



Members of the Audit Committee:
(Councillors R P Lillis (Chairman), T Venner (Vice Chairman),
D Archer, N Thwaites, R Thomas, R Woods, A Behan)

Our Ref Democratic Services
Contact Emma Hill e.hill@tauntondeane.gov.uk

Date 15 September 2016

**THE PRESS AND PUBLIC ARE WELCOME TO ATTEND THE MEETING
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OR IN OTHER LANGUAGES ON REQUEST**

Dear Councillor

I hereby give you notice to attend the following meeting:

AUDIT COMMITTEE

Date: Monday 19 September 2016
Time: 2.00 pm
Venue: Council Chamber, Council Offices, Williton

Please note that this meeting may be recorded. At the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

You should be aware that the Council is a Data Controller under the Data Protection Act. Data collected during the recording will be retained in accordance with the Council's policy.

Therefore unless you advise otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact Committee Services on 01643 703704.

Yours sincerely

BRUCE LANG
Proper Officer

RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

- Mitigating actions for high ('High' or above) scoring risks are to be reflected in Service Plans, managed by the Group Manager and implemented by Service Lead Officers;
- Lower scoring risks will either be accepted with no mitigating actions or included in work plans with appropriate mitigating actions that are managed by Service Lead Officer.

The Council's Vision:

To enable people to live, work and prosper in West Somerset

AUDIT COMMITTEE - AGENDA

19 September at 2.00 pm

Council Chamber, West Somerset House, Williton

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meeting of the Committee held on 21 June 2016 and amended minutes from 21 March 2016 – **SEE ATTACHED.**

3. **Declarations of Interest**

To receive and record any declarations of interest in respect of any matters included the Agenda for consideration at this Meeting.

4. **Public Participation**

The Chairman to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public wishing to speak at this meeting there are a few points you might like to note.

A three-minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue. There will be no further opportunity for comment at a later stage. Your comments should be addressed to the Chairman and any ruling made the Chair is not open to discussion. If a response is needed it will be given either oral at the meeting or a written reply made within five working days of the meeting.

5. **Audit Committee Action Plan**

To update the Audit Committee on the progress of resolutions and recommendations from previous meetings – **SEE ATTACHED.**

6. **Audit Committee Forward Plan**

To review the Audit Committee Forward Plan 2015 – **SEE ATTACHED.**

7. **A. Grant Thornton External Audit – External Progress Update**

To consider Report No WSC 106/16 to be presented by Peter Barber, Appointed Auditor and Kevin Henderson, Audit Manager from Grant Thornton – **SEE ATTACHED**

The purpose of the report is to provide a regular update report for the Audit Committee by our external auditors, Grant Thornton. Specifically the report provides an update in relation to their work for the financial year and also provides an update in relation to emerging national issues.

B. Grant Thornton External Audit – External Audit Findings

To consider Report No WSC 98/16 to be presented by Peter Barber, Appointed Auditor and Kevin Henderson, Audit Manager from Grant Thornton – **SEE ATTACHED.**

The purpose of the report outlining findings from the audit of our Statement of Accounts, and our arrangements to secure Value for Money. This also incorporates a review of our financial resilience as a council.

8. Approval of the Statement of Accounts

To consider Report No WSC 99/16 to be presented by Sue Williamson, Principal Accountant – **SEE ATTACHED.**

The purpose of the report is to review and approve the audited Statement of Accounts prior to its signature by the Chair of the Committee and the Section 151 Officer.

9. SWAP Internal Audit – Progress Update 2016/17

To consider Report No WSC 100/16 to be presented by Alastair Woodland, Audit Manager, South West Audit Partnership – **SEE ATTACHED.**

The purpose of the report is to inform the Audit Committee of the Internal Audit Plan 2016-17 progress and bring to their attention any significant findings identified through our work.

10. Assessment of Going Concern Status

To consider Report No WSC 101/16 to be presented by Jo Nacey, Finance Manager – **SEE ATTACHED.**

The purpose of the report is to inform the Audit Committee of the S151 Officer's (Director of Operations) assessment of the Council as a "going concern" for the purposes of producing the Statement of Accounts for 2015/16.

11. Overdue High Priority SWAP Audit Recommendations

To consider Report No WSC 102/16 to be presented by Paul Harding, Corporate Strategy and Performance Manager – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with a position statement on the SWAP audit recommendations for West Somerset Council, which were assessed as high and very high priority, where the agreed action is overdue.

12. Corporate Governance Action Plan Update

To consider Report No WSC 103/16 to be presented by Paul Harding, Corporate Strategy and Performance Manager – **SEE ATTACHED.**

The purpose of the report is to update the Audit Committee of the progress against the Annual Governance Statement Action Plan.

13. **Corporate Risk Management Update**

To consider Report No WSC 104/16 to be presented by Paul Harding, Corporate Strategy and Performance Manager – **SEE ATTACHED**.

The purpose of the report is to update the Audit Committee on the corporate risks which are being managed by the Joint Management Team (JMT).

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

The Council's Vision:

To enable people to live, work and prosper in West Somerset

The Council's Corporate Priorities:

- Local Democracy:
Securing local democracy and accountability in West Somerset, based in West Somerset, elected by the people of West Somerset and responsible to the people of West Somerset.
- New Nuclear Development at Hinkley Point
Maximising opportunities for West Somerset communities and businesses to benefit from the development whilst protecting local communities and the environment.

The Council's Core Values:

- Integrity
- Respect
- Fairness
- Trust

AUDIT COMMITTEE

Minutes of the Meeting held on 21 June 2016 at 2.00 pm in the Dunkery Room, Williton

Present

Councillor R Lillis.....Chairman
Councillor T Venner.....Vice Chairman
Councillor R Thomas
Councillor R Woods
Councillor A Behan

Members In Attendance

Councillor M Chilcott

Officers In Attendance

Senior Accountant and Deputy s151 Officer (J Nacey)
Corporate Strategy and Performance Manager (P Harding)
Principal Accountant (S Williamson)
Senior Accountant – Corporate (J Howells)
Democratic Services Officer (E Hill)

Also In Attendance

Kevin Henderson, Manager, Grant Thornton
Alastair Woodland, Associate Director, South West Audit Partnership (SWAP)

A.1 Apologies for Absence

Apologies were received from Councillors D Archer and N Thwaites

A.2 Minutes

(Minutes of the Meeting of the Audit Committee held on 21 March 2016, circulated with the Agenda)

The Grant Thornton Audit Manager and Deputy S151 Officer requested the following amendments to minute attached to the agenda. Amendments to minute numbers:

- A.44 – bullet point one – the word ‘Used’ was removed and replaced with ‘operational’
- A 44 – bullet point two – this point was removed.
- A.45 – bullet point one – the word ‘incentive was removed and replaced with directive.

RESOLVED that the Minutes of the Audit Committee held on 21 March 2016, with the requested amended be confirmed as a correct record.

A.3 Declarations of Interest

Name	Minute No.	Member of	Personal or Prejudicial	Action Taken
Cllr N Thwaites	All	Dulverton	Personal	Spoke and voted
Cllr T Venner	All	Minehead & SCC	Personal	Spoke and voted

A.4 Public Participation

No members of the public had requested to speak on any item on the Agenda.

A.5 Audit Committee Action Plan

There was one recorded action from the last meeting on 21 March 2016. This actions related to the approval of the revised Anti-Fraud and Corruption Policy and Strategy as well as the introduction of the Council Tax Penalties scheme.

RESOLVED that the action from 21 March 2016 be noted.

A.6 Audit Committee Forward Plan

(Copy of the Audit Committee Forward Plan circulated with the Agenda).

RESOLVED that the Audit Committee Forward Plan be noted.

A.7 Grant Thornton External Audit – Audit Fees

(Report No. WSC 73/16, circulated with the Agenda)

The purpose of this report was to detail the fee forecast for external audit services in 2016/17.

The Audit Manager for Grant Thornton outlined the report which contained their forecast fees to be charged for the main audit and the grant certification work relating to the current year as well as provided details of the fees and the schedule of payments. Grant Thornton had also provided an outline audit timetable to show the phasing of their work.

Any additional audit work, outside of the planned audit and grant certification work would be billed separately and would be an addition to the fee quoted.

The total indicative audit fee was £51,488. This amount was split between the fee for the main audit of £42,525 (which was the same as the previous year) and the grant certification work of £8,963 (which represented an increase of £1,967 from the previous year).

During the discussion of this item the following points were made:-

- In response to a question asking why the audit fees for the Council appeared to be

increasing, the Committee were informed that the fees were not set by Grant Thornton. These were set by Public Sector Audit Appointments (PSAA).

- In response to a question asking why were fees increasing and decreasing, the Committee were informed that PSAA go through the process of setting the fees for Local Authorities quite early on and so the fees were based on the work completed two year previously For example, the fees for 2017-18 were based on the work completed in 2015-16. This was due to the auditing process and reporting requirements. So this meant that the fees altered year on year depending on the work completed in that year.
- Members requested that Officers contact PSAA for a statement of rationale behind their fee setting process.

RESOLVED that Grant Thornton's External Audit Fees for 2016/17 be noted.

A.8 Grant Thornton External Audit – Audit Update

(Report No. WSC 74/16, circulated with the Agenda).

This was a regular update report for Members by our external auditors, Grant Thornton. Specifically the report provided an update in relation to their work for the 2016/17 financial year and also provides an update in relation to emerging national issues.

The Audit Manager for Grant Thornton outlined the external auditor's progress as at 31 March 2016. The Auditors have completed risk assessments in the prescribed audit work areas.

In addition, this report updated Members on any national headlines and issues that might have an impact upon the Council.

During the discussion of this item the following points were made:-

- Members requested that copies of the report on Joint Venture Companies mentioned on page 38 of agenda be made available for Member of the Committee. The Audit Manager for Grant Thornton said he would ensure this was done.

RESOLVED that the Auditor's update report be noted.

A. 9 SWAP Internal Audit – Audit Plan 2015/16 Outturn

(Report No. WSC 76/16, circulated with the Agenda).

The purpose of the report was to update members on the Internal Audit Plan 2015-16 progress and bring to their attention any significant findings identified through our work.

The attached report provided a summary of the audit work carried out to date this year by the Council's internal auditors, South West Audit Partnership (SWAP).

The Audit Manager from SWAP outlined and updated the Audit Committee on the work of the Council's Internal Audit Service and provided details of any new significant weaknesses identified during internal audit work completed since the last report to the

committee in March 2016 and a schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

The 2015-16 Annual Audit Plan was to provide independent and objective assurance on TDBC's Internal Control Environment and this work would support the Annual Governance Statement.

During the discussion of this item the following points were made:-

- Members offered their thanks to all Officers involved for the results summarised in the report.
- Concerns were raised on the status of risk relating to Fraud being 'reasonable. Members felt this could have mixed meaning and asked Officers to clarify the meaning and consider using different wording SWAP Audit Manager clarified the meaning of 'reasonable' and informed the Committee that it indicated a feeling or opinion on that particular audit review and therefore was subjective. It was also clarified there was no industry standard for the terminology used with auditing.
- Discussion took place concerning the lack of detail for an audited area that had not returned a 'partial assurance' and Members raised concerns that they were not aware of the detail about these concerns.
- Member requested the inclusion of a summary section giving some detail about these areas and this to include level fours' and fives'.
- In response to a question asking what was meant by 'non-opinion, the Committee were informed that this referred to not scheduled or planned audits, where Service Managers had asked the Internal Audit team to review and audit an area. This would highlight any areas of concerns to the Service Manager.

RESOLVED that the progress made in delivery of the 2015/16 internal audit plan be noted along with the significant findings since previous update in March 2016.

A.10 SWAP Internal Audit – Audit Annual Opinion

(Report No. WSC 75/15, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the Annual Opinion Report 2015-16 from Internal Audit.

The attached report provided a summary of internal audit's view on the effectiveness of internal controls, risk management and governance based on the work completed during 2015-16.

The Audit Manager from SWAP outlined the content of the report stating that Internal Audit had not reviewed all risks and assurances relating to West Somerset and cannot provide absolute assurance on the internal control environment. Their opinion was derived from the completion of the risk based internal audit plan and as such it was one source of assurance on the adequacy of the internal control environment.

Of the reviews at final report stage that had an Assurance Opinion, and those at draft that include an indicative assessment, no reviews were given 'No Assurance'. The

majority of reviews had returned a favourable opinion (Reasonable Assurance or Substantial Assurance), and in fact for the 2015-16 plan no reviews returned a Partial Assurance Opinion, although there were two reviews outstanding (Homelessness and Hinkley).

However, there were also three reviews from 2014-15 that were reported during 2015-16, these being Private Water Supplies, Choice Based Lettings and Asset Management. Two of these audits (Private Water Supplies and Asset Management) did return a Partial Assurance Opinion and had been taken into consideration when forming my opinion on the internal control environment for 2015-16.

During the discussion of this item the following points were made:-

- In response to a question asking if the report on the Benchmarking Exercise completed by Mendip District Council was available on the Council's website, the Committee were informed that the report was to the Council's s151 Officer but Officers would look into sending copies to Members of the Committee.
- In response to a question asking who made the decision as to what audits were to be dropped, the Committee were informed that any changes to planned audits were discussed with S151 Officer and Deputy S151 Officer, which were agreed and then reported back to this Committee.

RESOLVED that the Internal Audits Annual Opinion Report be noted.

A.11 Draft Annual Governance Statement

(Report No. WSC 79/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with the Councils' annual requirement to conduct a review of the effectiveness of its systems of internal control and governance arrangements and to produce an Annual Governance Statement (AGS) on behalf of the Leader of the Council and the Chief Executive, providing an assessment of these arrangements.

The Corporate Strategy and Performance Manager summarised the contents of the report concerning the Draft Annual Governance and detailed the conclusions from the review by the Officers Group, which concluded that overall, the council's governance framework was reasonable and fit for purpose. This was further endorsed by the Group Auditor's annual opinion report 2015/16, which offered 'reasonable assurance' in respect of the areas reviewed during the year.

The AGS described how the council complies with each of the six core principles of the Code of Corporate Governance, and additionally identifies governance issues identified and the steps to be taken during to address these matters

The draft Annual Governance Statement was attached as an appendix with the covering report.

During the discussion of this item the following points were made:-

- Members asked the Audit Manager about the viability and possibility of using this new Internal Audit health check program, which completed a health check

on all areas of the Council. The Committee were informed that there would be an additional cost for this service and it would mean the Council would lose audit days to complete this on top of the scheduled audits. The program drills down into the internal process of each service area looking for gaps.

- In response to a question asking if Members had access to the Council's intranet site, the Committee were informed that the Council's intranet site was an area for Council staff to have access to information..
- In response to a question asking if the Staff Register of Interests should be open access identical to the Members' register, the Committee were informed that only Senior Employees (such as Chief Executive) had publically disclosed interests on the website.
- In response to a question asking if Members could have access to the Council's Disciplinary Policy, the Committee were informed that Officer were have to share the Disciplinary Policy with Members but this information was not published on the Council's website.

RESOLVED that:-

1. The Officer's report be noted.
2. The Leader of the Council and the Chief Executive be recommended to adopt the draft Annual Governance Statement.

A.12 Review of Effectiveness of Internal Audit

(Report No. WSC 77/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2015/16.

The Senior Account and Deputy s151 Officer outlined the Councils' review of Internal Audit had been carried out by the Director of Operations (the Council's S151 Officer) and the findings had been reported as part of the overall evaluation and would also provide supporting evidence for the Annual Governance Statement.

Included within the report was a table of information detailing some of the overall performance of the service during the year compared to the previous three years.

For example the percentage of Audits and Reviews completed within a year compared to the plan in 2012/13 – 97%, 2013/14 – 88% (plus two audits deferred by the Council), 2014/15 – 58% (plus two dropped and 11 out of 19 audits completed) and 2015/16 – 59% end of March (100% for the year).

In February of this year, the Council took part in a survey undertaken on behalf of SWAP to collect feedback on SWAP's performance. This was a useful exercise and the Council received a follow-up call to discuss our responses. We gave a fair assessment of some of the issues we had experienced and also fed back on the areas e.g. communication that SWAP do well.

Contained within the officers' report were details of agreed an Action Plan for the remaining planned Audits and the status of those audits as well as an update against

them, which have yet to be completed from 2015/16 and progress from the planned audits from 2016/17.

During the discussion of this item the following points were made:-

- In response to a question asking if the Council had the power to look at the way SWAP induct their staff, the Committee were informed that Officers had spoken at length to SWAP with regards to their processes for the induction of new staff. The Council needed to hold SWAP to their contractual responsibilities as well as the Council needed robustly monitor them. The Council's responsibility was to be ready for the audits.
- Discussion took place about the robustness of SWAP's business model and that part of this model was meeting their contractual commitments.
- In response to a question asking if any other of the Local Authorities were paying for their Audit Services than the Council, the Committee were informed that there is a daily rate but other Local Authorities may have brought more audit days than us, which would increase their costs.
- In response to a question asking if the Officer knew how many members of staff SWAP had, the Committee were informed that the Council did not know how many employees that SWAP had currently.
- Concerns were raised by Members that SWAP should not be expanding their business if they were not meeting the targets set in existing contracts.
- In response to a question asking if the Council had set a deadline for SWAP to turn around their performance by clearing the backlog and keeping on schedule with 2016/17 planned audits, the Committee were informed that the Council had made a decision as to a deadline for this but in their opinion if SWAP had not cleared the backlog and continued to be behind on target with 2016/17 by month six, then we should tell SWAP, they need to get temporary staff in.
- In response to a question asking what the cost difference between having an in-house audit service and using SWAP, the Committee were informed that there was a saving associated with being part of SWAP as well as going from two auditors in house to having a team of auditors through SWAP.
- Members requested the Deputy S151 Officer construct a letter to SWAP Chief Executive Gerry Cox on behalf of the Committee expressing their concerns about the situation and SWAP's ability to clear the backlog from 2015/16 and remain on schedule with planned audits for 2016/17.
- In response to a question asking if the Council or the Committee could enforce a deadline on SWAP, the Committee were informed that the Officers would like to put the onus on SWAP to come up with a solution to this issue and then update the Committee on this.
- Members requested that S151 Officer and Deputy S151 Officer monitor the performance of SWAP month to month and request a special meeting of the Audit Committee if necessary.
- Members asked that the Officer include in the letter to SWAP, the request for a written response to the Committee detailing how SWAP were going to improve their performance and bring themselves back inline contractually.

RESOLVED that:-

1. The findings of the review of effectiveness of internal audit for 2015/16 be noted.
2. The Deputy S151 Officer construct a letter to SWAP Chief Executive Gerry Cox on behalf of the Committee expressing their concerns and requesting a written response.

A.13 Treasury Management Outturn Report 2015/16

(Report No. WSC 78/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a review of treasury management activity and the performance against the Prudential Indicators for the 2015/16 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Management Strategy and Annual Investment Policy.

The Senior Accountant stated that the Council's treasury management activity was underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which required local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on likely financing and investment activity. The Code also recommended that members were informed of treasury management activities at least twice a year.

The consideration of treasury management policy, strategy and activity was delegated to the Audit Committee.

Treasury management in this context was defined as "the management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".

The treasury management function had been well-managed during the year in compliance with the Treasury Management Strategy Statement and as interest rates had remained low, the opportunities to generate significant income through investments had been limited.

The full details of the Treasury Management activity during the year are provided within Appendix A. Summary of the key points as:-

- As at 31 March 2016, WSC's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5,490,000, while usable reserves and working capital which were the underlying resources available for investment were £10,328,000.
- As at 31 March 2016, WSC had no external borrowing and £12,795,000 of investments, of which £10,160,000 are Hinkley S106 funds managed by the Council.
- The Authority's current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

During the discussion of this item the following points were made:-

- In response to a question asking how long the term of the loan was and what was the rate of interest, the Committee were informed that the length of term for the loan was not something that the Officer knew as yet but it would certainly be a short term loan and the interest rate was 0.6%.
- Members were informed that if it was a cash flow issue then the borrowing would be a matter of weeks.
- Discussion took place relating to source of the money for repayment of the potential loan and whether it related to their being no Council Tax and Business Rates being received by the Council during February and March.
- In response to a question asking whether or not the government safety kicked in this would repay the loan, the Committee were informed that this would pay back part of it and that the Officer would be negotiating with DCLG when our portion of the £5 million would come back.
- In response to a question asking how the loan was going to be repaid, the Committee were informed that this related to a simple cashflow issue at a certain point of the year and we needed to borrow on short term basis.
- Members requested that the Officer email them the Cashflow Forecast following the meeting of the Committee.
- Discussion took place relating to whether or not the Council should invest reserves to clear the debt or borrow instead.
- Members were informed that in relation to the Council's borrowing of funds, these would be covered by the Council's smoothing fund and the safety net payment from central government that the borrowing would be repaid.
- Officers stated that they would enquire about arranging some more presentations and training sessions by Arling Close for Members.

RESOLVED that the Treasury Management activity for the 2015/16 financial year be noted.

The meeting closed at 4.55 pm.

AUDIT COMMITTEE

Minutes of the Meeting held on 21 March 2016 at 2.00 pm in the Council Chamber, Williton

Present

Councillor R Lillis.....Chairman
 Councillor T Venner.....Vice Chairman
 Councillor N Thwaites
 Councillor R Thomas
 Councillor R Woods

Members In Attendance

Councillor M Chilcott

Officers In Attendance

Director of Operations, s151 Officer and Deputy CEO (S Adam)
 Corporate Strategy and Performance Manager (P Harding)
 Revenues and Benefits Manager (H Tiso)
 Democratic Services Officer (E Hill)

Also In Attendance

Kevin Henderson, Manager, Grant Thornton
 Alastair Woodland, Associate Director, South West Audit Partnership (SWAP)

A.38 Apologies for Absence

Apologies were received from Councillor H Davies

A.39 Minutes

(Minutes of the Meeting of the Audit Committee held on 1 December 2015, circulated with the Agenda)

RESOLVED that the Minutes of the Audit Committee held on 16 December 2015, be confirmed as a correct record.

A.40 Declarations of Interest

Name	Minute No.	Member of	Personal or Prejudicial	Action Taken
Cllr N Thwaites	All	Dulverton	Personal	Spoke and voted
Cllr T Venner	All	Minehead & SCC	Personal	Spoke and voted

A.41 Public Participation

No members of the public had requested to speak on any item on the Agenda.

A.42 Audit Committee Action Plan

There were no recorded actions from the last meeting on 1 December 2015.

A.43 Audit Committee Forward Plan

(Copy of the Audit Committee Forward Plan circulated with the Agenda).

RESOLVED that the Audit Committee Forward Plan, be noted.

A.44 Grant Thornton External Audit – Audit Plan

(Report No. WSC 43/16, circulated with the Agenda)

The purpose of this report was to introduce the External Audit Plan for 2015/16. This was prepared by our external auditors, Grant Thornton, and was detailed in the attached appendix to the covering report.

The Audit Manager for Grant Thornton outlined the report which contained their approach to the 2015/16 audit programme, providing information on the work already undertaken, the tasks yet to be completed, the timescales and the auditors view on risk.

During the discussion of this item the following points were made:-

- There had been a change to the way surplus assets were valued in comparison to operational assets and investment in property. The Council held 150 premises currently and a piece of work was ongoing assessing those assets and any associated risks, which was being feed into a work plan.
- The Value for Money (VfM) conclusion given in September 2016 will be based on past performance but take into account the position going forward and any associated risks. The position for the Council's VfM for next year would be similar to the position of the previous year, although without the Strategic Financial Planning, which allowed the Council to balance their budgets at the end of this financial year.
- The Council's timetabled report concerning the Joint Management and Shared Service would be regarding the Business Cases including viability, and would come before Members sometime in June/July. This would be reviewed and taken into account prior to Auditors final position being given.

RESOLVED that Grant Thornton's External Audit Plan for 2015/16 be noted.

A.45 Grant Thornton External Audit – Audit Update

(Report No. WSC 44/16, circulated with the Agenda).

This report was a regular update report for the Audit Committee by the external auditors, Grant Thornton. Specifically the report provided an update in relation to their work for the 2015/16 financial year and also provided an update in relation to emerging national issues.

The Audit Manager for Grant Thornton outlined the external auditor's progress as at 31 March 2016.

During the discussion of this item the following points were made:-

- Concerns were expressed that bringing forward the deadline for the Statement of Accounts would apply more pressure to the service team. Was this move necessary? This was a national directive from the Government requiring Local Authorities to have their Accounts prepared by 31 May instead of the 31 July and this was to be in place in the 2017/18 financial year. The deadline was being moved in small increments each year, rather than wholesale change.
- Members were informed that this change would allow the Government to report on public spending much earlier and then set the budget following this report.
- Concerns were raised that other areas of the service would suffer as a consequence of these new arrangements for the deadline of the Statement of Accounts.

RESOLVED that the Auditor's update report be noted.

A. 46 SWAP Internal Audit – Progress Update 2015/2016

(Report No. WSC 45/16, circulated with the Agenda).

The purpose of the report was to update the Audit Committee on the Internal Audit Plan 2015-16 progress and bring to their attention any significant findings identified through our work.

The Audit Manager from SWAP outlined and updated the Audit Committee on the schedule of the planned audits for 2015/2016 and also provided a progress update on current audits and their findings, which included any new significant weaknesses identified.

Members were also provided with a schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

During the discussion of this item the following points were made:-

- Concerns were expressed about the lack of records and data held by the Council on Assets. An ongoing piece of work, which included a stock condition survey was being undertaken to assess and record the condition of Council's assets and stock. This would lead to a plan of works to bring assets up to date as well as a schedule of maintenance required if the Council were to keep those assets.
- Discussion was had on how the Council was going to move forward with identified weakness within Asset Management and how these would be followed up.

- Members requested an update on the progress of the identified weaknesses. Auditors would complete an additional review of this area but until this was completed, the lead Assistant Director would provide an interim update at the next meeting.

RESOLVED that the progress made in delivery of the 2015/16 Internal Audit Plan and any significant findings be noted.

A.47 SWAP Internal Audit – Audit Plan 2016/17 and Audit Charter

(Report No. WSC 46/15, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the proposed work to be undertaken by South West Audit Partnership during 2016- 17 and to seek approval of the Internal Audit Charter which set out the nature, role, responsibility, status and authority of internal auditing within West Somerset Council and to outline the scope of the internal audit work.

The Audit Manager from SWAP outlined West Somerset's audit plan for 2016-17 and that it was broken down into five audit categories. Full details of the Annual Internal Audit Plan 2016-17 were provided to the Committee within an attached appendix.

