AUDIT COMMITTEE

AGENDA

24 September 2012 at 4.30 pm

Council Chamber, Williton

1. Apologies for Absence

2. Minutes

Minutes of the Meeting of the Committee held on 25 June 2012 – **SEE ATTACHED** – to be confirmed.

3. Declarations of Interest

To receive and record any declarations of interest in respect of any matters included on 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 by the Chair is not open to discussion. If a response is needed it will be given either orally 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 2012/13 – **SEE ATTACHED.**

7. Annual Governance Report

The purpose of the report is to receive the draft Annual Governance Report from the Audit Commission and consider its content prior to approving the accounts. At the time of writing the report the audit is still ongoing, any changes to the Governance report will be tabled at the meeting on 24 September 2012 – **SEE ATTACHED.**

8. Audited Statement of Accounts

To consider report No. WSC 128/12 to be presented by Councillor K V Kravis, Lead Member for Resources & Central Support - **SEE ATTACHED.**

The purpose of the report is to request that the Audit Committee review the audited Statement of Accounts for the year ended 31 March 2012, prior to its signature by the Chair of the Committee and the Section 151 Officer.

9. SWAP Governance Arrangements

The Group Audit Manager to brief members on the South West Audit Partnership changing their Governance Arrangements to become a Private Limited Company by Guarantee.

10. Quarterly Review of Internal Audit Activity

The purpose of the report is to provide a review of Internal Audit activity plus identify any level 4 and 5 control weaknesses – **SEE ATTACHED.**

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

AUDIT COMMITTEE

Minutes of the Meeting held on 25 June 2012 at 4.30 pm in the Council Chamber, Williton

Present

Councillor A H Trollope-Bellew ……………………………………………………Chairman
Councillor E May …..….. ……………………………………………….. Vice Chairman

Councillor M J Chilcott
Councillor R P Lillis
Councillor P H Murphy
Councillor S Y Goss
Councillor K M Mills
Reverend V Woods

Members In Attendance

Councillor K V Kravis
Councillor T Taylor

Officers In Attendance

Section 151 Officer (G. Carne)
Deputy Monitoring Officer (I.Timms)
Planning Manager (A. Goodchild)
Finance Officer (P Disney-Walford)
Principal Accountant (S. Plenty)
Accounting Technician (P. West)
Meeting Administrator (H. Dobson)

Also In Attendance

Alun Williams, District Auditor, Audit Commission
Chris Gunn, Group Audit Manager of South West Audit Partnership (SWAP)
Claire Hodgson, Audit Manager of South West Audit Partnership (SWAP)

A1 Apologies for Absence

No apologies for absence were received.

A2 Minutes

(Minutes of the Meeting of Audit Committee held on 26 March 2012, circulated with the Agenda).

RESOLVED that the Minutes of the Meeting of Audit Committee held on 26 March 2012 be confirmed as a correct record.

A3 Declarations of Interests

Members present at the meeting declared the following personal interests in their capacity as a Member of a County, Parish or Town Council:

Name	Minute No	Description of Interest	Personal or Prejudicial	Action Taken
Cllr S Goss	All	Stogursey	Personal	Spoke and voted
Cllr A Trollope-Bellew	All	SCC	Personal	Spoke and voted
Cllr P H Murphy	All	Watchet	Personal	Spoke and voted

In addition, Councillor A Trollope-Bellew, declared a personal interest in Agenda Item 15 – Draft Accounts 2011/12, he was a member of the Pensions Committee for Somerset County Council.

A4 Public Participation

No members of the public had requested to speak.

A5 Audit Committee Action Plan

(Audit Committee Action Plan, circulated with the Agenda).

RESOLVED that the Audit Committee Action Plan be noted.

A6 Audit Committee Forward Plan

(Audit Committee Forward Plan, circulated with the Agenda).

In response to a question regarding the request as to whether the Audit Committee could look at section 106 monies not related to Hinkley C, the Section 151 Officer advised that once the Council had engaged with the South West Audit Partnership (SWAP) regarding the Hinkley C 106 arrangements, it was likely that internal audit would also look at the general 106 monies as well. He confirmed that a quarterly report was presented to Cabinet, which listed all the general 106 monies received from developers by parish.

RESOLVED that the Audit Committee Forward Plan be noted.

A7 Hinkley Point C Section 106 Agreement – Financial Governance Arrangements

(Report No. WSC 87/12, circulated with the Agenda).

The purpose of the report was to consider financial governance issues relating to the Hinkley Point C Section 106 Agreement.

The Lead Member for Resources and Central Support advised that it was important that the Council made sure that 106 monies were spent wisely and well. It was a vast amount of money with an enormous amount of issues. It was important that correct governance was in place, to ensure that the Council were open and transparent, and to ensure that the money was spent as stipulated.

The Section 151 Officer advised that this report would be going to Cabinet in July. The board would be made up of members from the three signatory councils (West Somerset, Sedgemoor and Somerset County) and EDF Energy and would consider projects that requested funding before making a recommendation to Cabinet (and Council, if required). The governance arrangements demonstrated that the Council were extremely serious and that they would be in control of the money and knew what they were doing. He was aware of the concerns of the Audit Committee and the public who had concerns that the construction of Hinkley C was too big a project for such a small authority. He introduced the recently appointed Finance Officer who was the only dedicated Hinkley C finance member of staff.

The Finance Officer presented the report and advised that the approval process for the 106 monies was fairly well established. The financial governance such as, receiving contributions, paying them to other authorities, monitoring the spend, progress on projects, managing risk etc, was covered within the report. The governance arrangements would make it very clear to the outside world, that the Council were in control of a project of this size and scale and their own internal processes, which fit in with its' existing approach. The 106 had a multiplicity of funding streams coming through and the appendices of the report, attached to the agenda, showed the funding routes and responsible decision-making bodies etc. The Council had good financial governance already and were building on what was already in place. She explained that Table 1 in the report, attached to the agenda, sets out the key principles of effective financial governance and how the processes would be managed. Cabinet and the Corporate Management Team would receive a regular budget monitoring report covering all Hinkley section 106 spending. Any monies related to Hinkley were clearly ring fenced to Hinkley ensuring that the spend was visible and regularly monitored. The Council wanted to pool their resources across the three councils to be more efficient, and the other authorities were in agreement.

During the course of the debate the following points raised/addressed included:

- It was confirmed that SWAP might be able to comment on the proposed approach to managing and controlling the Hinkley section 106 funding streams in September, this was yet to be confirmed.
- The Finance Officer responded to a request and confirmed that the full statement of the current Hinkley section 106 funding position could go before Audit Committee.
- Concern that the impact to the Council of 'claw-back' by the developer could lead to bankruptcy: the assessment of that risk within the risk matrix, attached to the report, did not appear to reflect the assessment accurately. The Section 151 Officer agreed that the loss of reputation was as equally concerning as the potential financial position due to claw-back and confirmed that he would raise the impact to '5 (Catastrophic)', making the overall score '15 (High)'.
- A request that communities were given enough time to put together any bids for 106 monies. The Planning Manager advised that a Project Officer had been recently employed who would help specifically with parishes to help West Somerset communities to maximise the 106 monies.
- It was confirmed that more information relating to risk would be included in the Cabinet report. Further, that a range of additional posts, such as the Finance Officer, had been employed to help mitigate the many risks identified in delivering the project.
- Concern was expressed that sufficient controls and checks might not be in place. The Finance Officer advised that as the framework was further developed the Council would need to look specifically at the risks and could put together a summary of the key risks and what procedures the Council had in place to mitigate those risks. This document could be included as part of the quarterly updates presented to the Audit Committee.

The Planning Manager advised that additional contaminated material had been found on the Hinkley site and could affect the timing of phase 2; it would be at least October and might not be until January 2013 before phase 2 would commence. Should EDF decide not to commence with phase 2, the funds secured so far relating to phase 1 would remain with the Council, and phase 2 funds would not be released as the impact of those works would not occur. The vast majority of the Hinkley related officers were in a service level agreement that was not linked to phase 1 or 2.

The Finance Officer noted the minor amendments put forward by members.

RESOLVED (1) that, subject to the inclusion of minor amendments, the Audit Committee recommend to Cabinet to approve the proposed governance arrangements set out in the report attached to the agenda, with regard to the management of Hinkley Point C section 106 contributions.

RESOLVED (2) that a report be presented to the Audit Committee at its' meeting scheduled for September 2012, following consultation on the proposed financial governance processes with the South West Audit Partnership.

A8 Audit of Financial Controls

(Audit of Financial Controls 2011/12, circulated with the Agenda).

The purpose of the report was for the Audit Commission to present their assessment of the adequacy of internal controls to the Committee.

The District Auditor of the Audit Commission presented the report and advised that it dealt with the work carried out so far; the first phase looked at the controls of the systems and no weaknesses had been recognised. The Commission made six recommendations, which were discussed with officers and actions were in place to implement them. The recommendations did not suggest there were any problems with the controls of the Council.

The District Auditor was thanked for the clear report.

Members congratulated the work conducted by the Finance Team as the Council was in a much improved position.

Concern was raised that although no weaknesses had been identified in key financial controls relating to Housing Benefits a weakness was identified relating to Agenda Item 10, Update on Level 4 and 5 Recommendations, regarding the e-claim system which did not require confirmation of details by claimants. In response the Group Manager – Housing and Economy advised that claimants ticked a box to confirm that they had supplied correct information, this was a legal statement.

The Section 151 Officer advised that he would report back with a more detailed report on how the e-claim system operated. Further, he noted that the procedural guidance notes be amended to in order that recommendations reflect the processes of the Council.

RESOLVED that the Audit of Financial Controls 2011/12, be noted.

A9 Quarterly Review of Internal Audit Activity

The purpose of the update was to provide a review of Internal Audit activity plus identify any level 4 and 5 control weaknesses.

The Audit Manager of South West Audit Partnership (SWAP) provided a verbal update on Internal Audit activity and advised that all the quarter one reports were in progress and she anticipated that they could be given 'reasonable' assurance.

RESOLVED that the verbal update on Internal Audit activity, be noted.

A10 Update on Level 4 and 5 Recommendations

The purpose of the report was to provide an update on recommendations made during 2010/11 by the Council's Internal Auditors.

The Section 151 Officer advised that the report set out the Level 4 and 5 recommendations for 2010/11 and that most of the recommendations had been followed up in December 2011. Most of the actions were in hand or completed.

In response to a question the Section 151 Officer confirmed that the difficulties with the Northgate system would be resolved in time, notwithstanding this the system did provide a good service.

RESOLVED that the update on Level 4 and 5 recommendations for 2010/11, be noted.

A11 Council Tax and NNDR Managed Audit Follow-up Report

(Council Tax and NNDR Managed Audit Follow-up Report, circulated with the Agenda).

The Section 151 Officer advised that the report provided an example of level 2 and 3 recommendations as requested at the last meeting of the Audit Committee. He advised that the level of resources available would be taken into account when considering whether it was possible/affordable to implement or partly implement level 1, 2 and 3 recommendations.

RESOLVED that the report be noted.

A12 Internal Audit Annual Report and Opinion

(Internal Audit Plan, Review of 2011/12, circulated with the Agenda).

The purpose of the report was to provide a review of the Internal Audit activity of the period April 2011 to March 2012, including any update on recommendation made, and an overall opinion to support the Annual Governance Statement.

The Section 151 Officer outlined the details in the report and highlighted, within the opinion, that the audit work found no issues to be raised with the Corporate Management Team.

During the course of the debate the Section 151 Officer confirmed that the recommendation to ensure that tender opening records were signed, dated and initialled by the witnesses present could be achieved before the agreed date of action. In response to concerns regarding PCI DSS submission he advised that he would investigate and advise the Committee of his findings.

RESOLVED that the content of the Internal Audit Plan – Review of 2011/12, be approved.

A13 Annual Review of Internal Audit

(Report No. WSC 86/12, circulated with the Agenda).

The purpose of the report was to review the effectiveness of Internal Audit, as delivered through SWAP (South West Audit Partnership) during 2011/12.

The Section 151 Officer advised that the table in 4.6.2 of the report, attached to the agenda, set out a summary of the work conducted by SWAP, which demonstrated that the work was adequate.

In response to questions the Section 151 Officer confirmed that:

- the two audits in progress at the end of March 2012 had been completed.
- there was scheduled capacity in the SWAP audit plan for 2012/13 to review Hinkley. Further, he would confirm whether the Council or EDF would pick up the cost of the audit.

RESOLVED (1) that, in order to fulfil the accounts and audit regulations, the Annual Review of Internal Audit be noted.

RESOLVED (2) that the findings of the review are that the system of Internal Audit is effective.

A14 Draft Accounts 2011/12

(Selected extracts of the draft Accounts 2011/12, circulated with the Agenda).

At the start of this item some updated selected extracts of the draft accounts 2011/12, a break down of debtors and creditors and earmarked reserves position were circulated.

The purpose of presenting the draft financial statements to the Audit Committee was to consider and comment upon the draft statements.

The Section 151 Officer advised that due to changes in regulations last year there was no longer a requirement for the Chairman of Audit Committee to approve the draft accounts. However, as an indicator of good practice the draft accounts would be presented to the Audit Committee. The only requirement in law was that the 151 Officer approved them prior to 30 June. He presented the accounts and advised that there was an underspend this year against the budget, and therefore an increase in the general fund. Some of the earmarked reserves listed in document, distributed at the meeting, would be used to support this years' budget. The Hinkley monies were recognised in the accounts in the balance sheet under long-term creditors (receipts in advance).

The Section 151 Officer confirmed that he would add a note to the accounts that would show clearly the Hinkley C 106 monies and general finance.

After discussion with the Audit Committee the Section 151 Officer noted that a refresher session on the draft accounts be held later in the next municipal year to accommodate the deadline for the draft accounts, and that the first Audit Committee meeting of the municipal year be held in July.

RESOLVED that, subject to including an amendment above, the draft Statement of Accounts for 2011/12, be noted.

A15 Annual Governance Statement 2011/12

(Report No. WSC 85/12, circulated with the Agenda).

The purpose of the report was to review the Annual Governance Statement prior to its signature by the Leader of the Council and the Chief Executive.

The Lead Member for Resources and Central Support presented the report and advised that the statement set out that the Council had sound governance in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) recommendations.

In response to a concern that the equality impact assessments under 'significant governance issues' had been deleted, the Section 151 Officer advised that they were being conducted in a different way and were more embedded within the Council's processes.

The Section 151 Officer confirmed that the penultimate bullet point in the first core principle, of the Statement, be deleted and added to the third core principle.

RESOLVED that, subject to the inclusion of the amendment above, the Annual Governance Statement 2011/12, attached to the report as Appendix A, be approved.

The meeting closed at 6.35 pm.

AUDIT COMMITTEE ACTION PLAN

Date/Minute Number	Action Required	Action Taken
A7 - Hinkley Point C Section 106 Agreement – Financial Governance Arrangements	It was confirmed that SWAP might be able to comment on the proposed approach to managing and controlling the Hinkley section 106 funding streams in September, this was yet to be confirmed.	Meeting with SWAP held 2nd August to scope the audit
	• The Finance Officer responded to a request and confirmed that the full statement of the current Hinkley section 106 funding position could go before Audit Committee.	It is proposed that the monitoring of the financial position is a regular item at future Audit Committees
	• Concern that the impact to the Council of 'claw-back' by the developer could lead to bankruptcy: the assessment of that risk within the risk matrix, attached to the report, did not appear to reflect the assessment accurately. The Section 151 Officer agreed that the loss of reputation was as equally concerning as the potential financial position due to claw-back and confirmed that he would raise the impact to '5 (Catastrophic)', making the overall score '15 (High)'.	The risk score was increased in the version of the report that was submitted to Cabinet following this comment by Audit Committee
	• A request that communities were given enough time to put together any bids for 106 monies. The Planning Manager advised that a Project Officer had been recently employed who would help specifically with parishes to help West Somerset communities to maximise the 106 monies.	No action
	• It was confirmed that more information relating to risk would be included in the Cabinet report. Further, that a range of additional posts, such as the Finance Officer, had been employed to help mitigate the many risks identified in delivering the project.	Risk score amended above. A number of officers have now been employed by West Somerset Council to work on the Hinkley Project
	• Concern was expressed that sufficient controls and checks might not be in place. The Finance Officer advised that as the framework was further developed the Council would need to look specifically at the risks and could put together a summary of the key risks and what procedures the Council had in place to mitigate those risks. This document could be included as part of the quarterly updates presented to the Audit Committee.	This links the work being scoped by SWAP and the monitoring that the Audit Committee have requested. It is suggested that the scope of the SWAP review is presented to Audit Committee when it is available
	RESOLVED (1) that, subject to the inclusion of minor amendments, the Audit Committee recommend to Cabinet to approve the proposed governance arrangements set out in the report	The report was presented to Cabinet in July 2012

	attached to the agenda, with regard to the management of Hinkley Point C section 106 contributions. RESOLVED (2) that a report be presented to the Audit Committee at its' meeting scheduled for September 2012, following consultation on the proposed financial governance processes with the South West Audit Partnership.	It was resolved at the Cabinet meeting in July that a report be presented to Audit Committee once SWAP have had a chance to review the process (this was stated as September but it is realistically likely to be December 2012 at the earliest).
A8 - Audit of Financial Controls	Housing Benefit; The Section 151 Officer advised that he would report back with a more detailed report on how the e-claim system operated. Further, he noted that the procedural guidance notes be amended to in order that recommendations reflect the processes of the Council. RESOLVED that the Audit of Financial Controls 2011/12, be noted.	Housing Benefit circular number A18/2006 **attached** which shows the 'new options for making <Housing and Council Tax Benefit> claims electronically, amendments and change of circumstance notifications by telephone or electronically
A9 - Quarterly Review of Internal Audit Activity	RESOLVED that the verbal update on Internal Audit activity, be noted.	No action
A10 - Update on Level 4 and 5 Recommendations	In response to a question the Section 151 Officer confirmed that the difficulties with the Northgate system would be resolved in time, notwithstanding this the system did provide a good service. RESOLVED that the update on Level 4 and 5 recommendations for 2010/11, be noted.	Latest update – Building Control Team has provided a list of required actions and this has been passed to the IT Team to liase with Northgate over improvements
A11 - Council Tax and NNDR Managed Audit Follow-up Report	RESOLVED that the report be noted.	No action
A12 - Internal Audit Annual Report and Opinion	In response to concerns regarding PCI DSS submission he advised that he would investigate and advise the Committee of his findings. RESOLVED that the content of the Internal Audit Plan – Review of 2011/12, be approved.	Compliance with PCI requirements are currently being implemented through the council's various software suppliers. Need to be compliant by the end of October according to our bank
A13 - Annual Review of Internal Audit	In response to questions the Section 151 Officer confirmed that: • the two audits in progress at the end of March 2012 had been completed. • there was scheduled capacity in the SWAP audit plan for 2012/13 to review Hinkley. Further, he would confirm whether the Council or EDF would pick	The cost of the Hinkley Point audit is a reasonable charge that could be picked-up from the contribution to overheads that staff funding within the service level agreement could be used to finance

	up the cost of the audit. RESOLVED (1) that, in order to fulfil the accounts and audit regulations, the Annual Review of Internal Audit be noted. RESOLVED (2) that the findings of the review are that the system of Internal Audit is effective.	
A14 - Draft Accounts 2011/12	After discussion with the Audit Committee the Section 151 Officer noted that a refresher session on the draft accounts be held later in the next municipal year to accommodate the deadline for the draft accounts, and that the first Audit Committee meeting of the municipal year be held in July. RESOLVED that, subject to including an amendment above, the draft Statement of Accounts for 2011/12, be noted.	For future action
A15 - Annual Governance Statement 2011/12	The Section 151 Officer confirmed that the penultimate bullet point in the first core principle, of the Statement, be deleted and added to the third core principle. RESOLVED that, subject to the inclusion of the amendment above, the Annual Governance Statement 2011/12, attached to the report as Appendix A, be approved.	The governance statement was amended

