



Members of the Audit Committee:
(Councillors R P Lillis (Chairman), R Woods (Vice Chairman),
K Mills, P Pilkington, N Thwaites, R Thomas, T Venner)

Our Ref: Democratic Services
Contact: Clare Rendell c.rendell@tauntondeane.gov.uk

Date 19 July 2018

**THE PRESS AND PUBLIC ARE WELCOME TO ATTEND THE MEETING
THIS DOCUMENT CAN BE MADE AVAILABLE IN LARGE PRINT, BRAILLE, TAPE FORMAT
OR IN OTHER LANGUAGES ON REQUEST**

Dear Councillor

I hereby give you notice to attend the following meeting:

AUDIT COMMITTEE

Date: Monday 23 July 2018
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

A handwritten signature in black ink, appearing to read "Bruce Lang".

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.

AUDIT COMMITTEE - AGENDA

23 July 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 19 June 2018 – **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 2018 – **SEE ATTACHED.**

7. **Grant Thornton External Audit – Audit Findings Report**

To consider Report No WSC 65/18 to be presented by Sarah Crouch, Audit Manager, Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to outline 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 Statement of Accounts**

To consider Report No WSC 66/18 to be presented by Andrew Stark, Interim Finance Manager and Deputy S151 Officer – **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.

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 19 June 2018 at 2.00 pm in the
Council Chamber, Williton****Present**

Councillor R Lillis.....	Chairman
Councillor R Woods.....	Vice-Chair
Councillor P Pilkington	Councillor K Mills
Councillor N Thwaites	Councillor R Thomas

Officers In Attendance

Corporate Strategy and Performance Officer (R Doyle)
Head of Financial Services and Deputy S151 Officer (A Stark)
Democratic Services Officer (C Rendell)

Also In Attendance

Sarah Crouch, Manager, Grant Thornton
Alastair Woodland, Assistant Director, South West Audit Partnership (SWAP)

A.1 Apology for Absence

An apology was received from Councillor T Venner.

A.2 Minutes

(Minutes of the Meeting of the Audit Committee held on 26 March 2018, circulated with the Agenda)

RESOLVED that the Minutes of the Audit Committee held on 26 March 2018, be confirmed as a correct record.

A.3 Declarations of Interest

Name	Minute No.	Member of	Personal or Prejudicial	Action Taken
Cllr P Pilkington	All	Timberscombe Parish Council	Personal	Spoke and voted
Cllr R Thomas	All	Minehead Town Council	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

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

There were four recorded actions from the last meeting on 26 March 2018, all of which had been resolved.

Members queried whether the information on Hinkley Point C, which reported on whether local people were adequately trained, had been received. The information had been sent to the Committee but would be circulated again.

RESOLVED that the Audit Committee Action Plan be noted.

A.6 Audit Committee Forward Plan

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

The Assistant Director for SWAP noted that the Audit Plan 2019/20 and Audit Charter would be reported to the Shadow Council Corporate Governance Committee in March 2019 rather than to the Audit Committee and Corporate Governance Committee.

RESOLVED that the Audit Committee Forward Plan be noted.

A.7 Grant Thornton External Audit – Audit Fees

(Report No. WSC 47/18, circulated with the Agenda).

The purpose of the report was to detail the fee forecast for external audit services in 2018/19.

Each year the Council's external auditors, Grant Thornton, provided details of the forecast fees to be charged for the main audit and the grant certification work which related to the current year.

The fees letter detailed the fees and the schedule of payments. Grant Thornton had also provided an outline audit time table which showed their phased work plan. 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 main audit fee was £32,744 (which was a reduction of 23% compared to £42,525 for 2017/18). This did not include the fee for the grant certification work which had yet to be set. However, during the meeting, the fee was reported to be £11,091.37. The fee for last year was £6,996.

During the discussion of this item the following point was made:-

- Members requested clarification on how the figures had been calculated and how they would be affected when the New Council was formed.
The Public Sector Audit Appointments Ltd prescribed that 'scale fees were based on the expectation that audited bodies were able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'. The scale fee covered: the audit of the financial statements; the work to reach a conclusion on the economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and the work on the whole of government accounts return. The same calculation would be used when the New Council was formed.

RESOLVED that the Committee noted the report from the External Auditor.

A.8 Grant Thornton External Audit – Audit Update

(Report No. WSC 48/18, circulated with the Agenda).

The purpose of the report was to update Members of the work carried out by our external auditors, Grant Thornton. Specifically the report provided an update in relation to their work for the 2017/18 financial year and also provided an update in relation to emerging national issues.

The Audit Manager highlighted two sections of the report:-

- The Vibrant Economy Index, a new way to measure success. The Vibrant Economy Index used data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. The Auditors wanted to start a debate about what type of economy people wanted to build in the United Kingdom (UK) and spark a collaboration between citizens, businesses and place-shapers to make their places thrive.
- Financial sustainability of local authorities 2018. The National Audit Office report reviewed financial sustainability across Local Government and examined whether the Ministry of Housing, Communities and Local Government, along with other departments with responsibility for local services, understood the impact of funding reductions on the financial and service sustainability of local authorities.

During the discussion of this item the following point was made:-

- Members requested that both Council's committee names, Audit and Corporate Governance, were included in the report.

RESOLVED that the Committee noted the report from the External Auditor.

A.9 SWAP Internal Audit – Audit Plan 2017/18 Outturn

(Report No. WSC 49/18, circulated with the Agenda).

The purpose of the report was to update Members on the Internal Audit Plan 2017/18 progress and bring to their attention any significant findings identified through the work.

The Assistant Director for SWAP presented the report and informed the Committee there had been no changes to the Audit Plan since the last update in March 2018.

There were only two audits that had not been marked as final. Those were both for ICT and related to Back Ups and Cyber Security. This was due to a delay in receiving the information needed to carry out the audits.

SWAP had been asked to review and report on key areas of the Transformation Project. The key areas were:-

- Strategic Framework (Governance and delivery of key Transformation Themes);
- New Council Governance;
- Business Process Re-engineering; and
- Benefits Realisation Management.

In August 2017, the Data Protection audit report issued a partial assurance. Within the follow up audit carried out in March 2018, there were still some outstanding actions, the following had been completed:-

- Data Protection modules made mandatory for all employees;
- All forms to include privacy notices and direction to the privacy statement on the websites; and
- Staff awareness of statutory timescales for responding to Subject Access Reports.

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

- Members queried how did the Council hold information with regards to the new General Data Protection Regulations.
There was a new operating model that had set out how to hold information and how to be compliant. Officers hoped to encrypt all information in the future and ensure that documents were only stored in one location instead of multiple versions of the same document being stored in different locations.
- Members were concerned about the information they held on constituents.
Other Members suggested that they should store their information on the Council's network rather than their personal server.
- Members requested clarification on the scores given on the Internal Audit Work Plan.
The scores were defined in the report and explained by the Assistant Director for SWAP.
- Members queried why Parking Maintenance had been given a partial rating.
The review had been followed up and was no longer a partial rating.

RESOLVED that the Committee noted the report from the Internal Auditor.

A.10 SWAP Internal Audit – Annual Report

(Report No. WSC 50/18, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the Annual Opinion Report 2017/18 from Internal Audit.

In the 2017/18 Audit Plan, there was a total of twenty reviews planned. All except one were at report stage and whilst no reviews had received substantial assurance, nine had received reasonable assurance.

After consideration of the balance of audit work in 2017/18 and the assurance levels provided, along with the profile of each audit and the outcomes, the Assistant Director for SWAP offered a Reasonable Assurance in respect of the areas reviewed during the year, as most were found to be adequately controlled.

The Secretary of State for Communities and Local Government had now approved the formation of a New Council. There would be significant challenges and risks ahead to ensure the process was delivered successfully. Acceptable risk taking would be required to deliver the Transformation Projects successfully and maintain services to an acceptable standard.

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

- Members queried who received the Fraud Bulletins.
The Bulletin was sent to the S151 Officer and other Key Officers. They were

not sent to Members, however, the Assistant Director for SWAP would send Members an example.

- Members queried the SWAP Performance Targets and how well did West Somerset Council (WSC) and Taunton Deane Borough Council perform against them?
There was a mixed result but on the whole, both Councils received an average performance target.
- Members queried whether enough time was allocated to Audit or should the working practice be reviewed.
It was a subjective process and additional days could be added if required. Due to the joint working practices, both Councils had benefitted and would continue to once the New Council was formed.
- Members thanked officers for all their hard work especially during the Transformation process.

RESOLVED that the Committee noted the report from the Internal Auditor.

A.11 Review of Effectiveness of Internal Audit

(Report No. WSC 51/18, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP during 2017/18.

WSC's review of Internal Audit had been carried out by the Council's Section 151 Officer. The findings had been reported and were used within the overall evaluation and would provide evidence for the Annual Governance Statement. The following criteria were used in the evaluation:-

- Annual report and opinion of the Assistant Director of SWAP;
- Audit Plan and monitoring reports, reports on significant findings, key performance measures and service standards; and
- View of the Council's External Auditor which covered the extent of reliance placed on the internal audit work on key financial systems.

The following details of the overall performance of the service during the year were given:-

- Level of satisfaction from feedback questionnaires was 89%;
- The average cost of an audit day for SWAP remained unchanged at £280;
- In total 85% of the Audit Plan for 2017/18 had been delivered by 31 March 2018. SWAP were committed and on track to deliver 100%;
- There were no new high priority recommendations in 2017/18; and
- The outturn position for SWAP showed (net income) a £4,834 budget surplus and a £16,513 actual surplus.

RESOLVED that the Committee noted the report.

A.12 Annual Governance Statement 2017/18

(Report No. WSC 52/18, circulated with the Agenda).

The purpose of the report was to prepare an Annual Government Statement (AGS) to be transparent about compliance with good governance principles. This included

reporting on how officers had monitored and evaluated the effectiveness of their governance arrangements in the previous year, and setting out any planned changes in the coming period.

The report outlined the changes to the format of the Statement as recommended in the good practice guidance and set out a review of actions from last year's Statement and a proposed set of actions for the 2018/19 year.

Best practice now required that Statements gave greater prominence to:-

- An opinion on the Council's governance arrangements from the Council's senior managers and the Leader of the Council;
- A review of the effectiveness of the Council's governance arrangements;
- A review of the action plan from last year's statement; and
- An action plan for 2018/19.

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

- Concern was raised on the term 'risk takers' used in the report.
Officers wanted to empower staff to make decisions that were low risk or identify risks. The wording would be amended.
- Concern was raised on the Transformation process and the generic way of working that had been proposed. Members were concerned on the amount of knowledge staff would hold.
Staff would be trained in the areas required and would be placed into roles that suited their capabilities.

RESOLVED that the Committee noted the report.

A.13 2017/18 Treasury Management Outturn Report

(Report No. WSC 53/18, circulated with the Agenda).

The purpose of the report was to review the treasury management activity and the performance against the Prudential Indicators for the 2017/18 financial year.

The Council was required to receive and approve a minimum of three main reports each year. These were the Treasury Management Strategy Statement, a Mid-Year Update and an Outturn Report, which incorporated a variety of policies, estimates and actuals.

There following developments were highlighted within the report. In February, Arlingclose had advised against lending to Northampton County Council because they had issued a section 114 notice in the light of severe financial challenges. In March, again following advice from Arlingclose, the Council removed RBS Plc and National Westminster Bank from its counterparty list because the long-term ratings did not meet the minimum criterion.

The Officer also advised the Committee that the average cash balance during the year was £19,695,000 which included Hinkley funds. The UK Bank Rate had increased from 0.25% to 0.50% in November 2017, which was the first rate increase in ten years.

During the discussion of this item the following point was made:-

- Members suggested that when inflation was high, it was a better time to borrow and invest in projects.
There were funds set aside for investment in projects.

RESOLVED that the Committee noted the report.

A.14 Assessment of Going Concern Status

(Report No. WSC 54/18, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the Assistant Director - Strategic Finance and Section 151 Officer's assessment of the Council as a 'going concern' for the purposes of producing the Statement of Accounts for 2017/18.

The concept of a 'going concern' assumed that an Authority, its functions and services, would continue in operational existence for the foreseeable future. This assumption underpinned the accounts drawn up under the local authority Code of Accounting Practice and was made because local authorities carried out functions essential to the local community and were themselves revenue-raising bodies.

If the assessment determined that the Council was not a 'going concern', particular care would be needed in the valuation of assets, inventories and property, plant and equipment might not be realisable at the book values and provisions might be needed for closure costs or redundancies.

It was considered that with regards to the Council's arrangement and factors that were highlighted in the report, the Council remained a 'going concern' until at least July 2019.

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

- Members queried why assurance was only given until July 2019.
The S151 Officer could only give an assurance for one year after the accounts were closed.
- Members were positive that assurance had been given.
- Members collectively agreed that they would be sad to see the close of WSC, but were happy that the Council would survive as a joint authority.

RESOLVED that the Committee noted the report.