Also summarised for the Committee were minor changes to the Internal Audit Charter, which reflected changes in roles and responsibilities, job titles, and to address some of the minor requirements of the Public Sector Internal Audit Standards.

During the discussion of this item the following points were made:-

- Discussion surrounding the length of time allocated for individual internal audits with specific concern over the length of time for Members Expenses compared with Council Tax.
- The allocated time was an indication as there was a specific procedure, set framework and process that auditors adhered to, which also included benchmarking and comparison. This process had to be complete before the auditors issued their final opinion.

RESOLVED that:-

1. The 2016-17 internal audit plan be noted and approved.
2. The Internal Audit Charter be noted and approved.

A.48 Refresh of Anti-Fraud Policy – Council Tax Penalties

(Report No. WSC 47/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the refresh of the Anti-Fraud and Corruption Policy and Strategy to recognise South West Counter Fraud Partnership (SWCFP's) anti-fraud activities, as well as updating for procedural changes.

The Revenues and Benefits Manager outlined the changes to the refreshed Strategy, which included procedural changes as well as now providing guidance on the options available to deal with those committing Council Tax or Council Tax Rebate fraud or those who negligently make incorrect statements, or fail to notify a change affecting their entitlement to a Council Tax discount, exemption or reduction.

Provided for the Committee's attention and information was a copy of the revised policy and strategy as appendix to the covering report.

During the discussion of this item the following points were made:-

- Discussion concerning prosecution of offenders and the circumstances that would warrant the Council proceeding with it, as the cost of prosecution could outweigh the amount of fraudulently monies gained.
- In response to a question on the scale of Council Tax Fraud effecting the Council, the Committee was informed that the partnership arrangement with South West Counter Fraud Partnership (SWCFP) went beyond just detecting and investigating Council Tax Fraud. The Council's contribution per year was £5000.
- Concerns were expressed that with the current cost to the Council maintaining our position within the SWCF partnership, Members would want to see results and recovery of fraudulently gained monies. SWCFP had several active cases, that were being investigated and these were ongoing. SWAP would provide an update on the progress of the SWCF Partnership to the Committee.
- Concerns that the SWCFP was currently majority funded by the Government and with the cuts to budgets, would the Council and the Service team have the capacity to continue with the work. This function was already completed by the Revenues and Benefits department with the completion of successful cases, the partnership aimed to be self-funding.
- Discussion on the ways and means by which SWCFP and the Council detected and investigated fraud effecting the Council.
- Concerns were expressed over the effect of the incompatible IT systems between, TDBC, WSC and SWAP and how this might affect the detection and investigation of fraud. Currently, both WSC and TDBC Revenue and Benefits service used the same IT software.

RESOLVED that:-

1. The Officer's report be noted.
2. The draft revised Anti-Fraud and Corruption Policy and Strategy for consideration should be approved by Cabinet.
3. Cabinet be recommended to approve the introduction of penalty charges to assist in the prompt and accurate assessment of Council Tax liability.

A.49 Corporate Risk Management Update

(Report No. WSC 48/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the corporate risks which are being managed by the Joint Management Team (JMT).

The Corporate Strategy and Performance Manager summarised the current strategic risks identified and approved by JMT as well as any mitigating actions that had continued to be delivered in respect of the various risks, which were set out in the risk register.

An extract of the corporate risk register was provided as an appendix with the covering report.

RESOLVED that the current position in relation to corporate risk be noted.

A.50 Corporate Annual Governance Action Plan

(Report No. WSC 49/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a position statement regarding the 2015/16 Annual Governance Statement Action Plan.

The Corporate Strategy and Performance Manager summarised the contents of the Annual Governance Action Plan, which consisted of two parts. The first part identified new actions within the most recent Annual Governance Statement (2015/16) and the second part identified those actions, which had been carried over from 2014/15.

For the Committee's information a section of the Annual Governance Action Plan had been provided with the covering report.

RESOLVED that the current progress in relation to completing the actions identified within the 2015/16 Annual Governance Statement be noted.

A.51 SWAP Audit Actions – Summary of Overdue Level 4/5.

(Report No. WSC 50/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a position statement on the SWAP audit recommendations for West Somerset Council, which were assessed as high and very high priority, where the agreed remedial action was overdue.

The Corporate Strategy and Performance Manager summarised the Priority Four and Five audit actions that affected West Somerset Council, where the agreed remedial action was overdue.

For the Committee's information a summary of the overdue actions had been provided with the covering report.

During the discussion of this item the following points were made:-

- Members requested the inclusion of an additional column detailing whether or not the action had been carried forward or completed.
- In response to a question about the use of outside resources, members were

informed that the Council would first look to our internal expertise, which would include Shape, then only going externally for specific paid services when necessary.

- Discussion concerning the training of staff and the avenues for this such as service specific or corporate training programme.

RESOLVED that the Officer's Summary Report on Overdue Level 4/5 Audit Actions be noted.

The meeting closed at 4.05 pm.

Audit Committee – Action Plan

Date/Minute Number	Action Required	Action Taken
<p>21 June 2016</p> <p>A12 – Review of Effectiveness of Internal Audit</p>	<p><u>RESOLVED:-</u></p> <p>1. The Deputy S151 Officer construct a letter to SWAP Chief Executive Gerry Cox on behalf of the Committee expressing their concerns and requesting a written response.</p>	<p>The Deputy s151 Officer will update the progress of this action at the Committee meeting.</p>
<p>21 June 2016</p> <p>A11 – Draft Annual Governance Statement</p>	<p><u>RESOLVED:-</u></p> <p>1. The Leader of the Council and the Chief Executive be recommended to adopt the draft Annual Governance Statement.</p>	<p>Following the meeting of the Audit Committee, the Leader of the Council and Chief Executive signed off the contents of the Draft Annual Governance Statement to adopt the document.</p> <p>This was not completed at any formal Committee Meeting.</p>
<p>21 March 2016</p> <p>A48 – Refresh of Anti-Fraud Policy – Council Tax Penalties</p>	<p><u>RESOLVED:-</u></p> <p>2. The draft revised Anti-Fraud and Corruption Policy and Strategy for consideration should be approved by Cabinet.</p> <p>3. Cabinet be recommended to approve the introduction of penalty charges to assist in the prompt and accurate assessment of Council Tax liability.</p>	<p>Following the meeting of the Audit Committee, decisions were held with the Portfolio Holder, Chair of Scrutiny Committee and the Leader Officer it was decided that the Report should progress to Full Council for approval.</p>

West Somerset Council - Audit Committee – Forward Plan 2016

Meeting	DRAFT AGENDA ITEMS	LEAD OFFICER
21 March 2016	Grant Thornton – Audit Plan Grant Thornton – Audit Update SWAP Internal Audit – Progress Report 2015/16 SWAP Internal Audit - Audit Plan 2016/17 Refresh of Anti-Fraud Policy - Council Tax Penalties Corporate Risk Management Update Corporate Governance Action Plan Summary of Overdue Level 4/5 Actions Forward Plan	Peter Barber Kevin Henderson Peter Barber Kevin Henderson Alastair Woodland Alastair Woodland Heather Tiso Paul Harding Paul Harding Paul Harding Richard Sealy
21 June 2016	Grant Thornton External Audit - Audit Fees Grant Thornton External Audit - Audit Update SWAP Internal Audit – Annual Report SWAP Internal Audit – Audit Plan 2015/16 Outturn Review of Effectiveness of Internal Audit 2015/16 Treasury Management Outturn Report Annual Governance Statement 2015/16 Forward Plan	Peter Barber Kevin Henderson Peter Barber Kevin Henderson Alastair Woodland Alastair Woodland Jo Nacey James Howells Paul Harding
19 Sept 2016	Grant Thornton – External Audit Findings Approval of the Statement of Accounts SWAP Internal Audit – Progress Update 2016/17 Going Concern Summary of Overdue Level 4/5 Actions Corporate Governance Action Plan Update Corporate Risk Management Update Forward Plan	Peter Barber Kevin Henderson Paul Fitzgerald Alastair Woodland Jo Nacey Paul Harding Paul Harding Paul Harding
6 Dec 2016	Grant Thornton External Audit – Annual Audit Letter 2015/16 Grant Thornton External Audit Update SWAP Internal Audit – Progress Report 2015/16 SWAP Committee Report Redesign – discussion item 6-Month Review of Treasury Management Activity Forward Plan	Peter Barber Kevin Henderson Peter Barber Kevin Henderson Alastair Woodland Alastair Woodland James Howells

Report Number: WSC 106/16

West Somerset Council

Audit Committee 19 September 2016

External Audit – Progress Report and Update (Year end 31 March 2016)

This is the responsibility of Cabinet Member Councillor Mandy Chilcott

Report Author: Jo Nacey, Finance Manager

1 Purpose of the Report

- 1.1 This is a regular update report for Members by our external auditors, Grant Thornton. Specifically the report provides an update in relation to their work for the 2015/16 financial year and also provides an update in relation to emerging national issues.

2 Recommendations

- 2.1 Members are requested to note the update report.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
The details of any specific risks identified will be contained in the attached report			

4 Background and Full details of the Report

- 4.1 Each year our external auditors, Grant Thornton, are required to carry out prescribed audit work and this report provides a useful progress update on the work undertaken to date.
- 4.2 Additionally, the report shares headlines on some national issues that may have an impact upon the Council.

5 Links to Corporate Aims / Priorities

- 5.1 There are no direct implications.

6 Finance / Resource Implications

- 6.1 There are no direct implications.

7 Legal Implications

7.1 There are no legal implications from this report.

8 Environmental Impact Implications

8.1 There are no direct implications.

9 Community Safety Implications

9.1 There are no direct implications.

10 Equality and Diversity Implications

10.1 There are no direct implications.

11 Social Value Implications

11.1 There are no direct implications.

12 Partnership Implications

12.1 There are no direct implications.

13 Health and Wellbeing Implications

13.1 There are no direct implications.

14 Asset Management Implications

14.1 There are no direct implications.

15 Consultation Implications

15.1 There are no direct implications.

List of Appendices

Appendix A	Grant Thornton – Audit Update
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Audit Committee
West Somerset District Council
Progress Report and Update
Year ended 31 March 2016

September 2016

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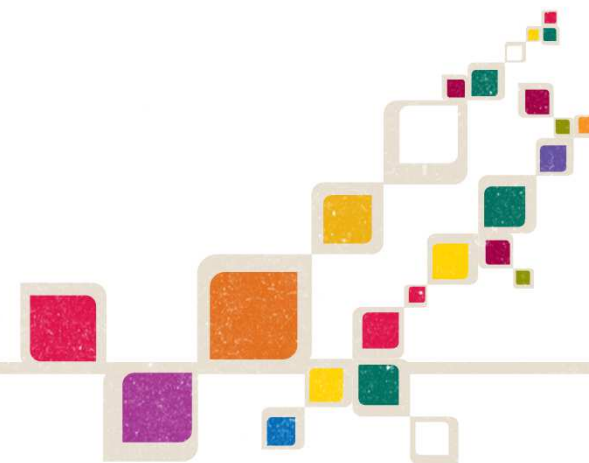
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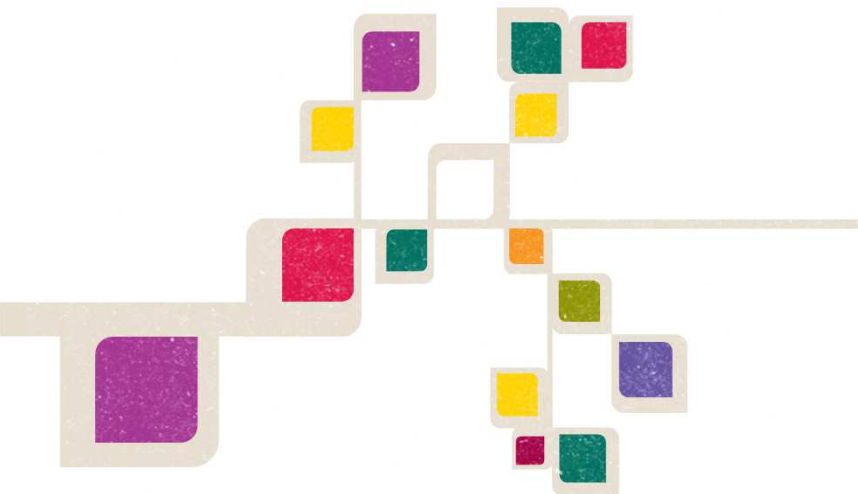
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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



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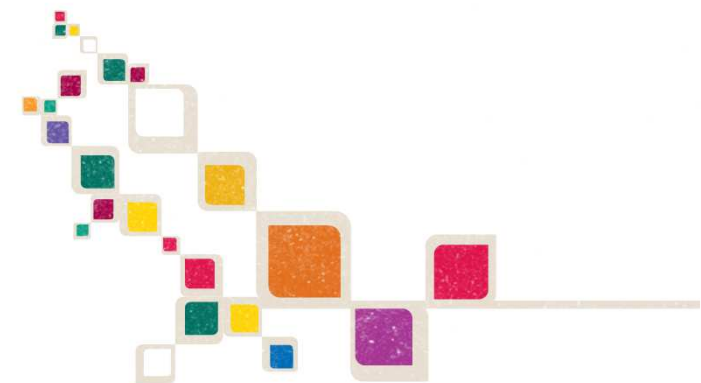
Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grantthornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Building a successful joint venture company (April 2016) <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- Advancing closure (July 2016) <http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



Progress at 8 Sept 2016



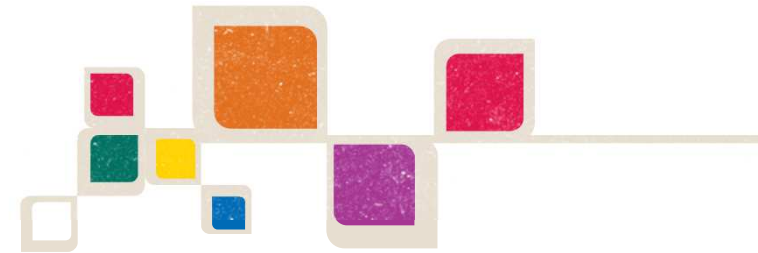
 **Progress against plan**
On track

 **Opinion and VfM conclusion**
Plan to give before deadline of 30 September 2016

 **Outputs delivered**
Fee letter, Progress Reports, delivered to plan

2015/16 work	Planned Date	Complete?	Comments
Fee letter	April 2015	Yes	The fee letter was presented at the June 2015 meeting
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.	January – February 2016	Yes	The Audit Plan was presented at the March 2016 meeting.
Interim accounts audit Our interim fieldwork visit plan included: <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January- February 2016	Yes	As reported at the March meeting, there were no issues to bring to the Committee's attention.
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	July - August	In progress	Most of our work was completed by the end of July. However, at the time of writing, there are still two areas of our work to be completed, most notably in relation to the valuation of land and buildings and investment properties.

Progress at 8 September 2016



2015/16 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "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".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	March - July	Yes	The results of our initial risk assessment were reflected in the Audit Plan, whilst the results of our detailed work are reported in the Audit Findings Report, which is on the agenda.
<p>Other areas of work</p> <p>Housing benefit certification</p>	November 2016	In progress	The deadline for certification of the housing benefit return is 30 November 2016. We have undertaken some early work, but we will not conclude our work until October 2016.

Grant Thornton Sector Issues



Brexit: What happens next and what does it mean for you?

The people of the UK have made a decision to leave the EU. What happens next - and the implications for businesses and organisations in the UK - is less clear.

We have produced an analysis of what we know about the mechanics of leaving the EU, our assessment of some of the external factors that may affect organisations over the coming months and years, and a summary of the different models for trading relationships outside the EU. This can be found on our website and we have attached copies to this report.

In thinking about the impact organisations will want to consider not only legal and regulatory changes but also market reactions, consumer and business behaviours, and the wider political and economic environment. The Council will have a role in both shaping its own response and in helping organisations in the City respond to a changing environment. We can expect three broad phases of reaction to Brexit:

- initial volatility
- medium term uncertainty and instability
- longer term transition

The impact of this will be different for every organisation. In looking at the threats and opportunities these phases create, and planning how the Council can create and protect value, you may wish to consider the short, medium and long term implications for issues like people and talent, strategic ambitions, financing, risk, operations and protecting investment.

We believe that in the coming weeks and months, dynamic organisations have a critical role to play in helping to shape the future of Britain. Grant Thornton is leading a campaign which explores how we can build a vibrant economy. You can find out more here: <http://vibranteconomy.co.uk/>

We would welcome views on what the priorities should be for government and the UK to create a new economy outside the EU.

Emerging issues

How is the Council responding to the outcome of the EU referendum?

Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15, (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure: capital spending fell by 22 per cent overall in this area.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO, DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern, however the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The full report is available at:

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

Grant Thornton Technical update



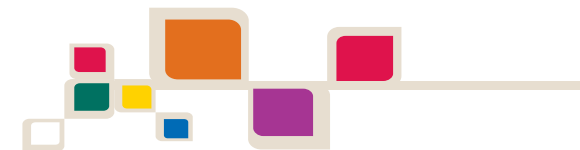


Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the new measurement requirements at depreciated replacement cost for the Highways Network Asset (HNA), which doesn't apply to Taunton Deane Borough Council and
- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.



Accounting and audit issues

Flexible use of capital receipts

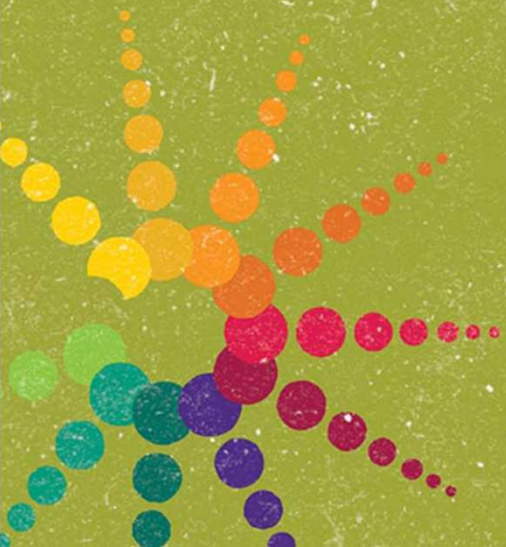
DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Grant Thornton Publications and events



Website Relaunch

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below – <http://www.grantthornton.co.uk/industries/public-sector/>



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
 - high quality financial statements as a result of improved quality assurance arrangements;
 - greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
 - improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
 - allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
 - Efficient and effective systems and processes are essential
 - Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports



Advancing closure
Transforming the financial reporting of
local authority accounts



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>



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GRT102468

Report Number: WSC 98/16

West Somerset Council

Audit Committee – 19 September 2016

External Audit – Audit Findings 2015/16

This matter is the responsibility of Councillor Mrs Mandy Chilcott

Report Author: Jo Nacey, Finance Manager

1 Purpose of the Report

- 1.1 This short covering report introduces the annual report of our external auditor Grant Thornton outlining findings from the audit of our Statement of Accounts, and our arrangements to secure Value for Money.

2 Recommendations

- 2.1 Members are requested to note the report from our external Auditor on the Council's Statement of Accounts and to support the action plan in the report (agreed by the S151 Officer).
- 2.2 Members are requested to note the Auditor's qualified value for money conclusion reflecting concerns over financial resilience of the Council.

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
The Statement of Accounts do not provide a true and fair view of the Council's financial position and performance	3	4	12
<i>Arrangements for financial control, accounting and reporting are robust, and Statement of Accounts subject to external audit</i>	1	4	4

- 3.1 The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background and Full details of the Report

- 4.1 The Unaudited Statement of Accounts 2015/16 was signed off by the Council's S151 Officer in June 2016 – within the statutory deadline, and before the start of the external audit review.
- 4.2 The external audit review has been completed and the auditor has indicated their intention to issue an “unqualified opinion” for the Statement of Accounts, as showing a true and fair view of the Council's financial position and performance.
- 4.3 The auditor has also reviewed our arrangements to secure economy, efficiency and effectiveness in our use of resources, and provides an opinion in the form of a value for money conclusion. In view of the scale of the financial challenge faced by the Authority, the Auditor has provided a “qualified except for” VFM conclusion. This is due to the concerns surrounding the current Medium Term Financial Plan forecasts.
- “the Council does not have a balanced medium term financial plan covering the period until 31 March 2021 and as at the date of the opinion, did not have robust

plans in place to address the budgeted shortfall of £1.2m”.

5 Links to Corporate Aims / Priorities

5.1 This report links to the Council’s aim of achieving financial stability.

6 Finance / Resource Implications

6.1 The audit highlighted some weaknesses in our approach to valuations in relation to materiality. Following discussions with the Auditor our valuers revisited the year end balances to ensure that they reflect the in-year changes in the market. As a result of this we accounted for two significant impairments relating to a change of market conditions. We are discussing our approach with our valuers to ensure that we do not need to make significant adjustments to our carrying values at year end, in the future.

6.2 At the same time, we are mindful that indices relating to market fluctuations which may be appropriate for other areas in the South West are not always relevant to the rural environment of West Somerset.

6.3 This was the only audit finding requiring an adjustment to the figures. There was also an “amber” risk highlighted in relation to our NNDR provision working papers. This will be addressed to ensure that future provision rationale is clearly set out.

7 Legal Implications

7.1 The Council has a statutory duty to produce financial statements.

8 Environmental Impact Implications

8.1 None

9 Safeguarding and/or Community Safety Implications

9.1 None

10 Equality and Diversity Implications

10.1 None

11 Social Value Implications

11.1 None

12 Partnership Implications

12.1 None

13 Health and Wellbeing Implications

13.1 None

14 Asset Management Implication

14.1 None

15 Consultation Implications

15.1 None

Democratic Path:

- **Audit Committee – Yes**
- **Cabinet – No**
- **Full Council – No**

Reporting Frequency: **Once only** **Ad-hoc** **Quarterly**
 Twice-yearly **Annually**

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The Audit Findings Report for West Somerset District Council

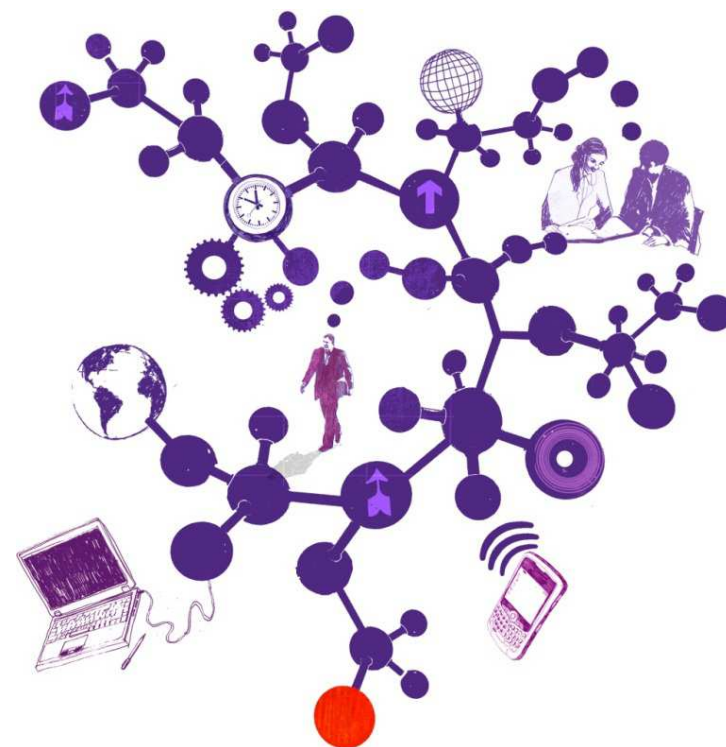
Year ending 31 March 2016

13 September 2016

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13 September 2016

Dear Members of the Audit Committee

Audit Findings for West Somerset District Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of West Somerset District Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Peter Barber
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of West Somerset District Council ('the Council') and the preparation of the [group and] Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 3 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements (we only received the final draft on 13 September 2016)
- obtaining and reviewing the management letter of representation
- review of the final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. Working papers were generally of a good standard and queries were, in general, responded to promptly.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position as whilst, the surplus on the provision of services of £573,000 has changed to a deficit of £263,000, there is no impact on the general fund as the change is due to downward asset revaluations. These same revaluations are reflected on the balance sheet as the value of property, plant and equipment has reduced by £1,863,000.

We have also recommended a number of adjustments to improve the presentation of the financial statements. Further details of these adjustments can be found in section 2.

The key messages arising from our audit of the Council's financial statements are:

- movements in the values of land and buildings since valuations were last undertaken were not adequately considered
- some assets, including the council offices in Williton, were valued on an incorrect basis
- working papers to support the provision for business rates (NNDR) appeals can be improved.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Our work has not identified any issues with the Annual Governance Statement.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issue will give rise to a qualified 'except for' VFM conclusion.