Housing Benefit and Council Tax Benefit Circular

Department for Work and Pensions
The Adelphi, 1 - 11 John Adam Street, London WC2N 6HT

HB/CTB A18/2006

ADJUDICATION AND OPERATIONS CIRCULAR

WHO SHOULD READ	All Housing Benefit (HB) and Council Tax Benefit (CTB) staff
ACTION	For information and action if appropriate
SUBJECT	New options for making claims electronically, amendments and change of circumstance notifications by telephone or electronically

Guidance Manual

The information in this circular does affect the content of the HB/CTB Guidance Manual. Please annotate this circular number against *Part A, paragraph 2.30, 2.32, 2.100, 2.120, W2.190, W4.150* and Part B *2.60, 2.62, 2.64, 2.66, 2.100, 2.190*.

Queries

If you

- want **extra copies of this circular/copies of previous circulars**, they can be found on the website at www.dwp.gov.uk/hbctb
- have any queries about the
  - **technical content of this circular**, contact Matthew King (except for performance framework queries)

    Email: matthew.king@dwp.gsi.gov.uk
  - **for Performance Framework queries contact the Performance Framework team**

    Email: performance-framework@dwp.gsi.gov.uk
  - **distribution of this circular**, contact Corporate Document Services Ltd Orderline

    Tel: 0113 399 4040

    Fax: 0113 399 4205

    Email: orderline@cds.co.uk

Contents

para

New options for making claims, amendments and change of circumstance notifications by telephone or electronically

New options for making claims, amendments and change of circumstance notifications by telephone or electronically

Introduction

1 This circular provides guidance on new options for the method of making claims and reporting changes of circumstance that are being made available to claimants and authorities from 20 December 2006.

2 Existing arrangements are unaffected by these changes, which are purely optional and are not being funded by central government.

Background

3 Earlier this year, the Department consulted local authorities (LAs) on its proposals to enable HB and CTB claims and changes of circumstance notifications to be made electronically, with or without a signature. Although some concerns were raised, there was sufficient interest and support to enable us to proceed with this work, which also includes facilitating claims by telephone and removing the automatic requirement for a signature. These changes will be brought into effect through

- the Housing Benefit and Council Tax Benefit (Amendment) (No 6) Regulations 2006
- The Housing Benefit and Council Tax Benefit (Electronic Communications) Order 2006, and
- any Direction made by an LA's Chief Executive under the Order

4 These measures take effect from 20 December 2006

5 We have not provided the usual six months lead in time for these proposals since they are entirely voluntary and may be implemented by individual authorities at a pace to suit them.

Effect of the changes

6 Taken together, the legislative changes enable

- claims, amendments of claims and changes of circumstance notifications to be made electronically or by telephone, without the automatic need for written confirmation and
- LAs which accept telephone claims to require that claimants subsequently check for accuracy a written summary of the claim
- change of circumstance notifications to be made in person – to an LA visiting officer or counter clerk without the automatic need for written confirmation

7 An LA which e-enables its business will also be able to issue its decision notices electronically, but only in circumstances where the claimant has requested or agreed to this. Such arrangements do not extend beyond this to communications connected with appeals.

8 We are also clarifying that signatures, whether hand-written or electronic, are not explicitly required in the legislation and it is for LAs to decide whether to require them on claims, amendments to claims or change of circumstances notifications.

9 Authorities, including their contractors, may take claims, amendments and change notifications by phone immediately, but for electronic means to be used an LA's Chief Executive will first need to make a Direction to this effect.

10 These changes also apply to claims and amendment of claims made to DWP.

Note: By 'Amendments' we mean changes to claims prior to the initial decision on an award of benefit.

Claims, amendments and change of circumstance notifications made by telephone

11 In future, authorities may accept the following by telephone

- a claim to HB or CTB
- an amendment to a claim
- a change of circumstances notification

Note: A claim can already be withdrawn by telephone and generally without the need for written communication, for example, on a visit or at the reception counter.

12 LAs can choose whether to accept a claim amendment by telephone on a case by case basis or as a general rule. This includes claims made to DWP via this method.

13 LAs can choose whether to accept a change of circumstance notification by telephone or in person on a case by case basis or as a general rule. This includes claims made to DWP via this method.

What do we mean by telephone claiming?

14 For the purposes of this circular we mean an LA administrator interviewing the claimant by telephone and populating a claim form or statement from that interview, ie a 'tele-claim'.

15 This differs in nature from a claim made via Jobcentre Plus's Customer Management System because although the claim is initially made by telephone, a claim form (or customer statement) is always subsequently generated for the claimant to sign.

16 Although under the new rules being introduced an LA will be able to require the claimant to approve a statement of their claim details, this is not an automatic requirement.

Procedure for offering telephone claiming

17 The regulations require that an LA wanting to offer telephone claiming must publish a number for claimants to ring for this purpose. This effectively constitutes an LA's control on whether to offer this route for claiming – no number = no option to tele-claim.

18 LAs should consider the scope for either offering a freephone number or using a call-back system along the lines offered by DWP for its tele-claims.

19 If during the interview the claimant cannot provide all the details required, the claim will be defective. In these circumstances the LA must provide the claimant with the opportunity to remedy matters. Normal deadlines for remedying defective claims apply.

20 When an application has been made by telephone, the LA may require that the claimant approve a generated statement of their circumstances before a claim is treated as actually having been made. LAs may require this in all cases, in none, or just in those cases where risk profiling suggests that it would be prudent. When the claimant is required to approve the claim, a box should be provided for them to tick to confirm that the details are correct. Alternatively, if there are inaccuracies, the claimant should amend the statement. In either case, the claimant must sign the form and return it to the LA.

21 A claimant who fails to sign and return a statement, on request, will not have made a valid claim and therefore no decision will be required.

Securing tele-claims

22 Security procedures such as recording telephone calls and the issuing of claim calculation or summary statements to claimants have removed the necessity for hand-written signatures as a means of signifying a person's 'ownership' of the claim and declaration of its accuracy on a claim form. If the LA already has details of a claimant on its system, it can also consider asking them security questions, the answers to which only they could be expected to know – this is a sound way to establish the person's identity.

23 The information and evidence needed to support or verify the claim details must be supplied via existing routes. By information and evidence, we mean documentation which verifies or clarifies information provided on the claim, including the identity of the claimant, for further information, see the *Housing Benefit Security Guidance Manual*.

24 Whilst LAs may accept telephone claims, amendments and change notifications without signatures immediately, these can only be received electronically **after** a Direction from the Chief Executive. This procedure is explained in more detail below, see *paragraph 52*.

What do we mean by electronic claiming?

25 Electronic claiming occurs when the claim is **completed and submitted** on-line, or via other electronic means such as a tablet which is signed with an electronic pen. The key word here is ‘submitted’. Completing a claim on-line, then printing it off and sending it in to the LA by post is not classed as electronic claiming for the purposes of these changes.

26 Technically, electronic claims are still considered under the law as made in writing.

27 As with tele-claims, for security reasons evidence in support of electronic claims, including that needed to satisfy section 19 identity requirements, cannot be submitted electronically and existing rules around the provision of original documentation continue to apply.

Electronic signatures

28 Whilst this circular clarifies that signatures are not mandatory on any format of claim, if an electronic claim is made LAs still may require an **electronic signature or a digital signature** to validate the claim, in the same way that a written signature can still be required on a written claim.

29 In future, LAs may find advantages in using *Government Connect* as a method for managing and accepting electronic claims and other communications. Please go to the Government Connect website (www.govconnect.gov.uk) for further information including that specifically tailored to the needs of LAs.

Key considerations for LAs before deciding whether to e-enable

30 Opting to become e-enabled is not a decision to be taken lightly. Each LA *will* need to make a strategic decision if they wish to become e-enabled and must therefore fully understand the consequences of doing so.

31 As well as setting out which areas of business can be performed electronically (claims, amendments or change notifications), it is important to appreciate that an e-enabling Direction grants rights to claimants. It enables a claimant to use an electronic method to deal with an authority for those areas listed in the Direction. If for example the Chief Executive authorises electronic claims in the Direction, staff will not be able to pick and choose (for example on the basis of the risk profile of the claimant) which electronic claims to accept or which claims still require a hand-written signature.

32 Whilst claimants could continue to submit paper claims, if they chose to submit an electronic claim staff would have to accept that claim (but they would still be able to regard it as defective if it had not been properly completed).

33 LAs also need to be satisfied that record keeping for electronic communications will be of as good a standard as record keeping for non-electronic communications.

34 LAs may opt for a gradual migration to e-enablement, for example by initially only authorising it for changes of circumstance notifications. This could be a useful way for authorities to ‘test the water’ to see whether this method suits their arrangements and meets their administrative needs.

35 These considerations underline the importance of authorities working through all the consequences of opting for this way of doing business.

36 We strongly advise LAs that are considering this option to engage in a full and inclusive internal discussion. E-enabling the administration may offer advantages in terms of speeding up some processing times, but authorities should above all be satisfied that they have adequate checks in place to guard against additional fraud and error entering the system.

37 There are certain evidential provisions (see *paragraphs 45* to 51 below)*,* in the Order that are designed to assist authorities and these should be carefully considered when evaluating the risks versus advantages of e-enabling the administration and the possible risk of fraud and error.

Some possible advantages of partially or fully e-enabling claims or introducing tele-claims

38 Some possible advantages of partially or fully e-enabling claims or introducing tele-claims are

- HB/CTB claim process could be simplified and made more accessible as customers could access forms via local authority websites, complete them electronically and submit them without needing to print for a written signature
- reporting changes of circumstance would be easier and so could help to reduce error
- speed of processing could improve for both new claims and change in circumstances
- potential for administrative savings
- that this brings benefits into line with customer access across the economy and could increase social inclusion

Some possible disadvantages – and how to address them

39 Some possible disadvantages are

- **proving that a claimant made a false declaration in a prosecution case**. This may be more challenging when there is no signed form or the signature is electronic – this is recognised to be a particular issue in Scotland where the Procurator Fiscal's guidelines are stringent.

  However, this can be partially mitigated by means such as recording 'tele-claim' calls and requiring claimants to check statements produced following a claim. Signatures are arguably a weak means to prove identity compared with some other means – for example by asking questions that only the genuine person could know the answer to
- **electronic claiming may increase the risk of identity theft and hence obtaining benefit by deception**. The problems experienced by HM Revenue and Customs tax credits claim line are often quoted in this regard.

  However, the subsequent verification checks carried out by LAs, and the arrangements for paying benefit, should in most cases ensure that claims made via stolen identities are not a major issue. Where the LA already holds records on the person purporting to make the claim, further checks to validate identity can be made by asking questions that only the genuine person would know

40 Additionally, LAs which e-enable will have considerable freedom in deciding which methods and forms of communication are acceptable. LAs must approve the method of

- making an electronic claim, claim amendment or change of circumstance notification
- authenticating the above
- authenticating the identity of the sender of any of the above
- submitting a claim or notification

41 The claim, amendment or notification must also be in a form acceptable to the LA.

42 LAs can stipulate through the Direction that a claimant keeps records of their communications with the LA in either written or electronic form. Failure to do so could weaken their defence in any potential overpayment recovery or prosecution scenario.

43 Unless the Chief Executive’s Direction specifies otherwise, a claim or notification should be regarded as having been received on the day that all the conditions laid down by the LA are met.

44 A claim or notification received at an LA that

- does **not** conform to any of the above standards will be invalid
- **does** conform to the above standards but which is not, for whatever reason, accepted by an LA’s computer system, is **not** regarded as having been delivered

Evidential provisions

Proof of identity of the sender

45 The Order offers certain safeguards to prosecutors by stating a presumption, for the purposes of legal proceedings, that the identity of the sender of an electronic claim or other communication is the person whose name is recorded on the LA’s computer system.

Proof of delivery of the information

46 The Order presumes that a claim or other electronically-communicated document has been received at the LA’s office if it is recorded on the computer system, with the date of receipt being the date recorded on the system. If there is no record of receipt, the presumption is that the document was not received.

47 Authorities should consider putting in place arrangements to notify the claimant that their claim has been received.

Proof of content of the information

48 The presumption is that the content of the electronic communication is that which is recorded on the LA's computer system.

49 All these tests put the onus on the accused to prove the alternative case. The Department's lawyers advise that the evidential presumptions are useful but it will be for the court to determine as a fact whether a notification was made but more importantly whether the defendant was dishonest and that a criminal offence is made out.

50 There is currently a Home Office-sponsored Fraud Bill going through Parliament and if this becomes law the provisions are likely to be of use in pursuing cases of false representation, both generally and specifically in relation to electronic claims because it includes representations made to a 'system or device '.

51 The Department will be issuing further advice on the implications for LAs of the Fraud Bill if and when it becomes law.

Process for becoming an e-enabled authority

52 An LA that wishes to fully or partially e-enable its HB/CTB administration under the terms of the Order will need to make a Direction to this effect. The Direction must be personally authorised by the Chief Executive and clearly set out which areas of administration may use electronic means, for example the receipt of claims, the receipt of claim amendments or the receipt of changes of circumstance notifications, or any combination of these.

53 A Direction may be withdrawn or amended by authority of the Chief Executive at any time by means of a further Direction. A sample Direction is attached, see *Appendix A*, but LAs are not bound by this format and can draft their own from scratch if desired.

54 Once a Direction is approved, the Direction or details of it should be made available to the public on websites so that claimants and other interested parties are made aware of the new opportunities.

55 The Department has written to Chief Executives to inform them of their role in making a Direction.

Continuation of traditional methods for making claims

56 Whilst telephone or electronic claiming may be offered as methods of claiming, LAs **must** continue to offer customers the option of making a traditional, written claim. This is to safeguard those customers who may not have access to information technology or even a telephone.

Telephone and electronic claims made via DWP

57 A majority of HB and CTB claims are now made either wholly or partly via Jobcentre Plus or The Pension Service. The changes described in this circular mean that claims for HB and CTB made via The Pension Service at the same time as a claim for Pension Credit may also now be made entirely by telephone. This is different to Jobcentre Plus' Customer Management System gateway, as although claim details are provided by telephone, there is still a requirement that a written statement is subsequently signed.

58 If an LA opts to become e-enabled, its general obligation to accept a claim made electronically would include electronic HB/CTB claims made through or via the Department (although this method is not currently used by DWP), providing these claims were made in a manner acceptable to each LA. Where an LA has not e-enabled, electronic claims made to DWP will not be valid claims.

Date of claim

59 There are no changes to the date of claim rules as a result of these new options for claiming. Telephone claims are deemed to have been received on the date of the tele-claim and electronic claims on the date of receipt by the LA's computer system or DWP's computer system when made to the Department.

Appeals and revisions

60 Appeal and revision applications and all other related communications must continue to be made in writing. The Department will keep the position under review, having regard to the law and practice in the DWP-administered benefits.

Impact on new claims and change of circumstances performance measures

New claims

Electronic claims

61 LAs are already using web based electronic claiming methods. We understand that currently LAs may be adopting different approaches on how they measure processing times for claims received electronically. Some measure processing times from the date the electronic claim form is received others appear to be waiting for the signed version to arrive in the LA. Currently an electronic claim which is unsigned is no different to a paper claim form which lacks a signature. It is a defective claim but nevertheless

the time taken to process the claim starts with the date the defective claim is received and ends on the day the LA makes a decision on the claim.

62 In future, where an LA has e-enabled its business a handwritten signature will no longer be required although an electronic signature may be. Again, the time taken to process a claim will start with the date the claim is electronically received (whether or not it is classed as defective) and will end on the day the LA makes a decision.

Tele-claims

63 In the case of claims made by telephone the time taken to process should be calculated from the date of the telephone call (regardless of whether the LA then requires a signed confirmation of the details) up to the date of decision.

