Members of the Audit Committee:
(Councillors R P Lillis (Chairman), T Venner (Vice Chairman),
D Archer, N Thwaites, R Thomas, R Woods, H J W Davies)

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

Date 18 September 2015

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

Dear Councillor

I hereby give you notice to attend the following meeting:

AUDIT COMMITTEE

Date: **Monday 28 September 2015**

Time: **2.30 pm**

Venue: **Council Chamber, Council Offices, Williton**

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

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

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

Yours sincerely

BRUCE LANG
Proper Officer

RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

Risk Scoring Matrix

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

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

- Mitigating actions for high ('High' or above) scoring risks are to be reflected in Service Plans, managed by the Group Manager and implemented by Service Lead Officers;

- Lower scoring risks will either be accepted with no mitigating actions or included in work plans with appropriate mitigating actions that are managed by Service Lead Officer.

The Council's Vision:

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

AUDIT COMMITTEE - AGENDA

28 September 2015 at 2.30 pm

Council Chamber, Williton

1. Apologies for Absence

2. Minutes

Minutes of the Meeting of the Committee held on 2 December 2014 – **SEE ATTACHED** – to be confirmed.

3. Declarations of Interest

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

4. Public Participation

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

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

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

5. Audit Committee Action Plan

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

6. Audit Committee Forward Plan

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

7. Grant Thornton – External Audit Findings

To consider Report No WSC 139/15 to be presented by Peter Barber, Appointed Auditor and Ashley Allen, Audit Manager from Grant Thornton – **SEE ATTACHED**.

The purpose of the report is to provide the Audit Committee with details of the external auditor's

8. Approval of the Statement of Accounts

To consider Report No WSC 141/15 to be presented by Paul Fitzgerald, Assistant Director of Resources – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with details of the Council's Statement of Accounts for approval

9. SWAP Internal Audit – Progress Update 2015/16

To consider Report No WSC 142/15 to be presented by Alastair Woodland, Audit Manager, SWAP – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with an update on Internal Audit Plan 2014-15 progress and bring to their attention any significant findings identified through SWAP's work.

10. Corporate Governance Action Plan

To consider Report No WSC 143/15 to be presented by Paul Harding, Corporate Strategy and Performance Manager – **TO FOLLOW.**

The purpose of the report is to provide the Audit Committee with an update on the corporate

11. Corporate Risk Management Update

To consider Report No WSC 144/15 to be presented by Paul Harding, Corporate Strategy and Performance Manager – **TO FOLLOW.**

The purpose of the report is to provide the Audit Committee with an update on the corporate

12. Debt Analysis Report – As at 30 June 2015

To consider Report No WSC 145/15 to be presented by Steve Perkins, Senior Debt and Recovery Officer – **SEE ATTACHED.**

The purpose of the report is to provide Members with an update on the level of debts outstanding to the Authority as at 30 June 2015.

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

The Council's Vision:

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

The Council's Corporate Priorities:

- <u>Local Democracy:</u>
  Securing local democracy and accountability in West Somerset, based in West Somerset, elected by the people of West Somerset and responsible to the people of West Somerset.

- <u>New Nuclear Development at Hinkley Point</u>
  Maximising opportunities for West Somerset communities and businesses to benefit from the development whilst protecting local communities and the environment.

The Council's Core Values:

- Integrity
- Respect
- Fairness
- Trust

AUDIT COMMITTEE

Minutes of the Meeting held on 6 July 2015 at 2.30 pm in the Council Chamber, Williton

Present

Councillor R P Lillis……………………………………………Chairman
Councillor T Venner…………………………………………Vice Chairman

Councillor D Archer	Councillor R Thomas
Councillor N Thwaites	Councillor R Woods

Member in Attendance

Councillor M Chilcott

Officers in Attendance

Director of Operations and Deputy CEO/S151 (S Adam)
Assistant Director - Corporate Services (R Sealy)
Corporate Strategy and Performance Manager (P Harding)
Finance Manager (S Plenty)
Senior Debt and Recovery Officer (S Perkins)
Principle Revenues and Debt Recovery Officer (D Emery)
Democratic Services Officer (A Randell)

Also in Attendance

Peter Barber, Associate Director, Grant Thornton
Sarah Crouch, Executive, Grant Thornton
Alastair Woodland, Audit Manager, South West Audit Partnership (SWAP)
Mandy Chilcott.

Richard Sealy clarified that he was in attendance solely in the capacity as the Assistant Director – Corporate Services.