- the Council does not have a balanced medium term financial plan covering the period until 31 March 2021 and as at the date of the opinion, did not have robust plans in place to address the budgeted shortfall of £1.2million.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress. Although the deadline is 30 November 2016, we expect to complete our work well ahead of this. We will report the outcome of this certification work through a separate report to the Audit Committee.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Operations.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Operations and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £544,000 (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have identified a significant reduction in gross expenditure in 2015/16, which has led us to revise our overall materiality to £410,000 (still 1.8% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £20,500. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosure of officers' remuneration, salary bandings and exit packages in notes to the statements.	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosure of members' allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures.	£5,000

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Somerset District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including West Somerset District Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed entity level controls • tested journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3	<p>Recharge of shared services Payroll and other costs recharged monthly by Taunton Deane Borough Council under the shared service arrangement could be misstated to artificially improve the financial position of one of the two councils.</p>	<ul style="list-style-type: none"> Review of the method for recharging and traced to invoices. Analytical review of the recharge costs and sought explanations for fluctuations. 	<p>Our audit work has not identified any issues in respect of recharges.</p>
4.	<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>With one exception, our audit work has not identified any issues in respect of the valuation of property, plant and equipment.</p> <p>In the valuer's report it was stated that there had been no material movements in asset value since the valuation was undertaken. However, the valuer uses a much higher level of materiality (10-15%) than is acceptable for accounts purposes. We made reference to appropriate indices and these suggested that there had been material (in accounting terms) upward movements since the last full valuation was undertaken on 1st April 2014. As a result, we asked that the finance team and the valuer discuss this issue.</p> <p>In response, the valuer examined the carrying values of land and buildings and has reduced them by £1,863,000. This is primarily because the basis for the valuation of two significant assets, including the council offices in Williton was incorrect.</p> <p>At the time of writing, we still need to review these changes.</p>

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	<p>Valuation of surplus assets and investment property and fair value disclosures under IFRS 13</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13.</p> <p>The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>This represents a significant change in the basis for estimation of these balances in the financial statements.</p> <p>There are also extensive disclosure requirements relating to financial assets and liabilities under IFRS 13 which the Council needs to comply with.</p>	<ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the valuer about the basis on which the valuation was carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Review of the disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13. 	<p>Our audit work has not identified any issues in respect of the valuation of surplus assets and investment property and fair value disclosures under IFRS 13.</p>
6.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> • Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund liability.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • cut off of operating expenses at the year end to ensure that creditors are recorded in the correct accounting period. 	Our audit work has not identified any issues in respect of operating expenses.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>Activity is accounted for in the year that it takes place, not simply when cash payments are received. In particular:</p> <ul style="list-style-type: none"> • Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. • Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. • Council tax income and NNDR income is accounted for within the Collection Fund Income and Expenditure Statement on an accruals basis based on amount due from taxpayers for the year, and adjustments for earlier years not already taken into account. • Interest receivable on investments is accounted for as income 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 has been recognised but cash has not been received, a debtor 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. 	<p>We have reviewed the Council's recognition of revenue and found that:</p> <ul style="list-style-type: none"> • Appropriate policies had been used • Accounting policies had been adequately disclosed • Revenue had been appropriately recognised • The policies are in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice 	<p style="text-align: center;">● Green</p>



Assessment

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> • Appropriate policies had been used • Accounting policies had been adequately disclosed • Areas where judgement had been used were supported by the work of an expert or a third party <p>However, we did identify a couple of issues. Firstly, in relation to the valuation of property, plant and equipment, but as this is covered on page 11 it is not repeated here. Secondly, in relation to the provision for NNDR appeals, there was an error in the calculation and a manual adjustment that was not supported by a documented rationale.</p> <p>We recommend that the working paper for the provision for NNDR appeals be reviewed in 2016/17 to ensure that it clearly sets out the rationale for the figure to be included in the accounts.</p>	<p style="text-align: center;">● Amber</p>

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director - Operations, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice.	The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Authority's bankers and relevant counterparties for investments. This permission was granted and the requests were sent. All were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Council does not exceed the threshold.</p>

Internal controls

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management. We still need to review the evidence to support these changes.

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Other than public conveniences, land and buildings were last valued in 2013/14. Material movements in value since the date of the valuation, meant the values disclosed in the draft accounts had to be amended.	1,863	1,863	836 (Net cost of services)
			1,017 (Other comprehensive income and expenditure)
Overall impact	£1,863	£1,863	£1,863

Unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £	Balance Sheet £'000	Reason for not adjusting
1 Accumulated depreciation relating to public conveniences that had been revalued was not written back.	Dr 4 (Depreciation)	Dr 57 (PPE) Cr 61 (Revaluation reserve)	Immaterial
Overall impact	Dr £4	Cr £4	

Misclassifications and disclosure changes

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

Adjustment type	Value £	Account balance	Impact on the financial statements
1 Disclosure	28,649,506	Rateable value for Note 46	Rateable value amended to £28,469,646
2 Misclassification	336,000	Employee expenses per Note 32	As the Council now no longer directly employs staff, no costs should have been disclosed as employee expenses. All such costs have been moved to other service expenses. A number of other minor amendments were also made to this note.
3 Disclosure	3,807,000	Financial instruments per Note 15	Loans and receivables reduced by £3,651,561 as this value did not relate to cash and/or contractual transactions.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated 3rd March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

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

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

- the arrangements in place to deliver a balanced medium term financial plan
- the arrangements for further working with Taunton Deane Borough Council, which also impacts on the medium term financial plan.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the next page.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council does not have a balanced medium term financial plan covering the period until 31 March 2021 and as at the date of the opinion, had no plans in place to address the budgeted shortfall of £1.2 million.

This matter is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources. The text of our proposed report can be found at Appendix B.

Key findings

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

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial position The Council has a balanced financial plan for 2016/17. However, there is a cumulative shortfall of £1.2 million for the subsequent four years of the plan.</p>	<p>We reviewed the Council's medium term financial plan, including the assumptions that underpin the plan.</p>	<p>The Council reported an underspend of £199,000 for 2015/16 and has a balanced budget in place for 2016/17. The assumptions made in developing the budget are reasonable.</p> <p>Beyond 2016/17, the position becomes significantly more challenging. The medium term financial plan shows an annual gap of £1.2 million by 2020/21. There is a gap of £0.2 million for 2017/18. Balancing the position for 2017/18 is likely to be challenging, although the Council was in a similar position last year and, as noted above, reported an underspend in 2015/16.</p> <p>The Council does not have a balanced medium term financial plan and as at the date of opinion does not have robust plans in place to address the shortfall. This matter is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>
<p>Joint Management and Shared Services (JMASS) and transformation The Council has a shared services agreement with Taunton Deane Borough Council and has completed the implementation and full integration of the teams at both Councils. This has already provided significant financial savings. However, further efficiencies are required, both in terms of sharing staff and in the transformation of services.</p>	<p>We reviewed how the Council is progressing the Joint Management and Shared Services arrangement, with a particular emphasis on the transformation of services. We also reviewed the project management arrangements relating to this project.</p>	<p>Both councils continue to consider all options to identify the savings required into the medium term, including closer joint working and possible merger. Although no formal decisions have been made we are satisfied that all options continued to be considered and options clearly set out the relative merits of each proposal.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in place.</p>

Progress since 1 April 2016

The two Councils prepared a high level business case setting out three options for how the councils would work together in the future to improve the financial position and, where possible improve services. The three options were to continue to work together and to continue the programme of transformation, full merger of the two councils or the councils to go their separate ways. The business case set out the benefits and disadvantages of each option and the savings to be derived.

Prior to consideration by the Scrutiny Committee in early July, the two councils commissioned Local Partnerships (owned by the Local Government Association and HM Treasury) to review the business case. Local Partnerships' report was positive about the business case, but did raise a number of issues for further consideration.

Following the Scrutiny Committee's review, the business case was considered by full Council on 7th September, which approved a merger with Taunton Deane Borough Council, subject to Secretary of State approval.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Budget £	Actual £
Council audit	42,525	42,525
Grant certification	6,996	To be confirmed
Total audit fees (excluding VAT)	49,521	To be confirmed

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure that possible movements in the value of land and buildings are considered bearing in mind accounts materiality rather than the valuer's materiality.	Medium	We will review the process of in-year valuations with our valuers to ensure that they are aware of the materiality level that will be applied by the auditors. We will also ensure that we provide appropriate supporting evidence of the market conditions in our particular area	30 April 2017 Finance Manager
2	Ensure that the figure for the provision for NNDR appeals is fully supported by working papers.	Medium	Agreed, we intend to improve our process to ensure the working papers are appropriate and the figures are supported.	30 April 2017 Finance Manager

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST SOMERSET DISTRICT COUNCIL

We have audited the financial statements of West Somerset District Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Director of Operations and auditor

As explained more fully in the Statement of the Director of Operations Responsibilities, the Director of Operations is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant

accounting estimates made by the Director of Operations; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

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

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

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to 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. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matter(s):

The Council does not have a balanced medium term financial plan covering the period until 31 March 2021 and as at the date of my opinion, had no plans in place to address the budgeted shortfall of £1.2m.

This matter is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matter(s) described in the Basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Peter Barber
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55 – 61 Victoria Street
Bristol
BS1 6FT

September 2016



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Report Number: WSC 99/16

West Somerset Council

Audit Committee – 19th September 2016

APPROVAL OF THE AUDITED STATEMENT OF ACCOUNTS 2015/16

This matter is the responsibility of Councillor Mrs Mandy Chilcott

Report Author: Jo Nacey, Finance Manager & Deputy S151 Officer

1 Executive Summary

- 1.1 The Statement of Accounts for 2015/16 is required to be approved by the Audit Committee and signed by the S151 Officer (Shirlene Adam) and the Chair of the Audit Committee (Councillor R Lillis). The Statement of Accounts document is attached to this report.
- 1.2 This report also links to and reflects the Audit Findings Report which was prepared by and will be presented by the Council's external auditors – Grant Thornton UK LLP.

2 Recommendations

Members are recommended to:

- 2.1 Note the Auditor's unqualified opinion on the 2015/16 Statement of Accounts.
- 2.2 Approve the 2015/16 Statement of Accounts as attached to this report.
- 2.3 The Chairman of the Committee is requested to sign the 2015/16 Statement of Accounts.

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
Audit Committee do not approve the audited Statement of Accounts, thus contravening Regulation 8 to Part 3 of the Accounts and Audit Regulations 2011	3	4	12
<i>Audit Committee approves the Statement of Accounts</i>	1	4	4

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background and Full details of the Report

- 4.1 The Accounts and Audit Regulations 2011 require the Statement of Accounts to be approved by a resolution of a nominated committee. The current constitutional arrangements devolve this responsibility to the Audit Committee.
- 4.2 The S151 Officer is required to sign off the unaudited Draft Statement of Accounts as true and fair by 30th June each year. The audited Statement of Accounts must be approved by Committee by 30th September each year. Once approved the Statement of Accounts must be signed by the S151 Officer and the Chair of the Audit Committee, and published on the Council’s website.
- 4.3 The Council’s Statement of Accounts has been audited this year by Grant Thornton UK LLP and is attached to this report. At the time of writing this report, Grant Thornton intend to issue an unqualified opinion, as reported in the Audit Findings Report earlier on the agenda for this meeting. However it should be noted that Grant Thornton are finalising a few areas of their work which will be completed by the date of the Committee. Should

there be any adjustments to the Statement of Accounts subsequent to this report being issued this will be reported at the Committee meeting.

5 STATEMENT OF ACCOUNTS

- 5.1 The Statement of Accounts for 2015/16 has been prepared on an IFRS (International Financial Reporting Standards) basis in line with the CIPFA (Chartered Institute of Public Finance Accounting) Code of Practice on Local Authority Accounting in the UK 2015/16.
- 5.2 There are no material errors relating to previous years, or other material changes to accounting requirements, therefore no further changes to comparative financial details in relation to 2014/15 were needed.
- 5.3 The Statement of Accounts contain four main statements reflecting the position of the Council at 31st March 2016:
- Movement in Reserves Statement
 - Comprehensive Income and Expenditure Statement
 - Balance Sheet
 - Cash Flow Statement
- 5.4 There is also a supplementary statement related to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

MOVEMENT IN RESERVES STATEMENT

- 5.5 This account shows the changes in the Council's financial resources over the year by showing the movement on the reserves held. These are analysed into Usable Reserves (these can be used to fund spending) and Unusable Reserves (reserves that cannot be spent as they contain technical accounting adjustments that do not represent available funding).
- 5.6 The total of the Council's Usable Reserves (capital and revenue combined) has increased by £2.587m in the year.
- 5.7 The Statement shows that the General Reserve (Unearmarked) balance is above the minimum level required in the Council's financial strategy, with General Reserves standing at £1.073m, and shows an increase of £0.543m during 2015/16.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

- 5.8 The Comprehensive Income and Expenditure Statement (CIES) shows the day to day revenue spending and income on the Council's services. It also shows the council tax and Government grants received to help pay for those services. The Comprehensive Income and Expenditure Statement shows the net cost on an "accounting basis" which includes accounting adjustments such as depreciation, impairment and revaluation losses, and other types of accounting adjustments. These adjustments are then reversed out in the Movement in Reserves Statement to show the "funding" position of the Council.

- 5.9 The net Cost of Services has decreased by £6.835m compared to the previous year's accounts. The main decrease is in relation to Non Distributed Costs in respect of the settlement and curtailment of pension costs liability being transferred to Taunton Deane Borough Council as the employer of all staff.
- 5.10 The Financial Outturn position for 2015/16 was reported to Scrutiny Committee and Cabinet at their meetings in June and July 2016 respectively. These reports included information relating to the Council's financial performance for the 2015/16 financial year, and highlighted key variances to the budget with explanations for these.

BALANCE SHEET

- 5.11 The Balance Sheet provides a snapshot of the Council's financial position as at 31st March 2016 (with comparatives for 31st March 2015).
- 5.12 The Balance Sheet shows that net assets have decreased by £0.124m in 2015/16, to a balance of (£0.951m) as at March 2016.

CASHFLOW STATEMENT

- 5.13 The Cash Flow Statement summarises the flows of cash and cash equivalents into and out of the Council during the year.
- 5.14 Cash and cash equivalents are represented by the following: cash in hand; deposits with financial institutions repayable without penalty on notice of not more than 24 hours; and investments that mature in one month or less from the date of the balance sheet and are readily convertible into cash.
- 5.15 During the year the Council's cash and cash equivalents decreased by £2.169m. The main reason for the decrease is due to the fact that the Council's Long Term Investments increased by £2.997m as at the Balance Sheet date of 31st March 2016.

COLLECTION FUND

- 5.16 The Collection Fund Statement shows the total amount the Council has collected from rate payers on behalf of, and distributed to, all of the precepting authorities – including this council – and Central Government. The major precepting authorities are Somerset County Council, Avon and Somerset Police & Crime Commissioner, Devon and Somerset Fire and Rescue Authority and Central Government. The Council has a statutory obligation to maintain a separate Collection Fund Account.
- 5.17 The presentation of the statement shows Council Tax and Business Rates movements and balances clearly separated. The statement shows that the Council has collected £28.995m on behalf of the precepting authorities and Central Government. This comprises council tax income of £20.233m and business rates income of £8.762m.

- 5.18 The statement currently shows a small surplus of £0.181m (WSC share = £0.025m) in respect of Council Tax and a deficit of £7.339m (WSC share = £2.936m) in respect of business rates.

6 RESULT OF THE AUDIT OF THE STATEMENT OF ACCOUNTS

- 6.1 Grant Thornton UK LLP intends to issue the Council with an “unqualified” opinion on the Statement of Accounts. This is good news and means that the Auditors agree that the Accounts provide a “true and fair view” of the financial position. The Value for Money (VFM) conclusion is a qualified “except for” position which the auditor will explain as part of his presentation.
- 6.2 During the audit there were a small number of amendments to the Draft Accounts to improve the presentation of the statements and correct disclosures – as shown in the Audit Findings Report earlier on this agenda. These were presentational only and did not affect the overall financial position of the Council.

7 Links to Corporate Aims / Priorities

- 7.1 The Statement of Accounts reports the financial activities of the Council in the delivery of its corporate aims and objectives.

8 Finance / Resource Implications

- 8.1 The Council’s overall financial position has been well documented recently and remains challenging going forward, with general fund balances £0.107m (at 13.09.16) above the risk assessed minimum level of £0.600m.
- 8.2 I am also satisfied that the accounts represent a true and fair view of the Council’s financial affairs.

9 Legal Implications

- 9.1 There is a Statement of Responsibilities within the Statement of Accounts, which summarises responsibilities for the Council and its S151 officer. The Accounts are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, which specifies the principles and practices of accounting required to give a ‘true and fair’ view of the financial position and transactions of the Council.
- 9.2 The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003. These proper practices apply to:
- Statements of Accounts prepared in accordance with the statutory framework established by the Accounts and Audit (England) Regulations 2015.
 - The audit of those accounts undertaken in accordance with the statutory framework established by section 5 of the Audit Commission Act 1998.

10 Environmental Impact Implications

10.1 None for the purpose of this report.

11 Safeguarding and/or Community Safety Implications

11.1 None for the purpose of this report.

12 Equality and Diversity Implications

12.1 None for the purpose of this report.

13 Social Value Implications

13.1 None for the purpose of this report.

14 Partnership Implications

14.1 None for the purpose of this report.

15 Health and Wellbeing Implications

15.1 None for the purpose of this report.

16 Asset Management Implications

16.1 None for the purpose of this report.

17 Consultation Implications

17.1 None for the purpose of this report.

18 Scrutiny Comments / Recommendation(s)

18.1 None for the purpose of this report.

Democratic Path:

- **Audit Committee – Yes**

Reporting Frequency: **Once only** **Ad-hoc** **Quarterly**

Twice-yearly **Annually**

List of Appendices

Appendix A	2015/16 Statement of Accounts
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Contact Officers

Agenda Item 8

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**West Somerset District Council
Audited
Statement of Accounts
2015/16**

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Narrative Statement

STATEMENT BY THE DIRECTOR OF OPERATIONS

This report highlights some of the most important matters reported in the accounts and provides a management commentary on the financial performance and standing of the Council. The commentary is focussed both on the performance in the past year and on issues affecting the Council in 2016/17 and beyond.

COUNCIL'S PERFORMANCE

This has been another challenging year of budget cuts and difficult choices. We have, however, continued to deliver the savings from the One Team management across Taunton Deane and West Somerset Councils and have found savings through joint working and efficient use of our resources. We have set our 2016/17 budget by implementing a wide range of savings which have not all been palatable but necessary with limited options as we work from a very "lean" position.

The Council publishes quarterly corporate performance information, based on a 'basket' of key performance indicators, on the "*Performance*" page of our website, which is available from this link:

<http://www.westsomersetonline.gov.uk/Performance>

Illustrations of how the Council has performed during 2015/16 are shown below:

Energy Infrastructure programme

- Community Impact Mitigation (CIM) Fund – West Somerset Council administer and make decisions on the release of the CIM Fund which was secured to help mitigate the impact of the Hinkley Point C development. The CIM Fund was launched in May 2014. In meeting its corporate objective to support and fund projects within the District £522,619 has been committed to West Somerset based projects in 2015/16, with £239,942 having been spent in the District since the fund was launched.
- Economic Development and Tourism – in delivering approved initiatives in the areas of Economic Development, Land Management, Employment and Skills, and Tourism to meet its corporate objective of maximising the benefits of the Hinkley Point C project for local people and local businesses, the Council has spent £107,554 leaving £346,953 to deliver further activity.
- Leisure – in meeting its corporate objective and after having worked with the community, the Council has approved funding for a wide variety of projects within the District to support organisations who deliver services and facilities where sports and leisure activity takes place. £653,000 has been committed to projects during 2015/16 with £61,667 having been spent leaving £591,000 to be spent in the coming years.

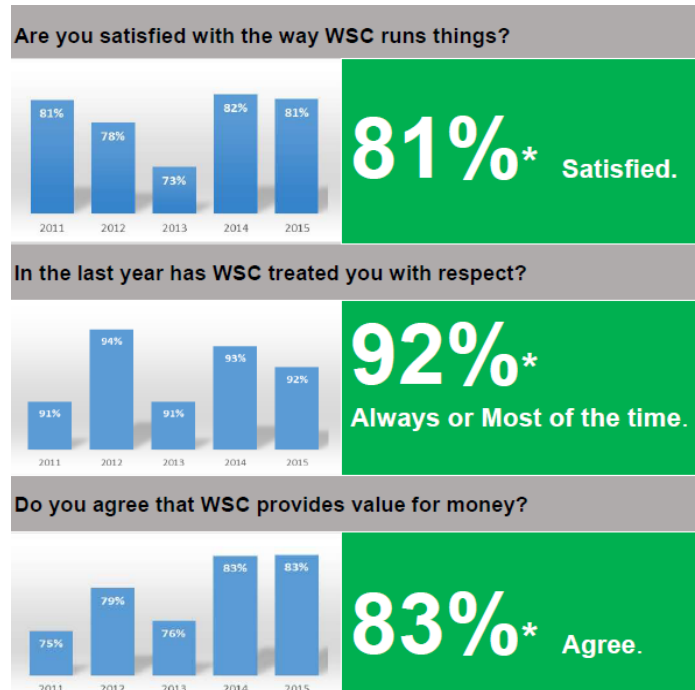
Transformation programme

- Legal Services Partnership – a tri-district legal services partnership between Mendip District Council, West Somerset District Council and Taunton Deane Borough Council was launched in 2015/16. The partnership will deliver savings to each partner and offer additional resilience to the Council.
- Building Control Partnership – during 2015/16 we completed work to launch a four-district building control partnership. The partnership involves Mendip District Council, West Somerset District Council, Taunton Deane Borough Council and Sedgemoor District Council and went live in April 2016.
- Staff Terms and Conditions – a review was undertaken to identify additional ongoing savings. Changes will come into effect from April 2016.

Resident Satisfaction Survey

The Council issued a Resident's Satisfaction Survey with each of the 18,000 2015/16 year Council Tax bills and also published the Survey online.

We received 785 responses to the Survey. A summary of the results to the three main questions is provided below:



* 95% confidence that responses represent view of all households

FINANCIAL PERFORMANCE

Economic Environment

It has been well documented that Local Government has seen major cuts in funding over several years now and 2015/16 saw us with a challenging budget gap to close and the prospect of further cuts to come with some of our grants changed or extinguished completely. We now know that Revenue Support Grant (RSG) will virtually disappear by 2019/20 and with the responses to a consultation on New Homes Bonus Grant currently being considered by Government, we are taking action to achieve financial sustainability.

Although all councils are subject to these cuts, West Somerset have to approach them from a position whereby significant cuts have already been made over several years and therefore there is little scope for "easy" savings options.

We have taken steps to: examine all of our costs; look at our risk profile and realign our minimum reserves level accordingly; we have looked at the profile of our Minimum Revenue Provision for debt repayment and found significant savings by realigning the repayments; we use earmarked reserves to mitigate the effect of business rates appeals and we set aside funds in reserves where there is committed expenditure and a need to mitigate the expense.

The Council's Financial Resilience

In addition to the trend of reducing funding from Government, the Council also took significant action during 2015/16 to identify urgent in-year budget savings and release funds held in earmarked reserves.

The Council's financial position was significantly hit as a result of a large reduction in the business rates due on Hinkley B nuclear power station. The impact of the appeal was reflected in the Council's 2014/15 accounts, however this saw our general reserves drop to the minimum acceptable level. The external

auditor, Grant Thornton UK LLP, raised concerns and reported a qualified value for money conclusion in September 2015 due to concerns over our financial resilience.

In addition, the Council has identified important investment requirements to manage and maintain our assets, which has resulted in the need to allocate additional funding from reserves in 2015/16.

The Council therefore took action to increase reserves in the year to increase balances to a more acceptable level.

Financial Management

Revenue

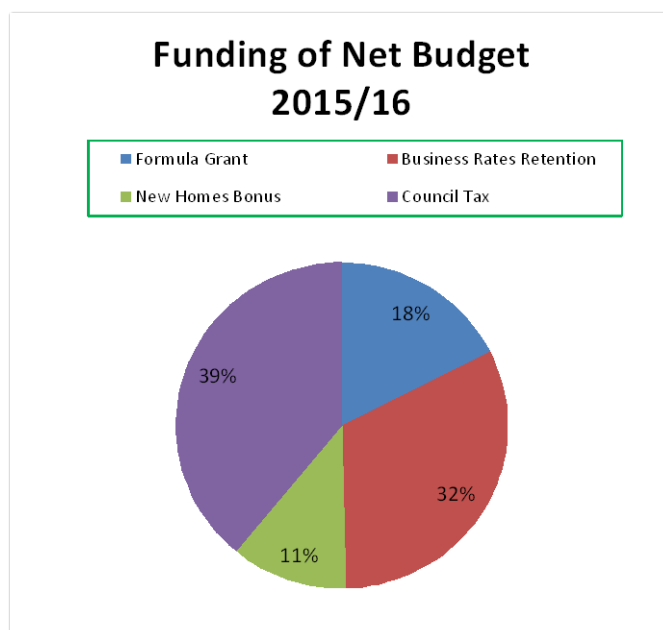
The financial standing of the Council is under continual scrutiny, but as at 31 March 2016 the position is adequate. We work to ensure we have sound and improving financial management practices. The Council reported a net underspend of £199,132 in 2015/16 with this balance transferred to general reserves.

FINANCIAL OVERVIEW

General Fund Revenue Budget and Reserves

The Council's original Net Budget for 2015/16 (excluding parish precepts) was £4.812m, representing the net cost of General Fund services funded by grants, business rates and council tax as shown in the following table and graph. Through supplementary budget changes for planned use of reserves the final net budget was £5.012m.

	£k
Revenue support grant	880
Retained business rates	1,755
Business rates Collection Fund deficit	(150)
New Homes Bonus	571
Council tax Collection Fund surplus	70
Council Tax income	1,886
Net Budget	5,012



In setting the budget for 2015/16 the Council increased Council Tax by 1.99%. This meant the annual Band D Council Tax charge for services provided by the Council rose to £140.56.

The Council's actual net expenditure in 2015/16 was £4.972m and we retained £0.159m more in Business Rates than budgeted which results in a reported net underspend on the final budget of £0.199m (4.0% of Net Budget). The net underspend arose due to variances in several budget areas. The most significant underspends have been reported against rent allowances; Garden Waste; Parking and Asset Maintenance. These together with other smaller underspends have enabled the Council to offset budget overspends/shortfalls in arriving at the net position. We also retained more Business Rates income in the year than anticipated, although this is a skewed position due the accounting arrangements under Business Rates Retention with collection fund losses being offset in 2015/16 by a transfer from the Collection Fund Adjustment Account, and the credit has been set aside in our business rates smoothing reserve. The following table provides a summary of the financial results for the year compared to budget.

General Fund Outturn 2015/16	Budget £k	Actual £k	Variance	
			£k	%
Corporate Operations	564	545	(19)	(3.4)
Housing and Communities	3,422	3,197	(225)	(7.0)
Growth and Development	435	271	(164)	(37.7)
Hinkley	242	264	22	9.0
Interest and Other income	(151)	(152)	(1)	(0.6)
RCCO	(9)	(19)	(10)	(111.1)
Transfers from Earmarked Reserves	98	52	(46)	(46.9)
Transfers to Earmarked Reserves	(433)	(577)	(144)	
Transfer to General Reserves	500	1,047	547	
	344	344	0	
Net Budget	5,012	4,972	(40)	(0.8)
Funding	(5,012)	(5,171)	(159)	(3.2)
Net Under(-)/Overspend for the year	0	(199)	(199)	(4.0)

Further information on spending on services, and other operating costs and income is shown within the Comprehensive Income and Expenditure Statement and Notes.

The General Fund Reserves have increased from £0.530m at the start of the year to £1.073m at 31 March 2016. Approved allocations from General Reserves in early 2016/17 reduce this balance to £0.707m, which is just £0.107m above the recommended minimum balance. Later in this statement I explain the financial challenges and risks faced by the Council. Having reserves at this level provides some resilience as the Council continues to strive for a robust and sustainable financial position.