(The meeting closed at 4.35pm)

AUDIT COMMITTEE ACTION PLAN

Date/Minute Number	Action Required	Action Taken
<p>19 June 2018</p> <p>A.5 Audit Committee Action Plan</p>	<p><u>RESOLVED:-</u></p> <p>Members queried whether the information on Hinkley Point C, which reported on whether local people were adequately trained, had been received.</p>	<p>The information had been sent to the Committee but would be circulated again.</p>
<p>19 June 2018</p> <p>A.6 Audit Committee Forward Plan</p>	<p><u>RESOLVED:-</u></p> <p>The Assistant Director for SWAP noted that the Audit Plan 2019/20 and Audit Charter would be reported to the Shadow Council Corporate Governance Committee in March 2019 rather than to the Audit Committee and Corporate Governance Committee.</p>	<p>This item has been removed from the Audit Committee Forward Plan and has been added to the Shadow Corporate Governance Forward Plan.</p>
<p>19 June 2018</p> <p>A.10 SWAP Internal Audit – Annual Report</p>	<p><u>RESOLVED:-</u></p> <p>Members queried who received the Fraud Bulletins.</p>	<p>The Assistant Director for SWAP sent a copy of the Fraud Bulletin to the Committee Members.</p>
<p>19 June 2018</p> <p>A.12 Annual Governance Statement 2017/18</p>	<p><u>RESOLVED:-</u></p> <p>Concern was raised on the term ‘risk takers’ used in the report.</p>	<p>The wording would be amended.</p>

West Somerset Council - Audit Committee – Forward Plan 2018

Meeting	DRAFT AGENDA ITEMS	LEAD OFFICER
19 March 2018 <u>Deadline:</u> <u>8 March 2018</u>	Grant Thornton External Audit – Certification Report Grant Thornton External Audit – Audit Update Grant Thornton External Audit – Audit Plan SWAP Internal Audit – Progress Report 2017/18 SWAP Internal Audit - Audit Plan 2018/19 and Audit Charter Corporate Risk Management Update Corporate Governance Action Plan Summary of Overdue Level 4/5 Actions GDPR Action Plan Update Prudential Code and Treasury Guidance 2018 Forward Plan	Sarah Crouch Sarah Crouch Sarah Crouch Alastair Woodland Alastair Woodland Richard Doyle Richard Doyle Richard Doyle Richard Doyle Andrew Stark
19 June 2018 <u>Deadline:</u> <u>8 June 2018</u>	Grant Thornton External Audit - Audit Fees Grant Thornton External Audit - Audit Update SWAP Internal Audit – Audit Plan 2017/18 Outturn SWAP Internal Audit – Annual Report Review of Effectiveness of Internal Audit Annual Governance Statement 2017/18 2017/18 Treasury Management Outturn Report Assessment of Going Concern Status Forward Plan	Sarah Crouch Sarah Crouch Alastair Woodland Alastair Woodland Alastair Woodland Richard Doyle Steve Plenty Andrew Stark
23 July 2018 <u>Deadline:</u> <u>12 July 2018</u>	Grant Thornton External Audit – Audit Findings Report Approval of the Statement of Accounts Forward Plan	Sarah Crouch Andrew Stark
17 September 2018 <u>Deadline:</u> <u>6 Sept 2018</u>	Grant Thornton External Audit – Annual Audit Letter 2017/18 Grant Thornton External Audit – Progress & Update Report SWAP Internal Audit – Progress Update 2017/18 Summary of Overdue Level 4/5 Actions Corporate Governance Action Plan Update Corporate Risk Management Update GDPR Action Plan Update Powys Counter Fraud Partnership – Update Report Forward Plan	Sarah Crouch Sarah Crouch Alastair Woodland Richard Doyle Richard Doyle Richard Doyle Richard Doyle Heather Tiso
3 December 2018 <u>Deadline:</u> <u>22 Nov 2018</u>	Grant Thornton External – Progress Report SWAP Internal Audit – Progress Report 2016/17 Grant Certification Report 6-Month Review of Treasury Management Activity Forward Plan	Sarah Crouch Alastair Woodland Andrew Stark Steve Plenty
18 March 2019 <u>Deadline:</u> <u>7 March 2019</u>	Grant Thornton External Audit – Audit Update Grant Thornton External Audit – Audit Plan SWAP Internal Audit – Progress Report 2018/19 Corporate Risk Management Update Corporate Governance Action Plan Summary of Overdue Level 4/5 Actions Forward Plan	Sarah Crouch Sarah Crouch Alastair Woodland Richard Doyle Richard Doyle Richard Doyle

Report Number: WSC 65/18

West Somerset Council

Audit Committee – 23 July 2018

External Audit – Audit Findings Report 2017/18

This matter is the responsibility of Councillor Martin Dewdney

Report Author: Andy Stark, Interim Finance Manager (Deputy S151 Officer)

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.
- 2.2 Members are requested to note the Auditor's unqualified value for money conclusion.

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)
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	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 2017/18 was signed off by the Council's S151 Officer before 31 May 2018 – within the earlier statutory deadline, and before the start of the external audit review.
- 4.2 Most of the external audit review has been completed and subject to work outstanding being completed and queries being resolved 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. Their report states that 'the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources'.

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 A small number of misstatement and disclosure changes have been identified during the audit and these are set out in Appendix A of the attached Audit Findings Report for 2017/18. We have also made a small number of presentational changes to add clarity for the reader of the accounts. These had no impact on the overall “bottom line”.
- 6.2 Going forward we will continue to try and improve our working papers so that they fully comply with the requirements of our external auditors and this will greatly assist them in performing their duties particularly in view of the tighter timescale for getting the Financial Statements audited and approved.
- 6.3 Overall we have been very pleased with the outcome of the audit and with the achievement of producing the accounts to the earlier timetable this year.

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

Contact: Paul Fitzgerald
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Background Papers

Cabinet – 11 July: Financial Outturn 2017/18



Audit Findings

Year ending 31 March 2018

West Somerset District Council
16 July 2018



Contents



Your key Grant Thornton team members are:

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Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

Page

- 3
- 4
- 14
- 17

Appendices

- A. Audit adjustments
- B. Fees
- C. Audit Opinion

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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key issues arising from the statutory audit of West Somerset Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Statement), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>We commenced our post-statements onsite visit in early June and as at 16 July 2018 our audit is substantially complete. Our findings are summarised on pages 4 to 19.</p> <p>We identified a material error in relation to property, plant and equipment and how the surplus and deficit on revaluation is shown in the Statement of Comprehensive Income and Expenditure. This has resulted in a £1.792m adjustment between two lines in this statement. This is a technical adjustment and does not have any impact on the outturn position for the year. In addition, we identified a small number of lower value disclosure errors as a result of our work set out within the body of our report. We have also recommended a number of adjustments to improve the presentation of the financial statements.</p> <p>Audit adjustments are detailed in Appendix A.</p> <p>The draft financial statements were presented for audit in accordance with the earlier timetable of the end of May 2018.</p> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Statement, are consistent our knowledge of your organisation and with the financial statements we have audited.</p> <p>Subject to a number of outstanding queries being resolved, we anticipate issuing an unqualified audit, as opinion in advance of the 31 July 2018 deadline. In our opinion (Appendix C) we have emphasised the demise of the Council from 1 April 2019.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that West Somerset Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 13 to 15.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance (in the case of West Somerset Council, the Audit Committee) to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion in advance of the 31 July 2018 deadline, as detailed in Appendix C. These outstanding items include:

- Receipt of management representation letter;
- Completion of a number of outstanding items including the completion of operating expenditure sample testing;
- Final review of the audit work; and
- Review of the final set of financial statements.

We will verbally update the Audit Committee on progress with our work in the outstanding areas at the meeting on the 23 July 2018.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations have been adjusted to reflect the final set of financial statements received on 31 May 2018. We detail in the table below our assessment of materiality for West Somerset Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£354,000	This equates to 1.8% of your gross expenditure for the year.
Performance materiality	£266,000	This equates to 75% of Materiality.
Trivial matters	£18,000	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management’s assessment process

Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditor commentary

- The disclosures in the accounts include at note 46 reference to the ‘creation of the new Somerset West and Taunton Council’ and concludes that ‘the formation of the new Council has no impact upon the going concern basis’. This disclosure is considered appropriate.
- We have reviewed the Council’s financial plans for 2018/19 including the requirement to achieve savings, the level of general fund and earmarked reserves. We have commented in our VFM conclusion work that the Council’s financial position has strengthened over the last 12 months. Following the creation of the new council services will continue.

Work performed

We have reviewed the Section 151 Officer’s assessment of the appropriateness of adoption of the going concern assumption. We have reviewed the associated disclosures in the financial statements.

Auditor commentary

- Management set out their consideration of the appropriateness of the adoption of going concern assumption in their response to our ISA240 letter and supplemented this with a detailed ‘Assessment of Going Concern Status’ report to the Audit Committee in June 2018. In this report the s151 officer confirmed his view that the Council is a going concern. Subsequently the s151 Officer has also confirmed there are no material uncertainties that would require disclosure, under ISA 570. We concur with this view.
- .

Concluding comments

We are satisfied that the Going Concern basis is appropriate for the 2017/18 financial statements.

Auditor commentary

- Our audit opinion will be unmodified in respect of Going Concern.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

For West Somerset Council, we have concluded that the greatest risk of material misstatement relates to the occurrence of other fees and charges and the existence of associated receivables.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted for non-fees and charges income streams, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including West Somerset District Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for West Somerset District Council.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;
- Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and
- Evaluate the rationale for any changes in accounting policies or significant unusual transactions.
- Carried out a review of accounting estimates, judgements and decisions made by management
- Reviewed any unusual significant transactions

Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- Reviewed management's processes and assumptions for the calculation of the estimate.
- Reviewed the competence, expertise and objectivity of any management experts used.
- Reviewed the instructions issued to valuation experts and the scope of their work
- Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.
- Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.
- Tested revaluations made during the year to ensure they were input correctly into the Council's asset register

With the exception of how the surplus and deficit on revaluation is shown in the Statement of Comprehensive Income and Expenditure (see slide 19) our audit work has not identified any issues in respect of the valuation of property, plant and equipment.

Significant audit risks

Risks identified in our Audit Plan

4

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Commentary

Auditor commentary

We have performed the following work in respect of this risk:

- Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;
- Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.
- Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.
- Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Our audit work has not identified any issues in respect of the Pension Fund net liability.

Reasonably possible audit risks

Risks identified in our Audit Plan

5

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

Commentary




Auditor commentary

We have undertaken the following work in relation to this risk:




- Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;
- Documented the accruals process and the controls management have put in place. Challenged key underlying assumptions, the appropriateness of the source of data used and the basis for calculations.
- Reviewed a sample of non-pay payments made post year end to ensure that they have been charged to the appropriate financial period.

Our audit is almost complete in this area, and subject to the completion of our sample testing, our work has not identified any issues in respect of operating expenditure:

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue is accounted for in the year that it is derived, not simply when cash payments are received. In particular, that specific accounting policies for all of the Councils major revenue streams are detailed in accounting policies ii, ix and xx. 	The various accounting policies are considered to be reasonable and in line with the CIPFA Code.	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> – Revaluations – Impairments – Accruals – Valuation of pension fund net liability 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used significant estimates</p> <p>We found that:</p> <p>Appropriate policies had been used</p> <p>Accounting policies had been adequately disclosed</p> <p>Management had utilised the expertise of experts or third parties to support the calculation of the estimate</p> <p>Our conclusions, subject to the outstanding work, on the valuation of property, plant and equipment and the pension fund net liability are set out on page 7 to 8.</p>	
Other critical policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	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.	

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

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 discussed matters in relation to fraud in our communications with management and the Audit Committee via our ISA240 letters. We have not been made aware of any significant 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"> We are not aware of any related parties or 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 bodies with which the Council hold investment, cash and debt balances. This permission was granted and the requests were sent. We are still waiting for some of these responses. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor but expect to receive it soon and in time to issue our opinion by 31 July 2018 deadline.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. A number of minor disclosure changes were proposed throughout the statement of accounts, the Annual Governance Statement, and the Narrative Report.
⑦ Audit evidence and explanations	<ul style="list-style-type: none"> All information and explanations requested from management was provided.
⑧ Significant difficulties	<ul style="list-style-type: none"> We did not experience any significant difficulties during the course of the audit.

Other responsibilities under the Code

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

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Statement, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>Minor inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix C</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> 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 other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have not identified any issues we would be required to report by exception in the following areas.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of West Somerset District Council in the audit opinion, as detailed in Appendix C.</p>

Value for Money

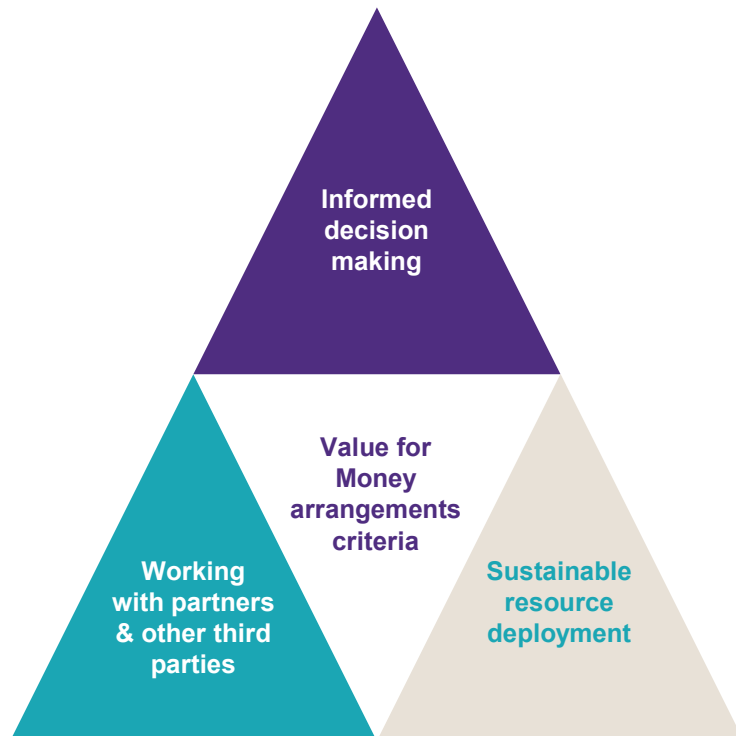
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December to February 2018, and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated January 2018.

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.

Value for Money

Our work

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's Medium term financial position, including the Transformation Programme and proposal for a new Council.

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 page 15 to 17.

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

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.