A.1 Minutes

(Minutes of the Meeting of the Audit Committee held on 23 March 2015, circulated with the Agenda)

RESOLVED that the Minutes of the Audit Committee held on 23 March 2015, be confirmed as a correct record.

A.2 Declarations of Interest

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.	Member of	Action Taken
Cllr D Archer	All	Minehead	Spoke and voted
Cllr R Thomas	All	Minehead	Spoke and voted
Cllr N Thwaites	All	Dulverton	Spoke and voted
Cllr T Venner	All	Minehead	Spoke and voted

A.3 Public Participation

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

A.4 Audit Committee Action Plan

There were no recorded actions from the last meeting on 23 March 2015.

A.5 Audit Committee Forward Plan

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

RESOLVED that the Audit Committee Forward Plan, be noted.

A.6 Grant Thornton – External Audit Plan 2014/2015

(Report No. WSC 99/15, circulated with the Agenda).
The purpose of this report was to provide the Audit Committee with details of the external auditor's plan for the audit work they had undertaken in respect of the 2014/2015 financial year.

Specifically, this audit work focussed on the provision of an audit opinion in relation to the accounts, value for money and associated key risks.

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

- Discussion took place relating to the variances on cuts between the different types of local authorities. On the whole, smaller Councils were facing more challenging reductions in cuts in percentage terms.
- The risks associated with the £28 million in Hinkley C preparation project detailed in the report were discussed. Assurance was given that this would be accounted for and recorded in the financial statement.

- The fees detailed in the report were considered and the reported reduction was welcomed.

RESOLVED that the report be noted.

A.7 Grant Thornton - External Audit Fees 2015/2016

(Report No. WSC 100/15, circulated with the Agenda).
The purpose of the report was to provide the Audit Committee with details of the fees for the external audit service for 2015/2016.

The key points were summarised as follows:-

1) The indicative audit fee for 2015/2016 was £49,521. This amount was split between the fee for the main audit of £42,525 and the grant certification work £6,996.
2) Overall this represented a reduction of £18,229 from the previous year. The reduction in fees had been enabled by procurement exercises run by the commission across both the Local Government and Health sectors.
3) The billing schedule was detailed and the audit timetable outlined.

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

- Would the reduction in fees impact on the ability to deliver the same service? Assurance was given that the reduction in fees was the result of an offset in costs which had been borne by the Audit Commission.
- The fee setting arrangements had changed to ensure comparison of fees with similar authorities. A commitment had been given by Central Government that every Council could go externally to procure auditors.
- Comment was given that the fees of some authorities had decreased enormously as they were in a better position to negotiate.
- Negotiations were taking place relating to re-tendering across Somerset with the potential to combine with other authorities for the delivery of the service.
- It was recognised that work was still needed to be done to ensure that accounts were processed fairly, in addition to considering if there are better processes and ways of doing things.
- Members requested appropriate action in the renegotiation of the service to reduce any potential chance that the rates were increased again.

RESOLVED that the update report be noted.

A.8 External Audit (Grant Thornton) Update Report.

(Report No. WSC 101/15, circulated with the Agenda)
The purpose of the report was to provide the Audit Committee with a progress update regarding the work of the external auditors, Grant Thornton, in relation to the 2014/15 financial year together with

information relating to emerging national issues which might be relevant to the Council.

The Audit Manager summarised the key points as:-

1) The report provided the Audit Committee with details of the progress made in delivering the responsibilities of the external auditors;
2) Work that was being progressed included 2014/15 final accounts audit, Value for money conclusion and 2014/15 certification work;
3) Provision for Business Rate appeals were detailed along with lodged appeals and utilisation of provision.

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

- Discussion took place relating to the implementation of the spare rooms subsidy, with instances of pensioners unable to downsize due to the lack of smaller and suitable alternative accommodation.
- The ability of Legal Services and Building Control to grow and generate additional income was considered.
- Members were given reassurance that arrears were monitored regularly and figures on this presented.
- The benefits of trading companies and opportunities to be more commercial was discussed. It was determined that benefits In terms of savings could be significant.

RESOLVED that the report be noted.

A.9 **<u>SWAP Internal Audit – Review of Effectiveness</u>**

(Report No. WSC 103/15, circulated with the Agenda).
The purpose of the report was to inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2014/2015.

1) The plan for 2015/2016 had been approved by the Joint Management Team; and
2) As with previous years the plan would have to remain flexible.

The key points were summarised as:-

West Somerset Council's review of Internal Audit had been carried out by the Director of Operations (the Councils Section 151 Officer). The findings were reported as part of the overall evaluation and supporting evidence for the Annual Governance Statement. The following criteria had been used in the evaluation:-

- Annual Report and opinion of the Head of Internal Audit;
- Audit plan and monitoring reports;
- Reports on significant findings;

- Key performance measures and service standards;
- View of the Councils External Auditor covering the extent of reliance placed on internal audit work on key financial systems.