The Council also carries Earmarked Reserve balances, which represent funds that have been set aside to support specific spending in future years. The General Fund Earmarked Reserves balance at 31 March 2016 stands at £4.370m. This balance covers a wide variety of known planned spending commitments, including: Business Rates funding deficit (which will be charged to revenue budget in 2016/17 and 2017/18); the JMASS project and Homelessness provision with some other smaller commitments which we have prudently put aside. Although this figure appears high in relation to the Council's spending position, the majority of these Earmarked Reserves will be spent during 2016/17 with £3.389m being immediately required to fund the Business Rates Collection Fund Deficit.

Capital Spending and Reserves

In addition to our spending on day-to-day service provision, the Council spends money on assets such as buildings, asset disposal costs, IT equipment and systems, and the provision of capital grants to others such as disabled facilities and decent homes grants. Capital expenditure in the year totalled £1.823m (£0.854m in 2014/15). This included spending of £0.949m on General Schemes and £0.874m on Hinkley impact mitigation schemes.

Summary Capital Spend	£k	Sources of Capital Funding	£k
Affordable Housing	213	Capital Receipts	578
Seaward Way Project	84	Capital Grants	236
Asset Disposal/Demolition Costs	72	Revenue Contributions	51
Play Equipment	40	S106 General	84
Vehicles, Plant and Equipment	133	S106 Hinkley	874
Disabled Facilities Grants	138		
IT systems and hardware	122		
Hinkley impact mitigation projects	874		
Other schemes	147		
Total	1,823	Total	1,823

Capital expenditure is funded from a variety of sources, as shown in the table above.

The Capital Programme has committed approved capital spending in future years of £2.252m. Overall the Council has sufficient resources available to meet its current approved capital programme but recognises that significant further funds will be required to meet any future aspirations.

Capital reserves reflect funds set aside to fund investment in capital items in future years, and largely comprise grants, contributions and capital receipts that are committed on projects to be completed in the current approved capital programme. The Council currently holds £3.554m of capital reserves, providing funding for the approved capital spending referred to above.

Balance Sheet

Below is an extract from our Balance Sheet showing the position at year end and the comparison with the position last year:

	31 March 2015	31 March 2016
	£k	£k
Non-current assets	16,533	16,257
Net current assets – debtors, stock and cash less short term creditors and liabilities	(368)	(787)
Long term liabilities and provisions	(16,992)	(16,421)
Net Assets/(Liabilities)	(827)	(951)
Represented by: Usable reserves	5,543	8,130
Represented by: Unusable reserves	(6,370)	(9,081)
Total Reserves	(827)	(951)

Treasury Management

Total cash and cash equivalents at 31 March 2016 were £9.496m. The main factors that would affect cash in the future are:

- Acquisitions and disposals relating to the capital programme;
- The value of reserve balances;
- Appeals provisions;
- Grants and contributions unapplied.

West Somerset Council Funds:

	31 March 2015	31 March 2016
	£k	£k
Cash and other cash equivalents	2,291	325
Short term investments	0	2,001
Total	2,291	2,326

Hinkley Investments:

	31 March 2015	31 March 2016
	£k	£k
Cash and other cash equivalents	3,360	3,157
Short term investments	6,000	4,013
Total	9,360	7,170

Pensions

The Council's share of the overall Pension Fund deficit decreased from £16.600m at 31 March 2015 to £15.600m at 31 March 2016. The deficit has decreased by 6%, which is largely due to a change in the financial valuation assumptions by the actuaries.

With the staff moving under the employment of Taunton Deane Borough Council, the accounts of West Somerset Council focus on the deficit which had to be retained on the balance sheet and which is addressed by an agreed lump sum payment from the Council each year. In 2015/16 this lump sum is £0.260m rising to £0.310m in 2016/17. The value of the Pension Fund changes with a number of different assumptions made by the actuary which means that although the deficit will be reduced by the

lump sum it may change both up and down due to the assumptions the actuaries employ and by the return on the Pension Fund investments.

ENVIRONMENTAL

Local authorities in Somerset have been working together to develop waste services since 1992 through a joint forum called Somerset Waste Partnership. In October 2007 this co-operation was taken a major step further when Somerset became the first county-wide area to combine waste service functions under a single joint committee of Councillors (Somerset Waste Board) from all Somerset local authorities. Somerset Waste Partnership jointly manages and plans waste collection, recycling and disposal services for almost 250,000 Somerset homes, aiming to increase recycling and reduce the amount of waste going to landfill.

From the latest published performance information published by the Somerset Waste Board (April to Sept 2015) key headlines are:

West Somerset recycling centre recovery rates = 81% (95,016 visits were made to the three recycling centres in West Somerset).

West Somerset household recycling = 160 kilograms per household (April to Sept)

West Somerset household waste (including recycling) = 360 kilograms per household (April to Sept)

Total household waste has reduced in 2015/16 on the same period in 2014/15 which is good news. The amount of waste recycled has reduced slightly.

FINANCIAL CHALLENGES IN 2016/17

For 2016/17, the Council had to address a budget gap in the region of £0.600m. This has resulted primarily from the aftermath of the Business Rates Appeal decision for Hinkley; falling levels of funding, inflation (contractual and employee), pension deficit contributions, the national insurance changes and other less significant factors.

As part of the Settlement details, Central Government gave all district councils the power to raise Council Tax by £5 for a Band D property without the need for a referendum. West Somerset took this option which raised £0.030m towards the budget gap.

2016/17 sees the introduction of a Rural Services Delivery Grant (RSDG). This has previously been distributed as part of Revenue Support Grant (RSG) but is now shown separately. For 2016/17 we received £0.212m of RSDG. Whilst this recognition of the rural nature of our district is welcomed, the impact of this new grant is mitigated by the reduction of £0.330m to RSG.

As part of the Final Settlement documents there was a proposal to councils to respond to a consultation on New Homes Bonus. This consultation covered a wide range of areas pertinent to the New Homes Bonus calculations and distribution. The predominant question was whether the Council had an appetite to reduce the allocation from Central Government of the grant from a 6 year calculation to a 4 year calculation, possibly even down to only 2 years. Although for the District Council this appears to be a moot question as we would not welcome a fall in grant, for Unitary and County Councils this may be attractive as the reduction in distribution is intended by Central Government to be redirected "to support authorities with specific pressures, such as in adult social care budgets".

In order to be able to reduce the budget gap going forward our transformation project is pivotal. Only with a new approach to service provision will we be able to begin to close the gap and continue to provide services which meet the needs of our public. The details of our transformation programme will emerge over the next few months.

PRINCIPAL RISKS AND UNCERTAINTIES

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. We also use our risk register as a tool to help demonstrate and calculate our minimum acceptable level of reserves. This year we increased this from £0.500m to £0.600m as more risks emerged and funding has reduced.

Risks are managed at all levels within the Council. The most serious and/or cross-cutting strategic risks are escalated to the Corporate Risk Register. The Corporate Risk Register is subject to regular review by the Joint Management Team and the risks regularly reported to the Council's Audit Committee. Each risk has an owner and is supported by actions designed to reduce uncertainty and the Council's exposure to risk.

The key areas of corporate risk at March 2016, centred on:

- Financial uncertainty / budgetary pressures
- Asset Management – regulatory compliance
- Impact of welfare reform – impact on our residents and our rental income
- Business continuity – preparedness for disaster / major incident
- Non-compliance with national law or policy
- Delivering services with a reduced staffing capacity
- Delivering an effective transformation programme
- Hinkley Point C – impact on local accommodation and highways, and/or Economic and Social opportunities may not be realised.
- NHS trusts claims for mandatory business rates relief.

WHAT'S NEXT?

During 2015/16 the Council developed its new Corporate Strategy for the next four years (1 April 2016 to 31 March 2020). The key elements of the Strategy are: refreshed high-level priorities for the Council, design principles for our organisation, refreshed vision and clarity on the role and purpose of the Council.

This Corporate Strategy is available on the 'Corporate Priorities' page of our website, which is available from this link:

<http://www.westsomersetonline.gov.uk/Council---Democracy/About-Your-Council/Corporate-Priorities>

The key outcomes we are going to be working on are:

- Helping our communities remain sustainable and vibrant is vital in keeping West Somerset a great place in which to live and work.
- Access to well-paid employment is key to retaining young people and raising living standards across West Somerset.
- West Somerset is a beautiful place to visit and in which to live and work. We want to keep West Somerset a place to be proud of and one which is well maintained and welcoming to residents, visitors and businesses alike.
- Like all Councils, we continue to be challenged by significant budget cuts and pressure on services. Many of the challenges ahead of us cannot be solved by the District Council on its own. We need to continue to collaborate with a range of organisations to deliver and enable outcomes that are important to our communities and find new ways of working that ensure we continue to get the best possible value out of the funds available to us.
- Maximising the local economic benefits from Hinkley Point C.

TRANSFORMATION

We have now, through the approved Corporate Strategies, clear design principles that will shape our transformation vision. We need to move forward now and formally test our ability to transform through the development of a high level Business Case. This will articulate our Transformation Vision and test the delivery of this in three sequential variants:

- As now, with two separate councils supported by the ONE Team.
- In one merged Council (TDBC and WSC), supported by the ONE Team.
- As two separate Councils with their own transformation agendas.

The three variants will be developed simultaneously to ensure we can reach a decision point as quickly and safely as possible. It is envisaged this work will take 3-4 months and will report in July 2016.

DEVOLUTION

In September 2015 the Heart of the South West (HotSW) submitted its Devolution Statement of Intent to Government. After considerable further work during autumn 2015, the partners – 17 local authorities, two National Parks, the Local Enterprise Partnership (LEP) and the three Clinical Commissioning Groups – are now in a position to commence detailed negotiations with Government on a devolution deal.

Government has challenged local leadership teams to treat productivity as “the challenge of our time”. They have asked us to do that by “fixing the foundations” of infrastructure, skills, and science through a devolution revolution delivering long-term public and private investment.

With Government support for our proposition, by 2030 the Heart of the South West can accelerate delivery of 163,000 new jobs, 179,000 new homes and an economy of over £53bn Gross Value Added (GVA).

Our proposals build upon successful and strong business leadership through our Local Enterprise Partnership: we cannot deliver effective economic interventions without a strong business voice.

We anticipate a positive outcome from negotiations on our deal and we hope to begin formal negotiations with Government imminently. More detail on our bid can be found from this link:

<http://www.westsomersetonline.gov.uk/getattachment/home/News/Devon-and-Somerset-bid-for-more-powers-to-boost-pr/HotSW-Devolution-Prospectus-2016.pdf.aspx>

EXPLANATION OF ACCOUNTING STATEMENTS

The main financial statements contained within the Statement of Accounts are as follows.

- The **Movement in Reserves Statement** (page 16) shows the changes in the Council’s financial resources over the year, by showing the movement on the different reserves held, analysed into ‘usable reserves’ (that can be used to fund spending) or other reserves.
- The **Comprehensive Income and Expenditure Statement** (page 17) brings together details of the Council’s day-to-day revenue spending and income on its services, and other gains and losses in the year.
- The **Balance Sheet** (page 18) provides a snapshot of the Council’s financial position at 31 March and sets out what is owned and what is owed.
- The **Cash Flow Statement** (page 19) summarises the flows of cash into and out of the Council during the year.
- The **Notes to the Financial Statements** (pages 20-71) provide supplementary information on some of the figures contained within the primary statements. They also include accounting policies, which guide the treatment of income and expenditure, and disclosures relating to the assets and liabilities of the Council.

A more detailed explanation is included alongside each of these main statements within the Statement of Accounts.

FURTHER INFORMATION

Further information on the contents of these statements and additional copies of this booklet can be obtained from:

S Adam FCCA, Section 151 Officer, West Somerset House, Killick Way, Williton, TA4 4QA

Telephoning: (01823) 356310

E-mail to: s.adam@tauntondeane.gov.uk

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST SOMERSET DISTRICT COUNCIL

To be inserted when available

Independent Auditor's Report

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To be inserted when available

The Statement of Responsibilities for the Statement of Accounts

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 West Somerset that officer is the Director of Operations
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts.

The Director of Operations is required to:

The Director of Operations 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 Director of Operations 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 Director of Operations has also:

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

Declaration by the Section 151 Officer

I certify that this Statement of Accounts gives a true and fair view of the financial position of West Somerset District Council at 31 March 2016 and of its expenditure and income for the year ended 31 March 2016.

Shirlene Adam, FCCA
Director of Operations
Section 151 Officer

Date: 19 September 2016

Approval of the Accounts

This Statement of Accounts will be approved by resolution of the Audit Committee under powers allocated by the constitutional arrangements of the Council.

Chair of Audit Committee

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 '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 for council tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Notes	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2014		992	1,376	786	139	3,293	(3,466)	(173)
<u>Movement in Reserves during 2014/15</u>								
Surplus (or Deficit) on the provision of services		(9,236)	0	0	0	(9,236)	0	0
Other Comprehensive Income and Expenditure		0	0	0	0	0	8,582	8,582
Total Comprehensive Income and		(9,236)	0	0	0	(9,236)	8,582	(654)
Adjustments between accounting basis and funding basis under regulations	7	11,299	0	109	78	11,486	(11,486)	0
Net Increase/Decrease before Transfers to Earmarked Reserves		2,063	0	109	78	2,250	(2,904)	(654)
Transfers to/(from) Earmarked Reserves	8	(2,525)	2,525	0	0	0	0	0
Increase / (Decrease) in 2014/15		(462)	2,525	109	78	2,250	(2,904)	(654)
Balance at 31 March 2015 Carried forward		530	3,901	895	217	5,543	(6,370)	(827)
<u>Movement in Reserves during 2015/16</u>								
Surplus (or Deficit) on the provision of services		(263)				(263)		(263)
Other Comprehensive Income and Expenditure		0				0	139	139
Total Comprehensive Income and		(263)	0	0	0	(263)	139	(124)
Adjustments between accounting basis and funding basis under regulations	7	1,275		1,335	240	2,850	(2,850)	0
Net Increase/Decrease before Transfers to Earmarked Reserves		1,012	0	1,335	240	2,587	(2,711)	(124)
Transfers to/(from) Earmarked Reserves	8	(469)	469					
Increase / (Decrease) in 2015/16		543	469	1,335	240	2,587	(2,711)	(124)
Balance at 31 March 2016 Carried forward		1,073	4,370	2,230	457	8,130	(9,081)	(951)

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.

Gross Expenditure £000	2014/15		Notes	2015/16		
	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
738	(286)	452	Central Services to the Public	512	(127)	385
756	(182)	574	Cultural and Related Services	962	(236)	726
2,434	(247)	2,187	Environmental and Regulatory Services	2,435	(265)	2,170
321	(504)	(183)	Highways and Transport Services	318	(549)	(231)
15,251	(14,313)	938	Other Housing Services	15,816	(14,636)	1,180
3,178	(1,018)	2,160	Planning Services	2,594	(827)	1,767
1,392	(341)	1,051	Corporate and Democratic Core	958	(62)	896
6,205	0	6,205	Non Distributed Costs	0	(344)	(344)
30,275	(16,891)	13,384	Cost of Services	23,595	(17,046)	6,549
1,366	0	1,366	Other Operating Expenditure	9	250	0
680	(67)	613	Financing and Investment Income and Expenditure	10	550	(182)
0	(6,127)	(6,127)	Taxation and Non-Specific Grant Income and Expenditure	11	0	(6,904)
		9,236	(Surplus) or Deficit on Provision of Services			263
		(859)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	23		1,136
		0	Surplus or deficit on revaluation of available for sale financial assets	24		(12)
		(7,723)	Remeasurement of the net defined benefit liability	26		(1,263)
		(8,582)	Other Comprehensive Income and Expenditure			(139)
		654	Total Comprehensive Income and Expenditure			124

Balance Sheet

The Balance Sheet shows 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. The first category of reserves are usable reserves, i.e. those 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 that may only be used to fund capital expenditure or repay debt).

The second category of reserves, are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations').

31 March 2015 £000	Notes	31 March 2016 £000
13,753	Property, Plant and Equipment 12	11,481
2,733	Investment Properties 13	1,696
38	Intangible Assets 14	77
0	Long-term Investments 15	2,997
9	Long-term Debtors	6
16,533	Long Term Assets	16,257
1,694	Assets Held for Sale 16	1,615
2,716	Short Term Debtors 17	4,930
5,651	Cash and Cash Equivalents 18	3,482
6,000	Short Term Investments 15	6,014
16,061	Current Assets	16,041
(13,248)	Short Term Creditors 19	(16,057)
(3,181)	Provisions 20	(771)
(16,429)	Current Liabilities	(16,828)
(16,616)	Other Long Term Liabilities 42	(15,560)
(376)	Long Term Creditors 19	(861)
(16,992)	Long Term Liabilities	(16,421)
(827)	Net Assets	(951)
5,543	Usable Reserves 21	8,130
(6,370)	Unusable reserves 22	(9,081)
(827)	Total Reserves	(951)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council 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.

2014/15		Notes	2015/16
£000			£000
(9,236)	Net surplus or (deficit) on the provision of services		(263)
18,875	Adjustments to net surplus or deficit on the provision of services for non cash movements	29	2,746
(2,050)	Adjustments for items included in the net surplus on the provision of services that are investing and financing activities	29	(2,052)
7,589	Net cash flows from Operating Activities		431
(4,091)	Investing Activities	30	(1,599)
0	Financing Activities	31	(1,001)
3,498	Net increase or decrease in cash and cash equivalents		(2,169)
2,153	Cash and cash equivalents at the beginning of the reporting period	18	5,651
5,651	Cash and cash equivalents at the end of the reporting period	18	3,482

Notes to the Accounts

1 Accounting Policies

i) 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.

The Director of Operations undertakes a thorough assessment of going concern. These accounts have been prepared on a going concern basis which means that the functions of the Council will continue in operational existence for at least the next year.

ii) 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 is written down and a charge made for the income that might not be collected.

iii) 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 highly liquid investments that mature in one month or less from the date of the balance sheet and that are readily convertible to known amounts of cash with insignificant risk of change in value. The Council includes deposits in Business Reserve Accounts in cash equivalents.

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

iv) Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service

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

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

During 2015/16 the Council amended its Minimum Revenue Provision (MRP) Policy to the Equal Instalment Method whereby MRP is linked to weighted asset life. This was considered to be a prudent approach as it takes into account the materiality of each asset and its remaining useful life. For the Council this has meant that MRP repayments have been extended to a 39.38 year period.

In addition the Council has decided to take an MRP holiday from revenue for 2015/16 and the following two financial years. During this period the annual MRP contribution will be funded from capital receipts.

v) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled wholly within twelve 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.

As all West Somerset staff are now employed by Taunton Deane Borough Council (TDBC) the accrual for accumulated absences is shown in the TDBC Statement of Accounts and no longer reported by this Council.

Termination Benefits

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

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

Post-Employment Benefits

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

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

- The liabilities of the Somerset County Council pension fund attributable to West Somerset 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 to their value at current prices, using a discount rate of 4.5% (based on the annualised yield at the 19 year point on the Merrill Lynch AA-rated corporate bond yield curve which has been chosen to meet the requirements of IAS 19 and with the consideration of the duration of the Employer's liabilities).
- The assets of the Somerset County Council pension fund attributable to West Somerset 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 pension liability is analysed into the following components:

Service cost comprising:

- **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- **Net interest on the net defined benefit liability, i.e. net interest expense for the Council** - the change during the period in the defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- **The return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Actuarial Gains and Losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Contributions paid to the Somerset County Council Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

vi) Events after the Reporting Period

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.

vii) Financial Instruments

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 the borrowing 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.

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 that have a quoted market price and/or do not have fixed or determinable payments.

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.

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

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

Available-for-Sale Assets

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.

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

- instruments with quoted market process – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

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 Council can access at the measurement date)
- Level 2 inputs – inputs other than quoted process 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 or 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).

viii) 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.

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. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

ix) 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.

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 assets held by the Council meet 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 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 £0.010m) the Capital Receipts Reserve.

x) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

xi) 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.

The Council as Lessee

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).

The Council as Lessor

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.

xii) 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 multi-functional, 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.

xiii) Property, Plant and Equipment

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

Recognition

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

- The expenditure incurred is below £0.002m. In such cases expenditure is charged direct to the revenue accounts.
- The asset is acquired through an operating lease when rental payments are charged to the revenue account.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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 an asset given up by the Council.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

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.

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 (assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the life of the property as estimated by the Valuer.
- Vehicles, plant and equipment – straight-line allocation, based on the type of asset class in the balance sheet, (vehicles 5-15 years, plant 10 years and equipment 5 years)
- Infrastructure – straight-line allocation over 25 years.

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

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

Account.

Assets that are sold during the year are treated as if sold on 1 April and therefore do not attract a depreciation charge for the year. Assets acquired during the year attract a full years' charge.

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.

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.

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

xiv) Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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.

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.

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.

xv) 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.

Separate reserves are maintained for capital and revenue spending; in line with legislation and accounting practice, capital reserves cannot be used to support general revenue spending although revenue reserves may be used to support capital spending. 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.

xvi) 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.

xvii) 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.

xviii) Related Party Transactions

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.

The materiality of the transaction has been considered before justifying inclusion in the statements. Transactions disclosed elsewhere in the Statement of Accounts are not cross referenced in the note. Disclosure is only required where the Council has gone beyond providing financial assistance to having a relationship with the assisted organisation that allows it to exert control over the organisation's financial and operational policies.

xix) The Collection Fund

The Code requires the inclusion of a Collection Fund Income and Expenditure Statement within the Statement of Accounts of every council tax billing authority; this council is such an authority. The Statement reflects the statutory requirement contained in Section 89 of the Local Government Finance

Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR).

There is no requirement for a separate Collection Fund Balance Sheet. Instead Collection Fund balances are distributed across the Balance Sheets of the billing authority, the Government and precepting authorities.

xx) Accounting for Council Tax

Council tax income is accounted for within the Collection Fund Income and Expenditure Statement on an accruals basis based on amount due from taxpayers for the year, and adjustments for earlier years not already taken into account. The figure excludes amounts receivable in the form of penalties, which are recognised in the Surplus or Deficit on the Provision of Services in the General Fund.

Since the collection of council tax income is in substance an agency arrangement, the cash collected by the Council from council tax debtors belongs proportionately to the Council and the major preceptors. There will be therefore a debtor/creditor position between the Council and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council taxpayers.

Precepts for the major precepting authorities and the Council's demand on the fund are paid out of the Collection Fund and credited to the Taxation and Non-Specific Grant Income line in the Comprehensive Income and Expenditure Statements of the precepting authorities and the Council. However, the transactions presented in the Collection Fund Statement are limited to the cash flows permitted by statute for the financial year, whereas each authority and the Council recognises income on a full accruals basis i.e. sharing out in full the surplus or deficit on the Collection Fund at the end of the year, even though it will be distributed to or recovered from the precepting authorities including the Council in a subsequent financial year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the Collection Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The year-end surplus or deficit on the Collection Fund is distributed between the Council and major precepting authorities on the basis of estimates made on 15 January of the year-end balance. The Council's share is credited (surplus) or debited (deficit) on the same line as the demand on the fund, and is taken into account in arriving at the difference that is taken to the Collection Fund Adjustment Account.

xxi) Accounting for National Non-Domestic Rates

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. As a billing authority we must include on the Balance Sheet the following:

- Our share of non-domestic rates debtors (net of the impairment allowances for doubtful debts)
- Our share of creditors for overpaid/pre-paid non-domestic rates
- A debtor for each major preceptor and Central Government for cash paid to them in advance of receipt from non-domestic rate payers
- A creditor for rates collected and not paid for
- A debtor/creditor for the difference between safety net payments made on account and the actual safety net payment due
- A creditor for the actual levy payment due.

- A provision for refunding ratepayers, who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts relating to non-domestic rates charged to businesses in 2012-13 and earlier financial years.

xxii) Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as covered bonds at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

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

2 Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Council has yet to adopt the following accounting standards which will be introduced in the 2016/17 Code.

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions).
- Annual Improvements to IFRSs 2010-2012 Cycle. The issues applicable to local authorities included in the Annual Improvements 2010-12 cycle are:
 - IFRS 3 *Business Combinations*: Accounting for contingent consideration in a business combination;
 - IFRS 8 *Operating Segments*: Aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets;
 - IFRS 13 *Fair Value Measurement*: Short-term receivables and payables;
 - IAS 16 *Property, Plant and Equipment*: Revaluation method - proportionate restatement of accumulated depreciation
 - IAS 24 *Related Party Disclosures*; Key management personnel;
 - IAS 38 *Intangible Assets*: Revaluation method – proportionate restatement of accumulated depreciation.
- Amendments to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interest in Joint Operations).
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible assets* (Clarification of acceptable methods of depreciation and amortisation).

- Annual Improvements to IFRSs 2012-2014 Cycle – the only issue applicable to local authorities included in the Annual Improvements to IFRSs 2012-2014 cycle is IFRS 7 *Financial Instruments Disclosures*: Servicing contracts.
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative).
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis.

At the time of writing, the impact on our accounts is not fully known although based on our current arrangements it is likely to be immaterial.

3 Critical Judgments in Applying Accounting Policies

In applying the accounting policies set out in Note 1, 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 yet 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.
- A Business Rates provision has been made in the accounts for £1.868m (Council's share of this is £0.767m). The Council has put in its best estimate of the expenditure required to settle the present obligation based on the appeals put in by ratepayers.

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 assumptions and estimates.