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	Findings	Conclusion
<p>1 Medium term financial position, including the Transformation Programme and proposal for a new Council</p> <p>In our Audit Plan of March 2018 we highlighted that the Council had a balanced financial plan for 2018/19 and an indicative budget surplus for 2019/20. However there was a forecast budget gap by 2022/23 of £0.178m. The forecast budget gap for 2022/23 would increase by circa £0.441m if the savings which are expected to be delivered via the transformation Programme are not achieved over the next 5 years</p> <p>In order to achieve financial savings and efficiencies, the Council had a detailed Transformation Programme, which would culminate in the creation of a new Council with Taunton Deane Borough Council. The two Councils had submitted a proposal to the Secretary of State to allow the creation of a new Council, with a decision expected imminently. If approved, it was expected that the new Council would operate from April 2019.</p> <p>We indicated we would review the Council's medium term financial plan, including the assumptions that underpin the plan. We will review how the Council is progressing with its Transformation Programme, with a particular emphasis on the transformation of services, as well as reviewing the progress on the proposal to create a new Council</p>	<p>2017/18 Budget Setting</p> <p>The Council set a net budget of £4.024m for the 2017/18 financial year, which included a net contribution from earmarked reserves of £0.488m and no use of General Fund balances. The planned use of earmarked reserves (Business Rates Retention Smoothing' reserve) recognised the continued uncertainty around changes to rateable values through the 2017 Revaluation and in particular, Hinkley B power station. This budget was predicated on the delivery of £0.048m of savings and an increase in council tax of £5 (3.4% increase) for the year.</p> <p>In our view, the 2017/18 budget was prudent and assumed, amongst other things, that the business rates income from Hinkley B would be based on its 2010 valuation of £8m. Given the history of appeals, the council did not want to use the updated draft valuation of £29m issued by the Valuation Office in September 2016, and were aware when the budget was approved in February 2017 that discussions between the VO and the owners of Hinkley were in progress. This proved well founded as following agreement between the Valuation Office and the owners of Hinkley B the final valuation was reduced to £21m in March 2017. The net effect of this, nonetheless, was a significant increase in business rates income for 2017/18 when compared to that included in the original budget, with Council subsequently approving a Revised Budget in August 2017.</p> <p>In-year Budget Monitoring</p> <p>In year monitoring of delivery against the revenue budget is through reporting to the Joint Management Team (JMT) and to Scrutiny and subsequently on to Cabinet. JMT see the position quarterly from month 3 with members reviewing performance from month 6 and again at month 9 and at year-end.</p> <p>As reported to the Audit Committee in our March 2018 progress report, fully detailed budget monitoring information was not made available to budget holders and decision makers at both an officer and member level until month 9 in 2017/18. This was due to technical issues that prevented officers extracting the information from the Midland Trent HR and Payroll system. We understand that finance staff reviewed the data corporately and with relevant budget holders in the interim for known high risk areas and no issues were identified that required escalation.</p> <p>This weakness in the internal financial control prevented officers from fully reviewing expenditure against budgets and members challenging the budget position during the year and taking action where necessary. Members will be pleased to note that this issue with the Payroll system is now resolved.</p> <p>The month 9 formal reporting identified an underspend against a revised revenue budget due to clarification in December/January of the need to accrue for a material credit adjustment to the Business Rates Retention Tariff in 2017/18 instead of 2018/19 as previous expected. As a result of this additional business rates income (brought forward from 2018/19) and small underspends elsewhere the Council was able to allocate an additional £0.701m to earmarked reserves, of which £0.600m went to the 'Business Rates Retention Smoothing' reserve. We note that the actual month 9 reporting was presented to Scrutiny on 15 February and then to Cabinet at the March 2018 meeting, close to the financial year end.</p>	

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	Findings	Conclusion
<p>1 Medium term financial position, including the Transformation Programme and proposal for a new Council (continued)</p>	<p>Despite the lack of formal budget monitoring until month 9, our review of the reporting when undertaken indicated a good level of detail including the impact of spending on the general fund balance and details on risks. The minutes of the month 9 Cabinet meeting also indicated an appropriate level of challenge to the financial position given the strong in-year performance.</p> <p>Although the lack of in-year budget monitoring to members until February 2018 is disappointing, we note that no particular areas of significant overspend arose during 2017/18 with all service line budgets achieved and additional income being generated in areas such as car parking.</p> <p>2017/18 Outturn</p> <p>The final reported outturn position for 2017/18 against a revised net budget of £5.525m was an underspend of £0.100m after reserve transfers and carry forwards. This was after a net transfer to earmarked reserves of £1.071m and £0.030m to General Fund reserves. The council has a good track record of delivering against its budget despite the continued reduction in central government funding and the need to identify and realise savings each year.</p> <p>The in-year additional business rates funding were estimated at approximately £1.3m and this combined with other additional income allowed significant contributions to be made to strengthen the Council's earmarked reserves.</p> <p>The draft accounts presented for audit reported a general fund balance of £0.899 million and earmarked reserves of £4.249 million as at 31 March 2018. This represents a small increase in the general fund reserves from the prior year of £0.859m and a significant net increase of £1.366m in earmarked reserves from the previous year of £2.883m. Specifically, an extra £1.027m has gone into the 'Business Rates Retention Smoothing Account' reserve which at 31 March 2018 totaled £1.332m.</p> <p>The financial position at West Somerset District Council has improved significantly over the last 12 months with improving levels of earmarked reserves and a general fund balance in excess of the £0.700m target minimum set by the Council.</p> <p>The Section 151 officer reported in February 2018 the need to increase the 'Business Rates Retention Smoothing Account' reserve by a further £2.0m by 2023. Hinkley B represents the major proportion of the Council's total business rates funding and a likely loss of this income between the decommissioning of Hinkley B by 2023 and Hinkley C becoming operational in 2025 at the earliest will have a significant impact on income projections. In the short-term this reserve now provides cover for inevitable further volatility in the business rates funding with a business rates reset due in 2020. In our view, the Council has adopted a prudent approach with reserves being built-up to ensure long-term financial sustainability.</p>	

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	Findings	Conclusion
<p>1 Medium term financial position, including the Transformation Programme and proposal for a new Council (continued)</p>	<p>2018/19 Budget Setting</p> <p>The Council set a net budget of £5.421m for the 2018/19 financial year which included a net contribution to earmarked reserves of £0.615m and no use of General Fund balances. This budget reflects the final increased rateable value for Hinkley B. This budget was predicated on the delivery of £0.045m of savings arising through the implementation of the 'Transformation Business Case' and an increase in council tax of £5 (3.32% increase) for the year. The level of savings required in 2018/19, as with 2017/18, have been set below that of the 'Transformation Business Case' due to the timing of delivery of savings. The Council recognise the risk that savings will arise later than previous estimated in the Medium Term Financial Plan, although remain confident that the total savings target for transformation is fully deliverable and there is an upfront cost to delivering the transformation programme. Our review indicates that the 2018/19 budget is prudent with appropriate consideration of inflationary pressures and service change costs.</p> <p>The Council's current MTFP includes a budget gap of £0.064m in 2020/21 increasing to £0.178m by 2022/23.</p> <p>The new 'Somerset West and Taunton Council'</p> <p>On the 25 May 2018 the Secretary of State gave the final approval for the creation of the new 'Somerset West and Taunton Council' from 1 April 2019 and shadow governance arrangements are now in place to manage the transition. This now provides certainty to the council allowing it to begin in earnest the work on developing a new 'single council' financial plan informed by the aims and aspirations of this new entity. Although the MTFPs of the respective councils are predicated on achieving savings through transforming services facilitated through the creation of a new single council, significant work will be required in advance of April 2019 to facilitate a smooth transition and ensure financial control remains in place. Clarity on future financial settlements from central government will be crucial to ensuring a realistic and achievable budget is set for 2019/20. Transformation of this nature often brings about unexpected additional costs and the 2017/18 outturn position has provided additional resilience that will be critical to managing the transition that will inevitably involve some unexpected costs.</p>	<p>Auditor view</p> <p>Whilst significant pressures remain we conclude that, overall, the Council has demonstrated it has appropriate arrangements in place for sustainable resource deployment.</p> <p>Management response</p> <p>Management agrees with the Auditor View</p>

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. No issues have been identified that have affected the figures in the primary statements.

Misstatement and disclosure changes

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

Misstatement change	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Property plant and equipment - CIES – Surplus and Deficit on Revaluation The Council had split the surplus/deficit on revaluation across two lines, one being labelled Impairment Losses. The figures should be netted off and included on one line.	1,792 deficit on revaluation (1,792) impairment losses	-	-
Overall impact	0	-	-

Disclosure change	Detail	Auditor recommendations	Adjusted?
Note 14 – Property, Plant and Equipment	The Council had included £1,878k of infrastructure assets that had been fully depreciated.	The figures should be amended to remove fully depreciated assets that were not specific assets that were being used.	✓
Notes 16 and 43– Financial Instruments	Fees payable for other services during the year was overstated in the draft accounts by £1k.	Fees payable for other services during the year should be disclosed as £4k.	✓
Note 16 and 43 – Financial Instruments	Minor amendments and disclosure changes were required to ensure the Financial Instruments are correctly included as per the Code.	Minor amendments were required.	✓
Expenditure and funding Analysis	Draft accounts included the 'Expenditure and funding Analysis' before the primary statements.	This is a note and not a primary statement and in order to ensure our audit opinion is clear this has been moved into the notes.	✓
Other minor amendments	Minor amendments were made throughout the accounts to improve presentation and clarity	Minor amendments should be made to improve accuracy and correct minor errors.	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	£42,525	£42,525
Grant Certification	£6,996	£TBC
Total audit fees (excluding VAT)	£49,521	£TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Audit opinion

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

Draft Independent auditor's report to the members of West Somerset Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West Somerset District Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the Accounts, including a summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director - Strategic Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director - Strategic Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of Matter – Structural Change Order - Creation of the new Somerset West and Taunton Council

We draw attention to the disclosures made in note 46 to the accounts concerning the creation of the new Somerset West and Taunton Council. As stated in note 46, the Authority will cease to exist as an entity and from 1 April 2019 and the Authority's functions, assets and liabilities will transfer to the new Somerset West and Taunton Council on 1 April 2019. Our opinion is not modified in respect of this matter.

Other information

The Assistant Director - Strategic Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 2 to 81 and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Assistant Director - Strategic Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 12, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Assistant Director - Strategic Finance. The Assistant Director - Strategic Finance 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 2017/18, which give a true and fair view, and for such internal control as the Assistant Director - Strategic Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Assistant Director - Strategic Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Signature to be added

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

2 Glass Wharf
Bristol
BS2 0EL

Date to be added



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Report Number: WSC 66/18

West Somerset District Council

Audit Committee – 23 July 2018

Approval of the Statement of Accounts 2017/18

Report Author: Andy Stark, Interim Finance Manager (Deputy S151 Officer)

This matter is the responsibility of Councillor Marin Dewdney

1 Executive Summary

The Statement of Accounts for 2017/18 is required to be approved by the Audit Committee and signed by the S151 Officer (Paul Fitzgerald) and the Chair of the Audit Committee (Councillor Lillis). The Statement of Accounts document is attached to this report.

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.

As part of the overall process for approving the Statement of Accounts, a Management Letter of Representation has to be signed by the Council. A draft letter of representation is attached.

2 Background

- 2.1 The Accounts and Audit Regulations 2015 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.
- 2.2 The S151 officer is required to sign off the unaudited Draft Accounts as true and fair by 31 May (compared to 30 June for last year). The audited Statement of Accounts must be approved by Committee by 31 July. Once approved the Statement must be signed by the S151 Officer and the Chair of the Audit Committee, and published on the Council's website.
- 2.3 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.

- 2.4 The Management Letter of Representation is a formal letter written by the external auditors, Grant Thornton LLP, which is signed by the Council's senior management. The letter attests to the accuracy of the financial statements that the Council has submitted to the auditors for their analysis.
- 2.5 The Management Letter of Representation enables the Council to declare in writing that the statement of accounts and other presentations to the auditor are sufficient and appropriate and without omission of material facts to the best of the management's knowledge. The auditors will use this letter as part of their audit evidence.

3 Recommendations

Members are recommended to:

- 3.1 Note the Auditor's unqualified opinion on the Statement of Accounts.
- 3.2 Approve the 2017/18 Statement of Accounts as attached to this report; then,
- 3.3 The Chairman of the Committee is requested to sign the Statement of Accounts.
- 3.4 The Committee approves the management letter of representation in respect of the financial statements for the year ended 31 March 2018, as presented at the meeting.

4 Statement of Accounts

- 4.1 The Statement of Accounts for 2017/18 has been prepared on an IFRS (International Financial Reporting Standards) basis in line with the CIPFA (Chartered Institute of Public Finance Accountancy) Code of Practice on Local Authority Accounting in the UK 2017/18.
- 4.2 In 2017/18, other than the changes already mentioned in respect of the closure timetable, there have been only minor changes required in respect of the overall format and presentation of the accounts.
- 4.3 The Statement of Accounts contain four main statements reflecting the position of the Council at 31 March 2018:
- Comprehensive Income and Expenditure Statement
 - Movement in Reserves Statement
 - Balance Sheet
 - Cash Flow Statement

- 4.4 There are also supplementary statements related to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

Comprehensive Income and Expenditure Statement

- 4.5 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.
- 4.6 The Net Cost of Services has decreased by £1.070m compared to the previous year's accounts. This relates primarily to a reduction of Growth and Development spending in respect of Hinkley Point expenditure and a reduction of grant received for the Housing Community Fund.
- 4.7 There has also been a significant movement on the Provision of Services which has moved from a £1.180m surplus in 2016/17 to a reduced surplus of £273k in 2017/18. This relates to the reduction in cost of services being more than offset by a reduction in capital grant income and an increase in other operating expenditure. There have also been significant movements between years in respect of revaluation movements and the actuarial valuation of the pension fund. The overall impact of these movements is to increase the surplus on the CIES from £35k in 2016/17 to £831k in 2017/18.
- 4.8 The Financial Outturn position for 2017/18 has recently been reported to Cabinet in July going on to Full Council. This included information relating to the Council's financial performance for the 2017/18 financial year. The reports highlighted key variances to the budget and provided explanations for these.

Movement in Reserves Statement

- 4.9 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).
- 4.10 The total of the Council's Usable Reserves (capital and revenue combined) has increased by £1.274m in year to £8.115m. The largest movement is seen in the Business Rates Smoothing Reserve which we

have increased to mitigate against the volatility risk of future business rates funding. During the year, additional funding of £150k has also been put towards the Sustainability Reserve.

- 4.11 The Statement shows that both the General Fund balance is above the minimum level required in the Council's financial strategy, with General Fund Reserves increasing from £859k to £899k. The recommended minimum reserve level is £700k.

Balance Sheet

- 4.12 The Balance Sheet provides a snapshot of the Council's financial position as at 31 March 2018 (with comparatives for 31 March 2017).
- 4.13 The Balance Sheet shows that net assets have moved from a negative £916k to a negative of only £85k. The most significant liability on the balance sheet remains in respect of the Pensions Reserve although in overall terms the Pensions liability has been reduced by £1.108m. Elsewhere on the Balance Sheet, a reduction in long term assets is broadly matched by an increase in current assets, and with regard to current liabilities the movement between years is minimal, reducing from £15.952m to £15.939m.

Cashflow Statement

- 4.14 The cash flow statement summarises the flows of cash and cash equivalents into and out of the Council during the year.
- 4.15 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.
- 4.16 During the year the Council's cash and cash equivalents reduced by approximately £635k.

Collection Fund

- 4.17 The Collection Fund Statement shows the total amount the Council has collected from tax payers on behalf of, and distributed to, all of the precepting authorities and Central Government. The major precepting authorities are Somerset County Council, Avon and Somerset Police, Devon and Somerset Fire and Rescue Authority and Central Government. The Council has a statutory obligation to maintain a separate Collection Fund Account.
- 4.18 The presentation of the statement clearly separates the Council Tax and Business Rates movements and balances. The statement shows that the Council has collected £36.659m on behalf of ourselves, the

precepting authorities and Central Government. This comprises council tax income of £22.726m and business rates income of £13.933m.

- 4.19 The statement currently shows a surplus of £499k (WSC share = £68k) in respect of Council Tax and a surplus of £1.053m (WSC share = £421k) in respect of business rates.

5 Result of the Audit of the Statement of Accounts

- 5.1 Most of the external audit review has been completed and subject to work outstanding being completed and queries being resolved, 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.
- 5.2 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. Their report states that “the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources”.
- 5.3 During the audit a small number of misstatement and disclosure changes were identified during the audit which have been made in the final set of financial statements. These have been identified in Appendix A of the Audit Findings Report included within this Agenda.