NB. See *HB/CTB Circular A10/2005 paragraph 11* for claims made in advance.

Changes of circumstances

Changes notified electronically

64 We are not making any changes to the definition of what counts for the change of circumstances indicator. A change notified electronically is treated as a written notification. The time taken to process the change starts with the day the electronic notification is received and ends on the day the LA makes a decision.

Changes notified verbally (including by telephone)

65 A change notified verbally (including by telephone) is not a written notification and does not, therefore, fall to be counted in the change of circumstances performance measure. However, if the LA requests written confirmation or evidence, the change will count for the change of circumstances performance measure from the date the written notification or evidence is received.

NB. See *HB/CTB Circular A10/2005 paragraph 10* for changes notified in advance

Sample Direction

DIRECTION OF [ ] UNDER THE HOUSING BENEFIT AND COUNCIL TAX BENEFIT (ELECTRONIC COMMUNICATIONS) (MISCELLANEOUS BENEFITS) ORDER 2006

[ ], ('the Authority') in accordance with paragraph 2 of Schedule [ ] to the [ ] Regulations 2006 ('the 2006 Regulations'), hereby makes the following directions–

1. An individual who, in accordance with the 2006 Regulations makes a claim for Housing Benefit or Council Tax Benefit under the Social Security Contributions and Benefits Act 1992 is authorised to do so by an electronic communication, provided that the individual uses the method approved by the Authority in relation to the claim.

2. The methods and form set out, at the time of, and for the purposes of, the delivery of such a claim as referred to in paragraph 1, on the Authority's website, are respectively–

(a) the methods approved by the Authority for–

(i) authenticating the identity of the individual making the claim;

(ii) submitting the claim;

(iii) authenticating the claim delivered; and

(iv) electronic communication

(b) the form approved by the Authority in which the claim is to be delivered.

Signed by

2006

Chief Executive

AUDIT COMMITTEE FORWARD PLAN 2012/13

December 2012	March 2013	June 2013	September 2012
Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity
Annual Audit Letter	Internal Audit Plan 2013/14	Update on Level 4 & 5 Recommendations	Statement of Accounts
Risk Management Update	Internal Audit Charter 2013-14	Internal Audit Annual Report and Opinion	Annual Governance Report
6-month review of Treasury Management Activity	Opinion Audit Plan 2012/13	Annual Review of Internal Audit	
Statement of the current Hinkley section 106 funding position	Accounting Policies – 2012/13 Statement of Accounts	Draft Accounts 2012/13	
	Treasury Management Strategy Statement, MRP Policy and Annual Investment Strategy 2013-14	Annual Governance Report 2012/12	
	Certification of Claims and Returns		
	Risk Management Strategy 2013 update		

AGENDA ITEM 6

Annual governance report

West Somerset District Council

Audit 2011/12

AGENDA ITEM 7

Contents

Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

I expect to issue an unqualified audit opinion.

- I received the draft financial statements on 29 June which met the deadline of 30 June.
- I identified errors in the Movement in Reserves Statement for 2011/12. Following the correction of these errors and the identification of additional prepayments, the Authority's General Fund balance has reduced by £40,000. There were amendments to the cash flow, the treatment of disabled facility grants and other disclosures.

Value for money (VFM)

I intend to issue a qualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources except that in considering the Authority's arrangements for securing financial resilience, I identified that the medium-term financial plan predicts an excess of expenditure over income of up to £1.28m over the years 2013/14 to 2015/16. The size of the savings in relation to the Authority's overall net budget is significant. Although the Authority has some savings plans in place and has determined a budget setting strategy, it has not yet made a decision on how this funding shortfall will be met.

I include my draft conclusion in Appendix 1.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Audit Committee to:

- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 4).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Corrected errors

The Authority provided me with its draft financial statements on 29 June and met the statutory deadline of 30 June, and has implemented the amendments that I have requested. These amendments were not material and reduced the General Fund balance by £40,000 and principally concerned the Movement in Reserves and accounting for grant income.

Significant risks and my findings

In March I reported to you in my Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against those risks.

Table 1: **Opinion risk and finding**

Risk identified at the planning stage	Finding
The Authority is expecting to receive £28 million over the period of the planning application for a new reactor at Hinkley Point. Although West Somerset is the lead authority for the agreement with EDF Energy, most of this money will be passed on to other public bodies to be spent in accordance with the terms of the agreement. The other public bodies (Somerset CC, Avon and Somerset Police, Fire, Sedgemoor District Council) manage the delivery of the agreement through a Joint Board. West Somerset has started to receive these monies in stages, including £2.26 million up to 31March 2012. There are risks associated on how it accounts (as lead authority) to EDF for monies, which it receives and passes on to other public bodies. The Authority will need to determine the correct accounting treatment, (income or receipts in advance) depending upon the conditions in the agreement.	I have reviewed the Authority's arrangements for administering and accounting for the receipts for the Joint Board. I reviewed how the Authority has accounted for its share of the Hinkley Point monies and its arrangements for ensuring that any conditions have been met before recognising the receipts as income. I am satisfied that there are no issues for my opinion.
The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. There is a risk that the Authority may be unable to identify and account for all heritage assets due to inadequate records identifying such assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.	I have evaluated the management controls you have in place to recognise and value heritage assets. I am satisfied that there are no issues for my opinion.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I reported to the Audit Committee in June my findings from my audit of financial controls. In addition, there are further matters to bring to your attention regarding internal control that are relevant to preparing the financial statements.

Table 2: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
The Authority agreed to complete a year end creditor control account reconciliation. Review of this reconciliation showed there is a balancing item of £2,376.	The creditor control account does not fully reconcile to the ledger.	The Authority should carry out regular control account reconciliations to identify and amend any unreconciled items.

Recommendation
R1 The Authority should carry out regular control account reconciliations to identify and amend any unreconciled items.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices. These include accounting policies, accounting estimates and financial statement disclosures.

- Matters specifically required by other auditing standards to be communicated to those charged with governance; for example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I have the following matters I wish to report.

Table 3: **Other matters**

Issue	Finding
Calculation of the impairment of debtors (or provision for bad debts) for Council Tax	I have reviewed the Authority's method of calculating the impairment of council tax debtors. I have compared what the Authority estimated it would collect by age of debt with what it did collect during 2011/12. The collection rates suggested that the Authority should be providing for more bad debt. Although this is not material for my opinion the Authority should take into account the collection performance by age of debt when calculating the impairment.
Control and monitoring of grant and capital income	I have reviewed the Authority's method to prepare the Movement in Reserves Statement. To identify those items which reconcile the transactions, it has undertaken a detailed retrospective review of its grant and capital income By establishing a process during the year to record this income, the Authority will be able to monitor how its income is managed. It will also ensure the correct accounting treatment can be applied and the impact upon the general fund position determined.
IT assets - depreciation	The Authority has written down IT assets by £598,000 because they are no longer held or they are obsolete (£492,000 of e-government and £96,000 for core IT systems). The Authority should review the estimated useful lives for IT assets as the write down or impairment suggests that asset lives should be reduced.

Recommendation
R2 Review the method of calculating the impairment of debtors taking into account the aged of the debt and recovery rates.
R3 Establish a process by which grant and capital income can be identified and monitored regularly during the year.
R4 Review the estimated useful lives of IT following the impairment or write down of asset value

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you in March the significant risk regarding the Authority's financial resilience. I have set out below my conclusion on the two criteria, including the findings of my work addressing the risks I identified.

Table 4: **Value for money conclusion criteria and my findings**

Criteria	Risk identified at planning	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Authority's budget outturn for 2011/12 and budget for 2012/13 relies on significant income from the Hinkley Point planning process, to maintain its balances and revenue reserves above its minimum balance of £500,000. There are significant risks to the Authority's financial resilience. ■ The Authority does not meet the conditions in the EDF agreement to recognise the income (including the required evidence to EDF of how the money is spent). ■ Low spend on discretionary services which limits the scope for savings. ■ Reductions in revenue support grant and its share of new homes bonus is small (relative to other district councils). ■ Proposed Council Tax freeze in 2012/13 (the loss of potential income offset by a one off grant from the Government in 2012/13) but the Authority will have to bridge this budget gap	The receipts from EDF will cover additional expenditure on extra staff and also covers a proportion of senior officer time of staff already employed by the Authority. In March the Authority approved a robust governance framework to oversee the spending of Hinkley monies, both by West Somerset and by other organisations. These arrangements should mitigate the risk to the Authority. However, the Authority is still predicting a potential funding gap of £1.28m over the three years 2013/14 to 2015/16. Although the Authority has some savings plans in place, it has yet to decide how it is to meet

Criteria	Risk identified at planning	Findings
	in 2013/14. The Authority used £250,000 of general fund balances to support revenue expenditure in 2011/12. Although this support was planned it shows an underlying budget gap that has increased in 2012/13 to approximately £600,000.	this considerable shortfall in its budget. It is this gap in the Authority's medium term financial plan which will lead me to qualify my value for money conclusion.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	There were no significant risks identified at the planning stage.	The Authority has started to compare its unit costs and key performance indicators with other district councils. The Authority should further develop this benchmarking to inform its spending priorities.

Financial Resilience

In setting its budget for 2011/12, West Somerset reduced its overall net budget from £5.2m in 2010/11 to £4.9m in 2011/12, funded mainly through the planned use of reserves of £250,000.

The Government approved the Authority's application to capitalise £217,000 of revenue costs in 2011/12. The Authority also achieved an underspend of £36,000 on revenue budgets to give an overall underspend of £253,000. Consequently, the Authority did not need to take £250,000 from reserves and the General Fund balance increased by £3,000 (after audit adjustments). At 31 March 2012 the General Fund Balance is £934,000.

The use of capitalisation directions from the Secretary of State has helped the Authority's revenue position but it is not sustainable in the longer term.

The Authority's medium term financial plan has identified required savings of £1.28m over the three year period 2013/14 to 2015/16. The size of the savings in relation to the Authority's overall net budget is significant. Although the Authority has some savings plans in place and has determined a budget setting strategy, it has not yet made a decision on how this funding shortfall will be met.

I intend to issue a qualified conclusion stating that, except for this issue, the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

I include my draft conclusion in Appendix 1.

Fees

In March I reported my planned audit fee in my Audit Plan.

I will complete the audit within the planned fee.

Table 5: **Fees**

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£93,000	£93,000	£93,000
Claims and returns		£22,162	£22,162
Non-audit work		NIL	NIL
Total		£115,162	£115,162

The Audit Commission has paid a rebate of £7,440 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £107,722

Appendix 1 – Draft independent auditor’s report

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

Opinion on the Authority's financial statements

I have audited the financial statements of West Somerset District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of West Somerset District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Section 151 officer and auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities, the Section 151 Officer 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of West Somerset District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for Qualified Conclusion

In considering the Authority's arrangements for securing financial resilience, I identified that the medium-term financial plan predicts an excess of expenditure over income of up to £1.28m over the years 2013/14 to 2015/16. The Authority has not yet made a decision on how this funding shortfall will be met.

Qualified Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, with the exception of the matter reported in the basis for qualified conclusion paragraphs above, I am satisfied that, in all significant respects, West Somerset District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of West Somerset District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[*Signature*]

Alun Williams

District Auditor

Audit Commission
Units 3 - 4, Blenheim Court
Matford Business Park
Lustleigh Close
Exeter
EX2 8PW

24 September 2012

Appendix 2 – Draft letter of management representation

To:
Alun Williams

District Auditor

Audit Commission
Units 3 - 4, Blenheim Court
Matford Business Park
Lustleigh Close
Exeter
EX2 8PW

West Somerset District Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of West Somerset District Council the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements and the financial statements include, such disclosures, if any, relating to going concern. West Somerset District Council has the following plans for future action in relation to the going concern assessment, and the feasibility of the plans:

- review of the Authority's cashflow and reserves from the medium term financial plan (The Audit Committee will formally consider the going concern basis over the 12 months from the approval of the financial statements, i.e. to the end of September 2013)
- consideration of the impact of the Authority's savings plans - both for the preferred budget and alternative budget for 2013/14 and the levels of council tax required for the Authority to close the budget gap (excess of expenditure over anticipated income).

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

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

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of West Somerset District Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 24 September 2012.

Signed	
Name	Adrian Dyer
Position	Chief Executive
Date	24 September 2012

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 4 – Action plan

Recommendations	
Recommendation 1	
The Authority should carry out regular control account reconciliations to identify and amend any unreconciled items.	
Responsibility	Steve Plenty, Principal Accountant
Priority	Medium
Date	October 2012
Comments	Agreed
Recommendation 2	
Review the method of calculating the impairment of debtors taking into account the aged of the debt and recovery rates.	
Responsibility	Steve Plenty, Principal Accountant
Priority	Medium
Date	May 2013
Comments	Agreed
Recommendation 3	
Establish a process by which grant and capital income can be identified and monitored regularly during the year.	
Responsibility	Steve Plenty, Principal Accountant
Priority	Medium
Date	October 2012
Comments	Agreed

Recommendation 4	
Review the estimated useful lives of IT following the impairment or write down of asset value	
Responsibility	Steve Plenty, Principal Accountant
Priority	Medium
Date	March 2013
Comments	The Authority will review its method of depreciation to consider using straight line method rather than reducing balance.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

Design and production by the Audit Commission Publishing Team.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

audit commission

www.audit-commission.gov.uk

September 2012

AGENDA ITEM 8

REPORT NUMBER	WSC 128/12
PRESENTED BY	CLLR KATE KRAVIS, LEAD MEMBER FOR RESOURCES & CENTRAL SUPPORT
DATE	24 SEPTEMBER 2012

AUDITED STATEMENT OF ACCOUNTS 2011/12

1. PURPOSE OF REPORT

1.1. The Audit Committee is asked to review the audited Statement of Accounts prior to its signature by the Chair of the Committee and the Deputy Section 151 Officer.

2. RECOMMENDATIONS

2.1. The Audit Committee considers the audited Statement of Accounts.

2.2. The Chair of the Audit Committee signs and dates the balance sheet.

2.3. The Council's Deputy Section 151 Officer re-signs and dates the accounts.

2.4. The Accounts and relevant certificates are published on the Council's website.

3. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
Audit Committee do not approve the audited statement of accounts, thus contravening regulation 8 to part 3 of the Accounts and Audit Regulations 2011	Possible (3)	Major (4)	Medium (12)
Audit Committee approves the Accounts	Rare (1)	Negligible (1)	Low (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 measurers have been actioned and after.

4. BACKGROUND INFORMATION

4.1. The Accounts and Audit (England) Regulations 2011 came into force on 31 March 2011. This means that they apply to the preparation, approval and audit of statements of accounts prepared in respect of the year ending 31 March 2011 and later years.

4.2. Regulation 8 of Statutory Instrument 2011 No 817 refers to the 'signing, approval and publication of statement of accounts'. In particular, to quote directly from the legislation in relation to the actions that Audit Committee need to take: -

8.—(1) A larger relevant body must ensure that the statement of accounts required by paragraphs (1) or (6) of regulation 7, as the case may be, is prepared in accordance with these Regulations.

- West Somerset Council is a 'larger relevant body'

(2) Before the approval referred to in paragraph (3) is given, the responsible financial officer of a larger relevant body must, no later than 30th June immediately following the end of a year, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.

- The draft accounts were considered by the Audit Committee at its meeting of 25th June. The Accounts were signed by the then responsible financial officer (the Group Manager for Resources) and certified in accordance with this regulation.

(3) Subject to paragraph (4), a larger relevant body must, no later than 30th September in the year immediately following the end of the year to which the statement relates—

(a)consider either by way of a committee or by the members meeting as a whole the statement of accounts;

- This meeting of the Audit Committee must consider the Statement of Accounts (that have now been audited by the council's external auditors (at the time) which are the Audit Commission).

(b)following that consideration, approve the statement of accounts by a resolution of that committee or meeting;

- This meeting of the Audit Committee must approve the statement of accounts

(c)following approval, ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval was given; and

- The Chair of the Audit Committee must sign and date the accounts at this meeting

(d)publish (which must include publication on the body's website), the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 (general report) of the 1998 Act.

- The opinion of the Council's auditors must be published with the audited statements and the relevant signatures and dates identified above

(4) The responsible financial officer must re-certify the presentation of the statement of accounts before the relevant body approves it.

- Whomever is the Council's new responsible financial officer (as defined in the Regulations as the person identified under section 151 of the local government act 1972), they must re-certify the statement of accounts that are presented to the Audit Committee at this meeting.

(5) A larger relevant body must keep copies of the documents mentioned in paragraph (3)(d) for purchase by any person on payment of a reasonable sum.

5. FINANCIAL/RESOURCE IMPLICATIONS

5.1. The Council's financial position has strengthened again during 2011/12. The combined earmarked and General Fund reserve balances have increased to £2.212m as at 31st March 2012, an increase of £0.214m compared with 2010/11.

6. SECTION 151 OFFICER COMMENTS

6.1. General Fund Reserve balances increased by £0.003m during 2011/12, with Earmarked Reserves also increasing by £0.211m during the same period.

6.2 I would like to thank the council's very small finance team for their hard work in producing the 2011/12 Statement of Accounts. The document is inevitably very 'dry' for most users but I am confident that it meets the requirements of International Financial Reporting Standards and contains no material errors. This will be borne out by the results of our audit undertaken by the Audit Commission.