Item	Uncertainties	Effect If Actual Results Differ From Assumptions
Pensions Liability	Estimation of the net liability to pay pension depends on a number of complex judgments 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.	As at 31 March 2016 the pension liability for West Somerset Council amounted to £15.560m. The effects on the net pension liability of many changes in individual assumptions can be measured. For example, if the discount rate were to change by plus or minus 0.1% then the projected service cost would change by £815k. Similarly a change of plus or minus 1 year in life expectancy assumptions would change the projected service cost by £1,834k.
Arrears	As at 31 March 2016, the Council had a balance of corporate debtors of £0.255m. A review of balances suggested that an impairment allowance of £0.117m 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 £0.117m to be set aside as an allowance.
Business Rates Appeals Provision	Estimates has been made for the provision for refunding ratepayers who have successfully appealed against the rateable value of their properties. This includes the current and previous	There is uncertainty and risk surrounding the calculation of the provision as future events may affect

	financial years. The estimate is based on those ratepayers who have appealed.	the amount required to settle an obligation.
Fair Value Measurements	<p>When the fair values of financial assets and financial liabilities cannot be measured based on quoted process in active markets (i.e. Level 1 inputs) the fair value is measured using similar assets or liabilities in active markets or the discounted cash flow (DCF) model. Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgment is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties the Council's internal valuation officer and for financial assets and liabilities the Council uses external treasury management advisers).</p>	<p>The Council uses the discounted cash flow (DCF) model to measure the fair value of its investment properties and financial assets.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels, (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets).</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.</p>

5 Material Items of Income and Expense

Included within the Comprehensive Income and Expenditure Statement there are items of income and expenditure that are considered to be material to the Council in carrying out its duties and these are as follows:

Housing Benefit Payments and Subsidy

The Council incurs a significant proportion of its spend on benefit payments, which is funded predominantly by Government grant. Housing Benefit and subsidy payments are included within Other Housing Services on the face of the Comprehensive Income and Expenditure Statement and payments amounted to £13.291m in 2015/16 compared with £13.284m in 2014/15. Housing Benefit subsidy amounted to (£13.173m) in 2015/16 compared with (£13.076m) in 2014/15.

6 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the S151 officer on 27 June 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 as 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 financial statements and notes have not been adjusted for the following events which took place after 31 March 2016. As they provide information that is relevant to an understanding of the Council's financial position but do not relate to conditions at that date.

Following a geophysical report commissioned by the Council it became apparent that significant works were required to the cliffs above Quay Street, Minehead to stabilise the cliff face. A programme of remedial works has been put in place to address this issue.

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.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2015/16

General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
£000	£000	£000

Adjustments to the Revenue Resources

Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements

Pension costs (transferred to or from the Pensions Reserve)	207	0	0
Council Tax and NNDR (transfers to or from the Collection Fund)	573	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	4,034	0	0
Total Adjustment to Revenue Resources	4,814	0	0

Adjustment between Revenue and Capital Resources

Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,052)	2,056	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	0	(143)	0
Capital expenditure financed from revenue balances	(52)	0	0
Total Adjustments between Revenue and Capital Resources	(2,104)	1,913	0

Adjustments to Capital Resources

Use of the Capital Receipts reserve to finance capital expenditure	0	(578)	0
Application of capital grants to finance capital expenditure	(1,435)	0	240
Total Adjustments to Capital Resources	(1,435)	(578)	240

Total Adjustments

1,275	1,335	240
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2014/15 Comparative Year

General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
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Adjustments to the Revenue Resources

Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements

Pension costs (transferred to or from the Pensions Reserve)	7,129	0	0
Council Tax and NNDR (transfers to or from the Collection Fund)	2,442	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	4,771	0	0
Total Adjustment to Revenue Resources	14,342	0	0

Adjustment between Revenue and Capital Resources

Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,050)	2,050	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	(200)	(1,800)	0
Total Adjustments between Revenue and Capital Resources	(2,250)	250	0

Adjustments to Capital Resources

Use of the Capital Receipts reserve to finance capital expenditure	0	(141)	0
Application of capital grants to finance capital expenditure	(793)	0	78
Total Adjustments to Capital Resources	(793)	(141)	78

Total Adjustments

11,299	109	78
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8 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund 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.

Earmarked Reserves	Balance as at 31/03/2014 £000	Transfers Out £000	Transfers In £000	as at 31/03/2015 £000	Transfers Out £000	Transfers In £000	Balance as at 31/03/2016 £000
Business Rates Smoothing	270	0	2,660	2,930	(150)	609	3,389
Joint Management Project	395	(241)	122	276	(40)	66	302
Asset Maintenance & Compliance	0	0	0	0	0	122	122
Area Based Grant	114	(29)	0	85	(85)	0	0
Revenues and Benefits Reserve	63	(16)	33	80	(8)	18	90
Planning Policy Reserve	0	0	62	62	(41)	0	21
Sustainability Reserve	58	0	0	58	(40)	50	68
Hinkley Corporate Cost	0	0	50	50	(50)	0	0
Homelessness Prevention	66	(22)	0	44	3	0	47
Seaside Towns Reserve	20	(20)	0	0	0	0	0
New Homes Bonus Reserve	114	(114)	0	0	0	0	0
Other Earmarked Reserves	276	(164)	204	316	(165)	180	331
Total	1,376	(606)	3,131	3,901	(576)	1,045	4,370

Business Rates Smoothing Reserve: The business rates funding system results in volatility in the Collection Fund balance, which the Council will need to fund in subsequent years. The Council sets aside funds in this smoothing reserve to avoid large spikes in the Revenue Budget. The impact of the Hinkley B refund creates a large deficit, and the Council has set aside £3.389m to fund deficit repayments in 2016/17 and 2017/18.

Joint Management Project: This reserve represents funds set aside to help fund the Council's share of the costs of implementing the Joint Management and Shared Services arrangements for West Somerset and Taunton Deane Borough Council. The current balance of £0.302m is needed to fund ICT and service transformation costs in the next 1-2 years.

Planning Policy Reserve: Monies have been set aside to be drawn down in 2016/17 to cover additional costs arising and relating to the West Somerset Local Plan preparation through to examination and beyond to adoption.

Sustainability Reserve: Earmarked for initiatives that have a positive impact upon the long term sustainability of the Council.

Homelessness Prevention: Homelessness prevention grant received as part of Revenue Support Grant, therefore appropriate sum has been earmarked in 2015/16 along with the remainder of the Mortgage Rescue Grant.

9 Other Operating Expenditure

2014/15 £000	2015/16 £000
899 Parish Council precepts	871
3 Levies	3
464 (Gains)/Losses on the disposal of non current assets	(624)
1,366 Total	250

10 Financing and Investment Income and Expenditure

2014/15 £000	2015/16 £000
17 Interest payable and similar charges	6
658 Net interest on the defined liability (asset)	542
(14) Interest receivable and similar income	(24)
Income and Expenditure in relation to investment properties and changes in 36 their fair value	(73)
(84) Other investment income	(83)
613 Total	368

11 Taxation and Non Specific Grant Income

2014/15 £000	2015/16 £000
(2,676) Council tax income	(2,781)
(1,002) Non domestic rates	(1,233)
(1,725) Non-ringfenced government grants	(1,455)
(724) Capital grants and contributions	(1,435)
(6,127) Total	(6,904)

12 Property, Plant and Equipment

Movement in 2015/16	Land and Buildings £000	Vehicles, Plant and Equipment £000	Infra-structure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Cost or Valuation						
At 1 April 2015	10,033	3,085	6,938	85	523	20,664
Additions	(3)	177	14	0	0	188
Revaluation increases / (decreases) recognised in the Revaluation reserve	(1,186)	0	0	0	4	(1,182)
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(909)	0	(35)	0		(944)
Derecognition - Disposals	0	0	0	(30)	0	(30)
At 31 March 2016	7,935	3,262	6,917	55	527	18,696
Accumulated Depreciation and Impairment						
At 1 April 2015	(219)	(2,952)	(3,741)	0	0	(6,912)
Depreciation charge	(128)	(80)	(187)	0	0	(395)
Depreciation written out to the Revaluation Reserve	92					92
At 31 March 2016	(255)	(3,032)	(3,928)	0	0	(7,215)
Net Book Value						
As at 31 March 2016	7,680	230	2,989	55	527	11,481
As at 31 March 2015	9,815	133	3,197	85	523	13,753

Comparative Movement 2014/15	Land and Buildings £000	Vehicles, Plant and Equipment £000	Infra- structure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Cost or Valuation						
At 1 April 2014	10,272	3,015	6,916	85	523	20,811
Additions	0	94	22	0	0	116
Revaluation increases / (decreases) recognised in the Revaluation reserve	(43)	0	0	0	0	(43)
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(25)	(24)	0	0	0	(49)
Derecognition - Disposals	(171)	0	0	0	0	(171)
At 31 March 2015	10,033	3,085	6,938	85	523	20,664
Accumulated Depreciation and Impairment						
At 1 April 2014	(31)	(2,866)	(3,552)	0	0	(6,449)
Depreciation charge	(188)	(86)	(189)	0	0	(463)
At 31 March 2015	(219)	(2,952)	(3,741)	0	0	(6,912)
Net Book Value						
As at 31 March 2015	9,815	133	3,197	85	523	13,753
As at 31 March 2014	10,241	149	3,364	85	523	14,362

Depreciation

Depreciation is calculated on the following bases:

- **Buildings** – straight-line allocation over the life of the property as estimated by the Valuer. The useful economic lives of the assets held as operational buildings, as determined by the Valuer, range from between 1 and 60 years.
- **Vehicles, plant and equipment** – straight-line allocation, based on the type of asset class in the balance sheet, (vehicles 5-15 years, plant 10 years and equipment 5 years).
- **Infrastructure** – straight-line allocation over 25 years.

Capital Commitments

There are currently no material contractual commitments in respect of capital expenditure.

Revaluations

The Council carries out a programme that ensures that all Property, Plant and Equipment is measured at fair value with the latest revaluation exercise being carried out as at 1 April 2015. All valuations are carried out by qualified staff within the shared Asset Management and Property team. Valuations of land and buildings were carried out in accordance with 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 current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

	Land and Buildings £000	Vehicles Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Valued at Historic Cost	0	3,262	6,917	55	527	10,761
Valued at:						
2015/16	2,765	0	0	0	0	2,765
2014/15	0	0	0	0	0	0
2013/14	5,056	0	0	0	0	5,056
2012/13	6	0	0	0	0	6
2011/12	0	0	0	0	0	0
2010/11	108	0	0	0	0	108
Total	7,935	3,262	6,917	55	527	18,696

13 Investment Properties

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

2014/15 £000		2015/16 £000
92	Rental income from investment property	89
92	Net gain/(loss)	89

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

Movement in fair value of investment properties		
2014/15 £000		2015/16 £000
3,075	Balance at start of the year	2,733
	<u>Additions:</u>	
44	Purchases	0
(350)	Disposals	(1,110)
(36)	Net gains/losses from fair value adjustments	73
2,733	Balance at end of the year	1,696

Fair Value Measurement of Investment Property

Details of the Council's Investment Properties and Information about the Fair Value Hierarchy are as follows:

2014/15 £000	Significant Unobservable Inputs (Level 3)	2015/16 £000
623	Commercial Buildings	642
2,110	Commercial Land	1,054
2,733	Investment Property	1,696

Significant Unobservable Inputs

The commercial land and buildings located in the Council's area are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. The approach has been developed using the Council's own data requiring it to factor in assumptions such as the duration and timing of cash flows and outflows, rent growth, occupancy levels, bad debt levels, maintenance costs etc.

The Council's commercial land and buildings are, therefore, categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable puts to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would have used different assumptions).

Highest and Best Use of Investment Properties

In estimating the fair value of the Council's Investment Properties the highest and best use of the properties is their current use.

Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

14 Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased software licences only.

All software is given a finite useful life based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

- Total (Finance System) has been assigned a useful economic life of 5 years.
- Civica (Revenues and Benefits System) has been assigned a useful life of 5 years.

The carrying amount of intangible assets is amortised on a straight line basis.

The movement on intangible assets during the year is as follows:

	2014/15		2015/16	
	Other Assets	Total	Other Assets	Total
	£000	£000	£000	£000
<u>Balance at start of year:</u>				
Gross carrying amount	63	63	63	63
Accumulated amortisation	(12)	(12)	(25)	(25)
Net carrying amount at start of year	51	51	38	38
<u>Additions:</u>				
Purchases	0	0	75	75
Amortisation for the period	(13)	(13)	(36)	(36)
Net carrying amount at end of year	(38)	(38)	77	77
<u>Comprising:</u>				
Gross carrying amounts	63	63	138	138
Accumulated amortisation	(25)	(25)	(61)	(61)
	38	38	77	77

15 Financial Instruments

Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's non-derivative financial liabilities held during the year are measured at amortized cost and comprised:

- finance leases (detailed in note 39)
- trade payables for goods and services received

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following classifications:

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash and cash equivalents
- bank current account with National Westminster Bank
- loans to other local authorities
- trade receivables for goods and services delivered

Available-for-sale financial assets (those that are quoted in an active market) comprising:

- money market funds
- covered bonds issued by banks and building societies

Categories of Financial Instruments

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

	Long Term		Current	
	31 Mar 2015 £000	31 Mar 2016 £000	31 Mar 2015 £000	31 Mar 2016 £000
<u>Investments</u>				
Loans and receivables	0	0	11,651	9,496
Available-for-sale financial assets		2,997	0	0
Total investments	0	2,997	11,651	9,496
<u>Debtors</u>				
Loans and receivables	0	0	1,683	156
Total included in debtors	0	0	1,683	156
<u>Borrowings</u>				
Financial liabilities at amortised cost	0		1,001	0
Total included in borrowings	0	0	1,001	0
<u>Creditors</u>				
Financial liabilities at amortised cost	0		10,831	10,731
Total creditors	0	0	10,831	10,731

Income Expense 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:

Income, Expense, Gains and Losses	Liabilities measured at amortised cost	Loans and Receivables	Available-for- sale Assets	Total
2015/16	£000	£000	£000	£000
Interest Expense	6	0	0	6
Interest payable and similar charges (note 10)	6	0	0	6
Interest Income	0	(24)	0	(24)
Interest receivable and similar (note 10)	0	(24)		(24)
Surplus on revaluation of available-for- sale financial assets			(12)	(12)
Net gain/loss for the year	6	(24)	(12)	(30)

Fair Values of Financial Assets

Some of the Council's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Fair values are shown in the tables below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

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
<u>Available for sale</u>				
Covered Bonds Issued by UK and Overseas Banks and Building	Level 1	Unadjusted quoted prices in active markets for identical shares	0	2,997
<u>Loans and Receivables</u>				
Fixed Term Deposits with English and Welsh Local Authorities	Level 2	Market interest rates for instruments of similar credit quality	0	6,014
			0	9,011

Changes in the Valuation Technique

The covered bonds have been valued at fair value using the above valuation technique for the first time at 31 March 2016. Prior to that they were valued at amortised cost as the difference was not material.

16 Assets Held for Sale

	Current	
	2014/15 £000	2015/16 £000
Balance outstanding at start of the year	3,787	1,694
Assets newly classified as held for sale:		
- Property, Plant and Equipment	0	339
- Investment Property	0	0
Revaluation losses	(144)	(48)
Revaluation gains	900	0
Impairment losses	(856)	(84)
Assets declassified as held for sale:		
Assets sold	(1,993)	(286)
Balance outstanding at year end	1,694	1,615

17 Short Term Debtors

31 March 2015 £000		31 March 2016 £000
1,657	Central Government bodies	3,095
74	Other local authorities	789
1,454	Other entities and individuals	1,544
(469)	Impairment allowance for doubtful debts	(498)
<u>2,716</u>	Total	<u>4,930</u>

18 Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

Included within the 'short-term deposits' figure in the table below is a balance of £3.157 (£3.360m as at 31 March 2015), which is being held by the Council on behalf of the Hinkley S106 agreement.

31 March 2015 £000		31 March 2016 £000
98	Cash held by the Council	94
893	Bank current accounts	203
5,410	Short-term deposits (call accounts)	3,657
(750)	Unpresented Cheques/BACS	(472)
<u>5,651</u>	Total	<u>3,482</u>

19 Short Term Creditors

31 March 2015 £000		31 March 2016 £000
(964)	Central Government bodies	(4,973)
(869)	Other local authorities	(369)
(11,415)	Other entities and individuals	(10,715)
<u>(13,248)</u>	Total	<u>(16,057)</u>

Long Term Creditors

31 March 2015 £000		31 March 2016 £000
(376)	Capital Grants Receipts In Advance	(861)
<u>(376)</u>	Total	<u>(861)</u>

20 Provisions

	NNDR Appeals £000	Land Charges £000	Severance Costs £000	Total £000
Balance as at 1 April 2014	(740)	0	(3)	(743)
Additional provisions made in 2014/15	(2,506)	0	0	(2,506)
Amounts used in 2014/15	68	0	0	68
Balance as at 1 April 2015	(3,178)	0	(3)	(3,181)
Additional provisions made in 2015/16	(460)	(25)	0	(485)
Amounts used in 2015/16	2,891	1	0	2,892
Unused amounts reversed in 2015/16	0	0	3	3
Balance as at 31 March 2016	(747)	(24)	0	(771)

Provision for NNDR Appeals

The Local Government Finance Act 2012 introduced changes to the accounting arrangements for Business Rates. These changes require the Council to put in a provision for appeals in respect of refunding ratepayers who have appealed the rateable value of their properties on the rating list. The Council has included a best estimate of its share of expenditure required to settle the present obligation within the collection fund.

Provision for Land Charges

This provision relates to a probable obligation to refund personal search fees in respect of land charges. Previously this has been treated as a contingent liability within the Council's accounts. However, the Council is now in receipt of further information which clarifies the sums due in respect of this liability and, therefore, it has been reclassified as a provision.

21 Usable Reserves

31 March 2015 £000		31 March 2016 £000
530	General Fund Balance	1,073
3,901	Earmarked Reserves	4,370
895	Capital Receipts Reserve	2,230
217	Capital Grants Unapplied	457
5,543	Total Usable Reserves	8,130

22 Unusable Reserves

31 March 2015 £000		Notes	31 March 2016 £000
6,045	Revaluation Reserve	23	4,846
0	Available-for-sale Financial Instruments Reserve	24	12
6,538	Capital Adjustment Account	25	4,531
(16,616)	Pensions Reserve	26	(15,560)
(2,337)	Collection Fund Adjustment Account	27	(2,910)
(6,370)	Total Unusable Reserves		(9,081)

23 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

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

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

2014/15 £000		2015/16 £000
6,710	Balance as at 1 April	6,045
1,224	Upward revaluation of assets	150
(365)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,286)
859	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	(1,136)
(63)	Difference between fair value depreciation and historical cost	(63)
(1,461)	Accumulated gains on assets sold or scrapped	0
(1,524)	Amount written off to the Capital Adjustment Account	(63)
6,045	Balance as at 31 March	4,846

24 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 £000		2015/16 £000
0	Balance as at 1 April	0
0	Upward revaluation of investments	14
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(2)
0	Balance as at 31 March	12

25 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 subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to historical basis.) The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent costs.

The Account also contains revaluation gains accumulated and losses on Investment Properties that have yet to be consumed by the Council and 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.

2014/15 £000	2015/16 £000
6,929 Balance as at 1 April	6,538
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(1,512) Charges for Depreciation and impairment of non current assets	(1,424)
0 Revaluation losses on Property, Plant and Equipment	0
(13) Amortisation of intangible assets	(36)
(696) Revenue expenditure funded from capital under statute	(1,220)
(2,514) Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,428)
(4,735)	(4,108)
1,524 Adjusting amounts written out of the Revaluation Reserve	63
(3,211) Net written out amount of the cost of non current assets consumed in the year	(4,045)
<u>Capital financing applied in the year:</u>	
1,941 Use of the Capital Receipts Reserve to finance new capital	577
708 Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital	1,184
0 Direct Revenue Financing	52
7 Capital Grant Applied	9
200 Statutory provision for the financing of capital investment charged against the General Fund balances	143
2,856 Capital expenditure charged against the General Fund	1,965
(36) Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Account	73
6,538 Balance as at 31 March	4,531

26 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 employers' contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension 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		2015/16 £000
(17,136)	Balance as at 1 April	(16,616)
7,723	Remeasurement of the net defined benefit liability/(assets)	1,263
	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	
(7,854)		(551)
	Employer's pension contributions and direct payments to pensioners payable in the year	
651		344
<u>(16,616)</u>	Balance as at 31 March	<u>(15,560)</u>

27 Collection Fund Adjustment Account

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

2014/15 £000		2015/16 £000
105	Balance as at 1 April	(2,337)
	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	
(2,442)		(573)
<u>(2,337)</u>	Balance as at 31 March	<u>(2,910)</u>

28 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 be neutralised by transfer to or from the Account.

2014/15 £000		2015/16 £000
(74)	Balance as at 1st April	0
	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.	
74		0
<u>0</u>	Balance as at 31st March	<u>0</u>

During 2014/15 all staff originally employed by West Somerset Council were transferred to be employed by Taunton Deane Borough Council. Therefore the accumulated absences account is no longer applicable to West Somerset Council as at 31 March 2016.

29 Cash Flow – Operating Activities

The cash flows for operating activities include the following items:

2014/15 £000		2015/16 £000
(14)	Interest Received	(24)
17	Interest Paid	6
3		(18)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2014/15 £000		2015/16 £000
463	Depreciation	395
13	Amortisation	36
1,049	Impairment and downward valuations	1,027
36	Revaluation of Investment Properties	(73)
5,401	(Decrease)/Increase in creditors	3,860
(352)	(Increase)/Decrease in debtors	(2,211)
2,514	Carrying Value of Non Current Assets Disposed	1,426
7,854	Movement in Pension Liability	551
(651)	Pension Payable for year	(344)
2,438	(Decrease)/Increase in Provisions	(2,410)
109	(Decrease)/Increase in Capital RIA	485
1	Other Movements	4
18,875		2,746

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2014/15 £000		2015/16 £000
(2,050)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(2,052)
(2,050)		(2,052)

30 Cash Flow Statement – Investing Activities

The cash flow for investing activities includes the following items:

2014/15 £000		2015/16 £000
(141)	Purchase of Property, Plant and Equipment, Investment Property and intangible assets	(652)
(6,000)	Purchase of Short Term & Long Term Investments	(2,999)
2,050	Proceeds from the sale of property, plant and equipment	2,052
(4,091)	Net cash flows from investing activities	(1,599)

31 Cash Flow Statement – Financing Activities

2014/15 £000	2015/16 £000
0	(1,001)
0	(1,001)

32 Amounts Reported for Resource Allocation Decisions

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 services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure, whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- Expenditure on some support services is budgeted for centrally and not charged to services

The income and expenditure of the Council's principal services recorded in the budget reports for the year is as follows:

Income and Expenditure 2015/16	Assistant Chief Executive £000	Corporate Services £000	Resources £000	Operational Delivery £000	Housing and Community £000	Property and Development £000	Planning £000	Business Development £000	Nuclear Programme £000	Total £000
Fees, charges and other service income	(245)	(1,413)	(646)	(1,125)	(229)	(325)	(238)	(224)	(1,394)	(5,839)
Interest and investment income	0	0	(24)	0	0	0	0	0	0	(24)
Government grants	(11)	0	(13,396)	0	0	0	0	0	0	(13,407)
Total Income	(256)	(1,413)	(14,066)	(1,125)	(229)	(325)	(238)	(224)	(1,394)	(19,270)
Employee expenses	0	0	0	0	0	0	0	0	0	0
Other service expenses	750	1,817	14,250	3,286	627	550	575	441	1,273	23,569
Interest payments	0	0	6	0	0	0	0	0	0	6
Total Expenditure	750	1,817	14,256	3,286	627	550	575	441	1,273	23,575
Net Expenditure	494	404	190	2,161	398	225	337	217	(121)	4,305

Income and Expenditure 2014/15	Assistant Chief Executive £000	Corporate Services £000	Resources £000	Operational Delivery £000	Housing and Community £000	Property and Development £000	Planning £000	Business Development £000	Nuclear Programme £000	Total £000
Fees, charges and other service income	(1)	(375)	(859)	(853)	(40)	(261)	(313)	(143)	(766)	(3,611)
Interest and investment income	0	0	(14)	0	0	0	0	0	0	(14)
Government grants	(26)	0	(13,282)	0	0	0	0	(13)	0	(13,321)
Total Income	(27)	(375)	(14,155)	(853)	(40)	(261)	(313)	(156)	(766)	(16,946)
Employee expenses	50	758	267	395	166	49	56	46	185	1,972
Other service	222	1,298	14,213	2,349	280	201	392	163	515	19,633
Interest payments	0	0	218	0	0	0	0	0	0	218
Total Expenditure	272	2,056	14,698	2,744	446	250	448	209	700	21,823
Net Expenditure	245	1,681	543	1,891	406	(11)	135	53	(66)	4,877

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

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

2014/15 £000		2015/16 £000
4,877	Net expenditure in the analysis	4,305
8,507	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	2,244
13,384	Cost of Services in Comprehensive Income and Expenditure Statement	6,549

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of services income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

	Analysis	Amounts not reported to management for decision making	Amount not included in the CIES	Allocation of Recharges	Net Expenditure	Corporate Amounts	Cost of services
2015/16	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(5,839)	(367)	410	0	(5,796)	(1,435)	(7,231)
Interest and investment income	(24)	0	24	0	0	(107)	(107)
Income from council tax	0	0	0	0	0	(2,781)	(2,781)
Government grants	(13,407)	0	0	0	(13,407)	(2,688)	(16,095)
Total Income	(19,270)	(367)	434	0	(19,203)	(7,011)	(26,214)
Employee expenses	0	0	0	0	0	0	0
Other service expenses	23,569	864	(57)	0	24,376	545	24,921
Support Service recharges	0	0	0	0	0	0	0
Depreciation, amortisation and impairment	0	1,376	0	0	1,376	(73)	1,303
Interest Payments	6	0	(6)	0	0	6	6
Precepts and Levies	0	0	0	0	0	871	871
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	(624)	(624)
Total Expenditure	23,575	2,240	(63)	0	25,752	725	26,477
(Surplus) or Deficit on the Provision of Services	4,305	1,873	371	0	6,549	(6,286)	263

	Analysis	Amounts not reported to management for decision making	Amount not included in the CIES	Allocation of Recharges	Net Expenditure	Corporate Amounts	Cost of services
2014/15	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(3,611)	(626)	658	(3,318)	(6,897)	(723)	(7,620)
Interest and investment income	(14)		14		0	(99)	(99)
Income from council tax	0				0	(2,676)	(2,676)
Government grants	(13,321)				(13,321)	(2,727)	(16,048)
Total Income	(16,946)	(626)	672	(3,318)	(20,218)	(6,225)	(26,443)
Employee expenses	1,972	6,461			8,433	658	9,091
Other service expenses	19,633	692	3		20,328	3	20,331
Support Service recharges	0			3,318	3,318		3,318
Depreciation, amortisation and impairment	0	1,523			1,523	36	1,559
Interest Payments	218		(218)		0	17	17
Precepts & Levies	0				0	899	899
Gain or Loss on Disposal of Fixed Assets	0				0	464	464
Total Expenditure	21,823	8,676	(215)	3,318	33,602	2,077	35,679
(Surplus) or Deficit on the Provision of Services	4,877	8,050	457	0	13,384	(4,148)	9,236

33 Officers Remuneration

During 2013/14 West Somerset District Council approved plans to share a joint management team with Taunton Deane Borough Council and the below represents the full cost of remuneration paid to employees working jointly for both councils. With the exception of specific senior employees (details of whom are set out the tables below) the split of remuneration was 20:80 to West Somerset: Taunton Deane Borough Council. The remuneration paid to the Council's senior employees is as follows:

The table below is an extract from the accounts of Taunton Deane Borough Council and represent the full cost of remuneration for the year 2015/16. All staff are employees of Taunton Deane Borough Council and are included for information purposes only.