6 Legal Comments

- 6.1 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.
- 6.2 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 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 Local Audit and Accountability Act 2014

7 Links to Corporate Aims

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

8 Environmental Implications

8.1 There are no environmental implications.

9 Community Safety Implications

9.1 There are no community safety implications.

10 Equalities Impact

10.1 The Statement of Accounts is available in a variety of formats.

11 Risk Management

11.1 The issues flagged in the action plan will be reviewed and if appropriate, entered into service risk registers.

12 Partnership Implications

12.1 There are no partnership implications.

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Background Papers

Cabinet – 11 July: Financial Outturn 2017/18



Taunton Deane Borough Council

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Taunton, Somerset TA1 1HE

West Somerset Council

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Williton, Somerset TA4 4QA

Grant Thornton UK LLP

2 Glass Wharf

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BS1 6FT

23 July 2018

Dear Sirs

West Somerset Council

Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Taunton Deane Borough Council for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory

authorities that could have a material effect on the financial statements in the event of non-compliance.

- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi The financial statements are free of material misstatements, including omissions.
- xii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

xv Any other matters that the auditor may consider appropriate.

Information Provided

xvi We have provided you with:

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

xvii We have communicated to you all deficiencies in internal control of which management is aware.

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

xix We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xxi We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

xxv Any other matters that the auditor may consider appropriate.

Annual Governance Statement

xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Corporate Audit Committee at its meeting on 23 July 2018.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council



West Somerset District Council Statement of Accounts 2017/18

Contents

Narrative Statement.....	2
Independent Auditor's Report	10
The Statement of Responsibilities for the Statement of Accounts	14
Comprehensive Income and Expenditure Statement	15
Movement In Reserves Statement.....	16
Balance Sheet	17
Cash Flow Statement	18
Notes to the Accounts.....	19
Collection Fund.....	74
Glossary of Terms	76

Narrative Statement

STATEMENT BY THE ASSISTANT DIRECTOR – STRATEGIC FINANCE AND S151 OFFICER

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 2018/19 and beyond.

COUNCIL'S PERFORMANCE

The challenges the Council has faced in recent years of setting a balanced budget whilst still providing an appropriate level of services to the public, have been well documented. The Council has in recent years been extremely susceptible to volatility in its business rates funding position in particular with Hinkley B power station valuations – which is the dominant business rates account in the area. Furthermore, significant changes in its rateable value can and indeed have caused large variances in the Council's annual funding.

The Council has made good progress over recent years in meeting the challenge of 'balancing the books'. Phase 1 of the partnership with Taunton Deane Borough Council has contributed to the delivery of savings through efficiency in the management of staff structures since 2014. Following an earlier mandate from Councillors in January 2016, a business case was developed and the Council agreed in partnership with Taunton Deane to jointly transform the way services are delivered and to submit an application to the Secretary of State seeking approval to form a new single council to replace both Taunton Deane and West Somerset Councils. This application has been submitted and has been formally approved by the Secretary of State. All that awaits is final Parliamentary approval (expected June 2018) for the newly formed Council to form in April 2019. This approach has already enabled both Councils to progress with transforming services and savings being incorporated within their Medium Term Financial Plans.

The Council publishes corporate performance information, based on a 'basket' of key performance indicators, on the Council 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 2017/18 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, £0.921m has been committed to West Somerset based projects in 2017/18, with a total of £2.588m having been committed 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 & Skills and Tourism to meet its corporate objective of maximising the benefits of the Hinkley Point C project for local people and local businesses. In 2017/18 the Council received a further £0.349m from EDF, spent £0.190m, leaving £1.126m to deliver further activities.
- 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. £0.666m has been committed to projects to date with £0.255m having been spent, with a further £0.135m to be spent in the coming years.

- Housing – using contributions from EDF Energy to meet its corporate objective the Council has worked with partners to deliver additional bed spaces within the existing housing stock (empty properties, flats over shops etc.) using housing initiatives, a total of £0.539m has been spent on these. The Council has also worked with a range of housing partners and developers to contribute towards the delivery of new bed spaces within new dwellings that are being built (both standard market and affordable), a total of £0.352m has been spent to deliver these initiatives. A further £0.539m is available to spend in the coming years.

Coastal Communities Fund

Minehead's 'Enterprising Esplanade' has won a significant financial boost thanks to the Government's Coastal Communities Fund. The project that aims to breathe new life into the Esplanade – the mile-long stretch of seafront has been awarded £0.131m. The project is being led by the Minehead Coastal Communities Team and is designed to give the resort an economic boost to make the most of its spectacular stretch of seafront. The initiative aims to create new training opportunities on the Esplanade and will restore six Edwardian shelters that are a reminder of past glories.

Lottery Launch

A new Somerset West joint lottery was launched in May by West Somerset and Taunton Deane Councils. The aim is to support charities, voluntary organisations and other good causes in both areas.

Planning Team Award

The joint planning policy officer team working for Taunton Deane and West Somerset Councils has gained a top national award. The team was shortlisted for the Local Authority Planning Team of the Year in the National Planning Awards, hosted by Planning magazine. They successfully came away with a top Highly Commended – a huge achievement in the light of tough competition from other local authority entrants.

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 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 performance information published by the Somerset Waste Board the key headlines are:-

West Somerset recycling centre recovery rates = 81% (175,913 visits were made to three recycling centres in West Somerset)

West Somerset household recycling = 343 kilograms per household.

West Somerset household waste (including recycling) – 745 kilograms per household.

FINANCIAL PERFORMANCE

Economic Environment

It has been well documented that Local Government has seen major cuts over several years now and 2017/18 saw us with a challenging budget 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 disappear by 2019/20. Overall this will mean our Settlement Funding baseline (including RSG,

Rural Services Grant and Business Rates Baseline) will have reduced from £2.630m in 2013/14 to a projected £1.361m by 2019/20 – a reduction of virtually 50%.

Under the business rates retention system we are currently projecting that our actual funding will exceed the baseline as we share in growth in rateable values, most notably in respect of Hinkley nuclear power station. The rateable values are determined by the Valuation Office Agency, and have proven to be volatile since the introduction of the retention system in 2013. This had made financial planning precarious and, prior to the recent increase of the Hinkley rateable value through the 2017 Revaluation, it was clear that the Council's financial position was unviable. Whilst the valuation increase has provided a short term boost and enabled the Council to set a balanced budget for 2018/19 this funding is not guaranteed in the medium to long term. There continues to be significant uncertainty in our financial planning with first "reset" of the business rates baseline and retention figures due in 2020 together with the Government's planned move to "100% retention".

The overall funding position and trend does not come as a surprise to us and we have acted prudently to try to protect ourselves from having to make cuts that will impact adversely on the public. We know in some cases this has been unavoidable, but we have taken steps to look at the long-term position; look at our risk profile and maintain adequate reserves; we use prudent financial provisions to mitigate the effect of business rates appeals and we set aside funds in reserves to ensure we have some resilience to adhoc pressures and new service demands. Our Medium Term Financial Plan now incorporates the increase in the Hinkley B valuation on an ongoing basis, however, as part of the financial strategy for 2019/20 onwards we will need to start building up reserves by at least £2m to build financial resilience for the period between Hinkley B ceasing production and Hinkley C reaching full operating capacity.

Financial Management

The financial standing of the Council is more resilient than in the previous two years due to the setting aside of reserves and the agreement of the Hinkley B valuation. This however in itself brings risk and we have therefore taken the prudent steps to enhance the Business Rates Smoothing Reserve to mitigate against this volatile area. The outturn for the Council results in a transfer to general reserves of £0.100m.

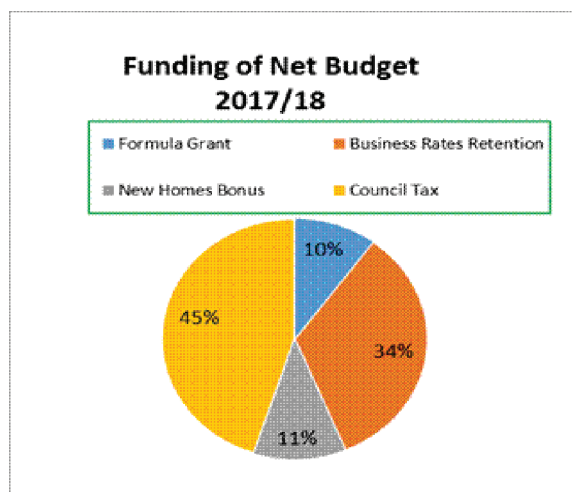
FINANCIAL OVERVIEW

General Fund Revenue Budget and Reserves

The Council's original Net Budget for 2017/18 (excluding parish precepts) was £4.835m, 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 £5.525m.

In setting the budget for 2017/18 the Council increased Council Tax by £5.00. This meant the annual Band D Council Tax charge for services provided by the Council rose to £150.56.

	£000's
Revenue Support Grant	317
Retained Business Rates	1,145
Rural Services Delivery Grant	172
Business Rates Collection Fund Surplus	481
New Homes Bonus	545
Council Tax Collection Fund Surplus	64
Council Tax Income	2,111
Original Net Budget	4,835



The Council's actual net expenditure in 2017/18 was £5.425m which results in a reported net underspend on the final revised budget of £0.100m (1.8% of Net Budget). The net underspend arose due to variances in several budget areas. The most significant underspends have been reported against Legal Services, Waste Collection, Parking, Telephony and Private Sector Renewals.

The following table provides a summary of the financial results for the year compared to budget.

General Fund Outturn 2017/18	Revised Budget £000	Actual £000	Variance	
			£000	%
Corporate	526	522	(4)	(0.1)
Operations	3,362	3,306	(56)	(1.0)
Housing and Communities	1,086	1,071	(15)	(0.3)
Growth and Development	725	706	(19)	(0.3)
Capital Financing	(1,272)	(1,272)	0	
Interest and Other income	(27)	(33)	(6)	(0.1)
Transfers to Earmarked Reserves	1,071	1,071	0	
Transfers to General Reserves	30	30	0	
Somerset Rivers Authority	24	24	0	
Net Budget	5,525	5,425	(100)	(1.8)
Funding	(5,525)	(5,525)	0	
Net Under(-)/Overspend for the year	0	(100)	(100)	

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 £0.859m at the start of the year to £0.899m at 31 March 2018. This is £0.199m 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 2018 stands at £4.249m. This balance covers a wide variety of known planned spending commitments and contingencies, including: Business Rates Smoothing Reserve to mitigate funding volatility; Strategic Housing Market Area Assessment, planned investment in Transformation and Creating a New Council, 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 utilised in the medium term.

Capital Spending and Reserves

In addition to our spending on day-to-day service provision, the Council spends money on assets such as buildings, 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 £1.129m (£1.667m in 2016/17). This included spending of £0.904m on General Schemes and £0.225m on Hinkley impact mitigation schemes.

Summary Capital Spend	£000	Sources of Capital Funding	£000
Steam Coast Trail Project	53	Capital Receipts	316
Clanville Grange Low Cost Housing	124	Capital Grants	415
Seaward Way Mixed Proposal	91	S106 General	140
Disabled Facilities Grants	320	S106 Hinkley	225
Hinkley impact mitigation projects	225	Revenue Reserves	12
S106 General	140	Earmarked Reserves	21
Other schemes	176		
Total	1,129	Total	1,129

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 £11.058m. 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 £3.333m of capital reserves (capital receipts and capital grants), providing funding for the approved capital spending referred to above. We have also had approval to borrow £3.500m in relation to Somerset Waste Partnership, which would finance a loan to them in respect of the purchase of new waste vehicles which will bring us additional interest income. In addition we have approval to borrow a further £2.982m for the Seaward Way Mixed Proposal Development. Under new legislation we also have the option to use our capital receipts flexibly for Transformation purposes for both capital and revenue expenditure.

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 2017	31 March 2018
	£000	£000
Non-current assets	14,054	12,129
Net current assets – debtors, stock and cash less short term creditors and liabilities	3,999	5,495
Long term liabilities and provisions	(18,969)	(17,709)
	(916)	(85)
Represented by: Usable reserves	6,840	8,115
Represented by: Unusable reserves	(7,756)	(8,200)
Total Reserves	(916)	(85)

Treasury Management

Total cash and cash equivalents and short term investments at 31 March 2018 were £16.400m. The tables below show how that balance is split between West Somerset general funds and funds provided under planning obligations by EDF for Hinkley impact mitigation.

The main factors that would affect cash in the future are:

- Acquisitions and disposals relating to the capital programme;
- The value of reserve balances;
- Business rates appeals provisions;
- Grants and contributions received in advance of related expenditure.

West Somerset Council Funds:

	31 March 2017	31 March 2018
	£000	£000
Cash and other cash equivalents	4,096	3,462
Short term investments	2,015	3,501
Total	6,111	6,963

Hinkley investments:

	31 March 2017	31 March 2018
	£000	£000
Cash and other cash equivalents	1	0
Short term investments	10,377	9,437
Total	10,378	9,437

Pensions

The Council's share of the overall Pension Fund deficit decreased from £18.450m at 31 March 2017 to £17.342m at 31 March 2018. The deficit has decreased by 6.0%, which is largely due to a change in the financial valuation assumptions used by the actuaries.

With the staff moving under the employment of Taunton Deane Borough Council through our working in partnership, 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 2017/18 this lump sum is £0.503m rising to £0.516m in 2018/19.

FINANCIAL CHALLENGES IN 2018/19

Our medium term financial plan as at February 2017 forecast a potential budget gap of some £0.785m for 2018/19. This forecast was revised significantly in March 2017 when the new 2017 business rates valuation for Hinkley B was confirmed by the Valuation Office Agency, with an estimated budget gap for 2018/19 of £0.130m – rising to £0.367m by 2021. Despite further reductions and increased cost pressures the Council was able to set a balanced budget whilst at the same time be able to put extra funding from business rates in its Business Rates Smoothing Reserve to protect it from future volatility arising from changes to business rates.

As part of the Final Settlement details, Central Government again 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 an extra £0.028m towards the budget gap compared to previous estimates based on a 1.99% increase.

The Final Grant Settlement was issued in February 2018 and included details regarding general revenue grant funding, New Homes Bonus and business retention baseline and tariff. Overall the general grant funding available to deliver services has again reduced significantly in 2018/19:

- General funding, Revenue Support Grant has reduced by £0.147m (46%) whilst Rural Services Delivery Grant has increased by £0.042m (25%).
- New Homes Bonus funding has reduced by £0.149m (27%).

The business rates position was skewed by the 2017 revaluation of rateable vales (RV) and adjustments to the Tariff payment the council is required to make as a result. The Council approved a revised budget and Medium Term Financial Plan estimates in August 2017. This reflected as expected increase in retained business rates in 2018/19 due mainly to the uplift in the RV for Hinkley B power station. Consequently the net 2018/9 business rates income forecast was revised to £2.468m which was an increase of £1.503m compared to the previous year and included a retrospective one-off credit adjustment (due to timing difference) of an estimated £1.466m to the Tariff. Following the final Settlement the net 2018/19 business rates income forecast was updated to £1.964m – so lower than previously estimated but still a large increase compared to 2017/18.