It was found that overall the team performed well and that this view was supported by the comments of external auditors and client satisfaction.

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

- The cost allocation was discussed. The cost was calculated as a percentage of hours allocated therefore there was a fixed cost per audit day worked for the authority;
- Work was being done in improving ways of presenting audit reports to the Committee. Working with SWAP had been successful, and in many instances they had been able to look wider than both Councils in addition to sharing best practice from controls to best practice. It was considered if internal and external audit work could be combined in future to save costs.
- Councillors shared a level of concern on the resilience of the service since a recent restructure. At present the service was trading at a surplus. This could be used to recruit additional support in times of high demand to help through the transformation process.

RESOLVED that the findings of the review of effectiveness of internal audit for 2014/2015.

A.10 Internal Audit – Annual Opinion Report for 2014/2015

(Report No. WSC 102/15, circulated with the Agenda).
The purpose of the report was to inform the Audit Committee of the Annual Opinion Report 2014/2015 from Internal Audit.

The Accounts and Audit regulations 2011 required public authorities to publish an Annual Governance Statement (AGS). The statement was an annual review of the systems of Internal Control and gathered assurance from various sources to support it.

The Head of Internal Audit had provided a report to support the AGS and this included the following:-

- An opinion on the overall adequacy and effectiveness of the organisations risk management systems and internal control environment.
- Disclosure of any qualifications to that opinion, together with the reasons for the qualification.
- Presentation of a summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies.
- Drawing attention to any issues the Head of Internal Audit judged particularly relevant to the preparation of the AGS.
- Comparing the work actually undertaken with the work that was planned

and summarising the performance of the internal audit function against its performance measures criteria.

- Comments on compliance with these standards and communicating the results of the internal audit quality assurance programme.

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

- Had the effectiveness and ability to work with the Council following the JMASS project had any impact?
- Members were informed that there had been an impact in the timing of work, however not on the quality of the work done. Any work that was yet to be delivered would be picked up.
- Discussion took place relating to the improvement of internal control along with the risks and assurances relating to this which was detailed in the report.

RESOLVED that the Internal Audits Annual Opinion report be noted.

A.11 Draft Annual Governance Statement 2014/2015

(Report No. WSC 114/15, circulated with the Agenda).

The purpose of this report was to submit the draft Annual Governance Statement for review and to recommend its approval by the Leader of the Council and the Chief Executive.

The Corporate Strategy and Performance Manager summarised the key points as:-

(1) The Annual Governance Statement provided an account of the processes, systems and records in place during 2014/2015 which demonstrated assurance of the effectiveness of the framework of governance of the district council to discharge its responsibilities; and

(2) Following the JMASS project along with the joining together of the officer structure which led to a saving of £1,802,000 being delivered and despite the scale and pace of the change, no new corporate risks had been identified by the Council's Auditors (South West Audit Partnership).

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

- The document was a live document that was constantly changing. It was requested for there should be more focus on the delivery rather than governance and audit being the motivation.
- Due to the amounts of money involved audit work was needed to be undertaken to go through and check the basics.
- Discussion took place on merging computer systems with WSC and TDBC. There would be a big benefit from this which would enable audits to be completed more quickly and for less outlay.

RESOLVED that the contents of the draft Annual Governance Statement be noted and that the Leader of the Council and the Chief Executive be recommended to adopt the document.

A.12 Annual Treasury Management Review 2014/2015

(Report No. WSC 105/15, circulated with the Agenda)
The purpose of the report was to review the treasury management activity and the performance against the Prudential Indicators for the 2014/2015 financial year as prescribed by the revised CIPFA code of practice and in accordance with the Council's Treasury Management Strategy and Annual Investment Policy.

The Director of Operations summarised the key points as:-

- As at 31 March 2015, WSC's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5,663,000, while usable reserves and working capital which were the underlying resources available for investment were £4,198,000;
- As at March 2015, WSC had £1,000,000 of borrowing and £12,166,000 of investments. The Authority's current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.
- The Council had adopted a strategy of using new capital receipts to reduce the CFR, with £1,800,000 used for this purpose in 2014/2015, and a further £1,700,000 projected reduction through the use of receipts in 2015/2016.

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

- The Hinkley Point Section 106 Agreement money would be kept separate from other Section 106 funds.
- Surplus balances were to be kept in reserve in an account which generated interest.
- Confirmation was given that tax would not have to be paid on capital gains.