7. EQUALITY & DIVERSITY IMPLICATIONS

7.1. None directly in respect of this report.

8. CRIME AND DISORDER IMPLICATIONS

8.1. None directly in respect of this report.

9. CONSULTATION IMPLICATIONS

9.1. None directly in respect of this report.

10. ASSET MANAGEMENT IMPLICATIONS

10.1. None directly in respect of this report.

11. ENVIRONMENTAL IMPACT IMPLICATIONS

11.1. None directly in respect of this report.

12. LEGAL IMPLICATIONS

12.1. None directly in respect of this report.

REPORT TO THE MEETING OF THE AUDIT COMMITTEE TO BE HELD ON 24 SEPTEMBER 2012

CONTACT OFFICER: **STEVE PLENTY**
TEL. NO.DIRECT LINE: **01984 5217**
EMAIL: **SJPLENTY@WESTSOMERSET.GOV.UK**

West Somerset District Council Statement of Accounts 2011/12

Contents

Explanatory Foreword

Explanatory Foreword

Introduction to West Somerset
Bordering the Bristol Channel, West Somerset benefits from some of the most scenic landscape in England. Two thirds of Exmoor National Park lies within its boundary, as do the Quantock Hills; an Area of Outstanding Natural Beauty. Large amounts of both areas are designated sites of special scientific interest due of their value to wildlife.

Whilst West Somerset covers a large area (740 square kilometres), just 35,000 people share it with the wildlife, making West Somerset one of the most sparsely populated districts in England. Half of those people live along the narrow coastal strip in the settlements of Minehead, Watchet and Williton. The remainder live in small villages and hamlets dispersed throughout the district and the town of Dulverton situated in the Exmoor National Park.

The economy of West Somerset is heavily dependant upon tourism and during the peak season, the population of the district swells considerably with the influx of many hundreds of thousands of visitors.

According to the Office of National Statistics' publication 'Older People's Day 2011', in 2010 West Somerset had the highest median age in the UK at 52.7 years 2010. 30% of its population is over 65, being one of only 4 such areas in the UK.

This diverse profile of service users gives West Somerset Council an almost unique customer base. As it develops services over time, the council continuously needs to take account of this special blend of residents and visitors.

The Council employs 80 full-time equivalent staff that work together with 28 Councillors, many newly elected in May 2011, to deliver a wide range of services to people in West Somerset. West Somerset District Council currently collaborates with a variety of organisations to ensure services are delivered as efficiently as possible. The number of partnerships and contracted services in operation mean the council is an example of a 'commissioning' organisation, that relies on a central core of officers to coordinate and monitor services. Services delivered in this way include: -

- Waste collection and recycling
- Street Cleansing
- Public convenience cleaning
- Housing benefit processing
- Legal services
- Tourist information
- Harbour and marina operations
- Strategic Housing services
- Internal Audit
- Private Sector Housing
- Human Resources

An explanation of which statements follow, their purpose and the relationship between them

Movement In Reserves Statement (Page 9)
This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

Comprehensive Income and Expenditure Statement (Page 10)
This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet (Page 11)
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

Cash Flow Statement (Page 12)
The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

Notes to the Financial Statements (Pages 13)

Service	Budget £	Actual Spend £
Resources	1,207,007	1,022,161
Housing and Economy	659,242	655,090
Corporate Director	1,119,634	1,069,630
Environment and Community	1,898,898	1,884,779
Total	**4,884,781**	**4,631,660**

The notes provide more information on some of the figures within the main statements listed above. They also include the accounting policies, which guide the treatment of income and expenditure and disclosures relating to the assets and liabilities of the council.
Service Expenditure compared to the budget

A more detailed breakdown of the income and expenditure is shown in Note 34 on page 44.

Pensions
In accordance with financial reporting standards, West Somerset District Council has to disclose its long-term liability to pay retirement benefits to its current and former employees. This liability will eventually be discharged through increased contributions, as calculated by the Pension Scheme's Actuary. Statutory arrangements for funding this shortfall means that the Council's own financial position is not weakened by the disclosure. The liability that the Council recognises is £16.994m as shown in the Balance Sheet on page 11.

Any material and unusual charge or credit in the accounts

During 2011/12 an exercise was undertaken in relation to the value of the Authority's Information Technology (IT) assets. Historically during the implementation of major IT projects additional costs had been capitalised as part of the overall project and therefore included in the value of the asset carried within the Balance Sheet. Results of this exercise have concluded that an amount of £0.598m has been removed from the value of IT assets resulting in an impairment charge being made in 2011/12 within the Statement of Accounts.

Council Borrowing
The Council currently has one loan of £3.50m, which is owed to the Public Works Loans Board. This is repayable in February 2014.

Sources of funds to finance capital
The council retains residual useable capital receipts from the sale of Vulcan Road Car Park in 2010 which, combined with a modest capital programme designed to support the existing estate and infrastructure, should support the council's asset management plan for the next three years. Within the capital strategy and asset management plan is the planned sale of surplus council assets, notably a temporary coach park on Seaward Way in Minehead. Additional capital receipts will be used to fund ongoing capital expenditure, including any requests to capitalise revenue costs.

Significant provisions or contingencies and material write-offs
There have been no significant provisions, contingencies or material write-offs during 2011/12.

Any material events after the reporting date
There have been no material events to report after the reporting date.

The impact of the current economic climate on the authority and the services it provides

Reduction in government grant / forecast balances
The council's financial support from Central Government (known as the 'Formula Grant') is set to fall again in 2013/14, but the amount of the reduction is presently unknown and unlikely to be released until November 2012 at the earliest. We are anticipating a 7.50% reduction but there is some risk that this could be higher – we are taking a prudent view that the New Homes Bonus will compensate for any further reduction in grant, and therefore not be 'a bonus' until we know the true level of Formula Grant.

The council has planned to use reserves to support its budgets for 2011/12 and 2012/13, to the order of £0.250m and £0.600m respectively. This cannot continue as ongoing expenditure is being currently financed by one-off support. The council will need to deliver significant cuts or increases in income in its next budget (2013/14) in order to be sustainable into the future.

The Cabinet approved a 'budget strategy' in April 2012 that includes the possibility of a referendum on levels of council tax, combined with significant levels of service reduction designed to close the shortfall in funding that the council is experiencing. As the 'strategy' develops, we will keep the public informed through our council meetings.

Major Changes During 2011/12
One of the most significant processes the council undertook during the year was to consider in its role as planning authority, permission for site preparation works relating to a potential new Nuclear power station to commence at Hinkley Point near Stogursey. At a meeting of the Planning Committee, which was held in public in July 2011, permission was granted for the works, which are expected to take 2 years to complete. As part of the permission, a planning mitigation payment totalling £28.0m will be paid to a number of organisations, principally West Somerset Council but also Sedgemoor District Council, Somerset County Council, Devon Fire and Rescue Services and Avon & Somerset Police Constabulary, to offset the impact of the work and allow the bodies to cope with the additional workloads directly created by the project. Payments have also been agreed for local colleges and tourist information centres to capitalise on the opportunities afforded by such a large-scale development.

A planning application for the physical reactors has been lodged with the Planning Inspectorate; West Somerset Council will not be the authority that approves or rejects the application, but the Council is actively seeking to ensure that the impact on local communities by such a project is adequately mitigated.

Revenue Income and Spending in 2011/12
In February 2011, we agreed that our budget for 2011/12 would be reduced from £5.20m to below £4.90m. The council tax for a Band D property was unchanged from 2010/11 at £132.90 and the council accepted a grant from government equivalent to a 2.50% increase in council tax. The budget used £0.250m of reserves, as the amount of annual income was expected to be lower than the annual expenditure.

Following an application by the council, government ministers permitted some of the expenditure within the £4.90m to be funded from cash generated following asset sales, rather than taxpayer's revenue funds. This contributed to an underspend in the year to March 2012 of £0.253m, which meant that the £0.250m did not need to be taken from reserves. The General Fund therefore increased by £0.003m to its present balance of £0.934m.

Capital Income and Spending in 2011/12
Our capital expenditure and capital financing note on page 49 shows the income and expenditure transactions we make when we:

- Buy or improve property, plant and equipment
- Finance revenue expenditure from capital under government rules, and
- Use a combination of capital receipts and borrowing to pay for it

The significant projects delivered during 2011/12 included:

- An updated footbridge over the West Somerset Railway at Watchet to replace the original Victorian bridge that had fallen into disrepair
- Almost £0.250m of grants to help residents with disabilities to stay in their own homes through aids and adaptations
- Extension of the council's Recycling service and the provision of wheeled bins throughout the district of West Somerset
- A new free parking area for coaches in Minehead, adjacent to the railway terminus and funded from contributions from Morrison's Supermarket

Future Developments
There are no specific areas of growth planned for 2012/13. The council's medium-term financial planning process identifies increases in contract costs (notably waste collection).

Further Information
Further information about these accounts is available from: Corporate Finance, West District Somerset Council, West Somerset House, Killick Way, Williton, Somerset, TA4 4QA. Email: customerservices@westsomerset.gov.uk

The rights of interested persons to view the accounts are statutorily defined and the dates on which the accounts are available for inspection are advertised in the local press and on the Council's website.

Steve Plenty
Deputy Section 151 Officer and Principal Accountant

Independent Auditor's Report

The Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to -

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In West Somerset that officer is the Section 151 Officer

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

- Approve the Statement of Accounts

The Section 151 Officer's Responsibilities

The Section 151 Officer is responsible for the preparation of the Authority'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 Section 151 Officer 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 Section 151 Officer has also -

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

Declaration by the Section 151 Officer

I certify that this Statement of Accounts gives a true and fair view of the financial position of the authority at 31 March 2012 and of its expenditure and income for the year ended 31 March 2012.

Steve Plenty CPFA
Deputy Section 151 Officer and Principal Accountant

Date: 24 September 2012

Movement In Reserves Statement

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

	Notes	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2010		**432**	**1,011**	**9,515**	**0**	**10,958**	**(9,005)**	**1,953**
Movement in Reserves during 2010/11								
Surplus (or Deficit) on the provision of services		547				**547**		**547**
Other Comprehensive Income and Expenditure		(7)				**(7)**	**2,791**	**2,784**
Total Comprehensive Income and Expenditure		**540**	**0**	**0**	**0**	**540**	**2,791**	**3,331**
Adjustments between accounting basis and funding basis under regulations	**7**	15		(8,063)	524	**(7,524)**	7,524	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves		**555**	**0**	**(8,063)**	**524**	**(6,984)**	**10,315**	**3,331**
Transfers to /(from) Earmarked Reserves	**8**	(56)	56			**0**		**0**
Increase/(Decrease) in 2010/11		**499**	**56**	**(8,063)**	**524**	**(6,984)**	**10,315**	**3,331**
Balance at 31 March 2011 Carried forward		**931**	**1,067**	**1,452**	**524**	**3,974**	**1,310**	**5,284**
Movement in Reserves during 2011/12								
Surplus (or Deficit) on the provision of services		(1,658)				(1,658)		(1,658)
Other Comprehensive Income and Expenditure		0				0	(4,254)	(4,254)
Total Comprehensive Income and Expenditure		**(1,658)**	**0**	**0**	**0**	**(1,658)**	**(4,254)**	**(5,912)**
Adjustments between accounting basis and funding basis under regulations	**7**	1,872		59	(258)	1,673	(1,673)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves		**214**	**0**	**59**	**(258)**	**15**	**(5,927)**	**(5,912)**
Transfers to /(from) Earmarked Reserves	**8**	(211)	211					
Increase/(Decrease) in 2011/12		**3**	**211**	**59**	**(258)**	**15**	**(5,927)**	**(5,912)**
Balance at 31 March 2012 Carried forward		**934**	**1,278**	**1,511**	**266**	**3,989**	**(4,617)**	**(628)**

Comprehensive Income and Expenditure Statement

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

2010/11 Restated					2011/12		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Notes	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
3,916	(3,551)	365	Central Services to the Public		3,876	(3,469)	407
809	(103)	706	Cultural & Related Services		770	(105)	665
2,312	(367)	1,945	Environmental & Regulatory Services		2,534	(372)	2,162
853	(748)	105	Highways and Transport Services		359	(545)	(186)
14,165	(13,873)	292	Other Housing Services		14,359	(13,535)	824
1,911	(1,400)	511	Planning Services		1,883	(938)	945
1,432	0	1,432	Corporate and Democratic Core		1,361	(24)	1,337
0	0	0	Non Distributed Costs		151	0	151
260	(2,521)	(2,261)	Exceptional Items of Income and Expenditure			0	0
25,658	**(22,563)**	**3,095**	**Costs of Services**		**25,293**	**(18,988)**	**6,305**
766		766	Other Operating Expenditure	**9**	762		762
0	(50)	(50)	Other Capital Income				0
2,364	(97)	2,267	Financing and Investment Income and Expenditure	**10**	473	(94)	379
	(6,625)	(6,625)	Taxation and Non-Specific Grant Income	**11**		(5,788)	(5,788)
		(547)	**(Surplus) or Deficit on Provision of Services**				**1,658**
		(10)	(Surplus) or deficit on revaluation of fixed assets	**24**			0
		7	Other Movements				0
		(2,776)	Actuarial (gains)/losses on pension assets/liabilities	**26**			4,254
		(2,779)	**Other Comprehensive Income and Expenditure**				**4,254**
		(3,326)	**Total Comprehensive Income and Expenditure**				**5,912**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves, are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2011 £000		Notes	31 March 2012 £000
16,120	Property, Plant & Equipment	**12**	15,266
4,730	Investment Properties	**13**	2,780
23	Long-term Debtors	**16**	20
20,873	**Long Term Assets**		**18,066**
213	Asset Held for Sale	**15**	2,046
1,172	Short Term Debtors	**17**	1,411
837	Cash and Cash Equivalents	**18**	1,860
2,222	**Current Assets**		**5,317**
(1,506)	Short Term Creditors	**19**	(3,273)
(253)	Provisions	**20**	(6)
(1,759)	**Current Liabilities**		**(3,279)**
(3,506)	Long Term Borrowing	**21**	(3,506)
(12,340)	Other Long Term Liabilities	**21**	(16,994)
(206)	Capital Grants Receipts in Advance	**22**	(232)
(16,052)	**Long Term Liabilities**		**(20,732)**
5,284	**Net Assets**		**(628)**
(3,974)	Usable Reserves		(3,989)
(1,310)	Unusable reserves	**23**	4,617
(5,284)	**Total Reserves**		**628**

I confirm that these Accounts were approved by the Audit Committee at its meeting on 24 September 2012.

Signed: Date: 24 September 2012

Cllr Anthony Trollope-Bellew
Chair of Audit Committee

Cash Flow Statement

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

2010/11 £000		Notes	2011/12 £000
547	**Net surplus or (deficit) on the provision of services**		**(1,658)**
9,500	Adjustments to net surplus or deficit on the provision of services for non cash movements	**29**	3,555
(12,120)	Adjustments for items included in the net surplus on the provision of services that are investing and financing activities (See note references)	**30**	(276)
(2,073)	**Net cash flows from Operating Activities**		**1,621**
11,240	Investing Activities	**32**	(598)
(9,114)	Financing Activities	**33**	0
53	**Net increase or decrease in cash and cash equivalents**		**1,023**
784	Cash and cash equivalents at the beginning of the reporting period	**18**	837
837	**Cash and cash equivalents at the end of the reporting period**	**18**	**1,860**

Notes to the Financial Statements

1 Prior Period Adjustments

<u>Changes to Service Expenditure Analysis</u>

The Service Reporting Code of Practice (SeRCOP) 2011/12 now requires Income and Expenditure for Culture, Environment, Regulatory and Planning Services to be split in three as follows:

Culture and Related Services;
Environmental and Regulatory Services; and
Planning Services.

It is therefore a requirement that the comparative figures for 2010/2011 are restated.

Year ending 31st March 2011	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Cultural, Environmental & Planning Services	(5,192)	2,030	(3,162)
Culture & Related Services	809	(103)	706
Environmental & Regulatory Services	2,312	(367)	1,945
Planning Services	1,911	(1,400)	511

2 Accounting Policies

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/2012 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the 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.

Receipts and Payments In Advance

Receipts in advance represent income received in the current year in respect of fees and charges (including our proportion of Council Tax) for the forthcoming years. They are included as a liability (within Creditors) on the Balance Sheet.

Payments in Advance represent amounts paid in the current year in respect of goods and services for the forthcoming years. They are included as an asset (within Debtors) on the Balance Sheet.

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 are readily convertible to known amounts of cash with insignificant risk of change in value. West Somerset will include 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 Authority's cash management.

Exceptional Items

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

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

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

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

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

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 fixed 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
-

The Authority 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 authority 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.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

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

Termination Benefits

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

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

Post Employment Benefits

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

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

- The liabilities of the Somerset County Council pension fund attributable to West Somerset are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.6% based on the yield on the iBoxx AA, rated over the 15 year Corporate Bond Index.
- The assets of the Somerset County Council pension fund attributable to West Somerset are included in the Balance Sheet at their fair value and include quoted securities at current bid price and property at market value.

The change in the net pensions liability is analysed into seven components:

- 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
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- 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
- Contributions paid to the Somerset County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Events After the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

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

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 Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority 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.

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 Authority when there is reasonable assurance that:

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as 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.

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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

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 Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense 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.

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

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

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the 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.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (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 £2,000. 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 all expenditure that is directly attributable to bringing the asset into working condition for its intended use (such as purchase price; any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management).

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

- Infrastructure, community assets and assets under construction – depreciated historical cost

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

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

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. A full revaluation of Land and Buildings, Community assets, Investment Properties and Surplus Assets by a qualified valuer took place as at 1 April 2009. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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 the 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.

Capital expenditure incurred in enhancing assets or increasing their useful life is classed as enhancing expenditure.

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 assets with a determinable finite life (except for investment properties), by allocating the value of the assets in the balance sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer

- Vehicles, plant and equipment – reducing balance method, based on a percentage of the value of each class of assets in the balance sheet, (vehicles 20% per annum, plant 15% per annum and equipment 20-25% per annum)
- 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.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and credited to the Capital Receipts Reserve which can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. If the proceeds are £10,000 or less, they are not treated as capital receipts but are instead credited to revenue.