Due to the timing differences the adjustment to the Tariff for the 2017 Revaluation, the net business rates income retained for 2019/20 will level out in broad terms, to an estimated £1.9m approximately – which is approximately £0.800m higher than the 2017/18 funding level.

The 2018/19 budget also includes a prior year Collection Fund surplus of £0.447m (£0.396m business rates surplus and £0.051m council tax surplus).

The updated Medium Term Financial Plan indicates that, despite forecasting a balanced budget for 2018/19, the ongoing Budget Gap remains challenging considering the savings already assumed within the MTFP and the limited number of areas available to find further savings. As referred to above, as part of the financial strategy for 2019/20 onwards we will need to start building up reserves by at least £2m to build financial resilience for the period between Hinkley B ceasing production and Hinkley C reaching full operating capacity.

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.

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 2018, 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;
- Hinkley Point C – impact on local accommodation and highways, and/or Economic and Social opportunities may not be realised.

WHAT'S NEXT?

Transformation and New Council

Proposed New Council - West Somerset and Taunton Deane Borough Council have already agreed a partnership which has resulted in one team of staff supporting both Councils. Sitting alongside this is a plan to transform the way both Councils work to deliver great customer focussed services that at the same time will deliver significant savings. In addition, both councils have agreed to form a single council that will bring further resilience, stronger leadership and improved local governance. The proposals for a new Council were approved by the Secretary of State in March this year and were formally approved by Parliament in May to enable a start date of April 2019 for the new Council. The formation of the new Council has no impact on the going concern basis upon which the financial statements have been prepared for 2017/18 and will also again have no impact in 2018/19, the final year before the new Council comes into existence.

100% Business Rates Retention – The Government has previously issued a consultation document requesting views from local government on the implementation of the Government's commitment to allow local government to retain 100% of business rates that they raise locally. Central Government is committed to this change and although at first sight it appears a "good deal" for local government we are mindful that this increase in funds will be accompanied by an increase in responsibilities. Overall,

Central Government is expecting this to be fiscally neutral so we are prudent in our assumptions and have not anticipated further income which is not offset by further expense.

Some authorities are already “pilots” for the new scheme and we will learn more following the close of the current consultation about the details of the new responsibilities and how the relationship between upper and lower tier authorities will work.

Within the consultation is a proposal to centralise the appeals risk and we hope this will mitigate some of the volatility in Business Rates Appeals. We await the details of this alongside the results of the Fair Funding Review which allocates funds to councils.

EXPLANATION OF ACCOUNTING STATEMENTS

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

- The **Comprehensive Income and Expenditure Statement** (page 15) 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 **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 **Balance Sheet** (page 17) 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 18) summarises the flows of cash into and out of the Council during the year;
- The **Notes to the Financial Statements** (pages 19-73) 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, easy to read summary versions and additional copies of this booklet can be obtained from:

P Fitzgerald ACMA CGMA, Section 151 Officer, Deane House, Belvedere Road, Taunton, TA1 1HE
 Telephone No: (01823) 217557
 E-mail Address: p.fitzgerald@tauntondeane.gov.uk

Independent Auditor's Report

Independent Auditor's Report to the Members of West Somerset District Council

The independent auditor's report will appear here, following completion of the audit, for the final audited accounts due to be approved by the Audit Committee.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West Somerset District Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the Accounts, including a summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director - Strategic Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director - Strategic Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report

Emphasis of Matter – Structural Change Order - Creation of the new Somerset West and Taunton Council

We draw attention to the disclosures made in note 46 to the accounts concerning the creation of the new Somerset West and Taunton Council. As stated in note 46, the Authority will cease to exist as an entity and from 1 April 2019 and the Authority's functions, assets and liabilities will transfer to the new Somerset West and Taunton Council on 1 April 2019. Our opinion is not modified in respect of this matter.

Other information

The Assistant Director - Strategic Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 2 to 81 and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

Independent Auditor's Report

- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Assistant Director - Strategic Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 14, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Assistant Director - Strategic Finance. The Assistant Director - Strategic Finance 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 2017/18, which give a true and fair view, and for such internal control as the Assistant Director - Strategic Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Assistant Director - Strategic Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee are those charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Independent Auditor's Report

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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

2 Glass Wharf
Bristol
BS2 0EL

23 July 2018

The Statement of Responsibilities for the Statement of Accounts

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 Assistant Director – Strategic Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

The Assistant Director – Strategic Finance:

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

In preparing this Statement of Accounts, the Assistant Director – Strategic Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Local Authority Code.

The Assistant Director – Strategic Finance has also:

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

Declaration by the Assistant Director – Strategic Finance and 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 2018 and of its expenditure and income for the year ended 31 March 2018.

P Fitzgerald ACMA, CGMA
Assistant Director – Strategic Finance
Section 151 Officer

Date: 23 July 2018

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

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. Councils raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2016/17			Notes	2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
17,740	(14,640)	3,100	Operations	15,574	(12,874)	2,700
1,374	(819)	555	Housing and Communities	1,310	(321)	989
2,945	(1,200)	1,745	Growth and Development	2,290	(1,606)	684
639	(94)	545	Strategic Leadership	518	(16)	502
22,698	(16,753)	5,945	Cost of Services	19,692	(14,817)	4,875
		960	Other Operating Expenditure			1,395
		340	Financing and Investment Income and Expenditure			394
		(8,425)	Taxation and Non-Specific Grant Income and Expenditure			(6,937)
		(1,180)	(Surplus) or Deficit on Provision of Services			(273)
		(1,602)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	24		411
		(6)	Surplus or deficit on revaluation of available for sale financial assets	25		15
		2,753	Remeasurement of the net defined benefit liability/(asset)	27		(984)
		1,145	Other Comprehensive Income and Expenditure			(558)
		(35)	Total Comprehensive Income and Expenditure			(831)

Movement In Reserves Statement

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

	Notes	General Fund Balance Including Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Current Year							
Balance at 31 March 2017		3,742	2,220	879	6,841	(7,757)	(916)
<u>Movement in Reserves during 2017/18</u>							
Total Comprehensive Income and Expenditure		273	0	0	273	558	831
Adjustments between accounting basis and funding basis under regulations	8	1,133	(208)	76	1,001	(1,001)	0
Increase / (Decrease) in 2017/18		1,406	(208)	76	1,274	(443)	831
Balance at 31 March 2018 Carried forward		5,148	2,012	955	8,115	(8,200)	(85)
Comparative Year							
Balance at 31 March 2016		5,443	2,230	457	8,130	(9,081)	(951)
<u>Movement in Reserves during 2016/17</u>							
Total Comprehensive Income and Expenditure		1,180	0	0	1,180	(1,145)	35
Adjustments between accounting basis and funding basis under regulations	8	(2,881)	(10)	422	(2,469)	2,469	0
Increase / (Decrease) in 2016/17		(1,701)	(10)	422	(1,289)	1,324	35
Balance at 31 March 2017 Carried forward		3,742	2,220	879	6,841	(7,757)	(916)

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 2017			31 March 2018
£000		Notes	£000
11,733	Property, Plant and Equipment	14	10,387
1,767	Investment Properties	15	1,708
51	Intangible Assets		33
499	Long-term Investments	16	0
4	Long-term Debtors		1
14,054	Long Term Assets		12,129
1,622	Assets Held for Sale	17	1,736
1,840	Short Term Debtors	18	3,298
4,097	Cash and Cash Equivalents	19	3,462
12,392	Short Term Investments	16	12,938
19,951	Current Assets		21,434
(15,257)	Short Term Creditors	20	(15,084)
(695)	Provisions	21	(855)
(15,952)	Current Liabilities		(15,939)
(18,450)	Other Long Term Liabilities	27	(17,342)
(519)	Long Term Creditors	20	(367)
(18,969)	Long Term Liabilities		(17,709)
(916)	Net Assets		(85)
6,840	Usable Reserves	22	8,115
(7,756)	Unusable reserves	23	(8,200)
(916)	Total Reserves		(85)

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.

2016/17		2017/18
£000	Notes	£000
1,180	Net surplus or (deficit) on the provision of services	273
	Adjustments to net surplus or deficit on the provision of services for non	
3,408	cash movements	(508)
	Adjustments for items included in the net surplus on the provision of	
(153)	services that are investing and financing activities	(252)
4,435	Net cash flows from Operating Activities	(487)
(3,820)	Investing Activities	(148)
615	Net increase or decrease in cash and cash equivalents	(635)
3,482	Cash and cash equivalents at the beginning of the reporting period	4,097
4,097	Cash and cash equivalents at the end of the reporting period	3,462

Notes to the Accounts

(Please be aware that there may be minor rounding differences in some of these notes)

1 Accounting Policies

i) General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. 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 under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, 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 Assistant Director – Strategic Finance and S151 Officer 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) **Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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

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

v) **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 also decided to fund MRP from capital receipts reserves for 2015/16 and the following two financial years.

vi) **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 segment or, where applicable, to a corporate service segment 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 2.50% (based on the annualised Merrill Lynch AA rated corporate bond yield curve where the spot curve is assumed to be flat beyond the 30 year point. This approach has changed from the 'spot rate' approach adopted as at 31 March 2017 to reflect national auditor preferences);
- 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.

Re-measurements comprising:

- **The return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- **Actuarial Gains and Losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- **Contributions paid to the Peninsula 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.

vii) 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.

viii) 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.

Financial Assets

Financial assets are classified into two types:

- **Loans and receivables** – assets that have fixed or determinable payments but are not quoted in an active market;
- **Available-for-sale assets** – assets that have a quoted market price and/or do not have fixed or determinable payments.

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).

ix) 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.

x) 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.

xi) 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.

xii) 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.

xiii) Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

xiv) 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;
- 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.

xv) 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.

xvi) 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, local taxation and retirement and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

xvii) 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.

xviii) 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.

xix) 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.

xx) Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR.

Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

xxi) 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

Accounting standards that may be relevant for additional disclosures in the 2017/18 and 2018/19 financial statements in respect of accounting changes that will be introduced in the 2018/19 Code are as follows:-

- FRS 9 Financial Instruments
- IFRS 15 Revenues from Contracts with Customers
- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- IAS 7 Statement of Cash Flows: Disclosure Initiative

The Council has yet to adopt these accounting standards as they are not expected to have a material impact on information in the 2017/18 financial statements. These standards will be adopted for the 2018/19 financial statements where they are relevant.

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 continues to be a high degree of uncertainty about future levels of funding for local government. The Council has therefore put significant senior management and transactional resources into identifying opportunities for both reducing costs and improving performance. While it is possible that funding uncertainty might impair the Council's assets, for example by requiring the closure of specialist facilities currently valued in the Balance Sheet as operational assets, at this stage the Council has determined that this uncertainty is not yet sufficient to indicate any impairment may become necessary;

- A Business Rates provision has been made in the accounts for £2.136m (the Council's share of this is £0.855m). 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.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect If Actual Results Differ From Assumptions
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 2018 the pension liability for West Somerset Council amounted to £17.342m. 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 £0.873m. Similarly a change of plus or minus 1 year in life expectancy assumptions would change the projected service cost by £2.594m.
Arrears	As at 31 March 2018, the Council had a balance of corporate debtors of £0.134m. A review of balances suggested that an impairment allowance of £0.072m 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 25% increase of the amount of the impairment of doubtful debts would require an additional £0.036m 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 financial years. The estimate is based on those ratepayers who have appealed.	There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation.
Fair Value Measurements	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 were 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.	The Council uses the discounted cash flow (DCF) model to measure the fair value of its investment properties and financial assets. 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). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value

	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).	measurement for the investment properties and financial assets.
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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 spend on benefit payments, which is funded predominantly by Government grant. Housing Benefit and subsidy payments are included within Operations on the face of the Comprehensive Income and Expenditure Statement and payments amounted to £10.816m 2017/18 compared with £12.576m in 2016/17. Housing Benefit subsidy amounted to (£10.743m) in 2017/18 compared with (£12.510m) in 2016/17. The variations in value between 2016/17 and 2017/18 are due to the fact that there were different schemes in place, including a restriction to Band C council tax levels in 2017/18.

6 Events after the Balance Sheet Date

There have been no events after the balance sheet date of 31 March 2018 that require the financial statements or notes to be adjusted for 2017/18.

7 Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2017/18	As Reported For Resource Management	Adjustment To Arrive At The Net Amount Chargeable To The General Fund	Net Expenditure Chargeable To The General Fund Balance	Adjustments Between Funding and Accounting Basis (Note 7a)	Net Expenditure In The Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Operations	2,798	11	2,809	(109)	2,700
Housing and Communities	417	86	503	486	989
Growth and Development	372	0	372	312	684
Strategic Leadership	502	0	502	0	502
Net Cost of Services	4,089	97	4,186	689	4,875
Other Income and Expenditure	(4,221)	(5)	(4,226)	(922)	(5,148)
Surplus or Deficit	(132)	92	(40)	(233)	(273)
Opening General Fund Balance			(859)		
Plus Surplus/Less Deficit on General Fund Balance in Year			(40)		
Closing General Fund Balance at 31 March			(899)		

2016/17	As Reported For Resource Management	Adjustment To Arrive At The Net Amount Chargeable To The General Fund	Net Expenditure Chargeable To The General Fund Balance	Adjustments Between Funding and Accounting Basis (Note 7a)	Net Expenditure In The Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Operations	2,768	38	2,806	294	3,100
Housing and Communities	754	81	835	(280)	555
Growth and Development	568	0	568	1,177	1,745
Strategic Leadership	556	0	556	(11)	545
Net Cost of Services	4,646	119	4,765	1,180	5,945
Other Income and Expenditure	(4,432)	(119)	(4,551)	(2,574)	(7,125)
Surplus or Deficit	214	0	214	(1,394)	(1,180)
Opening General Fund Balance			(1,073)		
Plus Surplus/Less Deficit on General Fund Balance in Year			214		
Closing General Fund Balance at 31 March			(859)		

7a Note to the Expenditure and Funding Analysis

2017/18	Adjustment For Capital Purposes (Note 1)	Net Change For The Pensions Adjustment (Note 2)	Other Statutory Differences (Note 3)	Total Statutory Adjustments
	£000	£000	£000	£000
Operations	470	(579)	0	(109)
Housing and Communities	486	0	0	486
Growth and Development	312	0	0	312
Strategic Leadership	0	0	0	0
Net Cost of Services	1,268	(579)	0	689
Other Income and Expenditure from the Expenditure and Funding Analysis	218	514	(1,654)	(922)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	1,486	(65)	(1,654)	(233)

2016/17	Adjustment For Capital Purposes (Note 1)	Net Change For The Pensions Adjustment (Note 2)	Other Statutory Differences (Note 3)	Total Statutory Adjustments
	£000	£000	£000	£000
Operations	305	(11)	0	294
Housing and Communities	(280)	0	0	(280)
Growth and Development	1,177	0	0	1,177
Strategic Leadership	(11)	0	0	(11)
Net Cost of Services	1,191	(11)	0	1,180
Other Income and Expenditure from the Expenditure and Funding Analysis	(2,447)	(127)	0	(2,574)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(1,256)	(138)	0	(1,394)

Note 1 – Adjustments for Capital Purposes

This column adds in depreciation, impairment and revaluation gains and losses in the services lines, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets;
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices;
- **Taxation and non-specific grant income** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note 2 – Net Change for the Pension Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS19 *Employee Benefits* pension related expenditure and income:

- **For services** – this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past pension costs;
- **For financing and investment income and expenditure** – this represents the net interest on the defined benefit liability charged to the Comprehensive Income and Expenditure Statement.