RESOLVED that the Treasury Management Activity for the 2014/2015 financial year be noted.

A.13 Debt Analysis Report – As at 31 March 2015

(Report No. WSC 106/15, circulated with the Agenda)
The purpose of the report was to provide the Audit Committee with an update on the levels of debts outstanding to the Authority as at 31 March 2015.

The Senior Debt and Recovery Officer summarised the key points as:-

- The newest debts (less than three months) showed a significant reduction. Much of this reduction was as a consequence of an invoice for £167,293 that was paid by Taunton Deane Borough Council in April. If this amount was disregarded, WSC retained a comparable figure with the previous year at £81,000.

- The oldest debts (over six months) showed a healthy decrease of £23,000 in comparison to the previous year.

- The chasing of these old debts through both the teams that issued the invoices and the recovery service continued to work well. In extreme cases when payment was not made, a County Court Judgement was obtained. This further course of action was at the discretion of the Senior Recovery Officer after liaison with the service area and/or the legal department. The exception to this related to Housing debts, where after initial recovery action it was current Council policy to pursue further anything over £450 through the County Court and write off anything below this amount.

- For the whole financial year, a total of £32,645.70 has been written off against old corporate debts, with the majority of cases being Housing debts. To put this amount in context over £1,400,000 was raised in invoices each year.

- It was confirmed that 100% of the £32,645.70 had been charged to the write off provision already included in the authority's Statement of Accounts. This amount also included a high individual write off from Economic Development of £13,024 for a company that had ceased trading so no longer could be pursued. In accordance with the Council's Financial Regulations this large write off had been agreed by Cabinet.

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

- Members questioned if the authority was insured against write offs.
- Enforcement agents were used as a last resort and had a set amount of fees that were charged. Confirmed that debts held were not franchised or sold off.
- Officers were commended for the collection rates and service that had been provided. These were amongst the best in the country.
- Systems had been put in place to make checks when payments had not been received, with reminder letters along with final payments.
- Payment timescales were 28 days, anything over this time period was an overdue payment.

RESOLVED that the report be noted.

The meeting closed at 4.55 pm.

West Somerset Council - Audit Committee – Forward Plan 2015

Meeting	DRAFT AGENDA ITEMS	LEAD OFFICER
2 Dec 2014	Grant Thornton - Annual Audit Letter	Peter Barber (GT) Ashley Allen (GT)
	Grant Thornton – External Audit Update	Peter Barber (GT) Ashley Allen (GT)
	Internal Audit Plan – Progress Report	Alastair Woodland
	Risk Management Update	Paul Harding
	6-Month Review of Treasury Management Activity	James Howells
	Debt Analysis Report – As At 30 September 2014	Steve Plenty
	Forward Plan	Richard Sealy
23 March 2015	Grant Thornton – Certification of Grant Claims	Peter Barber (GT) Ashley Allen (GT)
	Grant Thornton – Audit Update	Peter Barber (GT) Ashley Allen (GT)
	Internal Audit – Progress Report 2014/15	Alastair Woodland
	Internal Audit Plan 2015/16	Alastair Woodland
	Corporate Risk Management Update	Paul Harding
	Hinkley Project Update	Steve Plenty
	Debt Analysis Report – as at 31 December 2014	Steve Perkins
	Forward Plan	Richard Sealy
29 June 2015	Grant Thornton – External Audit Plan 2014/15	Peter Barber (GT) Ashley Allen (GT)
	Grant Thornton - External Audit Fee Letter	Peter Barber (GT) Ashley Allen (GT)
	Grant Thornton – External Audit Update	Peter Barber (GT) Ashley Allen (GT)
	SWAP Internal Audit – Annual Report	Alastair Woodland
	SWAP Internal Audit – Review of Effectiveness	Shirlene Adam

	Annual Governance Statement 2014/15 6-Month Review of Treasury Management Activity Debt Analysis Report – As At 31 March 2015 Forward Plan	Paul Harding James Howells Steve Perkins Richard Sealy
28 Sept 2015	Grant Thornton – External Audit Findings Grant Thornton External Audit – Certification Plan Approval of the Statement of Accounts SWAP Internal Audit – Progress Update 2015/16 Corporate Governance Action Plan Update Corporate Risk Management Update Debt Analysis Report – As At 30 June 2015 Forward Plan	Peter Barber (GT) Ashley Allen (GT) Peter Barber (GT) Ashley Allen (GT) Paul Fitzgerald Alastair Woodland Paul Harding Paul Harding Steve Perkins Richard Sealy
1 Dec 2015	Grant Thornton External Audit – Annual Audit Letter 2014/15 Grant Thornton External Audit Update SWAP Internal Audit – Progress Report 2014/15 6-Month Review of Treasury Management Activity Debt Analysis Report – As At 30 September 2015 Corporate Counter-Fraud Update Forward Plan	Peter Barber (GT) Ashley Allen (GT) Peter Barber (GT) Ashley Allen (GT) Alastair Woodland James Howells Steve Perkins Paul Fitzgerald Richard Sealy
28 Mar 2016	**To Be Confirmed**	