1. The Chief Executive opted out of the pension scheme from 2012/13 to 2014/15.
2. Assistant Director G was appointed on 1 April 2014 and Assistant Director H was appointed on 6 May 2014, Assistant Director H left on 10 July 2015.
3. The above posts were shared with Taunton Deane Borough Council throughout the two years 2014/15 and 2015/16.
4. The split of remuneration for Director D is 10:90, West Somerset Council: Taunton Deane Borough Council
5. The split of remuneration for the Chief Executive, the Assistant Chief Executive and Monitoring Officer and Assistant Director F is 50:50 West Somerset Council: Taunton Deane Borough Council
6. All other posts are split 20:80 West Somerset Council: Taunton Deane Borough Council

Post holder information (Post Title)		Salary, Fees and Allowances	Expenses Allowances	Compensation for Loss of Office	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration	Annualised Salary
		£	£	£	£	£	£	£
Chief Executive ¹	2015/16	110,000	1,279	0	111,279	20,240	131,519	110,000
	2014/15	120,000	1,459	0	121,459	0	121,459	120,000
Director for Operations & Deputy Chief Executive	2015/16	86,700	1,247	0	87,947	11,704	99,651	86,700
	2014/15	85,425	1,581	0	87,006	11,532	98,538	85,425
Director for Growth & Development	2015/16	81,600	1,274	0	82,874	11,016	93,890	81,600
	2014/15	80,400	1,354	0	81,754	10,854	92,608	80,400
Director for Housing & Communities	2015/16	81,600	0	0	81,600	11,016	92,616	81,600
	2014/15	80,400	0	0	80,400	10,854	91,254	80,400
Assistant Chief Executive & Monitoring Officer	2015/16	64,770	0	0	64,770	8,744	73,514	64,770
	2014/15	63,818	6	0	63,824	8,615	72,439	63,818
Assistant Director - Housing & Community Development	2015/16	61,200	0	0	61,200	8,262	69,462	61,200
	2014/15	60,300	12	0	60,312	8,141	68,453	60,300
Assistant Director - Planning & Environment	2015/16	61,200	1,354	0	62,554	8,262	70,816	61,200
	2014/15	60,300	1,659	0	61,959	8,141	70,100	60,300
Assistant Director - Corporate Services	2015/16	61,200	1,188	0	62,388	8,262	70,650	61,200
	2014/15	60,300	947	0	61,247	8,141	69,388	60,300
Assistant Director - Operational Delivery	2015/16	61,341	0	0	61,341	8,281	69,622	61,200
	2014/15	60,441	900	0	61,341	8,296	69,637	60,441
Assistant Director - Business Development	2015/16	61,200	0	0	61,200	8,262	69,462	61,200
	2014/15	60,300	0	0	60,300	8,141	68,441	60,300
Assistant Director - Resources	2015/16	61,200	0	0	61,200	8,262	69,462	61,200
	2014/15	60,300	259	0	60,559	8,141	68,700	60,300
Assistant Director - Energy & Infrastructure ²	2015/16	61,200	0	0	61,200	8,262	69,462	61,200
	2014/15	46,741	798	0	47,539	6,310	53,849	46,741
Assistant Director - Property & Development ²	2015/16	20,476	0	45,900	66,376	2,288	68,664	61,200
	2014/15	54,494	4,734	0	59,228	7,357	66,585	60,300

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2014/15 Number of employees Total	2015/16 Number of employees Total
£50,000 - £54,999	1	4
£55,000 - £59,999	4	0
£60,000 - £64,999	2	2
£65,000 - £69,999	3	0
£70,000 - £74,999	1	0
£75,000 - £79,999	3	0
£105,000 - £109,999	1	0

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

Exit Package Cost Band (including special payments)	Number Of Other Departures Agreed		Number Of Compulsory Redundancies		Total Number Of Exit Packages By Cost Band		Total Cost Of Exit Packages In Each Band (£)	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£0 - £20,000	0	0	0	1	0	1	0	32,830
£20,001 - £40,000	0	1	9	0	9	1	308,870	45,900
£40,001 - £60,000	0	0	6	0	6	0	312,780	0
£60,001 - £80,000	0	0	5	0	5	0	319,060	0
£80,001 - £100,000	0	0	3	0	3	0	338,860	0
Total included in the CIES	0	1	23	1	23	2	1,279,570	78,730

34 Members Allowances

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

2014/15 £000	2015/16 £000
77 Basic Allowance	74
64 Special Responsibility Allowance	61
12 Expenses	12
153 Allowances paid in the year	147

35 External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts:

2014/15 £000		2015/16 £000
	56 Fees payable to external auditors with regards to external audit services carried out by the appointed auditor for the year	43
	12 Fees paid to external auditors for the certification of grant claims and returns for the year	7
68 Total		50

36 Grant Income

Contributions and donations to the Comprehensive Income and Expenditure Statement	2014/15 £000	2015/16 £000
<u>Credited to Taxation and Non Specific Grant Income</u>		
Revenue Support Grant	(1,225)	(880)
EDF - Hinkley C S106 Contribution - Capital Grant	(348)	(874)
New Homes Bonus	(447)	(575)
Section 31 - NNDR	(353)	(423)
Disabled Facilities Grant	(184)	(241)
Section 106 Agreement	(193)	(227)
Steam Coast Trail	0	(54)
Cuckoo Meadow	0	(38)
Rural LA Transitional Funding	(5)	0
Community Right to Challenge	(9)	0
Asset of Community Value	(8)	0
Council Tax Freeze Grant	(21)	0
Business Rates New Burden Grant	(10)	0
Total	(2,803)	(3,312)
<u>Credited to Services</u>		
DWP - Housing Benefit Subsidy	(13,076)	(13,173)
EDF - Hinkley C S106 Contribution	(863)	(1,458)
DSS - Benefit Administration Grant	(248)	(174)
Coast Communities Team	0	(114)
DHP Grant	(59)	(109)
NNDR Cost of Collection Grant	(75)	(75)
Steam Coast Trail	0	(46)
DCLG Benefit Admin Grant	(60)	(44)
Rent Rebate Grant	(39)	(38)
DCLG Land Charge Grant	0	(32)
DWP - Universal Credit	0	(25)
Wellbeing Project	0	(20)
COOL Tourism Project	(31)	(19)
Cuckoo Meadow	0	(18)
National Grid PPA	(24)	(16)
Individual Electoral Registration	(26)	(11)
Groundwork Grant	0	(10)
DCLG - Transparency Code Set Up	(6)	(8)
Town & Parish Council Elections	0	(7)
CCTV Grant	(59)	(5)
DEFRA - Repair & Renewal Grant	(43)	(1)
Other Grants and Contributions	(38)	(21)
Total	(14,647)	(15,424)

37 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.

Central Government

Central Government has significant influence 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 and housing benefits).

Members

Members of the Council have direct control over the Council's financial and operating policies. Members are required to observe the Code of Conduct for Councillors, register financial interests in the Council's Register maintained under S81(1) of the Local Government Act 2000.

There are no material related party transactions with members to disclose for 2015/16.

Officers

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The Council had no material related party transactions with officers during 2015/16.

During 2015/16 no senior officers of the Council declared any material pecuniary interest in any works, services or grants commissioned or awarded by the Council.

The Council is a member of the South West Audit Partnership Limited, a company limited by guarantee which provides internal audit services to its thirteen local authority members (including this Council). The Assistant Directors Resources and the Assistant Director Corporate Services are Directors of South West Audit Partnership Limited.

Grant payments, other than precepts were also made to parish councils where district council members are also parish council members. In all instances, the grants were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. The total paid to Parish Councils during 2015/16 other than precept payments amounted to £0.036m.

Related party transactions with the precepting bodies are disclosed on page 73 within the Collection Fund Statement and with the pension fund which is on pages 66-70, note 42 respectively within the Statement of Accounts. The Council had no significant interest in companies.

Amounts due to or from those parties able to control or influence the Council or to be controlled / influenced by the Council during 2015/16 are as follows:

2014/15 £000	2015/16 £000
(964) Amounts due to Central Government	(4,973)
(869) Amounts due to other Local Authorities	(369)
1,657 Amounts due from Central Government	3,095
74 Amounts due from other Local Authorities	789
(102)	(1,458)

38 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	2015/16 £000
7,633	5,633
Opening Capital Financing Requirement	
<u>Capital Investment</u>	
116 Property, Plant and Equipment	188
44 Investment Properties	0
0 Intangible Assets	77
0 Assets Held for Sale	339
696 Revenue Expenditure Funded from Capital under Statute	1,219
<u>Sources of finance</u>	
(141) Capital receipts	(577)
0 Minimum Revenue Provision Set Aside from Capital Receipts	(143)
(715) Government grants and other contributions	(1,194)
<u>Sums set aside from revenue</u>	
Direct revenue contributions	(52)
(2,000) MRP	0
5,633	5,490
Closing Capital Financing Requirement	
<u>Explanation of movements in year</u>	
Increase / (Decrease) in underlying need to borrowing (unsupported by Government	
(2,000) financial assistance)	(143)
(2,000)	(143)
Increase/(decrease) in Capital Financing Requirement	

39 Leases

Council as Lessee

Finance Leases

The Council holds two assets under finance leases. The assets held under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2015 £000	31 March 2016 £000
Land and Buildings	39	33
Total	39	33

The rents received in respect of the above assets are of a peppercorn nature and therefore no liability has been recognised.

Operating Leases

The Council has entered into various operating leases. The future minimum lease payments due under non-cancellable leases in future years are as follows:

	2014/15 £000	2015/16 £000
Not later than one year	75	75
Later than one year and not later than five years	203	153
Later than five years	86	62
Total	<u>364</u>	<u>290</u>

The expenditure charged to the Comprehensive Income and Expenditure Statement during 2015/16 in relation to these leases was £0.084m.

Council as Lessor

Finance Leases

Shutgate Meadow Scheme, Williton

No debtors have been included in respect of the Shutgate Meadow scheme due to the fact that the rentals paid are of a peppercorn nature. The Council's interest in the said scheme comprises the Freehold of four purpose-built one-bedroom flats and associated gardens, access and car parking provision. The four flats are all currently owner-occupied on a Leasehold basis and the Council remains liable for the Buildings Insurance on the block (for which it re-charges the owners of each flat). When the properties are sold, they are done so on a private basis by the owners and are not subject to re-purchase by the Council. Due to planning restrictions they can only be sold in line with the Council's Affordable Home Ownership Policy (i.e. at a discount of 75% of Open Market Value and to purchasers with a local connection and a gross household income not exceeding £35,000 per annum).

Clanville Housing Scheme, Minehead

No debtors have been included in respect of the Clanville Grange scheme due to the fact that the rentals paid are of a peppercorn nature. In July 2010 the Council adopted a revised Affordable Home Ownership Policy that means in future it will continue to be required to re-purchase (at a discounted price) when owners wish to sell the properties but a Deed of Pre-emption enables the Council to recoup 30% of the uplift in value - or bear 30% of any loss in value.

Land at Vulcan Road, Minehead

No debtor has been included in respect of the 999-year lease of land at Vulcan Road, Minehead, due to the fact that the premium paid to West Somerset District Council during 2009/10 in recognition of the disposal, extinguished the debtor liability immediately.

Operating Leases

The Council leases out various properties under operating leases for the following purposes:

- For the provision of community services, such as tourism services
- For economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments due to West Somerset District Council under non-cancellable leases in future years are as follows:

	2014/15 £000	2015/16 £000
Not later than one year	93	101
Later than one year and not later than five years	365	369
Later than five years	2,362	2,279
Total	<u>2,820</u>	<u>2,749</u>

40 Impairment Losses

During 2015/16 the Council recognised an impairment loss of £0.034m in relation to the cliffs over-looking Quay Street, Minehead due to significant remedial works required to render the site safe. (Note 6 provides further detail.)

41 Termination Benefits

The Council terminated the contracts of two employees in 2015/16, incurring liabilities of £0.079m (£1,280 in 2014/15) see note 33 for the number of exit packages and total cost per band. These officers were made redundant as part of the Council's rationalisation of services.

42 Defined Benefit Pension Schemes

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 them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered locally by Peninsula Pensions on behalf of the Somerset Pension Fund. 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.

Transactions relating Post-employment Benefits

The Council recognises 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 the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The 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:

Transactions Relating to Post Employment Benefits	2014/15 £000	2015/16 £000
<u>Comprehensive Income and Expenditure Statement</u>		
<u>Cost of Services</u>		
- Service costs	(2,551)	0
- Administration expenses	8	9
<u>Financing and Investment Income and Expenditure:</u>		
- Net interest on the defined liability	658	542
Total Post Employment Benefits charged to the Provision of Services	(1,885)	551
<u>Remeasurement of the net defined liability comprising:</u>		
- Return on assets (excluding the amount included in the net interest expense)	906	(281)
- Change in financial assumptions	(3,208)	1,646
- Experience (gain) / loss on defined benefit obligation	243	(102)
- Liabilities assumed / (extinguished) on settlements	9,782	0
Total Post Employment Benefit Charged to the Income and Expenditure Statement	7,723	1,263
<u>Movement in Reserves Statement</u>		
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(7,854)	(551)
<u>Actual amount charged against the General Fund balance for pensions in the year:</u>		
- Employers contributions payable to scheme	651	344
- Retirement benefits payable to pensioners		

Pension 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:

Pensions Assets and Liabilities Recognised in the Balance Sheet	2014/15 £000	2015/16 £000
Present value of the defined benefit obligation	(27,722)	(25,715)
Fair value of plan assets (bid value)	12,612	11,656
Deficit/(Surplus)	(15,110)	(14,059)
Present value of unfunded obligation	(1,506)	(1,501)
Net liability arising from defined benefit obligation	(16,616)	(15,560)

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

Reconciliation of Fair Value of the Scheme Assets	2014/15 £000	2015/16 £000
Opening balance as at 1st April	18,447	12,612
Interest on assets	596	399
Return on assets less interest	906	(281)
Other actuarial gains/(losses)	43	0
Administration expenses	(8)	(9)
Contributions by employer including unfunded	651	344
Contributions by scheme participants	90	0
Estimated benefits paid plus unfunded net of transfers in	(1,599)	(1,409)
Settlement prices received/(paid)	(6,514)	0
Closing balance as at 31st March	12,612	11,656

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

Reconciliation of present value of the scheme liabilities	Funded liabilities: Local Government Pension Scheme	
	2014/15 £000	2015/16 £000
Opening balances as at 1 April	(35,583)	(29,228)
Current service cost	(388)	0
Interest cost	(1,254)	(941)
Change in financial assumptions	(3,208)	1,646
Experience loss / (gain) on defined benefit obligation	243	(102)
Settlements	9,739	0
Estimated benefits paid net of transfers in	1,506	1,325
Past service costs, including curtailments	(286)	0
Contributions by scheme participants	(90)	0
Unfunded Pension Payments	93	84
Closing balance as at 31 March	(29,228)	(27,216)

Local Government Pension Scheme assets comprised:

LG Pension Scheme Assets	2014/15	2015/16
Equities	70%	68%
Gilts	7%	8%
Other bonds	10%	11%
Property	9%	11%
Cash	4%	2%
Total	100%	100%

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 the future years dependent on assumptions about mortality rates, salary levels etc.

The Peninsula Pensions administered pension fund liabilities have been estimated by Barnett Waddingham, an independent firm of actuaries, estimates for the 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:

Basis for Estimating Assets and Liabilities	2014/15	2015/16
Long-term expected rates of return on assets in the scheme:	13.0%	0.0%
Mortality assumptions:		
<u>Longevity at 65 for current pensioners</u>		
- Men	23.7	23.8
- Women	26.1	26.2
<u>Longevity at 65 for future pensioners</u>		
- Men	26.0	26.1
- Women	28.4	28.5
Rate of inflation - RPI	3.2%	3.0%
Rate of inflation - CPI	2.4%	2.1%
Rate of increase in salaries	4.2%	3.9%
Rate of increase in pensions	2.4%	2.1%
Rate for discounting scheme liabilities	3.3%	3.4%
Take up option to convert annual pension into retirement lump sum	10.0%	10.0%

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 project 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.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Peninsula Pensions have agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 15 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of national changes in the scheme under the Public Pensions Services Act 2013. Under the Act the Local Government Pension Scheme in England and Wales may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council expects to pay £0.310m in contributions to the scheme in 2016/17.

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	26,812	27,216	27,627
Projected service cost			
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	27,220	27,216	27,212
Projected service cost			
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	27,628	27,216	26,810
Projected service cost			
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	28,149	27,216	26,315
Projected service cost			

43 Contingent Liabilities

As at 31 March 2016 the Council had the following contingent liabilities:

Business Rates Retention – The total provision for current and backdated appeals stands at £1.868m (£7.946m 2014/15) of this the Council share is £0.747m (£3.178m 2014/15). There could be future appeals in respect of rates billed to date but there is no reasonable basis of estimating what this total could be.

Clanville Housing - The Council continues to maintain its adopted Low Cost Home Ownership Scheme in respect of Clanville Grange in Minehead. During 2015/16 the Council purchased two properties, 20 and 43 Clanville Grange for which it paid £0.206m. In January 2014 the Council adopted a revised Affordable Home Ownership Policy such that in future it will continue to be required to re-purchase (at a discounted price) when owners wish to sell the properties but when they are sold on, they will be sold with a 25% discount and with a restrictive Covenant rather than a Deed of Pre-emption. This means that there will be no ongoing liability to the Council. During 2015/16 the Council sold three properties in this way 7, 15 and 20 Clanville Grange for £0.298m after costs. As at 31 March 2016 the Council still owned number 43 Clanville Grange; it is sold subject to contract with an anticipated completion date early in 2016/17. Once sold this leaves six of the original eleven properties for which the Council has an on-going liability.

Municipal Mutual Insurance - In 1992/93 the Council's then insurer, Municipal Mutual Insurance Limited, ceased accepting new business and the Council was obliged to make new arrangements for insurance. A number of claims were outstanding at that time and, in common with many other local authorities, this Council joined in a scheme of arrangement to meet all outstanding claims. On 28 March 2012 the Supreme Court ruled that the insurer who was on risk at the time of an employee's exposure to asbestos was liable to pay compensation for the employee's mesothelioma. West Somerset Council is listed as Scheme Creditors party to the contingent Scheme of Arrangement sanctioned by the Court in January 1994. Municipal Mutual Insurance may therefore ask for West Somerset to pay a percentage of the paid out figure and may also ask for the same percentage figure as further claims are paid. It is not possible at this point in time to predict with any accuracy the potential contribution the Council may be required to pay.

Planning Fee Applications Guarantee - From 1 October 2013 any planning application which has taken longer than six months to determine, without an extension of time being in place, can be subject to the applicant requesting a fee refund. It is not possible to establish a reliable estimate for this liability as it is dependent on the planning applicant making a claim for a refund and there is no cut-off date of when a claim can be made.

South West Audit Partnership Limited - In March 2013, new governance arrangements were approved with the formation of a new company limited by guarantee to replace the previous Joint Committee. At its Full Council meeting on 27 February 2013, West Somerset District Council elected to become a Member of the Company – South West Audit Partnership Ltd – with effect from 1 April 2013.

Tribunal Claim – The Council has received a claim for unfair dismissal resulting from the creation of a shared services arrangement. Due to the on-going nature of the claim the Council has decided to recognise a contingent liability in respect of this claim.

44 Contingent Assets

Hinkley Point C - Of the £28.000m Section 106 agreement contributions in respect of Hinkley Point C site preparation works the largest part of this £174.000m has been paid to West Somerset Council in accordance with triggers linked to stages of the project set out within the agreement. EDF Energy commenced earthworks in May 2014, when Somerset Council received payments of £9.600m. A further £2.400m was paid in May 2015 and a final payment of £1.9m is due to be paid in May 2016.

All contributions have been paid on time and in full to date.

Any contributions which have been spent and/or distributed by the Council have been in accordance with the approval sought and received from Cabinet or Council following discussion at either the Councils internal Planning Obligations Group or the Planning Obligations Board which involves Sedgemoor District Council, Somerset County Council and EDF Energy. The governance and approval process is set out in the legal agreement.

The joint board has been established in accordance with the legal agreement to consider and make recommendations to West Somerset's Cabinet and Council about projects to be funded from around £10.000m of contributions relating to Community Impact Mitigation, Housing and Economic Development. This has so far resulted in funding being made available to a range of both public and community-led projects of around £2.400m. A further £1.800m has yet to be allocated to projects.

45 Nature and Extent of Risks Arising From Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit risk - the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

The 2015/16 Treasury Management Strategy which incorporated the prudential indicators was approved by Council on 18 March 2015 and is available on the Council website. The key issues within the 2015/16 strategy were:

- The Authorised Limit for 2015/16 was set at £10.000m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £7.700m. 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 were set at 100% and fully based on the Council's net debt.

The Finance Team implement these policies. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit risk

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

The risk is minimised through the Annual Investment Strategy which requires that deposits are not made with financial institutions unless they meet minimum credit criteria, as laid down by the credit agencies recommended by the Council's treasury advisors, Arlingclose. The Annual Investment Strategy also imposes a maximum sum to be invested with each financial institution.

The Council does not generally allow credit for its customers. The total Council debt due can be shown by the aged debt analysis as follows:

Aged Debt Analysis	31 March 2015	31 March 2016
Less than three months	80,406	179,253
Three to six months	30,385	30,082
Six months to one year	60,471	81,463
More than one year	586,433	550,207
Total	757,695	841,005

At the beginning of 2015/16 the provision for impairment of sundry debts (excluding council tax and business rates) stood at £0.397m. The Council has now made a provision for impairment of sundry debts of £0.404m in the 2015/16 accounts, which is an overall increase of £0.007m. The revised level of provision has been reviewed in light of the current economic conditions.

Liquidity risk

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

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the PWLB (Public Works Loan Board) 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.

Market risk

Interest rate risk

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be immaterial.

Price risk

The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Collection Fund

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 distribution to Local Authorities and the Government of council tax and non-domestic rates.

2014/15			2015/16		
Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
Income					
(12,194)	0	(12,194)	(8,762)	0	(8,762)
0	(19,902)	(19,902)	0	(20,233)	(20,233)
(12,194)	(19,902)	(32,096)	(8,762)	(20,233)	(28,995)
Expenditure					
<u>Apportionment of Previous Year Surplus:</u>					
150	0	150	(187)	0	(187)
27	238	265	(34)	363	329
0	39	39	0	60	60
3	17	20	(4)	27	23
120	46	166	(150)	70	(80)
300	340	640	(375)	520	145
<u>Precepts and Demands:</u>					
5,900	0	5,900	5,759	0	5,759
1,062	13,590	14,652	1,037	13,781	14,818
0	2,267	2,267	0	2,345	2,345
118	1,017	1,135	115	1,052	1,167
4,720	1,823	6,543	4,608	1,886	6,494
0	812	812	0	871	871
11,800	19,509	31,309	11,519	19,935	31,454
<u>Charges to the Collection Fund:</u>					
8	164	172	27	86	113
10	(65)	(55)	55	0	55
6,267	0	6,267	1,150	0	1,150
(170)	0	(170)	(7,229)	0	(7,229)
0	0	0	4,839	0	4,839
0	0	0	27	0	27
75	0	75	75	0	75
6,190	99	6,289	(1,056)	86	(970)
6,096	46	6,142	1,326	308	1,634
(83)	(535)	(618)	6,013	(489)	5,524
6,013	(489)	5,524	7,339	(181)	7,158
<u>Attributable to:</u>					
3,007	0	3,007	3,669	0	3,669
541	(338)	203	661	(126)	535
0	(58)	(58)	0	(21)	(21)
60	(26)	34	73	(9)	64
2,405	(67)	2,338	2,936	(25)	2,911
6,013	(489)	5,524	7,339	(181)	7,158

46 Income from Business Ratepayers

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate. The Local Government Act 2015 introduced a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. WSC pays 50% to Central Government, 9% to Somerset County Council, 1% to the Devon and Somerset Fire and Rescue Authority and retains 40% for itself.

The total non-domestic rateable value as at 31 March 2016 was £28,469,646 (31 March 2015 31,289,671). The standard national non-domestic multiplier for the year was £0.493 (2014/15 £0.482), the national domestic small business multiplier for the year was £0.480 (2014/15 £0.471).

47 Council Tax Base

The Council's tax base for 2015/16, i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply), converted to an equivalent number of Band D dwellings, was calculated as follows:

Band	Chargeable Dwellings	Conversion Factor	Band D Equivalent
A (Disabled)	6.2	5/9	3.4
A	1,738.7	6/9	1,159.1
B	2,698.7	7/9	2,099.0
C	2,932.9	8/9	2,607.0
D	2,810.2	9/9	2,810.2
E	1,599.9	11/9	1,955.4
F	1,156.6	13/9	1,670.6
G	615.9	15/9	1,026.5
H	43.5	18/9	87.0
	<u>13,602.5</u>		<u>13,414.8</u>

Glossary of Terms

Local Government, in common with many specialised activities, has developed over the years its own unique set of terms and phrases.

This glossary helps to identify some of those terms and phrases (more often than not abbreviated in common usage to initial letters only), which will be found in this statement.

Accruals

are one of the main accounting concepts and ensures that income and expenditure are shown in the accounting period that they are earned or incurred, not as money is received or paid.

Accumulated Absences Account

is the account that holds the differences between the amounts debited or credited to the Comprehensive Income and Expenditure Statement in accordance with the Code and the amounts debited and credited to the General Fund in accordance with the statutory regulations relating to accruals made for the cost of holiday entitlements earned by employees but not yet taken before the year end.

Apportionment

is the mechanism for allocating the cost of support services to front line and other services using appropriate bases to spread the cost fairly.

Asset

is something that West Somerset owns that has a monetary value. Assets are either 'current' or 'non-current'.

- Current assets are assets that will be used, or will cease to have material value, by the end of the next financial year (e.g. debtors)
- Non-current assets provide West Somerset benefits for a period of more than one year.