Note 3 – Other Statutory Adjustments

Other statutory adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

- For **Financing and investment income and expenditure** the other statutory adjustments column recognises adjustments to the General Fund for the timing differences for premiums and discounts
- The charge under **Taxation and non-specific grant income** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognized under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

7b Segmental Income

Fees, charges and other service income received on a segmental basis is analysed below:

Services	2016/17	2017/18
	Income from Services	Income from Services
	£000	£000
Operations	(1,623)	(1,609)
Housing and Communities	(210)	(227)
Growth and Development	(219)	(503)
Strategic Leadership	(4)	(1)
Total Income analysed on a Segmental Basis	(2,056)	(2,340)

8 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.

2017/18	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources			
<u>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</u>			
Pension costs (transferred to or from the Pensions Reserve)	(124)	0	0
Council Tax and NNDR (transfers to or from the Collection Fund)	383	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)	1,237	0	0
Total Adjustment to Revenue Resources	1,496	0	0
Adjustment between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(252)	252	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	0	(144)	0
Capital expenditure financed from revenue balances	(20)	0	0
Total Adjustments between Revenue and Capital Resources	(272)	108	0
Adjustments to Capital Resources			
Use of the Capital Receipts reserve to finance capital expenditure	0	(316)	0
Application of capital grants to finance capital expenditure	(91)	0	76
Total Adjustments to Capital Resources	(91)	(316)	76
Total Adjustments	1,133	(208)	76

2016/17 Comparative Year	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources			
<u>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</u>			
Pension costs (transferred to or from the Pensions Reserve)	137	0	0
Council Tax and NNDR (transfers to or from the Collection Fund)	(3,762)	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)	1,336	0	0
Total Adjustment to Revenue Resources	(2,289)	0	0
Adjustment between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(153)	154	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	0	(143)	0
Capital expenditure financed from revenue balances	(9)	0	0
Total Adjustments between Revenue and Capital Resources	(162)	11	0
Adjustments to Capital Resources			
Use of the Capital Receipts reserve to finance capital expenditure	0	(21)	0
Application of capital grants to finance capital expenditure	(430)	0	422
Total Adjustments to Capital Resources	(430)	(21)	422
Total Adjustments	(2,881)	(10)	422

9 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 2017/18.

Earmarked Reserves	Balance as at 31/03/2016 £000	Transfers Out £000	Transfers In £000	Balance as at 31/03/2017 £000	Transfers Out £000	Transfers In £000	Balance as at 31/03/2018 £000
Business Rates Smoothing	3,389	(3,224)	140	305	(265)	1,292	1,332
Joint Management Project	302	(553)	290	39	(39)	0	0
Asset Maintenance and Compliance	122	(21)	112	213	(41)	121	293
Revenues and Benefits Reserve	90	(17)	0	73	(38)	33	68
Planning Policy Reserve	21	(49)	223	195	(50)	27	172
Sustainability Reserve	68	(50)	23	41	(33)	150	158
Homelessness Prevention	47	0	(3)	44	0	0	44
Strategic Housing Market Area Assessment	1	0	575	576	0	0	576
Transformation	0	(5)	762	757	(89)	70	738
Planning Reserve	0	0	20	20	0	50	70
SWP Recycle More	0	0	0	0	0	55	55
Minehead Esplanade	0	0	0	0	0	59	59
Carry Forwards	0	0	247	247	(247)	295	295
Other Earmarked Reserves	330	(141)	184	373	(85)	101	389
Total	4,370	(4,060)	2,573	2,883	(887)	2,253	4,249

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 as a result of successful Business Rates appeals.

Asset Maintenance and Compliance: Monies set aside for works needed to be carried out on Council owned assets.

Planning Policy Reserve: Monies have been set aside to be drawn down in 2018/19 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 in 2015/16 was earmarked along with the remainder of the Mortgage Rescue Grant.

Strategic Housing Market Area Assessment: Ministry of Housing, Communities & Local Government (MHCLG) funding which will support plans for more affordable housing in West Somerset.

Transformation: funding set aside for the costs of our Transformation programme including the formation of a new council for West Somerset and Taunton Deane.

Planning Reserve: Monies set aside to fund specialist technical advice for major planning applications, for example, Landscape visual impact assessments, retail studies etc.

Carry Forward Requests: Includes budget carry forward requests in respect of services such as Harbours, Economic Development and Homelessness.

10 Other Operating Expenditure

The note below details what is included in the 'Other Operating Expenditure' line in the Comprehensive Income and Expenditure Statement.

2016/17 £000	2017/18 £000
904 Parish Council precepts	953
3 Levies	3
53 (Gains)/Losses on the disposal of non current assets	439
960 Total	1,395

11 Financing and Investment Income and Expenditure

The note below details what is included in the 'Financing and Investment Income and Expenditure' line in the Comprehensive Income and Expenditure Statement.

2016/17 £000	2017/18 £000
523 Net interest on the defined liability (asset)	455
(38) Interest receivable and similar income	(33)
Income and Expenditure in relation to investment properties and changes	
(61) in their fair value	59
(84) Other investment income	(87)
340 Total	394

12 Taxation and Non Specific Grant Income

The note below details what is included in the 'Taxation and Non-Specific Grant Income' line in the Comprehensive Income and Expenditure Statement.

2016/17 £000	2017/18 £000
(2,967) Council tax income	(3,087)
(1,576) Non domestic rates	(1,238)
(1,825) Non-ringfenced government grants	(1,750)
(2,057) Capital grants and contributions	(862)
(8,425) Total	(6,937)

More details of grants the Council has received can be found in Note 34 Grant Income.

13 Expenditure and Income Analysed By Nature

The Council's expenditure and income is analysed as follows:

Expenditure/Income	2016/17 £000	2017/18 £000
Expenditure		
Other Service Expenses	22,047	19,738
Depreciation, Amortisation, Impairment	1,175	480
Precepts and Levies	907	956
Loss on the Disposal of Assets	52	439
Total Expenditure	<u>24,181</u>	<u>21,613</u>
Income		
Fees, Charges and Other Service Income	(2,056)	(2,147)
Interest and Investment Income	(183)	(110)
Income from Council Tax, Non-Domestic Rates	(4,543)	(4,325)
Government Grants and Contributions	(18,579)	(15,304)
Total Income	<u>(25,361)</u>	<u>(21,886)</u>
(Surplus) or Deficit on the Provision of Services	(1,180)	(273)

Note 14 Property, Plant and Equipment

The table below details the movement on the Council's assets shown on the Balance Sheet as Property Plant and Equipment.

Movement in 2017/18	Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Cost or Valuation						
At 1 April 2017	8,301	3,159	5,038	55	530	17,083
Additions	84	25	0	0	0	109
Revaluation increases / (decreases) recognised in the Revaluation reserve	(619)	0	0	0	(43)	(662)
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(156)	0	0	0	(1)	(157)
Derecognition - Disposals	(438)	(28)	0	0	0	(466)
At 31 March 2018	7,172	3,156	5,038	55	486	15,907
Accumulated Depreciation and Impairment						
At 1 April 2017	(51)	(3,062)	(2,237)	0	0	(5,350)
Depreciation charge	(63)	(46)	(188)	0	0	(297)
Depreciation written out to the Revaluation Reserve	114	0	0	0	0	114
Derecognition - Disposals	0	13	0	0	0	13
At 31 March 2018	0	(3,095)	(2,425)	0	0	(5,520)
Net Book Value						
As at 31 March 2018	7,172	61	2,613	55	486	10,387
As at 31 March 2017	8,250	97	2,801	55	530	11,733

Comparative Movement 2016/17	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 2016	7,935	3,262	5,038	55	527	16,817
Additions	1	2	0	0	0	3
Revaluation increases / (decreases) recognised in the Revaluation reserve	1,246	0	0	0	3	1,249
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(745)	0	0	0	0	(745)
Reclassifications	(10)	0	0	0	0	(10)
Derecognition - Disposals	(126)	(105)	0	0	0	(231)
At 31 March 2017	8,301	3,159	5,038	55	530	17,083
Accumulated Depreciation and Impairment						
At 1 April 2016	(255)	(3,032)	(2,049)	0	0	(5,336)
Depreciation charge	(163)	(45)	(188)	0	0	(396)
Depreciation written out to the Revaluation Reserve	356	0	0	0	0	356
Derecognition - Disposals	11	15	0	0	0	26
At 31 March 2017	(51)	(3,062)	(2,237)	0	0	(5,350)
Net Book Value						
As at 31 March 2017	8,250	97	2,801	55	530	11,733
As at 31 March 2016	7,680	230	2,989	55	527	11,481

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 31 March 2018. All valuations have been carried out by Wilks, Head and Eve, chartered surveyors. 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.

The significant assumptions applied by the Valuers in estimating the current values of property, plant and equipment are:-

- Planning Proposals
 - No formal written enquiries have been made of the Local Authority Planning Department to ascertain if there are any adverse proposals likely to affect specific properties. However, the Valuers were instructed that for the purposes of this Valuation Certificate they should assume that there are no planning proposals that are likely to have an effect on the value of the properties unless these were specifically notified to them.
- Construction and State of Repair
 - Structural / Condition surveys have not been undertaken of the properties nor have the service installations been tested.
 - No structural survey has been carried out nor inspections of those parts of the properties that are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. No opinion can be expressed about or advice given upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts.
 - No allowances have been made for rights, obligations or liabilities arising from the Defective Premises Act 1972.
 - Unless made aware that a specific property has a limited economic life, the Valuer has assumed that the assets are at a suitable level of condition for service provision, and that all internal and external repairs and maintenance have been carried out. The Valuer has assumed that these repairs do not constitute improvement to the properties and do not have a material effect on asset value.

- Hazardous or Deleterious Materials
 - The Valuer has not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and is, therefore, unable to report that the properties are free from risk in this respect. For the purpose of this report the Valuer has assumed that such investigation would not disclose the presence of any such material in any adverse condition.
- Contaminated Land
 - The Valuer is not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or possibility of any such contamination. In undertaking the Valuation the Valuer has been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out on the property. The Valuer has not carried out any investigation into past or present uses either of the properties or of any neighbouring land to establish whether there is any potential for contamination from these sites to the subject property and have therefore assumed that none exists.
 - Should it however be established subsequently that contamination exists at any of the properties or any neighbouring land or that the properties have been or are being put to a contaminative use this might reduce the values now reported.
- Plant and Machinery
 - Any plant and machinery that has been considered to form part of the property or service installations is included in the Valuation. Where there is doubt as to the correct classification, assets installed primarily to provide services to the properties have been valued with the land and buildings and assets primarily serving the commercial or industrial process have been excluded. Any departure from this is stated on the relevant Valuation Statement.
- Lotting
 - Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if a number of properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.
- Taxation
 - No allowance has been made for liability for taxation which may arise on disposal, whether actual or notional. Where possible VAT and Capital Gains Tax are specifically excluded and the valuation does not reflect costs of realisation unless specifically requested by the client. No additions have been made for Stamp Duty Land Tax (SDLT).
- Acquisition and Disposal Costs
 - No notional directly attributable acquisition costs or selling costs have been applied to or deducted from the Current Value and Fair Value figures provided within this report.
 - The Valuer has made no allowance for any vendor's costs or taxation (actual or notional) nor has any allowances been made for any capital or annual grants or incentives to which a purchaser may be entitled.

- Deminimis Levels of Value

- Only those properties the value of which is considered likely to exceed the “deminimis” level of value determined by the Council are included separately in the valuation. In all cases, the valuation has been included within the main body of the report as well as summarising them in letter format even if the Authority chooses not to include these within the financial statements.

	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	3,156	5,038	55	486	8,735
Valued at: 2017/18	7,172	0	0	0	0	7,172
Total	7,172	3,156	5,038	55	486	15,907

15 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:

2016/17 £000	2017/18 £000
89 Rental income from investment property	98
89 Net gain / (loss)	98

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		2017/18 £000
2016/17 £000		
1,696	Balance at start of the year	1,767
	<u>Additions:</u>	
10	Reclassifications	0
61	Net gains/losses from fair value adjustments	(59)
1,767	Balance at end of the year	1,708

Fair Value Measurement of Investment Property

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

2016/17 £000	Significant Unobservable Inputs (Level 3)	2017/18 £000
749	Commercial Buildings	956
1,018	Commercial Land	752
1,767	Investment Property	1,708

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.

16 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:

- 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 2017 £000	31 Mar 2018 £000	31 Mar 2017 £000	31 Mar 2018 £000
<u>Investments</u>				
Loans and receivables	0	0	13,972	15,899
Available-for-sale financial assets	499	0	2,517	501
Total investments	499	0	16,489	16,400
<u>Debtors</u>				
Loans and receivables	0	0	126	62
Total included in debtors	0	0	126	62
<u>Borrowings</u>				
Financial liabilities at amortised cost	0	0	0	0
Total included in borrowings	0	0	0	0
<u>Creditors</u>				
Financial liabilities at amortised cost	0	0	558	1,172
Total creditors	0	0	558	1,172

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
2017/18	£000	£000	£000	£000
Interest Income	0	(33)	0	(33)
Interest receivable and similar (Note 11)	0	(33)	0	(33)
Surplus on revaluation of available-for-sale financial assets	0	0	(3)	(3)
Net gain/loss for the year	0	(33)	(3)	(36)

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 2017 £000	31 March 2018 £000
<u>Available for sale</u>				
Covered Bonds Issued by UK and Overseas Banks and Building Societies	Level 1	Unadjusted quoted prices in active markets for identical shares	499	501
<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	12,392	12,437
			12,891	12,938

Changes in the Valuation Technique

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

17 Assets Held for Sale

The table below details the balances of Assets Held for Sale at 31 March. For an asset to be classified as held for sale it must meet the following criteria:

- Be available for sale in its present condition;
- The sale must be highly probable and have Member approval;
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
- The sale must be expected to be completed within one year of classification (in some circumstances if it is expected to take longer than a year to complete but still meets the other criteria it may be included as a non-current asset held for sale).