Report Number:	*WSC 139/15*
Presented by:	*Steve Plenty, Finance Manager & Peter Barber (Grant Thornton)*
Author of the Report:	*Paul Fitzgerald, Assistant Director Resources*
Contact Details:	
Tel. No. Direct Line	*01984 635217*
Email:	*sjplenty@westsomerset.gov.uk*
Report to a Meeting of:	*Audit Committee*
To be Held on:	*28th September 2015*
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:	*N/A*

EXTERNAL AUDIT 2014/15 – AUDIT FINDINGS REPORT

1. PURPOSE OF REPORT

1.1 This short covering report introduces the annual report of our external auditor Grant Thornton outlining findings from the audit of our Statement of Accounts, and our arrangements to secure Value for Money. This also incorporates a review of our financial resilience as a council.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 Achieving financial sustainability.

3. RECOMMENDATIONS

3.1 Members are requested to note the report from our external Auditor on the Council's Statement of Accounts and to support the action plan in the report (agreed by the s151 Officer).

3.2 Members are requested to note the Auditor's qualified value for money conclusion reflecting concerns over financial resilience of the Council.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
The Statement of Accounts do not provide a true and fair view of the Council's financial position and performance	Possible (3)	Major (4)	Medium (12)
Arrangements for financial control, accounting and reporting are robust, and Statement of Accounts subject to external audit	Rare (1)	Major (4)	Low (4)

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

5. BACKGROUND INFORMATION

5.1 The Statement of Accounts 2014/15 was signed off by the Council's s151 Officer in June 2014 – within the statutory deadline, and before the start of the external audit review.

5.2 The external audit review has significantly progressed and the auditor has indicated their intention to issue an "unqualified opinion" for the Statement of Accounts - a clean bill of health (but please note 5.4 below).

5.3 The auditor has also reviewed our arrangements to secure economy, efficiency and effectiveness in our use of resources, and provides an opinion in the form of a value for money conclusion. In view of the serious scale of the financial challenge faced by the authority, the Auditor has provided a "qualified value for money conclusion" – due to the Auditor's concerns over the financial resilience of the Council. Specific concerns highlighted include:

a) The level of general reserves being very close to the acceptable minimum level;
b) The scale of the Budget Gap within the Medium Term Financial Plan, resulting in the council facing significant difficulties in setting a balanced budget for 2016/17.

5.4 It should be noted that at the time of issue of this report Grant Thornton are finalising a few areas of their work which will be completed by the date of the committee – as noted in their attached report. Should there be any significant matters identified following the publication of this report an update will be provided at the Committee meeting.

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 In respect of the Statement of Accounts, a significant change between the initial Draft Statement and the final Audited Statement relates to the impact of the Hinkley B business rates appeal. This has been well reported to Members, with detailed analysis included within the Financial Outturn Report presented Cabinet on 5 August 2015 and Scrutiny Committee on 6 August 2015.

6.2 The impact of the appeal and refund took some time to work through accurately – the business rates retention system is complex! – and it was necessary to prepare a revised Draft Statement of Accounts to fully reflect the impact in 2014/15 accounts. This approach was supported by the Auditor and the Council sought external validation to ensure the adjustments made were sound. The outcome led to a reported overspend against the Revenue Budget and a significant reduction in general reserves.

6.3 Aside from the impact of the business rates appeal, there are some errors and some minor presentational changes that have been identified and corrected in the final audited accounts, although these changes do not affect the financial position of the council. These are set out in the Auditor's report.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 The audit process has generally run smoothly, with the accounts being prepared to a good standard despite some errors needing to be adjusted. In particular I would like to thank Steve Plenty, Philip West, Sue Williamson and her team for their work to ensure the accounts have been well-prepared and the support provided to the auditors during their review. The whole team has worked hard to ensure effective accounts preparation has been maintained and audit queries have been dealt with promptly. Positive feedback from the audit team in this respect is welcome. This is also the first 'year-end' delivered following the completion of the joint finance team structure within the One Team. There are new staff, and staff in new roles, therefore it is an excellent achievement to produce accounts to a good standard in this difficult transition period. The Finance team will undertake a 'lessons learnt' review to work through the issues raised and identify improvements to prevent similar issues arising in future.