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

Component Accounting

Components of non-current assets do not always have the same useful lives and may depreciate or wear out at different rates throughout their life. Therefore, it is appropriate to depreciate each significant component separately over its useful life, in order that the Comprehensive Income & Expenditure Account is fairly charged with the consumption of economic benefits of those assets.

Where a significant component is expected to wear out more quickly than the overall asset, it is depreciated over a shorter period of time and any subsequent expenditure on restoring or replacing the component is capitalised (with any carrying amount of the replaced component being written off to the Comprehensive Income and Expenditure Statement).

From 1st April 2010, components will be recognised when an asset is enhanced,

acquired or re-valued. Where a component is replaced or restored, the carrying amount of the old component is derecognised.

- Land and individual buildings will be valued separately.
- Assets are deemed to be material and considered for componentisation when the cost or value in the Balance Sheet is at least £180,000 (approximately 1% of the authority's non current assets as at 31st March 2012).
- Each asset will be reviewed individually by the valuer to determine whether any part of a material asset has a differing useful life or method of depreciation. The assets will be reviewed by the following:

    - Sub Structure
    - Superstructure (frame, upper floors, roof, stairs, external walls, windows, external doors, internal walls, partitions, internal doors)
    - Internal finishes (walls, floors and ceilings)
    - Fixtures (sanitary, water, disposal equipment)
    - Engineering services (heating, air treatment, gas installations, lifts, protective, communications)
    - External works

- Where component spend is worth 20% of the total cost value of the asset it is deemed to be significant. Where information is not readily available to determine the value of components, a best estimate will be accounted for and detail of how the estimate was arrived at, in liaison with relevant professional advice, will be documented.

West Somerset currently does not have any Property, Plant and Equipment that meets the above criteria and therefore has not disclosed this separately.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority 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 Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority 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 authority settles the obligation.

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority 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 authority.

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.

Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

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 Authority 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.

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 is excluded from income.

Related Party Transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

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.

The Collection Fund

Billing authorities in England are required by statute to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR).

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

Further details on the Collection Fund use can be found within the notes to the Collection Fund in the Statement of Accounts.

Accounting for Council Tax

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

The Council Tax income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement shall be the accrued income for the year. This is calculated by taking the demand on the Collection Fund plus the authority’s share of the carry forward surplus/deficit on the Collection Fund as at the 31st March 2010. This amount is then adjusted for the authority’s share of the surplus/deficit of 31st March 2009 that has not been distributed or recovered in the current year.

The difference between the income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund in the Movement in Reserves Statement.

Accounting for National Non-Domestic Rates

The Council, as an agent on behalf of Central Government carries out the collection of National Non-Domestic Rates (NNDR). Cash collected from NNDR taxpayers by the Council (net of the cost of collection allowance) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if the cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

NNDR debtor and creditor balances with NNDR taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the Council and are not recognised in the Council’s Balance Sheet.

Heritage Assets

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

West Somerset reviewed assets it holds under Community Assets and it was concluded that the Authority doesn’t hold any at the present time.

3 Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The only relevant new standard for 2012/13 is the amendment to IFRS 7 Financial Instruments: Disclosures to require discourses in relation to the risk exposures of an authority that has transferred a financial asset but not derecognised it from the Balance Sheet. It requires the cash flows relating to an investment to be reassigned or otherwise paid over to another party, whilst the authority remains substantially exposed to the risks and rewards of ownership of the investment.

4 Critical Judgments in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

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

4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Item	Uncertainties	Effect If Actual Results Differ From Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. As at 31 March 2012 the Net Book Value of the Authority's buildings and infrastructure assets amounted to £9.356m. It is estimated that the annual depreciation charge in respect of these assets would increase by £0.015m for every year that useful lives had to be reduced.
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	As at 31 March 2012 the Pension Liability for West Somerset amounted to £16.994m. An increase over the forthcoming year of 10% in either the total number of claims or estimated average settlement would each have

	rates and the expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	the effect of adding £1.699m to the provision needed.
Arrears	As at 31 March 2012, the Authority had a balance of corporate debtors of £0.260m. A review of balances suggested that an impairment allowance of £0.085m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.085m to be set aside as an allowance.

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 Authority in carrying out its duties and these are as follows:

Housing Benefit Payments and Subsidy
The council incurs a significant proportion of it's spend on benefit payments, which is funded predominantly by government grant. Housing Benefit and subsidy payments are included within Other Housing Services on the face of the Comprehensive Income and Expenditure Statement and payments amounted to £12.919m in 2011/12 compared with £12.590m in 2010/11. Housing Benefit subsidy amounted to (£12.864m) in 2011/12 compared with (£12.527m) in 2010/11.

Council Tax Benefit Payments and Subsidy
The council incurs a significant proportion of it's spend on benefit payments, which is funded predominantly by government grant. Council Tax Benefit and subsidy payments are included within Central Services To The Public on the face of the Comprehensive Income and Expenditure Statement and payments amounted to £3.166m in 2011/12 compared with £3.238m in 2010/11. Council Tax Benefit subsidy amounted to (£3.196m) in 2011/12 compared with (£3.273m) in 2010/11.

6 Events after the Balance Sheet Date

The date that the accounts were authorised for issue was the date that the S151 Officer signed the Balance Sheet on page 11. That date was 29th June 2012. Events after the balance sheet date (31 March 2012) have only been considered up to the authorisation date. Events taken after this date are not reflected in the financial statement or notes.

7 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2011/12	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	1,130			(1,130)
Revaluation losses on Property, Plant and Equipment				
Movements in the market value of Investment Properties				
Amortisation of intangible assets				
Capital grants and contributions applied	(258)			258
Movement in the Donated Assets Account				
Revenue expenditure funded from capital under statute	699			(699)
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	259			(259)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment				0
Capital expenditure charged against the General Fund Balance	(79)			79
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(13)		13	0
Application of grants to capital financing transferred to the Capital Adjustment Account			(271)	271
				0
Adjustment involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(276)	276		0
Use of the Capital Receipts Reserve to finance new capital expenditure		(217)		217
Adjustment involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	1,029			(1,029)
Employer's pension contributions and direct payments to pensioners payable in the year.	(629)			629
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statements is different from council tax income calculated for the year in accordance with statutory requirements	15			(15)
Adjustment involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income an Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(5)			5
Total Adjustments	**1,872**	**59**	**(258)**	**(1,673)**

2010/11 Comparative Figures	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	674			(674)
Revaluation losses on Property, Plant and Equipment				
Movements in the market value of Investment Properties	138			(138)
Amortisation of intangible assets				
Capital grants and contributions applied	(449)			449
Movement in the Donated Assets Account				
Revenue expenditure funded from capital under statute	2,364			(2,364)
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	223			(223)
Reversal of provisions relating to previously completed capital schemes	(101)			101
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(21)			21
Capital expenditure charged against the General Fund Balance	(140)			140
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(524)		524	
Application of grants to capital financing transferred to the Capital Adjustment Account				
Adjustment involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(220)	220		
Use of the Capital Receipts Reserve to finance new capital expenditure		(8,283)		8,283
Contribution from the Capital Receipts Reserve to finance new capital expenditure				
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals				
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool				
Transfer from Deferred Capital Receipt Reserve				
Adjustments involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				
Transfer to the Capital Receipts Reserve upon receipt of cash				
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements				
Adjustment involving the Pensions Reserve:				
Actuarial past service gain adjustment				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(1,389)			1,389
Employer's pension contributions and direct payments to pensioners payable in the year.	(530)			530
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statements is different from council tax income calculated for the year in accordance with statutory requirements	(15)			15
Adjustment involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income an Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	5			(5)
Total Adjustments	**15**	**(8,063)**	**524**	**7,524**

8 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12.

	Balance at 01/04/10	Transfers Out	Transfers In	Balance at 31/03/11	Transfers Out	Transfers In	Balance at 31/03/12
General Fund - Revenue Earmarked Reserves	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Areas Based Grant	**698**	(308)		**390**	(212)	41	**219**
Other Earmarked Reserves	**113**	(68)	123	**168**	(92)	228	**304**
Planning Performance Agreement Reserve			309	**309**	(10)	113	**412**
Seaside Towns Reserve	**200**			**200**	(1)		**199**
New Homes Bonus Reserve					(1)	74	**73**
DCO Reserve						71	**71**
Total	**1,011**	**(376)**	**432**	**1,067**	**(316)**	**527**	**1,278**

Area Based Grant - relates to a general grant allocated by central government directly to local authorities as additional revenue funding. Local authorities are free to use it as they see fit – it is not ring fenced – to support the delivery of, regional and national priorities in their areas. This includes local area agreement (LAA) targets.

Planning Performance Agreement – relates to a contribution received by West Somerset to assist with the processing of the large application for site preliminary works in respect of Hinkley Point.

Seaside Towns Reserve – relates to a grant allocated by Central Government to ensure coastal areas are best placed to take advantage of their natural resources and assets, historic infrastructure, and high quality of life, as well emerging green industries - to develop strong and successful local economies. This involves creating new jobs, and improving local housing.

Other Earmarked Reserves – relates to various monies set aside by the authority including Land Charges ReserveMortgage Rescue Programme Reserve, Economic Regeneration Reserve and Tourism Earmarked Reserve.

9 Other Operating Expenditure

2010/11 £000		2011/12 £000
711	Parish Council precepts	776
3	Levies	3
52	(Gains)/Losses on the disposal of non current assets	(17)
766	**Total**	**762**

10 Financing and Investment Income and Expenditure

2010/11 £000		2011/12 £000
1,630	Interest payable and similar charges	53
572	Pensions interest cost and expected return on pension assets	420
(42)	Interest receivable and similar income	(16)
162	Income and Expenditure in relation to investment properties and changes in fair value	0
(55)	Other investment income	(78)
2,267	**Total**	**379**

Interest payable and similar charges:
The reason for the difference in the figures shown above for 2010/11 compared with 2011/12, is that included within the 2010/11 figures are the premiums incurred by the Authority is repaying it's two Lenders Option Borrowers Option loans (LOBO's). This was achieved by using the one–off capital receipt from the sale of the Vulcan Road Car Park and has enabled the Authority to save annual interest costs in excess of £0.300m.

11 Taxation and Non Specific Grant Income

2010/11 £000		2011/12 £000
(2,686)	Council tax income	(2,757)
(2,882)	Non domestic rates	(1,933)
(668)	Non-ringfenced government grants	(827)
(389)	Capital grants and contributions	(271)
(6,625)	**Total**	**(5,788)**

12 Property, Plant and Equipment

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly

attributable to bringing the asset into working condition for its intended use (such as purchase price; any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management).

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

• Infrastructure, community assets and assets under construction – depreciated historical cost

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

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

The Authority undertakes a formal revaluation of its operational land and buildings, investment properties and non-operational assets every five years. The last formal revaluation was undertaken as at 1 April 2009 by Mrs Hannah Plowman MRICS at DVS, Valuation Office Agency, Quantock House, Paul Street, Taunton, Somerset, TA1 3PB.

The Authority has contacted the Valuation Office and the District Valuer confirmed that in their opinion there has been no material change in the fair value of assets owned by West Somerset Council since 1st April 2009 to warrant a revaluation of assets as at the Balance Sheet date.

	Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Total £'000	Investment Properties £'000	Assets Under Construction £'000	Surplus Assets Not Held for Disposal £'000	Surplus Assets Held for Disposal £'000	Total £'000	Grand Total £'000
Valued at Historic Cost	0	508	3,308	0	3,816	0	0	0	0	0	3,816
Valued at Current Value In:											
2011/12	90	0	110	0	200	0	0	0	96	96	296
2010/11	108	0	0	0	108	0	0	0	0	0	108
2009/10	9,706	0	0	0	9,706	2,780	0	1,170	1,950	5,900	15,606
2008/09	0	0	168	19	187	0	0	0	0	0	187
2007/08	0	0	0	0	0	0	0	0	0	0	0
2006/07	0	0	0	0	0	0	0	0	0	0	0
2005/06	0	0	12	0	12	0	0	0	0	0	12
2004/05	0	0	0	67	67	0	0	0	0	0	67
2003/04	0	0	0	0	0	0	0	0	0	0	0
Total	**9,904**	**508**	**3,598**	**86**	**14,096**	**2,780**	**0**	**1,170**	**2,046**	**5,996**	**20,092**

Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for

investment properties), by allocating the value of the assets in the balance sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Dwellings and other 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 District Valuer, range from between 1 and 60 years.
- Vehicles, plant and equipment – reducing balance method, based on a percentage of the value of each class of assets in the balance sheet, (vehicles 20% per annum, plant 15% per annum and equipment 20-25% per annum)
- Infrastructure – straight-line allocation over 25 years.

Contractual Commitments

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

Movement in 2011/12	**Other Land & Buildings £000**	**Vehicles Plant & Equip £000**	**Infra-structure Assets £000**	**Community Assets £000**	**Non-Operational Assets £000**	**Assets Under Construction £000**	**Total Property, plant and Equipment £000**
Cost or Valuation							
At 1 April 2011	**10,258**	**4,141**	**6,634**	**86**	**1,170**		**22,289**
Additions	225	55	139				**419**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(34)	(598)					**(632)**
Derecognition - Disposals	(19)	(57)					**(76)**
Derecognition - Other							**0**
Assets reclassified (to)/from Held for Sale	(97)						**(97)**
Other Movements in Cost of Valuation							**0**
At 31 March 2012	**10,333**	**3,541**	**6,773**	**86**	**1,170**	**0**	**21,903**
Accumulated Depreciation and Impairment							
At 1 April 2011	**(285)**	**(2,898)**	**(2,986)**	**0**	**0**	**0**	**(6,169)**
Depreciation charge	(147)	(165)	(187)				**(499)**
Derecognition - Disposals		31					**31**
At 31 March 2012	**(432)**	**(3,032)**	**(3,173)**	**0**	**0**	**0**	**(6,637)**
Net Book Value							
As at 31st March 2012	**9,901**	**509**	**3,600**	**86**	**1,170**	**0**	**15,266**
As at 31st March 2011	**9,973**	**1,243**	**3,648**	**86**	**1,170**	**0**	**16,120**

Comparative Movement in 2010/11	**Other Land & Buildings £000**	**Vehicles Plant & Equip £000**	**Infrastructure Assets £000**	**Community Assets £000**	**Non-Operational Assets £000**	**Assets Under Construction £000**	**Total Property, plant and Equipment £000**
Cost or Valuation							
At 1 April 2010	**10,111**	**4,018**	**6,622**	**86**	**1,170**	**103**	**22,110**
Additions	289	217	25	15			**546**
Revaluation increases/(decreases) recognised in the Revaluation reserve	10						**10**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(4)		(4)	(15)			**(23)**
Derecognition - Disposals	(36)	(94)	(9)				**(139)**
Assets reclassified (to)/from Held for Sale	(112)					(103)	**(215)**
At 31 March 2011	**10,258**	**4,141**	**6,634**	**86**	**1,170**	**0**	**22,289**
Accumulated Depreciation and Impairment							
At 1 April 2010	(143)	(2,648)	(2,804)				**(5,595)**
Depreciation charge	(147)	(318)	(182)				**(647)**
Derecognition - Disposals	5	68					**73**
At 31 March 2011	**(285)**	**(2,898)**	**(2,986)**	**0**	**0**	**0**	**(6,169)**
Net Book Value							
As at 31st March 2011	**9,973**	**1,243**	**3,648**	**86**	**1,170**	**0**	**16,120**
As at 31st March 2010	**9,968**	**1,370**	**3,818**	**86**	**1,170**	**103**	**16,515**

Revaluations

The council carries out a programme that ensures that all Property, Plant & Equipment is measured at fair value and revalued at least every five years. All valuations were carried out externally by Mrs Hannah Plowman MRICS on behalf of the District Valuer. 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.

13 Investment Properties

An investment property is one that is used solely to earn rentals or for capital appreciation or both.

Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve.

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:

2010/11 £000	**Accounted for in the Financing and Investment income and Expenditure**	**2011/12 £000**
57	Rental income from investment property	78
(2)	Direct operating expenses arising from investment property	0
55	**Net gain/(loss)**	**78**

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority 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:

2010/11 £000	**Movement in fair value of investment properties**	**2011/12 £000**
4,850	Balance at start of the year	4,730
	Additions:	
18	- Subsequent expenditure	
(138)	Net gains/losses from fair value adjustments	
	Transfers:	
	- To/from Assets Held for Sale	(1,950)
4,730	**Balance at end of the year**	**2,780**

The last formal revaluation of West Somerset's asset portfolio was undertaken as at 1 April 2009 by Mrs Hannah Plowman MRICS at DVS, Valuation Office Agency, Quantock House, Paul Street, Taunton, Somerset, TA1 3PB.

In respect of the Authority's Investment Portfolio the District Valuer was asked for their professional opinion in relation to potential changes in value and they confirmed that they had little evidence in West Somerset that commercial values have changed to warrant a revaluation of the investment properties, and therefore they would support the proposal that the investment values should remain the same for 2011/12.

14 Financial Instruments

The following categories of financial instrument are carried in the balance sheet:

Categories of Financial Instruments	Long Term		Current	
	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
Investment				
Loans and receivables			837	1,860
Total investment			**837**	**1,860**
Debtor				
Loans and receivables			890	541
Total debtors			**890**	**541**
Borrowings				
Financial liabilities at amortised cost	3,506	3,506		
Total borrowings	**3,506**	**3,506**		
Creditors				
Financial liabilities at amortised cost			1,261	2,051
Total creditors			**1,261**	**2,051**

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

Fair value has been measured by:

- Direct reference to published price quotations in an active market; and/or
- Estimating using a valuation technique.

Local authorities sometimes give financial guarantees that require them to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. The Council has provided no such guarantees.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

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

Reclassification

Reclassification of a financial instrument can only occur if it is allowed through the definitions of the Code, and as a consequence should be relatively rare.

In the case of financial liabilities this is the change of accounting treatment from either:

- Amortised cost; or
- Fair value through profit or loss.