	Current	
	2016/17 £000	2017/18 £000
Balance outstanding at start of the year	1,615	1,622
Assets newly classified as held for sale:		
- Property, Plant and Equipment	20	216
Revaluation losses	(3)	0
Revaluation gains	0	137
Impairment losses	(10)	0
Assets declassified as held for sale:		
Assets sold	0	(239)
Balance outstanding at year end	1,622	1,736

18 Short Term Debtors

The table below details the Council's debtors at 31 March. Debtors are amounts owed to the Council but remain unpaid at 31 March. Included in the figures per classification is an allowance for the impairment of the debts.

31 March 2017 £000	31 March 2018 £000
446 Central Government bodies	1,985
114 Other local authorities	108
1,765 Other entities and individuals	1,698
(485) Impairment allowance for doubtful debts	(493)
1,840 Total	3,298

19 Cash and Cash Equivalents

The table below shows how the balance of cash and cash equivalents held by the Council at 31 March is made up. Cash and cash equivalents are highly liquid investments that are readily convertible into known amounts of cash.

31 March 2017 £000	31 March 2018 £000
120 Cash held by the Council	87
412 Bank current accounts	203
3,635 Short-term deposits (call accounts)	3,350
(70) Unpresented Cheques/BACS	(178)
4,097 Total	3,462

20 Short Term Creditors

The tables below details the Council's short term and long term creditors at 31 March. Creditors are amounts owed by the Council at 31 March in respect of goods and services received before the end of the financial year.

31 March 2017 £000	31 March 2018 £000
(3,197) Central Government bodies	(2,914)
(1,098) Other local authorities	(1,973)
(10,962) Other entities and individuals	(10,197)
(15,257) Total	(15,084)

Long Term Creditors

31 March 2017 £000	31 March 2018 £000
(519) Capital Grants Receipts In Advance	(367)
(519) Total	(367)

21 Provisions

	NNDR Appeals £000	Land Charges £000	Planning £000	Total £000
Balance as at 1 April 2016	(747)	(24)	0	(771)
Additional provisions made in 2016/17	0	0	(20)	(20)
Amounts used in 2016/17	75	0	0	75
Unused amounts reversed in 2016/17	21	0	0	21
Balance as at 1 April 2017	(651)	(24)	(20)	(695)
Additional provisions made in 2017/18	(256)	0	0	(256)
Amounts used in 2017/18	52	0	20	72
Unused amounts reversed in 2017/18	0	24	0	24
Balance as at 31 March 2018	(855)	0	0	(855)

Provision for Business Rates 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. In 2017/18 it was decided that all obligations under this provision had been settled and so the provision was released back to revenue.

Provision for Planning

This provision relates to potential costs in respect of a planning enquiry and has been fully utilised in 2017/18.

22 Usable Reserves

31 March 2017 £000		31 March 2018 £000
859	General Fund Balance	899
2,883	Earmarked Reserves	4,249
2,219	Capital Receipts Reserve	2,012
879	Capital Grants Unapplied	955
6,840	Total Usable Reserves	8,115

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement. Usable reserves are reserves that can be applied to fund expenditure or reduce local taxation.

23 Unusable Reserves

The table below details the Council's unusable reserves. These are reserves that cannot be applied to fund expenditure or reduce local taxation – they are not useable resources.

31 March 2017 £000		Notes	31 March 2018 £000
6,275	Revaluation Reserve	24	5,795
18	Available-for-sale Financial Instruments Reserve	25	3
3,549	Capital Adjustment Account	26	2,875
(18,450)	Pensions Reserve	27	(17,342)
852	Collection Fund Adjustment Account	28	469
(7,756)	Total Unusable Reserves		(8,200)

24 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.

The table below shows that transactions that have gone through the revaluation reserve:

2016/17 £000		2017/18 £000
4,846	Balance as at 1 April	6,275
2,540	Upward revaluation of assets	1,381
(938)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	(1,792)
1,602	Difference between fair value depreciation and historical cost depreciation	(411)
(107)		184
(66)	Accumulated gains on assets sold or scrapped	(253)
(173)	Amount written off to the Capital Adjustment Account	(69)
6,275	Balance as at 31 March	5,795

25 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.

2016/17 £000		2017/18 £000
12	Balance as at 1 April	18
6	Upward revaluation of investments	0
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(15)
18	Balance as at 31 March	3

26 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 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016/17 £000		2017/18 £000
4,531	Balance as at 1 April	3,549
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(1,149)	Charges for Depreciation and impairment of non current assets	(454)
(26)	Amortisation of intangible assets	(26)
(1,645)	Revenue expenditure funded from capital under statute	(790)
(205)	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	(692)
(3,025)		(1,962)
173	Adjusting amounts written out of the Revaluation Reserve	69
(2,852)	Net written out amount of the cost of non current assets consumed in the year	(1,893)
	<u>Capital financing applied in the year:</u>	
22	Use of the Capital Receipts Reserve to finance new capital expenditure	316
1,627	Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	784
9	Direct Revenue Financing	20
8	Capital Grant Applied	15
143	Statutory provision for the financing of capital investment charged against the General Fund balances	143
1,809	Capital expenditure charged against the General Fund	1,278
61	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(59)
3,549	Balance as at 31 March	2,875

27 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.

2016/17 £000		2017/18 £000
(15,560)	Balance as at 1 April	(18,450)
(2,753)	Remeasurement of the net defined benefit liability/(assets) Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in	984
(533)	the Comprehensive Income and Expenditure Statement	(463)
396	Employer's pension contributions and direct payments to pensioners payable in the year	587
<u>(18,450)</u>	Balance as at 31 March	<u>(17,342)</u>

28 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.

2016/17 £000		2017/18 £000
(2,910)	Balance as at 1 April	852
	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	
3,762	requirements	(383)
<u>852</u>	Balance as at 31 March	<u>469</u>

29 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2016/17 £000		2017/18 £000
(38)	Interest Received	(33)
<u>(38)</u>		<u>(33)</u>

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

2016/17 £000	2017/18 £000
396 Depreciation	297
26 Amortisation	26
755 Impairment and downward valuations	157
(61) Revaluation of Investment Properties	59
(724) (Decrease)/Increase in creditors	(168)
3,092 (Increase)/Decrease in debtors	(1,455)
205 Carrying Value of Non Current Assets Disposed	692
533 Movement in Pension Liability	463
(396) Pension Payable for year	(587)
(76) (Decrease)/Increase in Provisions	160
(342) (Decrease)/Increase in Capital RIA	(152)
3,408	(508)

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

2016/17 £000	2017/18 £000
(153) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(252)
(153)	(252)

30 Cash Flow Statement – Investing Activities

The cash flow for investing activities includes the following items:

2016/17 £000	2017/18 £000
(99) Purchase of Property, Plant and Equipment, Investment Property and intangible assets	(338)
(3,874) Purchase of Short Term & Long Term Investments	(62)
153 Proceeds from the sale of property, plant and equipment	252
(3,820) Net cash flows from investing activities	(148)

31 Officers Remuneration

During 2013/14 West Somerset District Council approved plans to share a joint management team with Taunton Deane Borough Council and the figures below represent 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 in the tables on the following pages) 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 following tables are an extract from the accounts of Taunton Deane Borough Council and represents the full cost of remuneration for the year 2017/18. All staff are employees of Taunton Deane Borough Council and are included for information purposes only.

1. Posts were shared with Taunton Deane Borough Council throughout the two years 2016/17 and 2017/18.
2. The split of remuneration for the Director – Housing and Communities is 10:90, West Somerset Council: Taunton Deane Borough Council
3. The split of remuneration for the Chief Executive, the Assistant Chief Executive and Monitoring Officer and Assistant Director – Strategic Finance is 50:50 West Somerset Council: Taunton Deane Borough Council
4. The Assistant Director – Resources and Support was appointed on 1 December 2016.

The information shown in the tables on the following pages is an extract from the information shown in Taunton Deane Borough Council's Statement of Accounts and reflects the full cost of remuneration received by the named post holders during 2017/18.

Post holder information (Post Title)		Salary, Fees and Allowances £	Expenses Allowances £	Total Remuneration excluding pension contributions £	Pension Contributions £	Total Remuneration £	Annualised Salary £
Chief Executive	2017/18	119,126	0	119,126	14,311	133,437	112,211
	2016/17	113,131	3,333	116,464	20,442	136,906	113,131
Director for Operations & Deputy Chief Executive	2017/18	88,443	0	88,443	10,115	98,558	88,443
	2016/17	97,442	0	97,442	12,382	109,824	89,598
Director for Growth & Development	2017/18	83,247	0	83,247	10,318	93,565	83,247
	2016/17	84,447	1,481	85,928	11,126	97,054	82,416
Director for Housing & Communities	2017/18	83,240	0	83,240	10,361	93,601	83,240
	2016/17	82,416	0	82,416	11,126	93,542	82,416
Assistant Chief Executive & Monitoring Officer	2017/18	67,427	0	67,427	7,992	75,419	66,072
	2016/17	65,418	0	65,418	8,439	73,857	65,418
Assistant Director - Housing & Community Development	2017/18	62,430	0	62,430	7,419	69,849	62,430
	2016/17	61,812	0	61,812	8,345	70,157	61,812
Assistant Director - Planning & Environment	2017/18	62,430	0	62,430	7,489	69,919	62,430
	2016/17	63,843	677	64,520	8,345	72,865	61,812
Assistant Director - Corporate Services	2017/18	62,430	0	62,430	7,489	69,919	62,430
	2016/17	63,843	627	64,470	8,345	72,815	61,812
Assistant Director - Operational Delivery	2017/18	62,490	0	62,490	7,479	69,969	62,430
	2016/17	63,051	0	63,051	8,369	71,420	61,812
Assistant Director - Business Development	2017/18	62,430	0	62,430	7,489	69,919	62,430
	2016/17	61,812	0	61,812	8,345	70,157	61,812
Assistant Director - Strategic Finance	2017/18	67,013	0	67,013	8,122	75,135	62,430
	2016/17	61,812	0	61,812	8,345	70,157	61,812
Assistant Director - Energy & Infrastructure	2017/18	66,748	0	66,748	8,066	74,814	62,430
	2016/17	64,543	0	64,543	8,402	72,945	61,812
Assistant Director - Resources & Support	2017/18	69,683	0	69,683	8,490	78,173	69,683
	2016/17	22,998	0	22,998	3,105	26,103	68,993

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	2016/17 Number of employees Total	2017/18 Number of employees Total
£50,000 - £54,999	3	5

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 (£)	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
£0 - £20,000	3	0	0	0	3	0	23,700	0
CIES	3	0	0	0	3	0	23,700	0

32 Members Allowances

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

2016/17 £000	2017/18 £000
74 Basic Allowance	76
59 Special Responsibility Allowance	60
14 Expenses	13
147 Allowances paid in the year	149

33 External Audit Costs

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

2016/17 £000	2017/18 £000
43 Fees payable to external auditors with regards to external audit services carried out by the appointed auditor for the year	43
9 Fees paid to external auditors for the certification of grant claims and returns for the year	7
52 Total	50

34 Grant Income

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

Contributions and donations to the Comprehensive Income and Expenditure Statement	2016/17 £000	2017/18 £000
<u>Credited to Taxation and Non Specific Grant Income</u>		
EDF - Hinkley C S106 Contribution - Capital Grant	(1,017)	(225)
New Homes Bonus	(716)	(545)
Revenue Support Grant	(550)	(317)
Section 106 Agreements	(389)	(168)
Disabled Facilities Grant	(358)	(416)
Section 31 Grant - Business Rates	(346)	(711)
Steam Coast Trail	(294)	(53)
Rural Services Delivery Grant	(213)	(172)
Council Tax Family Annexe Grant	0	(5)
Total Credited to Taxation and Non Specific Grant Income	(3,883)	(2,612)
<u>Credited to Services - Operations</u>		
MHCLG Land Charge Grant	(2)	(9)
Rent Rebate Grant	(19)	(13)
DWP - Benefit Administration Grant	(146)	(120)
MHCLG Benefit Admin Grant	(51)	(49)
NNDR Cost of Collection Grant	(75)	(78)
DWP - Universal Credit	(24)	(23)
DHP Grant	(130)	(153)
DWP - Housing Benefit Subsidy	(12,510)	(10,743)
MHCLG - Data Sharing	(22)	(50)
Transformation Grant	(20)	(10)
New Burdens Funding	0	(28)
<u>Credited to Services - Housing & Communities</u>		
Cuckoo Meadow	(20)	(22)
MHCLG - Temporary Accommodation	(1)	(1)
MHCLG - Flexible Homelessness Support Grant	0	(84)
<u>Credited to Services - Growth & Development</u>		
EDF - Hinkley C S106 Contribution	(821)	(1,098)
MHCLG - Community Housing Fund	(575)	0
HCA - Hinkley Housing Zone	(120)	0
Coast Communities Team	(50)	0
Steam Coast Trail	(34)	0
MHCLG - Custom Build Grant	(15)	0
MHCLG - Brownfield Register	(15)	0
Home Office - Prevent Duty	(10)	0
Watchet Town Council Community Safety Contribution	(2)	0
Improvement & Development Agency Grant	(8)	0
MHCLG Self Build & Custom Building Register	(6)	(36)
Minehead Chamber of Commerce - Economic Plan	(1)	0
MHCLG Neighbourhood Planning	(5)	(20)
Porlock CCT Grant	0	(10)
Minehead Esplanade	0	(49)
DEFRA LEADER - Minehead at the Helm	0	(47)
National Grid PPA	0	(35)
<u>Credited to Services - Strategic Leadership</u>		
MHCLG - Transparency Code Set Up	(8)	(8)
Individual Electoral Registration	(7)	(6)
Total Credited To Services	(14,697)	(12,692)
Total Grant Income	(18,580)	(15,304)

35 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.

UK 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 2017/18.

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 2017/18.

During 2017/18 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 Director – Resources and Support 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 total paid to Parish Councils during 2017/18 other than precept payments amounted to £0.087m.

Related party transactions with the precepting bodies are disclosed on page 74 within the Collection Fund Statement and with the pension fund which is on pages 66-70, note 40 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 2017/18 are as follows:

2016/17 £000		2017/18 £000
(3,197)	Amounts due to Central Government	(2,914)
(1,098)	Amounts due to other Local Authorities	(1,973)
446	Amounts due from Central Government	1,985
114	Amounts due from other Local Authorities	108
(3,735)		(2,794)

36 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.