7.2 In respect of value for money and our financial resilience there some issues flagged as "amber" and "red" – underlining the scale of the financial challenge faced by the Council. As reported above, the level of reserves and scale of Budget Gap in the MTFP are of particular concern. None of these matters are a surprise and I am confident that Members recognise the importance of our financial sustainability.

7.3 Members should note the risks and ensure they are committed to addressing these in our approach to budget setting and decision making moving forward.

8. EQUALITY & DIVERSITY IMPLICATIONS

Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None in respect of this report.

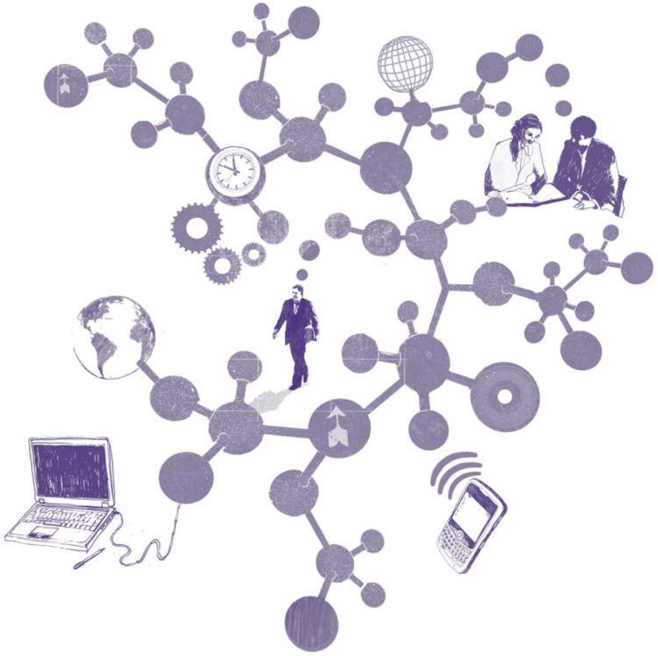
13. LEGAL IMPLICATIONS

13.1 None in respect of this report.

The Audit Findings for West Somerset District Council

Year ended 31 March 2015

18 September 2015



Peter Barber
Associate Director
T +44 (0)117 305 7897
E peter.a.barber@uk.gt.com

Ashley J Allen
Manager
T +44 (0)117 305 7629
E ashley.j.allen@uk.gt.com

Sarah Crouch
Executive
T +44 (0)117 305 7881
E sarah.crouch@uk.gt.com

West Somerset District Council
West Somerset House
Killick Way
Taunton, Somerset
TA4 4QA

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

T +44 (0)117 305 7600
www.grant-thornton.co.uk

18 September 2015

Dear Audit Committee members

Audit Findings for West Somerset District Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of West Somerset District Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with the Audit Committee.

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

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

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

Yours sincerely

Peter Barber
Associate Director

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of West Somerset District Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 19 May 2015.

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

- NNDR and provisions
- Grants
- Financial Instruments
- minor outstanding items for Housing Benefit
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received the draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

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

- the draft accounts were produced to a good standard but material errors were found as discussed in section two of this report
- the audit has been facilitated by good supporting working papers and excellent assistance from the finance team
- all requests for additional information were dealt with promptly by the finance team

The draft financial statements presented for audit on 30 June 2015 recorded net expenditure of £0.313 million. Management then informed us of the need to revise the draft statements to reflect the impact of the Hinkley business rates appeal. A revised version of the statements were received in July 2015 recording net expenditure of £0.649 million and other non-material changes to the balance sheet and movement in reserves statement.

In addition, our audit identified a material error that have now been corrected which was a £6.0m misclassification of investments incorrectly classified as cash equivalents when they should have been short term investments.

Our work also identified a number of adjustments to improve the presentation of the financial statements.

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

Value for Money conclusion
Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified 'except for' VfM conclusion.

- The Authority reported a decrease in the general fund balance of £0.462 million in its financial statements for the year ending 31 March 2015 resulting in a general fund reserve balance of £0.532 million at 31 March 2015, which is very close the minimum level agreed by members.
- The medium term financial plan of the Authority for 2015/16 to 2020/21 shows an underlying budget gap of £0.566m for 2016/17 and £1.538 million up to the end of the six year period. As a result, the Council will have significant difficulties in setting a balanced budget for 2016/17.