For financial assets;

- Loans and receivables;
- Available for sale;
- Equity instrument for which a reliable fair value cannot be determined; or
- Fair value through profit or loss.

Derecognition of instruments

Derecognition of a financial instrument would usually involve its extinguishment, and so would not require reporting, subject to the “Unusual Movements” considerations above.

Derecognition is expected to impact where the Council has transferred financial assets to a third party.

Financial instruments Gains/Losses

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

	Financial Liabilties	Financial Assets	Total
	Liabilities measured at amortised cost	Loans and Receivables	
2011/12	**£000**	**£000**	**£000**
Interest Expense	53		53
Interest payable and similar charges (note 10)	**53**	**0**	**53**
Interest Income		(16)	(16)
Interest receivable and similar (note 10)		**(16)**	**(16)**
Net gain/loss for the year	**53**	**(16)**	**37**

Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- Valuations use the Net Present Value approach, which provides an estimate of the value of payments in the future in today’s terms. In such cases the prevailing rate of a similar instrument with a published market rate has been used as a discount factor; For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;

- Where an instrument has a maturity of less than 12 months or is a trade, other receivable or creditor, the fair value is taken to be the carrying amount or the billed amount;

The fair values calculated are as follows:

		31st March 2011		31st March 2012	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		£000	£000	£000	£000
Loans and Receivables	Investments	837	837	1,860	1,860
	Debtors	890	890	541	541
		1,727	**1,727**	**2,401**	**2,401**
Financial Liabilities at amortised cost	Borrowings	3,506	3,381	3,506	3,512
	Creditors	1,261	1,261	2,051	2,051
		4,767	**4,642**	**5,557**	**5,563**

The fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

15 Assets Held for Sale

	Current	
	2010/11	2011/12
	£000	£000
Balance outstanding at start of the year	**155**	**213**
Asset newly classified as held for sale:		
- Property, Plant and Equipment	215	97
- Investment Property		1,950
Asset declassified as held for sale:		
Asset sold	(157)	(214)
Balance outstanding at end of the year	**213**	**2,046**

16 Long Term Debtor

31 March 2011 £000		31 March 2012 £000
23	Other entities and individuals	20
23	**Total**	**20**

17 Short Term Debtors

31 March 2011 £000		31 March 2012 £000
203	Central government bodies	371
127	Other local authorities	241
1,195	Other entities and individuals	1,189
(353)	Impairment allowance for doubtful debt	(390)
1,172	**Total**	**1,411**

18 Cash and Cash Equivalents

31 March 2011 £000		31 March 2012 £000
146	Cash held by the Authority	71
1,169	Bank current accounts	2,254
(478)	Unpresented Cheques	(465)
837	**Total**	**1,860**

19 Short Term Creditors

31 March 2011 £000		31 March 2012 £000
(786)	Other local authorities	(1,306)
(720)	Other entities and individuals	(1,967)
(1,506)	**Total**	**(3,273)**

20 Provisions

		Final Settlement: New Office Construction	Severance Costs	Total
Balance as at	**1 April 2011**	**(10)**	**(243)**	**(253)**
Amounts used in 2011/12		10	237	247
Balance as at	**31 March 2012**	**0**	**(6)**	**(6)**

New Office Construction – A provision of £0.010m was provided for as at 31 March 2011. This was in relation to an outstanding amount due to the contractor and during 2011/12 this payment was duly made.

Severance Costs - During 2010/11 the Authority carried out a restructuring exercise and as a result terminated the contracts of a number of staff. Costs in relation to this exercise have been incurred and charged to the provision with one payment still outstanding as at 31 March 2012. There is no uncertainty surrounding the payment of this sum.

21 Long Term Borrowing and Other Long Term Liabilities

31 March 2011 £000		31 March 2012 £000
(3,506)	Long Term Borrowing	(3,506)
(3,506)		**(3,506)**
(12,340)	Other Long Term Liabilities	(16,994)
(206)	Capital Grants Receipts in Advance	(232)
(16,052)	**Total**	**(20,732)**

22 Capital Receipt in Advance

	2010/11 £000	2011/12 £000
Capital Grants Receipts in Advance		
Section 106 Monies	(206)	(232)
Total	**(206)**	**(232)**

23 Unusable Reserves

31 March 2011 £000		Notes	31 March 2012 £000
5,202	Revaluation reserve	**24**	5,149
8,493	Capital Adjustment Account	**25**	7,283
(12,340)	Pensions Reserve	**26**	(16,994)
42	Collection Fund Adjustment Account	**27**	27
(87)	Accumulating Compensated Absences Adjustment Account (note 48)	**28**	(82)
1,310	**Total Unusable Reserves**		**(4,617)**

24 Revaluation Reserve:

The Revaluation Reserve holds the unrealised revaluation gains, which have arisen, since 1 April 2007, from holding plant, property and equipment. Where assets, which had previously been revalued, are impaired as a result of reductions in property values, then the revaluation reserve is reduced to the extent of the value held for that specific asset.

2010/11 £000		2011/12 £000	
5,238	**Balance as at 1st April**		**5,202**
14	Upward revaluation of assets	0	
(4)	Downward revaluation of assets and impairment losses not posted to the Surplus on the Provision of Services	0	
10	Surplus or deficit on revaluation of non-current assets not posted to the Surplus on the Provision of Services		0
(34)	Difference between fair value depreciation and historical cost depreciation	(34)	
(12)	Accumulated gains on assets sold or scrapped	(19)	
(46)	Amount written off to the Capital Adjustment Account		(53)
5,202	**Balance as at 31st March**		**5,149**

25 Capital Adjustment Account:

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement, with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis. The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisitions, construction and enhancement.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2010/11 £000		2011/12 £000	
2,847	**Balance as at 1st April**		**8,493**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
(669)	Charges for Depreciation and impairment of non current assets	(1,130)	
(2,364)	Revenue expenditure funded from capital under statute	(699)	
(223)	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	(259)	
101	Reversal of provisions relating to previously completed capital schemes	0	
(3,155)			**(2,088)**
46	Adjusting amounts written out of the Revaluation Reserve		53
(3,109)	**Net written out amount of the cost of non current assets consumed in the year**		**(2,035)**
	Capital financing applied in the year:		
8,283	Use of the Capital Receipts Reserve to finance new capital expenditure	217	
449	Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	258	
0	Application of grants to capital financing from the Capital Grants Unapplied Account	271	
21	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	0	
140	Capital expenditure charged against the General Fund	79	
8,893			825
(138)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Account		
8,493	**Balance as at 31st March**		**7,283**

26 Pensions Reserve:

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority 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 Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2010/11 £000		2011/12 £000
(17,035)	**Balance as at 1st April**	(12,340)
2,776	Actuarial gains or losses on pension assets and liabilities	(4,254)
1,389	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(1,029)
530	Employer's pension contributions and direct payments to pensioners payable in the year	629
(12,340)	**Balance as at 31st March**	**(16,994)**

27 Collection Fund Adjustment Account:

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

2010/11 £000		2011/12 £000
27	**Balance as at 1st April**	**42**
15	Amount by which council tax income credited to the Comprehensive Income and expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(15)
42	**Balance as at 31st March**	**27**

28 Accumulated Absences Account:

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

2010/11 £000		2011/12 £000	
(82)	**Balance as at 1st April**		**(87)**
	Settlement or cancellation of accrual made at the end of the preceding year		
(5)	Amounts accrued at the need of the current year	5	
(5)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.		5
(87)	**Balance as at 31st March**		**(82)**

29 Cash Flow – Adjustments to Net Surplus on the Provision of Service for Non Cash Movement

2010/11 £000		2011/12 £000
647	Depreciation	499
23	Impairment and downward valuations	632
139	Download Valuation of Investment Properties	0
(3,034)	(Decrease)/Increase in creditors	2,222
13,384	(Increase)/Decrease in debtors	(236)
223	Carrying Value of Non Current Assets Disposed	259
(1,389)	Movement in Pension Liability	1,029
(530)	Pension Payable for year	(629)
96	(Decrease)/Increase in Provision	(247)
(56)	(Decrease)/Increase in Capital RIA	26
(3)	Other Movements	0
9,500		**3,555**

30 Cash Flow – Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities

2010/11 £000		2011/12 £000
(12,120)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(276)
(12,120)		**(276)**

31 Cash Flow Statement – Operating Activities

The cash flow for operating activities include the following items:

2010/11 £000		2011/12 £000
42	Interest Received	16
(1,630)	Interest Paid	(53)

32 Cash Flow Statement – Investing Activities

2010/11 £000		2011/12 £000
(880)	Purchase of Property, Plant & Equipment, Investment Property and intangible assets	(874)
12,120	Proceed from Disposal	276
11,240	**Net cash flows from investing activities**	**(598)**

33 Cash Flow Statement – Financing Activities

2010/11 £000		2011/12 £000
(6,618)	Repayment of Long Term Borrowing	0
(6,002)	Repayment of Short Term Borrowing	0
3,506	Acquisition of Long Term Borrowing	0
(9,114)	**Net cash flows from financing activities**	**0**

34 Amounts Reported for Resource Allocation Decisions

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

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

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

Income and Expenditure 2011/12	Resources £000	Housing and Economy £000	Corporate Director £000	Environment and Community £000	Total £000
Fees, charges and other service income	(369)	(235)	(103)	(1,833)	**(2,540)**
Interest and investment income	(16)				**(16)**
Government grants	(16,539)	(50)			**(16,589)**
Total Income	**(16,924)**	**(285)**	**(103)**	**(1,833)**	**(19,145)**
Employee expenses	797	597	550	999	**2,943**
Other service expenses	17,096	343	623	2,719	**20,781**
Interest payments	53				**53**
Total Expenditure	**17,946**	**940**	**1,173**	**3,718**	**23,777**
Net Expenditure	**1,022**	**655**	**1,070**	**1,885**	**4,632**

Income and Expenditure 2010/11	Resources £000	Housing and Economy £000	Corporate Director £000	Environment and Community £000	Total £000
Fees, charges and other service income	(326)	(135)	(101)	(2,232)	**(2,794)**
Interest and investment income	(42)				**(42)**
Government grants	(16,399)	(54)		(390)	**(16,843)**
Total Income	**(16,767)**	**(189)**	**(101)**	**(2,622)**	**(19,679)**
Employee expenses	855	557	610	1,573	**3,595**
Other service expenses	16,800	178	577	3,389	**20,944**
Interest payments	150				**150**
Total Expenditure	**17,805**	**735**	**1,187**	**4,962**	**24,689**
Net Expenditure	**1,038**	**546**	**1,086**	**2,340**	**5,010**

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

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

2010/11 £000		2011/12 £000
5,010	Net expenditure in the analysis	4,632
	Net expenditure of services and support services not included in the analysis	
(1,915)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	1,673
	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	
3,095	**Cost of Services in Comprehensive Income and Expenditure Statement**	**6,305**

Reconciliation to Subjective Analysis

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

2011/12	Analysis £000	Amounts not reported to management for decision making £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Cost of services £000
Fees, charges and other service income	(2,540)		(3,378)	(5,918)		(5,918)
Interest and investment income	(16)			(16)		(16)
Income from council tax				0	(2,757)	(2,757)
Government grants	(16,589)			(16,589)	(2,966)	(19,555)
Total Income	**(19,145)**	**0**	**(3,378)**	**(22,523)**	**(5,723)**	**(28,246)**
Employee expenses	2,943			2,943		2,943
Other service expenses	20,781	537		21,324	314	21,638
Support Service recharges			3,378	3,378		3,378
Depreciation, amortisation and impairment		1,130		1,130		1,130
Interest Payments	53			53		53
Precepts & Levies				0	779	779
Gain or Loss on Disposal of Fixed Assets					(17)	(17)
Total Expenditure	**23,777**	**1,667**	**3,378**	**28,828**	**1,076**	**29,904**
Surplus or Deficit on the Provision of Services	**4,632**	**1,667**	**0**	**6,305**	**(4,647)**	**1,658**

Comparative Figures 2010/11	Analysis £000	Amounts not reported to management for decision making £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Cost of services £000
Fees, charges and other service income	(2,794)	(169)	(3,126)	**(6,089)**	(147)	**(6,236)**
Interest and investment income	(42)			**(42)**		**(42)**
Income from council tax				**0**	(2,686)	**(2,686)**
Government grants	(16,843)	(285)		**(17,128)**	(3,939)	**(21,067)**
Total Income	**(19,679)**	**(454)**	**(3,126)**	**(23,259)**	**(6,772)**	**(30,031)**
Employee expenses	3,595			**3,595**		**3,595**
Other service expenses	20,944	(2,244)		**18,700**	596	**19,296**
Support Service recharges			3,126	**3,126**	138	**3,264**
Depreciation, amortisation and impairment		783		**783**		**783**
Interest Payments	150			**150**	1,630	**1,780**
Precepts & Levies				**0**	714	**714**
Gain or Loss on Disposal of Fixed Assets				**0**	52	**52**
Total Expenditure	**24,689**	**(1,461)**	**3,126**	**26,354**	**3,130**	**29,484**
Surplus or Deficit on the Provision of Services	**5,010**	**(1,915)**	**0**	**3,095**	**(3,642)**	**(547)**

35 Members Allowances

2010/11 £000		2011/12 £000
84	Basic Allowance	77
64	Special Responsibility Allowance	64
9	Expenses	12
157	**Allowances paid in the year**	**153**

36 Officers Remuneration

Senior Officers emoluments – salary is between £50,000 and £150,000 per year 2011/12. The figures for 2010/11 are provided for comparison purposes.

Post Title	Year	Salary, Fee and Allowances £	Expenses Allowance £	Pension Contribution £	Total £
Chief Executive	**2010/11**	62,261	330	9,442	72,033
	2011/12	62,371	405	8,093	70,869
Corporate Director	**2010/11**	59,594	162	9,013	68,769
	2011/12	59,594	172	7,725	67,491
Total	**2010/11**	121,855	492	18,455	140,802
	2011/12	121,965	577	15,818	138,360

The officers detailed in the table above are included in the numbers reported in the table below.

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

Remuneration Band	2010/11 Number of employees		2011/12 Number of employees	
	Total	Left During Year	Total	Left During Year
£50,000 - £54,999				
£55,000 - £59,999	1		1	
£60,000 - £64,999	2	1	1	
£70,000 - £74,999			2	2

The officers leaving the Council's employment in each of the years shown above received redundancy payments that increased their remuneration for the year.

The table below shows the exit packages that employees received in compensation for redundancy.

Exit Package Cost Band (including special payments)	Number Of Compulsory Redundancies		Number Of Other Departures Agreed		Total Number Of Exit Packages By Cost Band		Total Cost Of Exit Packages In Each Band	
	10-11	11-12	10-11	11-12	10-11	11-12	10-11	11-12
£0 - £20,000	3	0	5	0	8	0	£93,177	£0
£20,001 - £40,000	0	0	2	0	2	0	£59,874	£0
£40,001 - £60,000	1	0	1	0	2	0	£87,171	£0
£60,001 - £80,000	0	0	1	0	1	0	£74,241	£0
£80,001 - £100,000	0	0	0	0	0	0	£0	£0
£100,001 - £150,000	0	1	0	0	0	1	£0	£127,426
Total	**4**	**1**	**9**	**0**	**13**	**1**	**£314,463**	**£127,426**

37 External Audit Costs

2010/11 £000		2011/12 £000
103	Fees payable to external auditors with regards to external audit services carried out by the appointed auditor for the year	88
3	Fees payable to external auditors in respect of statutory inspections	0
25	Fees payable to external auditors for the certification of grant claims and returns for the year	23
131	**Total**	**111**

38 Grant Income

Contributions and donations to the Comprehensive Income and Expenditure Statement	2010/11 £000	2011/12 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(418)	(597)
Local Authority Business Growth Initative		
New Homes Bonus		(111)
Local Services Support Grant		(70)
Council Tax Freeze Grant		(49)
Capital Grants and Contributions	(389)	(65)
Area Based Grant	(250)	
Total	**(1,057)**	**(892)**
Credited to Services		
Regional Housing Pot	(313)	
Disabled Facilities Grant	(117)	(208)
DWP - Housing Benefit Subsidy	(12,596)	(12,864)
DWP - Council Tax Benefit Subsidy	(3,273)	(3,196)
Benefit Administration Grant	(342)	(326)
Rent Rebate Grant	(72)	(63)
NNDR Cost of Collection Grant	(75)	(74)
Concessionary Fares Grant	(122)	
Homelessness Grant	(31)	(50)
Mortgage Rescue Programmme Grant		(60)
Land Charges Grant	(34)	
Big Lottery	(111)	(9)
Playbuilder	(41)	
Section 106 Agreements	(18)	(47)
Benefit Grants	(32)	(16)
Environment Agency	(28)	
Improvement Funding	(26)	(24)
Other Grants and Contributions	(78)	(80)
Total	**(17,309)**	**(17,017)**

39 Related Parties

The council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party’s ability to bargain freely with the council.

Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates, provides the majority of it’s funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out in note 38 above.

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 section 81(1) of the Local Government Act 2000. There are no material related party transactions with members to disclose for 2011/12, although one member has disclosed that they are named on the lease of an Investment Property held by the Authority for which a rent of £0.019m was received during 2011/12. Another member has disclosed that he part owned a property that is used as temporary accommodation by the Authority. The total value of rent received is £0.007m. Another member disclosed that they acted as a Vice Chairman of an organisation, which received grant funding from the Authority during 2011/12. The amount of the grant totalled £0.010m.

During 2011/12 grant payments were made to local organisations on which District Members also serve. Two such organisations were Artlife and West Somerset Advice Bureau with grants amounting to £0.015m and £0.038m being made respectively.

Grant payments, other than precepts were also made to Parish Councils where District Council members are also Parish Council members. In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. The total paid to Parish Councils during 2011/12 other than Precept payments was £0.027m.