Assets Held for Sale

are assets where it is expected that the carrying amount is going to be recovered principally through a sale transaction rather than continued use.

Audit of Accounts

is an examination by an independent expert of an organisation's financial affairs to check that the relevant legal obligations and the codes of practice have been followed.

Balances

are the accumulated surplus of revenue income over expenditure.

Balance Sheet

is a financial statement summarising the Council's assets, liabilities and other balances at the end of each accounting period.

Budget

is a financial statement that expresses an organisation's service, delivery plans and capital programmes in monetary terms.

Capital Adjustment Account

is a reserve created from the balances on the Capital Financing Account and Fixed Asset Restatement Account as at 31 March 2007. This account will continue to record the consumption of historic cost over the life of the asset and Revenue Expenditure Funded from Capital under Statute over the period that the council benefits from the expenditure. The account will also record the resources set aside to finance capital expenditure.

Capital Charges

represent the cost to services for the use of non-current assets in the provision of their services; the charges reflect depreciation and impairment.

Capital Contributions/Grants

are monies received from external bodies towards the financing of capital expenditure on a particular service or scheme.

Capital Expenditure (Outlay)

is on the acquisition of a non-current asset that will be used to provide services beyond the current accounting period or expenditure that adds value to an existing non-current asset.

Capital Programme

is a financial summary of the capital schemes that West Somerset intends to carry out over a specified time period.

Capital Receipts

are the proceeds from the sale of capital assets; they are available to repay debt on existing assets and/or to finance new capital expenditure within rules set by the Government.

Carry Forwards

are unspent revenue budget approvals, which the district executive committee is able to transfer into the following financial year.

Cash Equivalents

are short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash Flow Statement

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

Central Government Grants

comprise three types:

- Grants paid by Central Government to aid local council services in general, as opposed to specific grants, which may only be used for a specific purpose. Revenue Support Grant (RSG) and New Homes Bonus. RSG makes up the difference between expenditure at the formula spending share and the amount, which would be collected in council tax for that level of expenditure and the amount of non-domestic rate redistributed. New Homes Bonus is to reward local authorities for improved delivery of housing and other planning outcomes as part of their strategic place shaping role and to provide more support to communities and local councils who are actively seeking to deliver new homes.
- Specific service grants – grants for services in which Central Government have a more direct involvement.
- Supplementary grants – grants for both capital and revenue

CIPFA

is the Chartered Institute of Public Finance and Accountancy.

Code

is the Code of Practice of Local Authority Accounting that is generally based upon those accounting principles that are incorporated within approved accounting standards, modified to reflect the statutory framework in which local authorities operate. The Code states which accounts should be published as part of the Statement of Accounts, and the information to be included in each account.

Collection Fund

are separate funds recording the expenditure and income relating to council tax, non-domestic rates and residual community charge.

Collection Fund Adjustment Account

The Collection Fund Adjustment Account represents the Council's share of the Collection Fund Surplus or Deficit.

Community Assets

are those assets held in perpetuity and which have no determinable useful life and there are often restrictions regarding their sale.

Comprehensive Income and Expenditure Statement (CIES)

consolidates all the gains and losses experienced by a council during the financial year.

Corporate and Democratic Core

comprises all activities, which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities is over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no appropriate basis for apportioning these costs to services.

Creditors

are amounts of money West Somerset owes to others for goods and services that they have supplied in the accounting period but not paid for.

Debtors

are amounts of money others owe to West Somerset for goods and services that they have received but have not paid for by the end of the accounting period.

Depreciation

is a charge made to the revenue account each year that reflects the reduction in the value of land, property, plant, ICT equipment and machinery used to deliver services.

Derecognition

is the term used for the removal of a financial instrument from the balance sheet. This will normally occur when the contractual rights to the cash flows arising from the instrument expire or are transferred.

Earmarked Revenue Reserves

are amounts set aside from revenue to meet particular spending needs, including funding capital projects.

Effective Interest Rate

is the rate of interest that will discount all the cash flows that will take place throughout the expected life of a financial instrument down to the fair value of the instrument calculated at initial measurement.

Employment Costs

are the salaries and wages etc., of staff including expenditure on training and the costs of redundancy.

Fair Value (Financial Instruments)

is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. If available, this will be a published price quotation in an active market; otherwise, alternative valuation techniques will be employed.

Fair Value (Tangible Assets)

is the price at which an asset could be exchanged in an arm's-length transaction less, where applicable, any grants receivable towards the purchase of use of that asset.

Fees and Charges

are the income raised by charging for the use of facilities or services.

Finance Leases

are those leases, which transfer substantially the benefits and risks of ownership of the asset that is being leased to the party who is leasing the asset.

Financial Instruments

are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another. In practice these include bank deposits, loans, investments, borrowings and other receivables or payables.

Financing Transactions

relate, in the main, to interest payments and receipts associated with the management during the year of the Council's cash flow and reserves.

General Fund Balance

compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

Government Grants

are made by the Government towards either revenue or capital expenditure to help with the cost of providing services and capital projects. Some government grants have restrictions on how they may be used whilst others are general.

Housing Benefits

is the national system for giving financial assistance to individuals towards certain housing costs. West Somerset District Council administers the scheme for West Somerset residents. The Government subsidises the cost of the service.

Impairment

is the reduction in the value of a non-current asset as shown in the balance sheet to reflect its true value.

Income

is the amount, which the Council receives, or expects to receive, from any source; service committee revenue income includes grants, sales, rents and fees and charges.

Infrastructure

are those assets, which do not have a realisable value and include roads and footpaths.

Internal Service Recharge

Is a recharge from a department that provides professional and administrative support to other internal services.

IFRS

are the International Financial Reporting Standards advising the accounting treatment and disclosure requirements of transactions so that a council's accounts 'present fairly' the financial position of the council.

Investment

is the lending of surplus money to another party in exchange for interest.

Investment Property

is property held exclusively for revenue generation for capital gains that the assets is expected to generate.

Liabilities

must be included in the financial statements when West Somerset District Council owes money to others. There are different types of liability: -

- A current liability is a sum of money that will or might be payable during the next accounting period.
e.g. creditors or cash overdrawn.
- A deferred liability is a sum of money that will not be payable until some point after the next accounting period or is paid off over a number of accounting periods.

Loans and Receivables

are financial instruments that have fixed or determinable payments and are not quoted in an active market.

Long-term Investments

are those, which are intended to be held on a continuous basis for the activities of the Council.

Materiality

is one of the main accounting concepts. It ensures that the statement of accounts includes all the transactions that, if omitted, would lead to a significant distortion of the financial position at the end of the accounting period.

Minimum Revenue Provision

is the sum required to be met from revenue under current capital controls to provide for the repayment of outstanding borrowings; additional sums may be voluntarily set aside.

Movement in Reserves Statement (MIRS)

shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' and 'unusable reserves'.

Net Book Value

is the Balance Sheet amount of non-current assets and represents their historical cost or current replacement value less cumulative depreciation provisions.

Net Current Replacement Cost

is the cost of replacing an asset in its existing condition and use.

Net Realisable Value

is the open market value of an asset in its existing use net of the potential expenses of sale.

Non-Current Asset

is an item of worth, which is measurable in monetary terms and provides benefit for more than the period of account – see also Capital Expenditure.

Non-Current Asset Held for Sale

is a non-current asset that becomes available for sale and it is probable that the carrying amount of that asset will be recovered through a sale transaction rather than through its continuing use.

Non-Operational Assets

are those assets, which are not directly used in the provision of services and mainly comprise those assets, which are surplus to requirements and held pending disposal.

Operational Assets

are those assets e.g. land and buildings, used in the direct provision of services.

Operating Leases

are all leases, which are not finance leases.

Other Operating Costs

includes expenditure on buildings, fuel, light, rent, rates, and purchase of furniture and equipment.

Precept

is the means by which Somerset County Council; Police and Crime Commissioner for Avon and Somerset; Devon and Somerset Fire and Rescue Authority and the parishes obtain their revenue income from the District Councils' Collection Fund.

Provisions

are amounts set aside to meet costs which are likely or certain to be incurred, but are uncertain in value or timing.

PWLB

is the Public Works Loan Board, a Government agency that lends money to the public sector.

Rateable Value

is the annual assumed rental value of a property that is used for business purposes.

Related Parties

are when at any time during the financial period:-

- One party has direct or indirect control of the other party
- The parties are subject to common control from the same source
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own interests.

Related Party Transactions

is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether or not a charge is made.

Remuneration

includes taxable salary payments to employees, together with non-taxable payments on termination of employment (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Reserves

result from the accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at West Somerset's discretion.

Residual Value

is the value of an asset at the end of its useful life.

Revaluation Reserve

records the unrealised revaluation gains, arising since 1 April 2007 from holding non-current assets. Previously such gains were credited to the Fixed Asset Restatement Account.

Revenue Expenditure

is the day-to-day spending on salaries, maintenance of assets, purchase of stationery etc. after deducting income such as fees and charges.

Revenue Expenditure Funded Capital under Statute

Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax.

Revenue Support Grant

is a general grant paid by the Government to local authorities as a contribution towards the cost of their services.

SeRCOP

is the Government's legislative framework for ensuring that local authorities report income and expenditure in a consistent manner.

Usable Reserves

are reserves that can be applied to fund expenditure or reduce local taxation.

Report Number: WSC 100/16

West Somerset Council

Corporate Governance Committee – 19 September 2016

Internal Audit Plan 2016/17 – Progress Update

This matter is the responsibility of Cabinet Member Councillor Mandy Chilcott

Report Author: Alastair Woodland, Assistant Director, South West Audit Partnership

1 Purpose of the Report

- 1.1 To update members on the Internal Audit Plan 2016-17 progress and bring to their attention any significant findings identified through our work.

2 Recommendations

- 2.1 Members are asked to note progress made in delivery of the 2016/17 internal audit plan and note the significant findings.

3 Risk Assessment (if appropriate)

- 3.1 Any organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. WSC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement. The most significant findings are reported to this committee in terms of significant corporate risks or in terms of high priority findings at an individual service level.

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background and Full details of the Report

- 4.1 This report summarises the work of the Council’s Internal Audit Service and provides:
- 4.2 Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in June.
- 4.3 A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

5 Links to Corporate Priorities

- 5.1 Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council’s internal auditors, South West Audit Partnership.

6 Finance / Resource Implications

6.1 There are no specific finance issues relating to this report.

7 Legal Implications

7.1 There are no specific legal issues relating to this report.

8 Environmental Impact Implications

8.1 There are no direct implications from this report.

9 Safeguarding and/or Community Safety Implications

9.1 There are no direct implications from this report.

10 Equality and Diversity Implications

10.1 There are no direct implications from this report.

11 Social Value Implications

11.1 There are no direct implications from this report.

12 Partnership Implications

12.1 There are no direct implications from this report.

13 Health and Wellbeing Implications

13.1 There are no direct implications from this report.

14 Asset Management Implications

14.1 There are no direct implications from this report.

15 Consultation Implications

15.1 There are no direct implications from this report.

Democratic Path:

- **Audit Committees – Yes**
- **Cabinet – No**

- **Full Council – No**

List of Appendices

Appendix A	SWAP Internal Audit Progress Report
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Contact Officers

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West Somerset Council

Report of Internal Audit Activity

Plan Progress 2016/17 September



Contents

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Our audit activity is split between:



- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

Role of Internal Audit

The Internal Audit service for the West Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Corporate Governance Committee at its meeting on March 2016.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Joint Management Team. The 2016-17 Audit Plan was reported to this Committee and approved by this Committee at its meeting in March 2016.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action. Recommendations are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2016/17. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in **Appendix A** of this document.

As is shown in **Appendix B** there is one 2015-16 review still at draft report due to the key officer being absent. We understand this will be responded to on their return to work on the 21 September.

As agreed with this Committee where a review has a status of ‘Final’ and has returned a ‘Partial’ or ‘No Assurance’ rating I will provide a summary of the work and further details to inform Members of the key issues identified. Since the last update in June 2016, 3 reviews have been finalised. None of these reviews have returned a ‘Partial’ or ‘No Assurance’ rating.

Also agreed with this Committee, where a priority four or five recommendation is made, details should be provided. Since the last update, one review, a non-opinion piece of work on Land Charges raised two Priority four recommendations. An overview of the review and details of the two priority four recommendations can be found within **Appendix C**.

We keep our audit plans under regular review so as to ensure that we auditing the right things at the right time.



Approved Changes to the Audit Plan

The audit plan for 2016/17 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to West Somerset District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Since the last update there has been one change to the internal plan agreed in March 2016. The quarter 2 Transformational Programme audit has been deferred to quarter 4 given the delay in the decision on the future direction of the WSC. The Licensing Audit has been brought forward from quarter 4 to quarter 2 and is currently in progress.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← 3 → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Controls	Creditors	Q3									
Key Controls	Debtors	Q3									
Key Controls	Housing Benefits	Q3									
Key Controls	Main Accounting	Q3									
Key Controls	Treasury Management	Q3									
Governance, Fraud & Corruption	Transformational Programme	Q4									
ICT	Back-up routines (<i>Resilience</i>)	Q4									
Governance, Fraud & Corruption	Information/Data Security/Data Protection	Q4									
Operational Audits	Supported Housing (both Extra Care and Sheltered)	Q4									

2015-16 Audits

Operational Audit	Land Charges (NEW)	Q4	Final	Non Opinion	5	0	1	2	2	0	
Operational Audit	Homelessness	Q4	Draft								Reponses delayed due to sickness absence.
Governance, Fraud & Corruption, Cross Cutting	Hinkley	Q4	Final	Substantial	3	0	0	3	0	0	

Audit Assignments completed since the June 2016 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.



Summary of Audit Findings and High Priority Service Findings

As agreed with this committee, any finalised audit that has a priority four recommendation, or returns a 'Partial' or 'No Assurance' opinion will be brought to the attention of this committee. Since the last update in June one finalised audit has two Priority four recommendations, this being Land Charge, a non-opinion audit. Details are provided below.

Non-Opinion Audits

Non-Opinion – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance.

Land Charges – Non-Opinion

As this was not a full review of the Land Charges Service and the scope limited to processes relating to the addition and extraction of information from the Local Land Charges register, it was agreed that this would be a non-opinion audit review.

Although the procedures followed by the Land Charges Officer in providing search information have been found to be robust, and there have been no significant delays in supplying this information to customers, a number of weaknesses in control have been identified; some of which could be attributed, in part, to the lack of managerial support; through the long-term absence of the former Building Control and Land Charges Manager; and the limited resources available to carry out the searches.

With the best of intentions, the Land Charges Officer has made policy decisions; however, these have been misplaced and could have serious consequences for the Council. Discounts have been given to some solicitors for searches undertaken; and instead of offering a refund to solicitors for paying more than the required fee, the Land Charges Officer provides a response to additional questions to make up the sum paid.

**Audit Assignments
completed since the June
2016 update:**

**These are actions that we
have identified as being
high priority and that we
believe should be brought
to the attention of the
Audit Committee.**

Non-Opinion Audits Continued

At the present time, the future structure of the service is not certain. In addition to another part-time member of staff, there are also possibilities of working with the Land Charges Officers at TDBC as 'One Team'. Furthermore, the Infrastructure Act 2015 provides for the transfer of responsibility for local land charges in England and Wales from local authorities to Land Registry. Under these provisions, initially Land Registry will provide a single, digital local land charges register for the 326 English local authorities. Actual implementation requires a range of secondary legislation and rules to support these changes; this will include public consultation with the relevant stakeholders prior to any changes being made. In the short-term, the implementation of the following recommendations will enhance the current procedures followed and ensure a more consistent and fair service is provided to all customers.

Below are the two priority 4 recommendations from this review, which are assessed at a service level, i.e. how important to the service in question, not WSC corporately.

Land Charges Priority 4 Recommendations

Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Date of Action	Resp. Officer
The answers to additional questions are provided for overpaid search fees instead of a refund.	Whilst there is a valid reason for doing this; it would cost the Council more to refund the solicitor the additional sum paid; this practice has not been approved by management. There is also a risk that the solicitors will complain that they have been provided with information that they didn't want or need and request a refund anyway.	I recommend that the Community & Client Services Manager ensures that the practice of providing the answers to 'additional questions' for overpaid search fees is stopped and instead a refund for the overpayment is made to the solicitor.	Management were unaware of this practice and it will be required to cease and perform in line with audit requirements.	Immediate	Community & Client Services
Unauthorised discounts are being offered to some solicitors	Over the course of the year, the difference between the fee charged and that which should have been charged could amount to quite a considerable sum. There is not only the risk that service runs at a loss through failing to obtain the relevant income, but that it suffers reputational damage should the solicitors inform other parties of these arrangements.	I recommend that the Community & Client Services Manager ensures that the practice of providing discounts ceases and that all fees are applied in line with the Fees and Charges approved by Members.	Management were unaware of this practice and it will be required to cease and perform in line with audit requirements.	Immediate	Land Charges Officer

Report Number: WSC 101/16

West Somerset Council

Audit Committee – 19 September 2016

Assessment of Going Concern Status

This matter is the responsibility of Cabinet Member Councillor Mandy Chilcott

Report Author: (Jo Nacey, Deputy S151 Officer and Senior Accountant)

1 Purpose of the Report

- 1.1 To inform the Audit Committee of the S151 Officer's (Director of Operations) assessment of the Council as a "going concern" for the purposes of producing the Statement of Accounts for 2015/16.

2 Recommendations

- 2.1 Members are requested to note the outcome of the assessment made of the Council's status as a "going concern" for the purposes of the draft Statement of Accounts for 2015/16.

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
The Council is no longer assessed as being a 'going concern', placing ongoing operating at risk.	4	5	20
Mitigation: Through effective governance and financial control environment, management and Members continue to address the financial sustainability challenge.	3	5	15

- 3.1 The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background to the Report

4.1 The concept of a “going concern” assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by Central Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

- 4.2 Where the “going concern” concept is not the case, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.
- 4.3 Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of one or more councils as a consequence, External Auditors are placing a greater emphasis on local authorities undertaking an assessment of the “going concern” basis on which they prepare their financial statements. In response this report sets out the position at West Somerset.
- 4.4 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2015/16 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the Council’s Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.
- 4.5 The main factors which underpin this assessment are:
- The Council’s current financial position;
 - The Council’s projected financial position;
 - The Council’s governance arrangements;
 - The regulatory and control environment applicable to the Council as a local authority.

Each of the above is considered in more detail below.

5 The Council’s Current Position

- 5.1 The challenges the Council faces in setting a balanced budget whilst still providing an appropriate level of services to the public, are well documented. The Statement of Accounts 2014/15 highlighted the impact of the Business Rates Appeal for Hinkley and this impact is now being reflected in the 2015/16 outturn and the MTFP for future years.
- 5.2 It is now public knowledge that Senior Officers and Members presented a strong case to Central Government regarding the “unique nature of the circumstance that West Somerset face” and requested additional funds to mitigate the effect of the Rates appeal to provide a “level playing field” to work from.
- 5.3 Despite the support this approach received from senior officers in the LGA, the result was that Central Government could offer no further financial support to West Somerset as an exceptional case and that their advice was for us to re-examine our partnership arrangements and push forward with transformation.

- 5.4 With this in mind the Chief Executive presented a Mandate for Development of Transformation Business Case to Full Council on 16th March 2016 in a proactive approach to moving the Council forward despite the emerging difficulties.
- 5.5 The Mandate outlined the three variants which will be presented as Business cases for a means to move forward with transformation. These variants involve a continuation of the existing approach of two councils supported by the One Team; a merged Council supported by the One Team and two separate councils with their own bespoke transformation agenda.

6 The Council's Year End Position

- 6.1 The outturn position for 2015/16 has been more typical than 2014/15 when the business rates appeal skewed the figures and highlighted the ongoing challenge. The net underspend for 2015/16 of £199,132 has occurred over a number of areas mainly Rent allowances; Assets and additional Business Rates funding.
- 6.1 As at 31 March 2016 the Council held a General Fund Reserve of £1.073m, which is above the revised minimum balance of £600k, but with emerging risks and challenges this level is not inappropriate. In addition to this the Council held Earmarked Revenue Reserves totalling £4.370m, of which £3.389m will be required to fund the Business Rates Collection Fund deficit.
- 6.2 For 2015/16 the Council set a balanced budget following a comprehensive analysis of its spend and the acceptance by Members of some challenging savings which were unpalatable to some but necessary e.g. the proposed closing of public toilets in 17/18 and the reduction or elimination of grants to local charities.
- 6.3 Officers also proposed a change in MRP policy which delivered a saving for both 15/16 and 16/17, but also proposed a revenue "holiday" which prudently was mitigated by the use of capital, freeing up the revenue budget for 15/16 through to 17/18 inclusive.

7. The Council's projected financial position

- 7.1 The Council's medium-term financial plan (MTFP) is updated annually and reflects a five-year assessment of the Council's spending plans and associated funding. It includes the ongoing implications of approved budgets and service levels and the revenue costs of the Council's capital programme, as well as the management of debt and investments.
- 7.2 Having now reflected the impact of the 2015/16 outturn underspend and those areas which are showing an ongoing saving, the MTFP indicates a budget gap for 2017/18 of £120K, rising to approximately £1.2m by 2021/2022. This gap of £1.2m is equivalent (in cash terms) to 56% of the current 2016/17 Net Expenditure Budget.

8. The Council's options

- 8.3 The approach to meeting the savings targets will be developed during the summer 2016. Fundamental to this will be decisions taken on JMASS Phase 2 business case options and the transformation programme targets agreed through this process. Members will be presented with the business case options in July 2016. Once this is determined, other savings targets can be set in order to meet the overall total required.
- 8.4 It is anticipated that transformation will need to address a significant proportion of the targets. Other suggested areas to be considered for review / to be assigned targets include: Savings Plans for services, income generation ideas including commercial activities, review of fees and charges, review of discretionary policies. This list will not be exhaustive, and Members will be asked to engage with and support the challenge of setting appropriate targets.

9. The Council's current & projected position (capital)

- 9.3 Details of the capital outturn for 2015/16 have been reported to Members in June 2016. The report highlighted that the gross spend on General Schemes was £948k compared to a revised budget of £2.518m. Budget allocation of £1.535m has been carried forward to 2016/17.
- 9.4 The approved Capital Programme (excluding Disabled Facilities Grants) for 2016/17 was £375k but this has increased to £1.910m as a result of the carry forward from 2015/16 referred to above. We currently have £1.278m of uncommitted capital receipts. We are mindful of the emerging risks referred to in section 12 of this report and that our uncommitted capital may be required as a first call for asset compliance.
- 9.5 The Council is progressing plans to dispose of surplus assets. Currently forecast receipts in 2016/17 are low at c£15k. In order to meet the funding needs of the JMASS Phase 2 Transformation other planned sales will need to be brought forward. If receipts have not been generated borrowing will need to be considered.

10. The Council's current financial position (balance sheet)

- 10.3 The financial overview included in the draft Statement of Accounts for 2015/16 includes reference to the Council's balance sheet as at 31 March 2016 and concludes that it is robust. Factors giving rise to this assessment include:
- Review of debts owed to the Council;
 - An assessment of the Council's net worth;
 - The adequacy of risk-assessed provisions for doubtful debts;
 - The range of reserves set aside to help manage expenditure
 - An adequate risk-assessed General Fund Reserve to meet unforeseen expenditure

- 10.4 On paper the Council has net assets of £912k. This is as a direct result of the inclusion of the pension scheme liability of £15.560m. Contributions to the pension scheme have been increasing to meet this liability over the longer term. However, in reality the current balance in usable reserves is £8.130m (Usable Capital Receipts £2.230m, Capital Grants Unapplied £457k, Earmarked Reserves £4.370m and General Fund Balances £1.073m).
- 10.5 Although the Council has Cash and Cash Equivalent balances at 31 March of £3.482m, of this £3.157m is held on behalf of the Hinkley s106 agreement.

11. The Council's governance arrangements

- 11.3 The Council has a well-established and robust corporate governance framework.
- 11.4 The Annual Governance Statement (AGS) has been reviewed taking into account external and internal audit reviews, data from our risk assessments and knowledge of our control environment. The AGS has concluded our governance arrangements are effective, and our Internal Audit annual report has concluded our corporate control arrangements are satisfactory.

12. The external regulatory and control environment

- 12.3 As a principal local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and Central Government control there are other factors such as the role undertaken by External Audit as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

13. Emerging Risks

13.1 NHS claims for Business Rates Discount

Earlier in the year a number of NHS trusts made applications to their local councils for charitable status regarding business rates relief. The trusts want the relief backdated for up to six years. Although West Somerset have not received a claim we are mindful that in our delicate financial position any such claim could be material if upheld. We are therefore keeping a watching brief on developments elsewhere and following the legal opinions which are currently divided.

13.2 Asset Condition and Compliance Surveys

West Somerset Council is reviewing the compliance and condition of its whole asset stock. This is an area which has not received the emphasis it has merited in previous years and has subsequently emerged as a significant risk. Early indications show some failures in compliance which are being addressed but also some assets which need

urgent repairs. The work is continuing and we need to prioritise those areas which are most urgent e.g. they are a risk to the public or they are not compliant with legislation.

At this stage it is not possible to quantify the funds required.

13.3 Transformation and the Business Cases for change

Both Taunton Deane and West Somerset Councils have agreed to progress the establishment of a new merged authority. We believe this will bring savings and resilience for both communities. It is early in the process but offers a positive outlook to the future financial position and our ability to close the budget gap.

13. OPINION

- 13.1 It is considered that, having regard to the Council's arrangements and such factors as are highlighted in this report, the Council remains a "going concern until at least September 2017 ie. One year from expected opinion on the Council's 2015/16 financial statements". This assessment will be undertaken annually in the course of preparing the Council's financial statements for each year.

14 **Links to Corporate Aims / Priorities**

- 15.1 There is no direct contribution to the Corporate Priorities – this is a governance matter.

16 **Finance / Resource Implications**

- 16.1 The financial implications are given in this report.

17 **Legal Implications**

- 17.1 There are no implications in respect of this report.

18 **Environmental Impact Implications**

- 18.1 There are no implications in respect of this report.

19 **Safeguarding and/or Community Safety Implications**

- 19.1 There are no implications in respect of this report.

20 **Equality and Diversity Implications**

- 20.1 There are no implications in respect of this report.

21 **Social Value Implications**

- 21.1 There are no implications in respect of this report.

22 **Partnership Implications**

- 22.1 The financial viability of West Somerset Council is fundamental to the delivery of JMASS

savings and hence has implications for Taunton Deane.