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

Whole of Government Accounts (WGA)
We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

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

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

Findings
Our work has not identified any new control weaknesses which we wish to highlight for your attention. However one of the prior year weaknesses has not yet been addressed by the Council. Further details are provided within section two of this report.

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

We have made a recommendation, which is set out in the action plan in Appendix A. The recommendation has been discussed and agreed with the Director of Operations and the finance team.

Acknowledgment

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

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 6 July 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 6 July 2015.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Somerset District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Somerset District Council, mean that all forms of fraud are seen as unacceptable	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	• review of prior year and current year accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (operating expenses understated)	• review of system documentation and walkthrough test of design and operation of controls • search for unrecorded liabilities by testing after period payments • obtain an understanding of the accruals process and determine whether our understanding identifies areas where additional procedures are required • will obtain written representations from management for significant assumptions used in estimates	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated (remuneration expenses not correct)	• review system documentation and walkthrough test of design and operation of controls • analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete • substantive testing of a sample of payroll payments • review reconciliation of the payroll system figures to the general ledger figures	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Activity is accounted for in the year that it takes place, not simply when cash payments are 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 Council. • Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. • Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. • Where revenue has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.	We have reviewed the Council's recognition of revenue and found that: • Appropriate policies had been used • Accounting policies had been adequately disclosed • Revenue had been appropriately recognised • The policies are in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice	● Green

Assessment
● Red – Marginal accounting policy which could potentially attract attention from regulators
● Amber – Accounting policy appropriate but scope for improved disclosure
● Green – Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Estimates and judgements	Key estimates and judgements include: • useful life of property, plant and equipment • pension fund valuations and settlements • revaluations and impairments • provisions • accruals	We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that: • Appropriate policies had been used • Accounting policies had been adequately disclosed • Areas where judgement had been used were supported by the work of an expert or a third party	● Green
Going concern	Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed managements' assessment and concur with their view that the going concern basis is appropriate for the 2014/15 financial statements.	● Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	● Green

Assessment
- ● Red – Marginal accounting policy which could potentially attract attention from regulators
- ● Amber – Accounting policy appropriate but scope for improved disclosure
- ● Green – Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any frauds that would have a material impact on the financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	A standard letter of representation has been requested from the Council.
4.	**Disclosures**	Our review found no non-trivial omissions in the financial statements.
5.	**Matters in relation to related parties**	We are not aware of any related party transactions which have not been disclosed.
6.	**Confirmation requests from third parties**	We obtained direct confirmations for all bank accounts, investments and loans. No issues were identified.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

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

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	For payroll, operating and welfare expenses, the reconciliation was performed by the same individual that processes the transaction. This limits the effectiveness of the control of the segregation of duties.	This still applied for 2014/15 and our audit procedures had regard to this. No further action is required as the reorganisation as part of the joint working with Taunton Deane Borough Council should address this issue for future years.
2.	X	We have identified opportunities to improve the control environment for information technology , as deficiencies around: • ICT security policies, lack of review and agreement • no review of system users or security logs	No changes have been made in relation to our finding and recommendation from the 2013/14 audit. The recommendation therefore has been carried forward for 2014/15 and can be found in the action plan in the appendix to this report.

Assessment
✓ Action completed
X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The Council identified before the audit began that there was an error in the Statement of Accounts relating to the Hinkley Point Business Rates Appeal.	Taxation and Grants 336	Debtors 1,217 Creditors 228 Provisions (1,779) Usable Reserves (1,444) Unusable Reserves 1,779	336
2	During the course of the audit management brought to our attention an error in the draft accounts in the Revaluation Reserve figure relating to an impairment on Assets Held for sale. The adjustment reverses through the movements in reserves statement and therefore has no overall effect on the Balance Sheet.	144	NIL	144
	Overall impact	**480**	**NIL**	**480**

Unadjusted misstatements

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

	Detail	Comprehensive Income and Expenditure £'000	Balance Sheet £'000	Reason for not adjusting
1	When testing the Discretionary Housing Payments (DHP) from the Government, two errors were identified – funds set aside to meet the cost of 2013/14 DHP were not withdrawn from the earmarked reserves and the amount owed to West Somerset Council at the end of the year was not accrued for. This understated the income, overstated Earmarked Reserves, and understated the General Fund.	(64)	Earmarked Reserves 43 Debtors 21 General Fund (64)	Not material and will be corrected in 2015/16.
	Overall impact	**(64)**	**NIL**	