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 2011/12.

Related party transactions with the precepting bodies are disclosed on page 63, note 51 and the pension fund are in note 44 on pages 51-54 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 2011/12 are as follows:

	2011/12 £000
Amounts due to Central Goverment	177
Amounts due to other Local Authorities	10
Amounts due from Central Government	0
Amounts due from other Local Authorities	554

40 Capital Expenditure and Capital Financing

2010/11 £000		2011/12 £000
13,435	**Opening Capital Financing Requirement**	**7,368**
	Capital Investment	
331	Property, Plant and Equipment	322
18	Investment Properties	0
215	Assets Held for Sale	97
2,364	Revenue Expenditure Funded from Capital under Statute	699
	Sources of finance	
(8,283)	Capital receipt	(217)
(450)	Government Grant and other contributions	(532)
	Sums set aside from revenue	
(241)	Direct revenue contributions	(79)
(21)	MRP/loans fund principle	0
7,368	**Closing Capital Financing Requirement**	**7,658**
	Explanation of movements in year	
	Increase in underlying need to borrowing (supported by government financial assitance)	
(6,067)	Increase in underlying need to borrowing (unsupported by government financial assistance)	290
	Assets acquired under finance leases	
	Assets acquired under PFI/PPP contracts	
(6,067)	**Increase/(decrease) in Capital Financing Requirement**	**290**

41 Leases

Authority as Lessee

Finance Leases

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

	March 31 2011 £000	March 31 2012 £000
Land and Buildings	22	33
Total	**22**	**33**

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

Operating Leases

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

	2010/11 £000	2011/12 £000
Not later than one year	121	107
Later than one year and not later than five years	174	168
Later than five years	261	220
	556	**495**

The expenditure charged to the Comprehensive Income and Expenditure Statement during 2011/12 in relation to these leases was £0.107m.

Authority as Lessor

Finance Leases

Shutgate Meadow Scheme, Williton

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

Clanville Housing Scheme, Minehead

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

Land at Vulcan Road, Minehead

No debtor has been included in respect of the 999-year lease of land at Vulcan Road, Minehead, due to the fact that the premium paid to West Somerset during 2009-2010 in recognition of the disposal, extinguished the debtor liability immediately.

Operating Leases

The Authority 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:

	2010/11 £000	2011/12 £000
Not later than one year	134	124
Later than one year and not later than five years	338	271
Later than five years	2,354	2,298
	2,826	**2,693**

42 Impairment Losses

During 2011/12 an exercise was undertaken in relation to the value of the Authority's IT assets. Historically during the implementation of major IT projects additional costs had been capitalised as part of the overall project and therefore included in the value of the asset. Results of this exercise have meant that an amount of £0.598m has been removed from the value of IT assets resulting in an impairment charge being made within the 2011/12 Statement of Accounts.

An Impairment loss has also been recorded in the Statement of Accounts in respect of an asset classified under Property, Plant and Equipment, specifically Land and Buildings. This is in respect of the New Coach Park in Minehead. The value of this impairment is £0.034m.

43 Termination Benefits

The Authority terminated the contract of an employee during 2011/12, incurring a liability of £0.127m. Of this total, £0.023m is payable in relation to redundancy payments and £0.104m is in relation to enhanced pension benefits.

44 Defined Benefit Pension Schemes

Participation in pension schemes

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

The Authority participates in two post employment schemes:

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

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

Transactions relating to retirement benefits

The Authority 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 we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The 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	Local Government Pension Scheme	
	2010/11	2011/12
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of services:		
- Current service cost	560	436
- Past service cost	(2,521)	
- Settlements and curtailments	0	173
Financing and Investment Income and Expenditure:		
- Interest cost	1,686	1,548
- Expected return on scheme assets	(1,114)	(1,128)
Total Post Employment	**(1,389)**	**1,029**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
- Actuarial gains and losses	2,776	(4,254)
Total Post Employment Benefit Charged to the Income and Expenditure Statement	**2,776**	**(4,254)**
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	1,389	(1,029)
Actual amount charged against the General Fund balance for pensions in the year:		
- Employers contributions payable to scheme	530	629

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pensions assets and liabilities line was at 31 March 2012 a loss of £7.874m and at 31 March 2011 was a loss of £3.620m.

Assets and Liabilities in relation to retirement benefits:

Reconciliation of present value of the scheme liabilities

Reconciliation of present value of the scheme liabilties	Funded liabilities: Local Government Pension Scheme	
	2010/11	2011/12
	£000	£000
Opening balances as at 1st April	**32,592**	**28,635**
Current service cost	560	436
Interest Cost	1,686	1,548
Contributions by scheme participants	159	145
Actuarial gains and losses	(2,769)	3,447
Benefits Paid Out	(981)	(1,641)
Past service costs	(2,521)	0
Curtailments		173
Unfunded Pension Payments	(91)	(92)
Closing balance as at 31st March	**28,635**	**32,651**

Reconciliation of fair value of scheme assets

Reconciliation of Fair Value of the Scheme Assets	2010/11 £000	2011/12 £000
Opening balances as at 1st April	**15,557**	**16,295**
Expected rate of return	1,114	1,128
Actuarial gains and losses	7	(807)
Employer contributions	530	629
Contributions by scheme participants	159	145
Benefits paid	(1,072)	(1,733)
Closing balance as at 31st March	**16,295**	**15,657**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £0.321m (2010/11 £0.906m).

Scheme History	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Present value of liabilities:	(23,774)	(21,988)	(32,592)	(28,635)	(32,651)
Fair value of assets in the Local Government Pension Scheme	16,332	11,613	15,557	16,295	15,657
Surplus/(deficit) in the scheme:	**(7,442)**	**(10,375)**	**(17,035)**	**(12,340)**	**(16,994)**

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £16.994m has an impact on the net worth of the council as recorded in the Balance Sheet, resulting in an overall negative balance on the balance sheet of £0.645m. However statutory arrangements for funding the deficit mean that the financial position of the council remains healthy. The deficit on the Local Government Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The above liability is split between funded obligations (£15.562m) and unfunded obligations (£1.432m).

The total projected contribution the Council expects to make to the Local Government Pension Scheme in the year to 31 March 2013 is £0.404m.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels etc. The County Council administered pension fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Fund are based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been as follows:

Basis for Estimating Assets and Liabilties	Local Government Pension Scheme 2010/11	2011/12
Long-term expected rates of return on:		
- Equity investments	7.7%	6.6%
- Gilts	4.4%	3.3%
- Other Bonds	5.5%	4.6%
- Property	6.8%	5.7%
- Cash	3.0%	3.0%
TOTAL	**7.1%**	**6.0%**
Longevity at 65 for current pensioners		
- Men	19.8	20.0
- Women	23.9	24.0
Longevity at 65 for future pensioners		
- Men	21.9	22.0
- Women	25.8	25.9
Rate of inflation - RPI	3.5%	3.3%
Rate of Inflation - CPI	2.7%	2.5%
Rate of increase in salaries	5.0%	4.7%
Rate of increase in pensions	2.7%	2.5%
Rate for discounting scheme liabilities	5.5%	4.6%

An assumption has been made that 50% of retiring members will opt to increase their lump sums to the maximum allowed.

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	2010/11	2011/12
Equities	74%	71%
Gilts	6%	6%
Other bonds	12%	13%
Property	7%	9%
Cash	1%	1%
Total	**100%**	**100%**

History of experience gains and losses

The actuarial gains/losses identified as movements on the Pension Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007/08		2008/09		2009/10		2010/11		2011/12	
	£000	%	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets	(1,445)	(8.8)	(5,304)	(45.7)	3,263	21.0	7	0.0	(807)	(5.2)
Experience gain and losses on liabilities	(2,283)	(9.6)	0	0.0	0	0.0	612	2.1	0	0.0

45 Contingent Liabilities

Clanville Housing - The Council continues to maintain its adopted Low Cost Home Ownership Scheme in respect of Clanville Grange in Minehead. As at 31st March 2012 the Council owned one such property, 6 Clanville Grange for which it paid £96,594. In July 2010 the Council adopted a revised Affordable Home Ownership Policy. In future it will continue to be required to re-purchase (at a discounted price) when owners wish to sell the properties but a Deed of Pre-emption enables the

Authority to recoup 30% of the uplift in value - or bear 30% of any loss in value. N.B. this new arrangement will not apply when properties are sold to a current owner stair casing up within the scheme when properties will be re-purchased at open market value minus the original discount applied.

Land Charges - In common with other Authorities there is a possibility that the council may face legal action over the fees it has charged for certain services that it provides under land charges.

There is no certainty at this stage that there will be financial implications.

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.

46 Contingent Assets

Of the £28.0m mitigation monies in respect of the Hinkley Point C site preparation project, the largest part of this, some £17.0m, is due to be paid to West Somerset Council over the next 2 to 3 years. Over £2.0m of this sum will be paid across to other bodies upon receipt, in accordance with the terms of the Agreement. A joint board will be established to consider and make recommendations to West Somerset's Cabinet and Council about projects to be funded from around £10.0m of contributions relating to Community Impact Mitigation, Housing and Economic Development. This is likely to result in funding being made available to a range of both public and community-led projects.

47 Nature and Extent of Risks Arising From Financial Instruments

Key risks

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

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003/Local Government (Scotland) Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance (regulations – Scotland) issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
    - The Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures to the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 23rd March 2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £15.0m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £10.5m. 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 100% based on the Council's net debt.

The Finance Team implements 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.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. This Council uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service, which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands : -

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys are currently very much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service:

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

SPECIFIED INVESTMENTS:
(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	AA	In-house
Term deposits – local authorities	N/A	In-house
Term deposits – banks and building societies	Green	In-house
Call Accounts	Green	In-house
Treasury Bills	AA	In-house (with custodian)

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Banks nationalised by high credit rated (sovereign rating) countries	Blue	In-house	100%	365 days
UK Government support to the banking sector*	Sovereign rating AA	In-house and Fund Managers	100%	365 days

* Banks eligible for support under the UK bailout package: -

- Abbey (now Santander UK Plc)
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

The full Investment Strategy for 2011/12 was approved by Full Council on 23rd March 2011 and is available on the Council's website. Full Council approved the current strategy on 21st March 2012.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the council.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £1.169m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31st March 2012 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

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

	31 March 2011	31 March 2012
Less than three months	70,400	95,900
Three to six months	46,300	59,400
Six months to one year	97,300	76,200
More than one year	492,800	562,500
Total	**706,800**	**794,000**

At the beginning of 2011/12 the provision for impairment of sundry debts (excluding council tax) stood at £0.319m The authority has now made a provision for impairment of sundry debts of £0.352m in the 2011/12 accounts, which is an overall increase of £0.033m. The revised level of provision has been reviewed in light of the current economic conditions.

Collateral – During the reporting period the council held no collateral as security

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 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.

All sums owing are due to be paid in less than one year.

Refinancing and Maturity risk

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

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

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

The maturity analysis of financial liabilities is as follows:

	31st March 2011	31st March 2012	Notes
Public Works Loans Board	3,500	3,500	Repayable in Feb 2014
Total	**3,500**	**3,500**	

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).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

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

Market Risk - Price risk

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

Market Risk - Foreign exchange risk

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

Collection Fund

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

2010/11 £000		Notes	2011/12 £000
	Income		
(7,152)	Business Rates	**48**	(9,551)
(18,212)	Council Tax		(18,361)
(3,238)	Council Tax Benefits : Transfer from General Fund		(3,166)
(28,602)	**Total Income**		**(31,078)**
	Expenditure		
	Precepts and Demand:		
15,086	- Somerset County Council	**51**	15,154
2,468	- Avon and Somerset Police Authority	**51**	2,479
1,054	- Devon and Somerset Fire and Rescue Authority	**51**	1,059
1,952	- West Somerset District Council	**51**	1,961
711	- Parish Councils	**51**	776
	Business Rates		
7,042	- Payment to National Pool	**48**	9,476
75	- Costs of Collection	**48**	75
	Bad and doubtful debts/appeals		
55	- Write offs - Council Tax / NNDR		16
(20)	- (Decrease)/Increase in provision for bad debts - Council Tax NNDR		40
	Distribution of Council Tax element of surplus on fund:		
44	- Somerset County Council		116
7	- Avon and Somerset Police Authority		19
3	- Devon and Somerset Fire and Rescue		8
8	- West Somerset District Council		20
28,485	**Total Expenditure**		**31,199**
(117)	Deficit / (Surplus) for the year		121
(212)	(Surplus) / Deficit brought forward		(329)
(329)	(Surplus) / Deficit carried forward		(208)

48 Business Rates

Under the arrangements for uniform business rates, the Council collects Non-Domestic Rates for its area, which is based on local rateable values multiplied by a Government prescribed uniform rate. The total amount, less certain relief and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which in turn pays back to Councils their share of the pool, based on the standard amount per head of the local adult population. Under these arrangements the amounts included in these accounts can be analysed as follows:

2010/11 £		2011/12 £
31,430,406	Total non-domestic rateable value at end of year (31 March)	31,447,551
41.4p	National non-domestic rate multiplier for the year	43.3p
40.7p	Small business non-domestic rate multiplier for the year	42.6p

2010/11 £000		2011/12 £000
13,012	NDR Debit (Gross)	13,631
(5,860)	Allowances and other adjustments	(4,080)
7,152	**Contribution to the NDR National Pool (Gross)**	**9,551**
20	Reduction in the impairment allowance for doubtful claims	0
(75)	Cost of collection allowance	(75)
(55)	Bad Debts Written Off	
7,042	**Contribution to the NDR National Pool (Net)**	**9,476**

49 Council Tax Base

Band	Chargeable Dwellings	Conversion Factor	Band D Equivalent	Income £000
A	2,182	6/9	1,455	2,113,092
B	3,289	7/9	2,558	3,715,989
C	3,231	8/9	2,872	4,171,953
D	2,970	9/9	2,970	4,314,311
E	1,629	11/9	1,991	2,892,186
F	1,164	13/9	1,681	2,442,355
G	606	15/9	1,010	1,467,156
H	39	18/9	78	113,305
	15,110		**14,615**	**21,230,349**

50 Council Tax Amount (Band D)

2010/11 £		2011/12 £
1,027.30	Somerset County Council	1,027.30
168.03	Avon and Somerset Police Authority	168.03
71.77	Devon and Somerset Fire and Rescue Authority	71.77
132.90	West Somerset District Council	132.90
48.42	Parish Councils	52.63
1,448.42	**Total**	**1,452.63**

51 Precepts and Demands

2010/11 £000		2011/12 £000
15,086	Somerset County Council	15,154
2,468	Avon and Somerset Police Authority	2,479
1,054	Devon and Somerset Fire and Rescue Authority	1,059
1,952	West Somerset District Council	1,961
711	Parish Council	776
21,271	**Total**	**21,429**

52 Allocation of Year End Surplus

2010/11 £000		2011/12 £000
233	Somerset County Council	146
38	Avon and Somerset Police Authority	24
16	Devon and Somerset Fire and Rescue Authority	11
42	West Somerset District Council	27
329	**Total**	**208**

Annual Governance Statement

Scope of responsibility
West Somerset Council (WSC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

WSC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, WSC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

WSC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code can be obtained on request.

This statement explains how WSC has complied with the Code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2003 and 2006 as amended by the Accounts and Audit (Amendment)(England) Regulations 2011 in relation to the publication of a statement on internal control.

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

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

The governance framework has been in place at WSC for the year ended 31 March 2012 and up to the date of approval of the statement of accounts, except for the period from 31 August 2012 when the Chief Finance Officer left the Authority. The Council is currently still reviewing its provision of the Chief Finance Officer function.

The governance framework
The key elements of WSC's governance arrangements are outlined in the Local Code of Corporate Governance. The main areas and the key evidence for delivery are as follows:

Core Principle 1: focusing on the purpose of West Somerset District Council and on outcomes for the community and with partners creating and implementing a vision for the local area;

• The Corporate Plan sets out the purpose and Vision for West Somerset Council and was updated in 2011/12 to cover the period to March 2015

• A Strategic Delivery Partnership has been formed as a replacement of the Local Strategic Partnership; it will develop outcomes for the benefit of the wider communities in West Somerset

• Service Planning has further improved further during 20110/121, and these the plans are clearly linked to the Corporate Plan and Medium-Term Financial Plan. The Plans identify the performance measures and targets that will be used to ensure the services achieve their agreed objectives

• Performance monitoring gives cost, performance and customer satisfaction indicators for key council services

• The Council was instrumental in securing significant developer's financial contributions relating to site preparation works at Hinkley Point in the northeast of the district

Core Principle 2: Members and Officers work together to achieve a common purpose with clearly defined functions and roles:

• The roles and responsibilities of the Cabinet, Scrutiny Committee, Members in general and senior officers are clearly set out within the council's constitution

• The Council's Chief Financial Officer is a Group Manager with responsibility for the finance team, a member of the Corporate Management team and reports directly to the Chief Executive

• The Chief Financial Officer is a member of the Association of Chartered Certified Accountants, and is responsible for maintaining a robust system of internal control

• The three statutory officers (Head of Paid Service, Monitoring Officer and Chief Financial Officer) meet every week as part of the Management Team

• Regular weekly meetings between the Leader and Chief Executive in order to maintain a shared understanding of roles and objectives

• Portfolio Holders meet at least monthly with their appropriate lead officers to discuss current and future issues affecting the services and the public and to monitor performance under the service planning framework

• There is a clear scheme of delegation for officers and members within the Constitution

• The council has robust financial planning processes, including the preparation of a medium-term financial plan and an annual budget that is monitored regularly throughout the year

• The Cabinet meets with the Corporate Management Team, both as a whole where possible, on a monthly basis to discuss matters relevant to the delivery of the Corporate Plan and other matters arising in the intervening periods

• Every Corporate Management Team agenda is accompanied by a list of its delegated powers

Core Principle 3: promoting the values of West Somerset District Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour:

• The Standards Committee promotes high standards of behaviour by members, reviewing policies and laws relating to members' behaviour.