23 Health and Wellbeing Implications

23.1 There are no implications in respect of this report.

24 Asset Management Implications

24.1 There are no implications in respect of this report.

25 Consultation Implications

25.1 There are no implications in respect of this report.

Attached: Cashflow forecast 16/17

Contact Officers

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Report Number: WSC 102/16

West Somerset District Council

Audit Committee – 19 September 2016

Overdue high priority SWAP Audit Recommendations

This matter is the responsibility of Cllr Mandy Chilcott, Lead Member for Resources and Central Support.

Report Author: Paul Harding, Corporate Strategy & Performance Manager

1 Purpose of the Report

- 1.1 This report provides Members with a position statement on the SWAP audit recommendations for West Somerset Council, which were assessed as high and very high priority, where the agreed action is overdue.

2 Recommendations

- 2.1 It is recommended that:-
- The committee review the overdue actions.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
The Council is exposed to risk through inadequate systems and processes identified through SWAP audits.	Likely (4)	Major (4)	High (16)
The mitigation for this is the timely completion of agreed remedial actions,	Unlikely (2)	Major (4)	Medium (8)

4 Background and Full details of the Report

- 4.1 West Somerset Council engage the South West Audit Partnership (SWAP) to carry out internal audit functions; checking the adequacy of controls and procedures across the whole range of Council services.
- 4.2 At the start of each financial year an audit plan is agreed between SWAP and the Council which identifies the areas of highest potential organisational and operational risk within the Council.

- 4.3 When an audit takes place a report is provided to the service manager concerned which gives an audit conclusion and opinion.
- 4.4 Any control or procedural weaknesses are identified within an action plan appended to the audit report.
- 4.5 All findings will be allocated one of 5 priority ratings. With priority 5 carrying the most significant risk to the service (not necessarily to the wider Council) and priority 1 the least significant risk.

The definitions used are provided below:

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

- 4.6 Each finding within the action plan contains a target implementation date which has been agreed between SWAP and the service manager concerned.
- 4.7 All priority 4 and 5 recommendations are captured in a register to ensure progress against the recommendations can be tracked and progress reported to JMT and the Audit/Corporate Governance Committees at Taunton Deane and West Somerset Councils.
- 4.8 This report highlights the Priority 4 and 5 audit actions affecting West Somerset Council, where the agreed remedial action is overdue based on the originally agreed implementation date. On this occasion there are **two priority 4** priority actions which are overdue but **zero priority 5** recommendations for West Somerset Council.
- 4.9 A summary of the overdue actions is provided in Appendix A.

5 Links to Corporate Aims / Priorities

- 5.1 There are no direct links to corporate aims/priorities although good governance and robust controls and processes underpin good performance.

6 Finance / Resource Implications

- 6.1 Unmitigated risks identified by SWAP could expose the Council to unanticipated claims, expenditure or exposure to fraud. There are two recommendations relating to procurement within this report which have links to finance.

7 Legal Implications

7.1 There are no direct legal implications within this report although unmitigated risks could expose the Council to unanticipated claims.

8 Environmental Impact Implications

8.1 There are no direct environmental impact implications associated with this report.

9 Safeguarding and/or Community Safety Implications

9.1 There are none within this report.

10 Equality and Diversity Implications

10.1 There are no equality and diversity implications associated with this report.

11 Social Value Implications

11.1 There are no Social Value implications associated with this report.

12 Partnership Implications

12.1 The majority of Council services are delivered through shared services arrangements with Taunton Deane Borough Council.

13 Health and Wellbeing Implications

13.1 There are no direct health and wellbeing implications associated with this report.

14 Asset Management Implications

14.1 There are no direct asset management implications associated with this report.

15 Consultation Implications

15.1 There are no Consultation implications associated with this report.

Democratic Path:

- **Audit Committee - Yes**
- **Scrutiny – No**
- **Cabinet – No**
- **Full Council – No**

Reporting Frequency: Twice yearly

List of Appendices (delete if not applicable)

Appendix A	Summary of overdue priority 4 and 5 SWAP audit recommendations
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Contact Officers

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Audit Report	Finding	Priority	Recommendation	Management Response	Original Implementation Date	Progress Update	AD Responsible	Org
WSC - Contract Management Bribery - 23.07.2015	3.1a The procurement function is not limited enough to ensure each Officer involved has an appropriate level of knowledge and training.	4 - High	I recommend the Assistant Director - Resources ensures the ability to carry out procurement is suitably limited and staff have received appropriate training.	Agreed	December 2015	March 2016: Procurement activity is quite limited, and specialist advice is available through SHAPE legal services or is 'bought in' as necessary e.g. in complex land and property transactions. Unfortunately it has not been possible to progress robust action during 2015/16. This will be added to the 'Service Plan' for 2016/17 which will include a review of the procurement 'function', and associated responsibilities and training. It is proposed the target date is revised to March 2017 .	Fitzgerald, Paul;	WSC
WSC - Contract Management Bribery - 23.07.2015	3.4a There is currently no assurance that the contract standing orders and the anti-bribery policy is embedded within the Council.	4 - High	I recommend the Corporate Strategy and Performance Manager raise awareness of these rules and policies at the appropriate level within the Council.	Agreed – once action 1.1a is complete and a single, refreshed anti-bribery policy is in place this will be an agenda item for the Tier 4 Managers meeting.	January 2016	Aug 2016 update: : The responsibility within the recommendation for this should be revised to the AD Resources. Actions are partly completed. The Anti-Bribery policy (together with Anti-Fraud and Corruption Policy, Whistle-Blowing Policy and Anti Money Laundering Policy) have been reviewed and updated and are available on the Intranet for staff. Work on updating the contract standing orders was put on hold pending the outcome of the Transformation Business Case. Suggest a revised target date of March 2017.	Fitzgerald, Paul;	WSC

Report Number: WSC 103/16

West Somerset District Council

Audit Committee – 19 September 2016

Corporate Governance Action Plan Update

This matter is the responsibility of Cllr Mandy Chilcott, Lead Member for Resources and Central Support.

Report Author: Paul Harding, Corporate Strategy & Performance Manager

1 Purpose of the Report

1.1 This report provides an update of progress against the Annual Governance Statement Action Plan.

2 Recommendations

2.1 It is recommended that:-

- The committee Members are asked to note current progress in relation to completing the actions identified within the Annual Governance Statement.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
There is the general risk that if the Council fails to keep its controls and governance arrangements under review they could cease to be appropriate and lead to uncontrolled exposure to high level strategic and operational risks.	Feasible (3)	Major (4)	Medium (12)
<i>The mitigation for this will be for the Council to formally review the internal controls for governance of its affairs, identify opportunities for improvement and implement these.</i>	Unlikely (2)	Significant (3)	Low (6)

4 Background and Full details of the Report

4.1 The Annual Governance Statement (AGS) is a statutory document which provides assurance on the governance arrangements in place within the Council. The statement

is produced following a review of the council's governance arrangements and has been approved by the Audit committee and signed-off by the Leader of the Council and the Chief Executive.

- 4.2 The AGS includes an action plan to address any new governance issues identified by the Corporate Governance Officers Group; relying on reports from internal and external audit as well as their own understanding of the organisation.

5 The Action Plan

- 5.1 The action plan is set out in Appendix A.

6 Links to Corporate Aims / Priorities

- 6.1 There are no direct links to corporate priorities.

6 Finance / Resource Implications

- 6.1 None – this is a governance matter.

7 Legal Implications

- 7.1 Regulation 4 of The Accounts and Audit (England) Regulations 2011 requires that the Council must conduct a review at least once a year of the effectiveness of its systems of internal control and committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

8 Environmental Impact Implications

- 8.1 There are no direct environmental risks within this report.

9 Safeguarding and/or Community Safety Implications

- 9.1 There are no safeguarding and /or community safety implications associated with this report.

10 Equality and Diversity Implications

- 10.1 There are no equality and diversity implications associated with this report.

11 Social Value Implications

- 11.1 There are no Social Value risks associated with this report.

12 Partnership Implications

- 12.1 There are no direct partnership implications associated with this report.

13 Health and Wellbeing Implications

13.1 There are no direct health and wellbeing risk associated with this report.

14 Asset Management Implications

14.1 Risk 5 identifies a risk in relation to asset management.

15 Consultation Implications

15.1 There are no Consultation implications associated with this report.

Democratic Path:

- **Audit Committee - Yes**
- **Scrutiny – No**
- **Cabinet – No**
- **Full Council – No**

Reporting Frequency: Twice yearly

List of Appendices

Appendix A	AGS Action Plan 2015/16
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Contact Officers

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Ref	Action	Update
1	Introduce a corporate process for reviewing and documenting decisions regarding the prioritisation of internal audit recommendations.	Meeting arranged for 7 th October 2016 to progress.
2	Facilitate a self-assessment of the effectiveness of the Audit (WSC) and Corporate Governance Committees (TDBC) - based upon CIPFA guidance 2013 and identify training needs flowing from this.	<p>We intend to undertake Audit committee training in Taunton as we have new Chair and Deputy and following this we will discuss the question of self-assessments with each Chair.</p> <p>In the interim SWAP have organised two identical events to be held on:</p> <p>Wednesday 12th October at Buckfast Abbey, Devon. Tuesday 25th October at Sparkford Motor Museum, Somerset.</p> <p>Both events will start at 9:00am and finish at 1:00pm, with lunch and other refreshments being provided.</p> <p>These training events will consider what makes an effective audit committee, how poor ethics and culture can have a negative impact, the Brexit effect and what it means for our organisations.</p>
3	Undertake a review of the Decision-Making Processes within the Councils to ensure it is efficient and effective in terms of officer and Member involvement.	<p>For WSC a report has been drafted and distributed to the portfolio holder and chair of scrutiny.</p> <p>Further action had been placed on hold pending decision on possible merger due to uncertainty on future of the Councils (either as a stand-alone Councils or a merged Council).</p> <p>Following WSC decision on 7th September 2016 (and TDBC's earlier decision), this item will now be progressed as part of the merger discussions.</p>

Report Number: WSC 104/16

West Somerset District Council

Audit Committee – 19 September 2016

Corporate Risk Management Update

This matter is the responsibility of Cllr Mandy Chilcott, Lead Member for Resources and Central Support.

Report Author: Paul Harding, Corporate Strategy & Performance Manager

1 Purpose of the Report

1.1 This report provides an update on the corporate risks which are being managed by the Joint Management Team (JMT).

2 Recommendations

2.1 It is recommended that:-

- The committee note the current position in relation to the identification and tracking of corporate risk and discuss any areas of concern with officers present.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
There is the general risk that if the Council fails to make good use of the management of risk processes it is likely to lead to uncontrolled exposure to many high level strategic and operational risks.	Feasible (3)	Major (4)	Medium (12)
<i>The mitigation for this will be the identification and management of risk at all levels of the organisation and oversight of the key strategic risks facing the Council by Members and JMT.</i>	Unlikely (2)	Significant (3)	Low (6)

4 Background and Full details of the Report

4.1 West Somerset Council recognises the importance of effective identification, evaluation and management of all key strategic and operational risks. This is endorsed by the increased focus on the importance of Corporate Governance to public sector bodies. The Council also has a statutory responsibility to have in place

arrangements for managing risks, as stated in the Accounts & Audit Regulations 2003:

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes the arrangements for the management of risk.”

- 4.2 Risk management is a key element of the Council’s overarching Governance arrangements.
- 4.3 The Corporate Risk Register is a ‘live’ document which highlights the key corporate risks facing the Council. The register is a joint one between West Somerset and Taunton Deane and is formally reviewed by JMT on a quarterly basis as part of the corporate performance review day. The last JMT review took place on **19 May 2016**. The next review is scheduled for **30th September 2016**.
- 4.4 These regular reviews ensure that new strategic-level risks can be recognised; continuing risks can be re-assessed in the light of management actions to date; and risks which are no longer considered important can be removed.
- 4.5 Risk registers exist with divisions, teams, projects and programmes.
- 4.6 Risks which are managed at a corporate level are those which have a significant risk to the delivery of a corporate priority or which are cross-cutting risks that don’t naturally sit with a single department or team. These risks have been identified and escalated from other risk registers within the Councils, officer concerns or from external sources.
- 4.7 There are currently **17 strategic risks** identified and approved by JMT (13 joint risks 3 TDBC specific risks and 1 WSC Specific Risk).
- 4.8 Mitigating actions have continued to be delivered in respect of the various risks. These are set out in the risk register and will continue in order to manage down the risks to an acceptable level.
- 4.9 An extract of the corporate risk register is provided in Appendix A (*please note - this report was written, and risks assessed, prior to the WSC Council decision on 7th September 2016 regarding merging Councils with Taunton Deane Borough Council*)
- 4.10 The key to the risk scoring used is shown in the following two tables:

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	Extremely unlikely or virtually impossible	< 10%
2. Slight	Unlikely to occur	10 – 25%
3. Feasible	Fairly likely to occur	25 – 50%
4. Likely	More likely to occur than not	50 – 75%

5. Very Likely	Almost certainly will occur	> 75%
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Likelihood	5	V.Likely	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Feasible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Slight	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	V. Unlikely	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Significant	Major	Critical
Impact							

4.11 The risk matrix below shows the spread of corporate risks, based on the latest assessment. The numbers shown relate to the Risk Number within Appendix A.

PROBABILITY (A)	Very Likely 5					
	Likely 4					
	Feasible 3			14	7,9,10,11,18	6
	Slight 2			13	3,4,5,8	1,2,15
	Very Unlikely 1					
			Negligible 1	Minor 2	Significant 3	Major 4
IMPACT (B)						

5 Links to Corporate Aims / Priorities

- 5.1 There are no direct links to corporate aims/priorities although good governance (of which risk management is a part) underpins good performance.

6 Finance / Resource Implications

- 6.1 There are financial risks identified within the Corporate Risk register.

7 Legal Implications

- 7.1 There are no direct legal implications within this report.

8 Environmental Impact Implications

- 8.1 There are no direct environmental risks within this report.

9 Safeguarding and/or Community Safety Implications

- 9.1 Safeguarding is part of risk 14

10 Equality and Diversity Implications

- 10.1 Equalities is part of risk 14

11 Social Value Implications

- 11.1 There are no Social Value risks associated with this report.

12 Partnership Implications

- 12.1 The corporate risk register is maintained jointly between West Somerset Council and Taunton Deane Borough Council and reflects the 'One Team' approach to service delivery between the Councils.

13 Health and Wellbeing Implications

- 13.1 There are no direct health and wellbeing risk associated with this report.

14 Asset Management Implications

- 14.1 Risk 5 identifies a risk in relation to asset management.

15 Consultation Implications

15.1 There are no Consultation implications associated with this report.

Democratic Path:

- **Audit Committee - Yes**
- **Scrutiny – No**
- **Cabinet – No**
- **Full Council – No**

Reporting Frequency: Twice yearly

List of Appendices

Appendix A	Extract of joint Corporate Risk Register
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Contact Officers

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Risk Number	Org	Risk Group Heading	Risk Description	Risk Owner	Latest Probability	Latest Impact	Latest Score
1	BOTH	Transformation	<p>JOINT-MANAGEMENT & SHARED SERVICES ('JMASS')</p> <p>RISK - of not adequately managing capacity issues now we have ONE team supporting both Councils.</p> <p>KEY EFFECTS - Member's expectations not met / loss of political support, breakdown in relationships between Leaders & CEO, savings projections / timeline not delivered, existing projects , priorities negatively impacted & demotivated workforce.</p>	Adam, Shirlene	2	5	10
2	BOTH	Transformation	<p>THE WIDER TRANSFORMATION PROGRAMME</p> <p>RISK - failure to deliver the Business Case on time and/or to target.</p> <p>KEY EFFECTS - programme benefits not realised- real or opportunity cost, failure to maximise service efficiency.</p>	Adam, Shirlene	2	5	10
3	BOTH	Transformation	<p>SHARED SERVICES ACROSS SOMERSET & WIDER PUBLIC SECTOR</p> <p>Government policy is pushing wider transformation of public sector. No clear ambition has emerged for Somerset.</p> <p>RISK - wider transformation opportunities may be missed - or - if identified could slow down the pace of the TDBC / WSC transformation programme.</p> <p>KEY EFFECTS - Member's expectations not met / loss of political support, breakdown in relationships between Leaders & CEO, savings projections / timeline not delivered, existing projects , priorities negatively impacted & demotivated workforce.</p>	James, Penny;	2	4	8
4	BOTH	Political	<p>NATIONAL LAW & POLICY</p> <p>Changes advocated or made maybe missed or not evaluated in a timely manner.</p> <p>RISK - that the Councils are failing to meet an existing legislative requirement or fail to implement new requirements.</p> <p>KEY EFFECTS - The Councils are non-compliant leading to financial and /or reputational damage.</p>	James, Penny;	2	4	8
5	BOTH	Financial	<p>ASSET MANAGEMENT</p> <p>RISK - failure to manage existing assets appropriately.</p> <p>KEY EFFECTS -</p> <ul style="list-style-type: none"> • Legal and reputational - increased risk & liabilities in relation to disrepair (condition) & compliance (Health and Safety) matters 	May, Terry;	2	4	8
6	BOTH	Financial	<p>MEDIUM TERM FINANCIAL PLANNING (MTFP)</p> <p>The key financial risk factors are: continuing budgetary pressures due to demographic change and the impact of the Gov's austerity measures (such as: Business Rates retention, Revenue Support Grant, Council Tax & Council Tax Support, Income from Fees & Charges, Capital investment), uncertainty as to the long-term sustainability / affordability of the existing contract with Somerset Waste Partnership, the shrinking of the General Fund (impact on the HRA).</p> <p>RISK - failure to agree and deliver a sustainable MTFP for the next 5 years</p> <p>KEY EFFECTS - may include:</p> <ul style="list-style-type: none"> • short-term or 'knee jerk' decisions with detrimental long-term implications • Government intervention • Adverse impact on the council's limited reserves & financial standing • Potential service closure / reduced service quality & therefore inability to deliver customer expectations • Insufficient capital resources to fund Corporate Strategy objectives • Unable to maximise investment returns • For TDBC inability to financially resource its growth ambitions • For West Somerset the risk is of being unable to continue to operate as a viable separate sovereign council, delivering an acceptable level of service to the community. 	Adam, Shirlene;	3	5	15
7	TDBC	Partnerships	<p>SOUTHWEST ONE</p> <p>RISK - Failure to secure the required skills or appropriate levels of resource in place to transition services back from SWO and to deliver the returning services post-return.</p> <p>KEY EFFECTS -</p> <ul style="list-style-type: none"> • Deterioration of services, financial impact, reputational damage • Detrimental staff impact • Negative impact on our ability to deliver transformation and the associated ability to deliver the required level of savings. 	Sealy, Richard;	3	4	12
8	BOTH	Leadership & People	<p>POLITICAL LEADERSHIP & MEMBER ENGAGEMENT</p> <p>Both Councils are led by strong Conservative administrations. It is important to engage the whole council in the change programme to ensure it is member led & steered.</p> <p>RISK - lack of member engagement and therefore member ownership.</p> <p>KEY EFFECTS -</p> <ul style="list-style-type: none"> • lack of cross party buyin and ownership • loss of member input, ideas & challenge 	James, Penny;	2	4	8

9	TDBC	Corporate Aim (TDBC)	<p>CORPORATE (STRATEGIC) RISK RE TDBC'S VISION AND AIMS FOR A "QUALITY PLACE"</p> <p>RISK - Failure to deliver the ambitions or realise the outcomes & benefits as defined in the Taunton Growth Prospectus and Taunton Rethink.</p> <p>KEY EFFECTS - Taunton's key economic challenges may not be addressed, thus having a detrimental impact on the local economy and quality of life, ie:</p> <ul style="list-style-type: none"> • transport & infrastructure needs not met - traffic worsens, inability to attract inward business investment • long-term increased flood risk (climate change) is not mitigated - no additional protection offered to existing development, future planned growth is prevented • Taunton town centre regeneration does not happen and the town centre stagnates • Taunton's full economic potential is not realised and opportunities for economic growth are not exploited (eg Hinkley Point) • Housing growth (as per proposals in the Development Plan) is not delivered, and/or unplanned development occurs • Employment land (as per proposals in the Development Plan) is not delivered, or fails to provide the optimum mix of uses to attract the targeted growth clusters • opportunity cost in terms of New Homes Bonus and Business Rates • Poor reputation for Taunton and TDBC 	Cleere, Brendan;	3	4	12
10	WSC	Corporate Aim (WSC)	<p>HINKLEY POINT C</p> <p>RISK 1 - that the development could have an adverse impact on the local environment, tourism, accommodation and highways.</p> <p>RISK 2 - failure to realise the Economic & Social opportunities which the development could bring</p> <p>KEY EFFECTS -</p> <ul style="list-style-type: none"> • increase in housing demand & lack of affordable housing leading to homelessness increases and the council is unable to discharge its homelessness obligations; • increased congestion (impacting on Growth & Regeneration goals / inward investment) • Local businesses are not able to win contracts to participate in the project • Local people aren't trained and are unable to gain employment on the project 	Goodchild, Andrew;	3	4	12
11	BOTH	Communities	<p>WELFARE REFORMS</p> <p>There is an on-going requirement to reduce benefit payments (CTRS, Business Rates, Universal Credit) - the Welfare Reforms will mean that people in the welfare system will receive less Council Tax support. It will also mean that Universal Credit will be paid directly to tenants rather than the HRA housing landlord.</p> <p>a) RISK - of the Council failing to adequately support our community and services for the impact of the Government's Welfare Reform Agenda.</p> <p>b) RISK - of the TDBC Housing Service having substantially reduced collection rates on introduction of Universal Credit</p> <p>KEY EFFECTS-</p> <ul style="list-style-type: none"> • taxes and rents harder to collect • reduced rent collection could affect ambitions of HRA business plan • Impact on MTFP due to government changes which will affect HRA Income & 30 year B.P. • more vulnerable people - individuals & families may be unable to manage • increased pressure and demand on services • Timetable unknown • Result in more evictions which will increase pressure on the Housing Options & Homelessness Teams 	Lewis, Simon; Fitzgerald, Paul;	3	4	12
13	TDBC	Communities	<p>GYPSIES & TRAVELLERS</p> <p>Local Authorities have a (planning) duty to allocate suitable provision for Gypsies & Travellers. TDBC has had previous experience of illegal Gypsy & Traveller encampments.</p> <p>RISK - that TDBC cannot defend against future illegal encampments if we are unable to identify suitable provision.</p> <p>KEY EFFECTS -</p> <ul style="list-style-type: none"> • unable to respond to community or political pressure; • financial impact (eg high legal fees); • reputational damage • lack of land management and gypsy liaison expertise 	Burton, Timothy; May, Terry;	2	3	6
14	BOTH	Corporate Governance	<p>CORPORATE GOVERNANCE ARRANGEMENTS ON RUNNING THE BUSINESS</p> <p>There is a need for robust arrangements, and on-going monitoring and focus on embedding effective corporate governance arrangements (ie budget monitoring, risk management, debt management, performance management, Treasury management, compliance with audit recommendations, asset management, Equalities duties, Business Continuity Planning, Information Governance & Security, Health & Safety management).</p> <p>RISK - of failure to comply with key internal controls & corporate governance arrangements.</p> <p>KEY EFFECTS - include:</p> <ul style="list-style-type: none"> • inaccurate budget forecasting & financial loss • failure to adhere to HRA ringfence • project or service failure or under-performance • reputational damage • Government intervention • Failure to comply with statutory duties & regulations (eg Health & Safety, Equalities, Data Security / Data Protection, Safeguarding) causing harm or injury • lack of resilience to unexpected events / failure of IT systems / data loss •safeguarding 	Adam, Shirlene;	3	3	9
15	BOTH	Communities	<p>BUSINESS CONTINUITY</p> <p>RISK - The Council may be unable to deliver critical services in the event of a critical loss of accommodation, data, power, staff or premises.</p> <p>KEY EFFECTS -</p> <ul style="list-style-type: none"> • major disruption to services; • Impact upon customers if critical services (payment of housing costs, homeless service, Deane helpline etc) are disrupted or unavailable. • Reputational damage; 	Hall, Chris;	2	5	10

16	BOTH	Leadership & People	<p>STAFF ENGAGEMENT & DEVELOPMENT</p> <p>RISK - that due to increased opportunities in the private sector, as the economy improves, and austerity continues within the public sector that the organisation finds it difficult to attract and retain the right skills - leads to use of expensive agency workers or disruption to service provision.</p> <p>The Organisation has also been through a period of significant restructure and needs to ensure its staff are fully engaged in the changes underway and being planned.</p>	Adam, Shirlene;	3	4	12
17	BOTH	Communities	<p>COMMUNITY IMPACT OF AUSTERITY</p> <p>RISK - Austerity measures will impact on services to the community.</p> <p>KEY EFFECTS - This may manifest in a number of ways including (but not limited to):</p> <ul style="list-style-type: none"> • direct impact on household income e.g. through cap / reduction in benefits - leading to increased debt and subsequent issues • Lack of income where households are subject to DWP sanctions - leading to crisis and requirement for food banks • Reduced ability to pay council tax, housing rent (Council or private) and utility bills, leading to potential evictions, homelessness and health issues • reduction in level of support that can be delivered by the district councils directly, or through grant-funded providers e.g. reduced ability to support One Team measures through rent changes to HRA - leading to reduced support for deprived communities • Reduced ability to support Under 21s where they are unable to claim HB and need support with potential of increased homelessness and sofa surfing and associated risks (e.g. CSE) • impact of service reductions by other local authorities such as County Council (e.g. P4A and P2I cuts leading to increased homelessness) • Increasing aging population with unmet Health and Social Care needs struggling to live comfortably 	Lewis, Simon; Fitzgerald, Paul;	3	4	12
18	BOTH	Leadership & People	<p>Health & Wellbeing of staff</p> <p>The staff stress survey highlighted areas of concern. Additionally, rates of staff sickness during 2015/16 have increased above that achieved for 2014/15.</p> <p>Risk: Internal and external drivers, including significant change programmes, could lead to further increases in sickness absence levels and / or lower staff morale.</p> <p>Key Effects: loss of productivity and failure to achieve key performance indicators /service standards. Increased 'failure demand' such as complaints about delays etc. Increased costs through use of temporary staffing to fill gaps. Reputational damage to the One Team as an employer. Increased workloads on remaining staff impacting on work/life balance.</p>	Sealy, Richard;	3	4	12