2016/17 £000	2017/18 £000
5,490	5,347
Opening Capital Financing Requirement	
<u>Capital Investment</u>	
2 Property, Plant and Equipment	109
20 Assets Held for Sale	216
1,645 Revenue Expenditure Funded from Capital under Statute	804
Release of Funds From Previous Year	6
<u>Sources of finance</u>	
(23) Capital receipts	(316)
(143) Minimum Revenue Provision Set Aside from Capital Receipts	(143)
(1,635) Government grants and other contributions	(799)
<u>Sums set aside from revenue</u>	
(9) Direct revenue contributions	(20)
5,347	5,204
Closing Capital Financing Requirement	
<u>Explanation of movements in year</u>	
Increase / (Decrease) in underlying need to borrowing	
(143) (unsupported by Government financial assistance)	(143)
(143)	(143)
Increase/(decrease) in Capital Financing Requirement	

37 Leases

Council as Lessee

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:

	31 March 2017 £000	31 March 2018 £000
Not later than one year	75	56
Later than one year and not later than five years	102	98
Later than five years	37	12
Total	214	166

The expenditure charged to the Comprehensive Income and Expenditure Statement during 2017/18 in relation to these leases was £0.058m.

Council as Lessor

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 Council under non-cancellable leases in future years are as follows:

	31 March 2017 £000	31 March 2018 £000
Not later than one year	100	77
Later than one year and not later than five years	350	329
Later than five years	2,198	2,137
Total	2,648	2,543

38 Impairment Losses

During 2017/18 no impairment losses have been recognised, other than those identified as part of the non-current assets valuation process carried out by Wilks, Head and Eve, chartered surveyors on behalf of the Council. Note 14 provides further information in relation to the revaluation of non-current Assets.

39 Termination Benefits

As part of the Joint Management and Shared Service (JMASS) partnership with Taunton Deane Borough Council, the Councils did not terminate the contracts of any employees in 2017/18, compared to 3 in 2016/17, incurring no liabilities in 2017/18 (£0.024m in 2016/17). See Note 31 for further details regarding the number of exit packages and total cost per band.

40 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, (LGPS) administered locally by Peninsula Pensions on behalf of the Somerset Pension Fund. This is a funded 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.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Regulations 2013, and is contracted out of the State Second Pension Scheme and currently provides benefits based on career average revalued salary and length of service on retirement with various protections in place for those members in the scheme before the changes took place.

The Somerset Pension Fund is operated under the regulatory framework of the Local Government Pension Scheme and the governance of the Scheme is the responsibility of the Pensions Committee of Somerset County Council. Policy is determined in accordance with the Pension Fund Regulations.

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

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	2016/17 £000	2017/18 £000
<u>Comprehensive Income and Expenditure Statement</u>		
<u>Cost of Services</u>		
- Administration expenses	10	8
<u>Financing and Investment Income and Expenditure:</u>		
- Net interest on the defined liability	523	455
Total Post Employment Benefits charged to the Provision of Services	533	463
<u>Remeasurement of the net defined liability comprising:</u>		
- Return on assets (excluding the amount included in the net interest expense)	2,410	317
- Change in financial assumptions	(5,371)	667
- Change in demographic assumptions	949	0
- Experience (gain) / loss on defined benefit obligation	(836)	0
- Liabilities assumed / (extinguished) on settlements	0	0
- Other actuarial (gains) / losses on assets	95	0
Total Post Employment Benefit Charged to the Income and Expenditure Statement	(2,753)	984
Movement in Reserves Statement		
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(533)	(463)
<u>Actual amount charged against the General Fund balance for pensions in the year:</u>		
- Employers contributions payable to scheme	396	587
- 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	2016/17 £000	2017/18 £000
Present value of the defined benefit obligation	(30,402)	(29,265)
Fair value of plan assets (bid value)	13,580	13,480
Deficit/(Surplus)	(16,822)	(15,785)
Present value of unfunded obligation	(1,628)	(1,557)
Net liability arising from defined benefit obligation	(18,450)	(17,342)

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

Reconciliation of Fair Value of the Scheme Assets	2016/17 £000	2017/18 £000
Opening balance as at 1st April	11,656	13,580
Interest on assets	380	330
Return on assets less interest	2,410	317
Other actuarial gains/(losses)	95	0
Administration expenses	(10)	(8)
Contributions by employer including unfunded	396	587
Estimated benefits paid plus unfunded net of transfers in	(1,347)	(1,326)
Closing balance as at 31st March	13,580	13,480

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	
	2016/17 £000	2017/18 £000
Opening balances as at 1 April	(27,216)	(32,030)
Interest cost	(903)	(785)
Change in financial assumptions	(5,371)	667
Change in demographic assumptions	949	0
Experience loss / (gain) on defined benefit obligation	(836)	0
Estimated benefits paid net of transfers in	1,261	1,243
Unfunded Pension Payments	86	83
Closing balance as at 31 March	(32,030)	(30,822)

Local Government Pension Scheme assets comprised:

LG Pension Scheme Assets	2016/17	2017/18
Equities	71%	72%
Gilts	6%	6%
Other bonds	10%	9%
Property	9%	9%
Cash	4%	4%
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 LLP, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

Basis for Estimating Assets and Liabilities	2016/17	2017/18
Long-term expected rates of return on assets in the scheme:		
Mortality assumptions:		
<u>Longevity at 65 for current pensioners</u>		
- Males	23.9	24.0
- Females	25.0	25.2
<u>Longevity at 65 for future pensioners</u>		
- Males	26.1	26.2
- Females	27.4	27.5
Rate of inflation - RPI	3.4%	3.4%
Rate of inflation - CPI	2.5%	2.4%
Rate of increase in salaries	4.0%	3.9%
Rate of increase in pensions	2.5%	2.4%
Rate for discounting scheme liabilities	2.5%	2.5%
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 Council expects to pay £0.516m in contributions to the scheme in 2018/19.

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	0.1%	0.0%	-0.1%
Present value of total obligation	30,389	30,822	31,262
Adjustment to long term salary increase	0.1%	0.0%	-0.1%
Present value of total obligation	30,822	30,822	30,822
Adjustment to pension increases and deferred revaluation	0.1%	0.0%	-0.1%
Present value of total obligation	31,263	30,822	30,387
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	32,147	30,822	29,553

41 Contingent Liabilities

As at 31 March 2018 the Council had the following contingent liabilities:

Business Rates Retention

The total provision for current and backdated appeals stands at £2.136m (£1.627m 2016/17) of this the Council share is £0.855m (£0.651m 2016/17). 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. 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 2017/18 the Council repurchased number 44 Clanville Grange which was subsequently sold at the end of March 2018, as was number, 43 which had been in the Council's ownership since 2015. The Council has an on-going liability for five properties with no properties within the scheme currently owned by the Council.

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.

42 Contingent Assets

Hinkley Point C

There are two s106 agreements in place, one in relation to the site preparation works planning permission granted by West Somerset Council in January 2012 and the other in relation to the development consent order granted by the Secretary of State in March 2013. Thus far, all contributions have been paid on time and in full. A total of £0.641m from both agreements is due to be paid in May 2018.

The income which is due to be paid to West Somerset is largely triggered by ‘transition’ or anniversaries of ‘transition’. The transition from the site preparation works planning permission to the development consent order took place in June 2016.

The Council will receive a minimum of £4.622m (maximum £5.478m) in total from the s106 relating to the development consent order. The payments are due over a number of years with the last one due in 2023.

43 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 2017/18 Treasury Management Strategy which incorporated the prudential indicators was approved by Council on 22 February 2017 and is available on the Council website. The key issues within the 2017/18 strategy were:

- The Authorised Limit for 2017/18 was set at £24.000m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £12.000m. 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.

Investments

The investment 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 table below summarise the credit risk exposures of the Council's investment portfolio by credit rating:

2016/17			2017/18		
Long Term £000	Short Term £000	Credit Rating	Long Term £000	Short Term £000	
500	6,135	AAA	0	3,850	
0	9,874	AA	0	9,436	
0	0	Unrated	0	3,000	
500	16,009	Total	0	16,286	

Trade Receivables

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:

	31 March 2017 £000	31 March 2018 £000
Less than three months	260	282
Three to six months	88	95
Six months to one year	121	128
More than one year	343	311
Total	812	816

At the beginning of 2017/18 the provision for impairment of sundry debts (excluding council tax, business rates and housing benefits) stood at £0.165m. The Council has now made a provision for impairment of sundry debts of £0.141m in the 2017/18 accounts, which is an overall decrease of £0.024m. 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.

44 Structural Change Order – Creation of the new Somerset West and Taunton Council

Legislation has now been passed through both Houses of Parliament for the combination of West Somerset Council and Taunton Deane Borough Council to create a new council. Both Councils will cease to exist as an entity from the 1st April 2019 and their functions, assets and liabilities will transfer to the new Somerset West and Taunton Council on 1 April 2019.

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.

2016/17			2017/18		
Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
Income					
(13,500)	0	(13,500)	(13,933)	0	(13,933)
0	(21,609)	(21,609)	0	(22,726)	(22,726)
(13,500)	(21,609)	(35,109)	(13,933)	(22,726)	(36,659)
Expenditure					
<u>Apportionment of Previous Year Surplus:</u>					
(3,412)	0	(3,412)	601	0	601
(614)	69	(545)	108	325	433
0	12	12	0	53	53
(68)	5	(63)	12	24	36
(2,729)	14	(2,715)	481	64	545
(6,823)	100	(6,723)	1,202	466	1,668
<u>Precepts and Demands:</u>					
5,458	0	5,458	8,275	0	8,275
982	14,583	15,565	1,489	15,590	17,079
0	2,403	2,403	0	2,520	2,520
109	1,078	1,187	166	1,131	1,297
4,366	1,986	6,352	6,620	2,111	8,731
0	904	904	0	953	953
10,915	20,954	31,869	16,550	22,305	38,855
<u>Charges to the Collection Fund:</u>					
64	125	189	(6)	67	61
(53)	0	(53)	640	0	640
(186)	0	(186)	(131)	0	(131)
170	0	170	(3,514)	0	(3,514)
29	0	29	29	0	29
0	0	0	4	0	4
73	0	73	78	0	78
97	125	222	(2,900)	67	(2,833)
(9,311)	(430)	(9,741)	919	112	1,031
7,339	(181)	7,158	(1,972)	(611)	(2,583)
(1,972)	(611)	(2,583)	(1,053)	(499)	(1,552)
<u>Attributable to:</u>					
(986)	0	(986)	(526)	0	(526)
(177)	(426)	(603)	(95)	(349)	(444)
0	(70)	(70)	0	(57)	(57)
(20)	(31)	(51)	(11)	(25)	(36)
(789)	(84)	(873)	(421)	(68)	(489)
(1,972)	(611)	(2,583)	(1,053)	(499)	(1,552)

* Please note the WSC council tax precept of £2.111m includes £0.024m in respect of the Somerset Rivers Authority which WSC collects on their behalf.

45 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 28 March 2018 was £44,751,115 (31 March 2017 £30,954,042). The standard national non-domestic multiplier for the year was £0.479 (2016/17 £0.497), the national domestic small business multiplier for the year was £0.466 (2016/17 £0.484).

46 Council Tax Base

The Council's tax base for 2017/18, 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)	2.67	5/9	1.48
A	1,812.98	6/9	1,208.65
B	2,792.04	7/9	2,171.59
C	3,091.26	8/9	2,747.78
D	2,884.18	9/9	2,884.18
E	1,670.90	11/9	2,042.22
F	1,166.26	13/9	1,684.60
G	620.48	15/9	1,034.13
H	42.89	18/9	85.78
	<u>14,083.66</u>		<u>13,860.41</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

The concept that income and expenditure are recognised in the financial records as they are earned or incurred, not as the money is received or paid.

Amortisation

The loss in value of an intangible asset due to its use by the Council. Amortisation is a non-cash item, it is merely an accounting assessment.

Amortised Cost

The amount at which a financial asset or liability is measured at initial cost minus repayments and impairment, plus or minus the cumulative amortisation of the difference between the initial amount and the maturity amount. Amortisation is worked out using the effective interest rate (EIR).

Apportionment

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

Asset

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

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

The 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

The accumulated surplus of revenue income over expenditure.

Balance Sheet

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

Budget

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

Capital Adjustment Account

The 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

Capital charges are a charge to services for the use of non-current assets in the provision of their services; the charges reflect depreciation and impairment.

Capital Contributions/Grants

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

Capital Expenditure

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 Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow or finance by other long-term liabilities for a capital purpose.

Capital Programme

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

Capital Receipts

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

Unspent revenue budget approvals, which the Council's appropriate committee is able to transfer into the following financial year.

Cash Equivalents

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

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

Central Government Grants

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

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is a privately funded professional body with charitable status, which represents accountants working in the public sector. The Institute provides financial and statistical information for local government and other public sector bodies and advises central government and other bodies on local government and public finance matters.

CIPFA/LASAAC

This board is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting in the United Kingdom. The Board is a partnership between CIPFA England and the Local Authority (Scotland) Accounts Advisory Committee.

Code

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

Statutory 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

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)

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

Council Tax

The main source of local taxation for local authorities. Council tax is set by local authorities and is levied on all domestic dwellings whether houses, bungalows, flats, maisonettes, mobile homes or houseboats, and whether owned or rented. The proceeds are paid into the Council's Collection Fund for distribution to precepting authorities and for use by its own General Fund.

Creditors

The 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

The 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

The 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

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

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

Effective Interest Rate

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

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

Fair Value (Financial Instruments)

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)

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

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

Financial Instruments

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

Transactions that 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.

Housing Benefits

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

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

Income

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

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

International Financial Reporting Standards (IFRS)

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

The lending of surplus money to another party in exchange for interest.

Investment Property

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

Financial instruments that have fixed or determinable payments and are not quoted in an active market.

Long-term Investments

Those investments which are intended to be held on a continuous basis for the activities of the Council.

Materiality

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 (MRP)

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)

The movement in the year on the different reserves held by the Council, analysed into 'usable reserves' and 'unusable reserves'.

Net Book Value

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

The cost of replacing an asset in its existing condition and use.

Net Realisable Value

The open market value of an asset in its existing use net of the potential expenses of sale.

Non-Current Asset

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

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

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

Those assets e.g. land and buildings, used in the direct provision of services.

Operating Leases

A type of lease, usually for vehicles or equipment, which is similar to renting and which does not come within the government's capital control system. The risks and rewards of ownership of the asset must remain with the lessor for a lease to be classified as an operating lease.

Other Operating Costs

Includes expenditure on buildings, fuel, light, rent, rates, and purchase of furniture and equipment.

Precept

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

Amounts set aside to meet costs which are likely or certain to be incurred, but are uncertain in value or timing.

Rateable Value

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

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

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

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

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 from 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 (RSG)

A general grant paid by the Government to local authorities as a contribution towards the cost of their services.

Support Service Recharges

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

Usable Reserves

The reserves that can be applied to fund expenditure or reduce local taxation.

Useful Life

The period over which the local authority will derive economic benefits from the use of a fixed asset.