• Managers are responsible for making sure members of staff keep to policies, procedures, laws and regulations. The financial management of the council is conducted in accordance with its financial regulations and contract standing orders – part of the constitution and updated in each year

• The Management Team has set up a regular 'Governance Group' meeting, with the intention of meeting twice a year (it met at the end of May 2012) to discuss matters relating to corporate governance, including preparation of this Statement and assurances by Managers that they are operating within the framework identified above

• The Council maintains an Internal Audit Service through the South West Audit Partnership (SWAP) that operates to standards specified by the Institute of Internal Auditors (IIA) and the Chartered Institute of Public Finance Accountants (CIPFA)

• The Standards Committee reviews the Annual Governance Statement as part of its business throughout the year

• The future of the Standards Committee is being reviewed by Council; in accordance with the Local Government Act 2011 there is a proposal to adopt a revised code of conduct

• The Council has improved arrangements relating to the declaration of employee and member interests and disclosure of interests in related parties, following audit recommendations

• The council approved a treasury management strategy and an annual investment strategy during the year, which included prudential indicators, in accordance with the CIPFA code

Core Principle 4: taking informed and transparent decisions that are subject to effective scrutiny and risk management arrangements:

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

• All council meetings are open to the press and public, except where personal or confidential matters are discussed. Members of the public are allowed to speak at meetings and have done so regularly throughout the year. The public elements of all formal meetings are normally subject to audio recording

• The Cabinet and Scrutiny Committee have forward plans that are available on the council's website via the recording of minutes and agenda

• The Council has an approved risk management strategy (refreshed in December 2011) that identifies how risks are identified and monitored

• In order to ensure that day-to-day business of the Council considers risk within its decision-making processes each committee report must include risk management comments to help inform members' decisions

• Non-executive members can 'call-in' Cabinet decisions; this was last utilized during 2009/10. Many issues pass through Scrutiny in order for comments to be passed to Cabinet. This improves transparency.

• The council has an effective internal audit function provided by SWAP

• The Audit Committee receives presentations from Group Managers and Service Lead Officers throughout the year on service issues

• Regular budget monitoring reports are sent to budget holders; monthly reports are made to Corporate Management Team and quarterly reports to members through the performance report

• Financial training has been provided to officers and members during the year

• The CFO has direct access to the Chair of Audit Committee and the Audit Commission and regularly meets with both, at least 4 times a year

Core Principle 5: developing the capacity and capability of members and officers to be effective in their roles:

• The Council has a personal development review (PDR) process in place for managers to discuss with each member of staff their capacity and capability to carry out their role and future roles. They are then responsible for identifying appropriate training and development opportunities

• Job descriptions are in place for all posts, and the council completed the introduction of its 'job evaluation' scheme in 2009/10

• There is a new member induction programme which will is being rolled-out for newly elected councilors following the May 2011 elections

• New Members were given the opportunity to attend financial training in 2011 and 9 attended

• Sector advisor attended meetings to help Members scrutinise the Treasury Management Strategy

• Members of the Audit Committee receive dedicated sessions to help them understand the layout and content of the statement of accounts, to assist with scrutiny of the figures

Core Principle 6: engaging with local people and other stakeholders to ensure robust public accountability:

• Area panels ensure local accountability and local access – these are attended by the Chief Executive or Corporate Director

• As a result of budget savings proposed by the Cabinet, representations were received from a number of organisations that were potentially impacted by the proposals, particularly in relation to equalities issues

• A summarised statement of accounts is available on the council's website

• Regular 'under the spotlight' staff briefings undertaken by the Chief Executive

• The Council has created a Community Liaison post, which exists to improve relations with parishes and towns and acts as editor for the 'Community Matters' communiqué with these partner bodies

• Two surveys have been undertaken during the year; there is an Annual Satisfaction Survey that informs the council's Value for Money arrangements, and in addition a 'West Somerset Residents Consultation' was carried out

We review our financial management arrangements on a regular basis to ensure they conform to the requirements of CIPFA's Statement on the role of the Chief Finance Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government Framework. The review confirms that during the financial year 2011/12 the Council complied with these requirements.

Review of effectiveness

West Somerset Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.
The review of effectiveness is informed by the work of SWAP, the council's internal auditors, and the Corporate Management Team who have responsibility for the development and maintenance of the governance environment. SWAP has been able to offer 'Reasonable Assurance' in 2009/10, 2010/11 and 2011/12 that the system of internal control is in place and working well.

The process that has been applied to maintaining and reviewing the effectiveness of the governance framework include:

• The monitoring officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are adequate. The Council reviews the constitution annually through its Standards Committee

• The Audit Committee reviews the effectiveness of Internal Audit, and the Annual Governance Statement. It receives reports from internal audit on a quarterly basis and agrees Internal and External Audit Plans. It also has a call in role for any service that receives a “partial” or “no assurance” audit opinion

• Internal Audit through SWAP is responsible for monitoring the quality and effectiveness of systems of internal control. The Audit Service has a Charter approved by the Council and there are no restrictions on the scope of their work. A risk model is used to formulate the plan and approved by the Audit Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the service lead officer with copies to the relevant Group Manager. All audit reports include an ‘opinion’ that provides management with an independent judgement on the adequacy and effectiveness of internal controls. Reports include recommendations for improvement that are detailed in an action plan that is agreed with the service lead officer

• Internal Audit (SWAP) is subject to regular inspection by the Council’s external auditors who place reliance on the work carried out by Internal Audit • The Council’s Financial Regulations are kept under continuous review and revised periodically – the last review was approved in July 2010
In its review of effectiveness, the Authority has assessed its overall governance arrangements as adequate.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the audit committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues
A number of actions were identified during audits undertaken in the year; an update on progress is noted here –

• **Contract Management –** A number of improvements to the council’s record keeping relating to contracts and tendering were identified and will be taken into account in the refreshed Procurement Strategy and the annual update of the Council’s Constitution

• **Maximising Income –** Improvements identified for the budget-setting process and the involvement of the finance team have been implemented as part of the 2012/13 budget procedures

• **Partnership Arrangements –** A number of changes to the management of partnerships, including classification, guidance and monitoring were agreed and an update given to the Audit Committee in September 2011, which addressed the issues, raised

• **Business Continuity –** The Council’s business continuity arrangements have been refreshed in January 2012 and take account of recommendations made following an internal audit report

• **Community Safety –** Staff have been reminded of their responsibilities under Crime and Disorder legislation as part of a ‘mainstreaming’ exercise, and the induction process updated

• **Internal Processes –** Recommendations made in relation to compliance with relevant guidance and improvements to processes have been identified and implemented

Over the coming year we will continue to enhance our governance arrangements. We are satisfied that these steps, shown above, will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

On behalf of WSC:

Signed: ……………………………………………………………………………

Chair of the Audit Committee

Signed:………………………………………………………………………………

Deputy Section 151 Officer – Principal Accountant

Glossary of Terms

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

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

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

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

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

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

- Current assets are assets that will be used, or will cease to have material value, by the end of the next financial year (e.g. debtors)

- Non-current assets provide West Somerset benefits for a period of more than one year.

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

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

Balances
is the accumulated surplus of revenue income over expenditure.

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

Best Value
is the Government’s legislative framework for ensuring that local authorities have set up arrangements to secure sustained improvement in quality and cost of local service provision. It imposes two new duties: the Duty of Best Value and the Duty to Consult. The onus is on the local authorities to demonstrate they are achieving Best Value rather than on Central Government to prescribe it. It replaced Compulsory Competitive Tendering legislation on 1 April 2000.

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

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

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

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

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

Capital Financing Charges
represent, in the main, the cost to the Capital Financing Reserve of repaying loans, excluding interest, or the direct cost of acquiring assets, etc, in the year.

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

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

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

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

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

Central Government Grants
comprise three types:
- Grants paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose. Revenue Support Grant (RSG), New Homes Bonus and Area Based Grant (ABG) – 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. ABG is a general grant allocated directly to local authorities as additional revenue funding to areas. 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 in aid of services in which central government have a more direct involvement.
• Supplementary grants – grants in aid of both capital and revenue

CIPFA
is the Chartered Institute of Public Finance and Accountancy.

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

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

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

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

Component Accounting
is when significant components of non-current assets are depreciated separately over their useful life.

Comprehensive Income and Expenditure Statement (CIES)
consolidates all the gains and losses experienced by an authority during the financial year.

Consistency
is one of the fundamental accounting concepts. It requires accountants to treat similar items of income and expenditure the same way - both within an accounting period and from one accounting period to the next.

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

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

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

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

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

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

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

Emoluments
Are the cash payments or payments in-kind an employee is entitled to. Pension contributions are not an emolument.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS
is an International Financial Reporting Standard advising the accounting treatment and disclosure requirements of transactions so that an authority's accounts 'present fairly' the financial position of the authority.

Investment
is the lending of surplus money to another party in exchange for interest.

Investment Property
is property held exclusively for revenue generation of for the capital gains that the assets is expected to generate.

Liability
must be included in the financial statements when West Somerset 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.

Liquid Resources
are current assets, which are readily convertible into cash at, or close to its carrying amount.

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

Long-term Investments
are those, which are intended to be held on a continuous basis for the activities of the authority.

Materiality
is one of the main accounting concepts. It ensures that the statement of accounts includes all the transactions that, if omitted, would lead to a significant distortion of the financial position at the end of the accounting period.

Minimum Revenue Provision
is the sum required to be met from revenue under current capital controls to provide for the repayment of outstanding borrowings; additional sums may be voluntarily set aside.

Movement in Reserves Statement (MIRS)
shows the movement in the year on the different reserves held by the authority, analysed into ‘usable reserves’ and ‘unusable reserves’.

National Non-Domestic Rate (NNDR) Income (also known as Business Rates)
Business Rates are collected locally, pooled nationally and then redistributed to all local authorities on a population basis.

Net Book Value
is the Balance Sheet amount of non-current assets and represents their historical cost or current replacement value less cumulative depreciation provisions.

Net Current Replacement Cost
is the cost of replacing an asset in its existing condition and use.

Net Realisable Value
is the open market value of an asset in its existing use net of the potential expenses of sale.

Non-Current Asset
is an item of worth, which is measurable in monetary terms and provides benefit for more than the period of account – see also Capital Expenditure.

Non-Current Asset Held for Sale
is a non-current asset that becomes available for sale and it is probable that the carrying amount of that asset will be recovered through a sale transaction rather than though its continuing use.

Non-operational Assets
are those assets, which are not directly used in the provision of services and mainly comprise those assets, which are surplus to requirements and held pending disposal.

Operational Assets
are those assets e.g. land and buildings, used in the direct provision of services.

Operating Leases
are all leases, which are not finance leases.

Other Operating Costs
includes expenditure on buildings, fuel, light, rent, rates, and purchase of furniture and equipment.

Precept
is the means by which Somerset County Council; Avon and Somerset Police Authority; Devon and Somerset Fire and Rescue Authority and the parishes obtain their revenue income from the District Councils’ Collection Fund.

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

PWLB
is the Public Works Loan Board, a Government agency that lends money to the public sector.

Prudence
is one of the main accounting concepts. It ensures West Somerset Council only includes income in its accounts if it is sure it will receive the money.

Rateable Value
is the annual assumed rental value of a property that is used for business purposes.

Related Parties
are when at any time during the financial period:-

- One party has direct or indirect control of the other party
- The parties are subject to common control from the same source
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own interests.

Related Party Transaction
is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether or not a charge is made.

Remuneration
includes taxable salary payments to employees, together with non-taxable payments on termination of employment (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Reserves
result from the accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at West Somerset's discretion.

Residual Value
is the value of an asset at the end of its useful life.

Revaluation Reserve
is a new reserve, which records the unrealised revaluation gains, arising since 1 April 2007 from holding non-current assets. Previously such gains were credited to the Fixed Asset Restatement Account.

Revenue Expenditure
is the day-to-day spending on salaries, maintenance of assets, purchase of stationery etc after deducting income such as fees and charges.

Revenue Expenditure Funded Capital under Statute
are capital grants made by West Somerset to another organisation or person. This counts as capital expenditure but it does not create an asset that belongs to West Somerset Council. The expenditure is charged to the balance sheet, but it is then reversed out through the Capital Adjustment Account to the revenue account.

Revenue Support Grant
is a general grant paid by the Government to local authorities as a contribution towards the cost of their services.

Usable Reserves
are reserves that can be applied to fund expenditure or reduce local taxation.

SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

West Somerset Council

Report of Internal Audit Activity
Quarter 2, 2012/13

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

AGENDA ITEM 10

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox
Head of Internal Audit Partnership
Tel: 01935 462371
gerry.cox@southwestaudit.gov.uk

Chris Gunn
Group Audit Manager
Tel: 01823 356417
chris.gunn@southwestaudit.gov.uk

Claire Hodgson
Audit Manager
Tel: 01823 355530
claire.hodgson@southwestaudit.gov.uk

Our audit activity is split between:

- **Operational Audit**
- **Key Control Audit**
- **Governance, Fraud & Corruption**

Role of Internal Audit

The Internal Audit service for West Somerset Council is provided by South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, but also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee at its meeting in March 2012. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes;

- Plan of Operational Reviews (including IS reviews)
- Annual Review of Key Financial System Controls (Key Control Audits)
- Annual review of key governance and fraud controls

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team and External Auditors. This year's Audit Plan was reported to this Committee at its meeting in March 2012.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Quarter 2 Update:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action.

Internal Audit Work Programme

The schedule provided at Appendix A contains a list of all audits as agreed in the Annual Audit Plan 2012/13. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective "control assurance" opinion together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit "Audit Framework Definitions" as shown in Appendix B.

Where assignments record that recommendations have been made to reflect that some control weaknesses have been identified as a result of audit work, these are considered to represent a less than significant risk to the Council's operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these.

Quarter 2 Update:

Completed Audit Assignments in the Period

Operational Audits

Operational Audits are a detailed evaluation of a service's control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

One operational report has been issued as a draft in August 2012. This was a joint audit with SDC and TDBC of the South West Private Sector Housing Partnership and it is likely that reasonable assurance will be given.

One IT audit was scheduled for Quarter 1. This is a review of Data Security Breaches being approached as a themed audit across SWAP partners and is currently in progress.

Key Control Audits

Key Control Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. They are scheduled to be carried out between October and December each year.

Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level.

Four reviews were completed in the year to date with Reasonable assurance given: Freedom of Information, Cash & Bank - Car Parks, Gifts & Hospitality / Register of Interests (including follow up of Related Party Transactions), and Creditor Fraud. One review on Risk Management (Risk Registers including Major Projects) is currently in progress.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Follow Up Audits

Two follow up reviews have been completed on Partnership Arrangements and Business Continuity Planning. For Partnerships nine issues were implemented, one priority 4 was in progress and two priority 3s were incomplete. Regarding BCP eight issues have been fully addressed and six are in progress which were all 3 priorities. A further follow up of Community Safety is in progress.

Future Planned Work

This is detailed in Appendix A and is subject to any changes in agreement with the Chief Executive since the departure of the S151 officer.

Conclusion

For the audits completed to report stage each report contains an action plan with a number of recommendations which are given priority scores. Definitions of these priorities are contained in Appendix A. Wherever partial or no assurance is offered in a final audit report the high or medium/ high priority issues will be copied to members as an appendix to this report.

I am pleased to report that there have been no priority 4 or 5 issues reported and each of the 5 reports have offered reasonable assurance.

APPENDIX A

Directorate/Service	Audit Area	Quarter	Status	Opinion	SWAP Feedback	No. of recs	Recommendations (3 = Medium ⟷ 5 = Major)		
							3	4	5
Follow up	Partnerships	Qtr 1	Final July	N/A					
Follow up	BCP	Qtr 2	Final July	N/A					
Governance, Fraud & Corruption	Freedom of Information	Qtr 1	Final July	Reasonable	93%	6	4	0	0
Governance, Fraud & Corruption	Cash and Bank - Car Parks	Qtr 1	Final July	Reasonable		5	5	0	0
Governance, Fraud & Corruption	Gifts & Hospitality / Register of Interests (including follow up of Related Party Transactions)	Qtr 2	Final August	Reasonable	88%	3	3	0	0
Governance, Fraud & Corruption	Creditor Fraud	Qtr 1	Final Sept	Reasonable		15	15	0	0
Operational	South West Private Sector Housing Partnership - joint audit with SDC and TDBC	Qtr 2	Draft August	Reasonable					
IS Review	Data Security breaches	Qtr 1	In progress						
Governance, Fraud & Corruption	Risk Management (Risk Registers including Major Projects)	Qtr 1	In progress						
Follow up	Community Safety	Qtr 2	In progress						
Governance, Fraud & Corruption	Contract fraud	Qtr 2	In progress						
IS Review	TBC	Qtr 2	Not started						
Governance, Fraud & Corruption	Committee Reporting - Member Decisions	Qtr 2	In progress						
Governance, Fraud & Corruption	Procurement	Qtr 2	Not started						
Operational	Hinkley	Qtr 3							
Governance, Fraud & Corruption	Treasury Management	Qtr 3							
IS Review	TBC	Qtr 3							
Key Control	Payroll	Qtr 3							
Key Control	Housing Benefit	Qtr 3							
Key Control	Council Tax & NNDR	Qtr 3							
Key Control	Main Accounting	Qtr 3							

Follow up	Maximising Income	Qtr 3							
Follow up	Cash and Bank - Car Parks	Qtr 3							
Governance, Fraud & Corruption	Expenses fraud	Qtr 4							
Governance, Fraud & Corruption	Change Management	Qtr 4							
Follow up	Software Licensing & Asset Management	Qtr 4							
Follow up	Contract Management	Qtr 4							

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★★★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲★★★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.