proposed is to reclassify the asset between Balance Sheet headings in the Prior year balance sheet, as well as the current year.
			£-			**Total impact of adjustments**

Audit differences (cont.)

The cumulative impact of uncorrected audit differences is £307,000.

This is below our materiality level of £1.6 million.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of East Devon District Council's financial statements for the year ended 31st March 2016.

Impact (£)							
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1			Dr Accumulated Depreciation £93,000		Cr Revaluation Reserve (Unusable Reserve) £93,000	This is the removal of the accumulated depreciation not removed by East Devon District Council when posting the revaluation journals.
2			Cr Plant Property and Equipment £400,000		Dr Revaluation Reserve (Unusable Reserve) £400,000	On the reclassification of the Knowle property from Asset Held for Sale to Plant Property and Equipment, the asset was reclassified at Market Value. This is the difference between the Historic cost and the Market Value.
3			Cr Debtors £409,000	Dr Grants in Advance £409,000		Being the removal of the Sewerage company debtor invoiced to Wainhomes (South West) Holdings Ltd.
			Cr £716,000	**Dr £409,000**	**Dr £307,000**	**Total impact of uncorrected audit differences**

Audit differences (cont.)

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund and HRA as a result of the amendments.

Disclosure adjustments

1. *Exit Packages Disclosure*

The "Number of exit packages agreed" should be disclosed in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter, analysed between compulsory redundancies and other departures. Authorities should also disclose the total cost of packages agreed in each band. Bands shall be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere under regulations). Currently East Devon District Council have combined £40,000 - £100,000 category. There does not appear to be a need to combine this for identification purposes, therefore KPMG propose an adjustment that the band is altered to the £40,000 - £60,000 and the £100,0001 - £150,000 banding is removed.

2. Financial Statement Rounding differences

The CIPFA code does not stipulate that rounding is permissible for the disclosure of Senior Officers' remuneration, nor is this a generally accepted practice used at comparable councils.

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

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.6 million for the Authority's accounts.

We have reported all audit differences over £80,000 for the Authority's accounts.

Materiality

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

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

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

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

We reassessed materiality for the Authority at the start of the final accounts audit. It was considered that £1.6 million (1.8%) of Gross Expenditure was more appropriate, than £1.2 million (1.2%) set in the audit plan.

Materiality for the Authority's accounts was set at £1.6 million which equates to around 1.8 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

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

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £80,000 for the Authority.

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

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

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

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of East Devon District Council for the financial year ending 31st March 2016, we confirm that there were no relationships between KPMG LLP and East Devon District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the audit was £50,821 plus VAT (£60,985 (Grant Thornton) in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in February 2016.

Non-audit services

An additional fee will be charged for the work performed in response to the objection by the local elector. The fee will be subject to PSAA's determination and disclosed in due course in our Annual Audit Letter.

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