Misclassifications & disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	6,000	Short term investments	A number of Short Term Investments were initially misclassified as Cash Equivalents.
2	Misclassification	239	Comprehensive Income and Expenditure Statement	Income reported on the face of the Comprehensive Income and Expenditure Statement was incorrectly included as Planning Services, and should have been Housing Services. This has been reclassified. The net effect on the Cost of Services is nil.
3	Disclosure	9,782	Pension note	An amendment was made to the disclosure for the Pension figures in note 42 to ensure the note agreed with the amount on the face of the comprehensive income and expenditure statement. An additional line for Liabilities assumed/(extinguished) on settlements was added to the note.
4	Disclosure	10	Chief Executive's Pay	The 2013/14 comparative amount for the Chief Executive's remuneration did not include additional payment relating to an agreement in place for having opted out of the pension scheme – a simple presentation error in drafting the note.
5	Disclosure	Various	Financial Instruments, Amounts Allocated for Resource Decisions, Related Party Transactions	The Council adjusted the Accounts as discussed in the adjusted misstatements table above. When putting the adjustment through, the Council missed updating some note disclosures.
6	Disclosure	663	Property, Plant and Equipment	The opening gross cost and accumulated depreciation and impairment for current year and prior year were overstated for Vehicles, Plant and Equipment due to an impairment in a prior year that was not reflected in the note. This does not affect the net book value.
7	Disclosure and presentation	Various	Various	Whilst we acknowledge the work undertaken by the Council to prepare the Annual Governance Statement and financial statements for our review, there are a number of minor disclosure and presentational adjustments that were required to be made to the drafts presented for audit.

Section 3: Value for Money

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council 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 Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

The Council overspent against its budget for 2014/15 by £0.228 million which reduced the general fund reserves to just over £0.5 million, the minimum level set by the Council. The Council was initially reporting an underspend however this was adversely affected due to the results of the Hinkley business rates appeal which was out of the control of the Council. The Council has set a balanced budget for 2015/16 without the use of general fund reserves and with a council tax increase of 1.99%.

Beyond 2015/16 the position becomes far more challenging and the Council continues to face challenges to ensure services remain financially sustainable. A further £1.5 million of savings will need to be identified and delivered in the period 2016/17 to 2020/21 to allow the Council to reduce budget gaps and set balanced budgets.

The Council made savings with its shared team with Taunton Deane Borough Council but these savings have been eliminated by the Valuation Office Agency (VOA) ruling on the Hinkley business rates appeal which will have a significant detrimental impact on the future viability of the Council.

The concerns over the financial resilience of the Council highlighted will give rise to a qualified 'except for' VfM conclusion.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Value for Money

Our work highlighted that the overall arrangements are sound at the Council. The shared management structure with Taunton Deane Borough Council that has now been fully implemented has helped the Council prioritise its resources and ensured efficiencies are realised. Now the Council needs to look to transform to continue to provide services for the population of West Somerset.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015, except for its strategic financial planning.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	• The Council has underspent against its general revenue budgets in the past three years however for the current year they had an overspend due to the Hinkley B appeal. • The general reserves for the Council have fallen this year and are now very close to minimum levels set by Members to protect against key financial risks. • The key ratios of the Council have improved from the previous year however the Council's liquidity ratio still remains below 1.0. • The Council's staff sickness level for 2014/15 of 7.89 days has increased by 0.67 days from last year and is currently below the Council's target of 8.2 days.	**Amber**
Strategic financial planning	• The Council's Medium Term Financial Plan (MTFP) is a 6 year financial planning horizon up to 2020/21. The Council goes through a detailed process in developing its financial plans. Budget proposals are consulted on and considered at various stages and by various committees before going to Full Council for approval. • However the VOA ruling on the Hinkley B business rates appeal has had a significant detrimental impact on the future viability of the Council. The updated MTFP shows a budget gap of £1.538 million to 2020/21. The identification and delivery of savings to close this gap will be very challenging given the Council only has a net revenue budget of just under £5 million. • For 2015/16 the Council was able to set a balanced budget with no use of general fund reserves following the identification of savings totalling £0.64 million. The Council will need to continue to find substantial savings as the updated MTFP shows a cumulative budget gap from 2015/16 onwards totalling £1.538 million to the end of 2020/21. • The 2016/17 budget gap is £0.57 million and the Council will struggle to set a balanced budget for next year. The Council is looking to Phase 2 of the transformation programme to help address the budget gap but this is unlikely to deliver the level of required savings. The Council is also undertaking a full review of expenditure and earmarked reserves in order to find in year savings for 2015/16 in order to help reserves for 2016/17.	**Red**

Theme	Summary findings	RAG rating
Financial governance	• The Council has a good process for financial governance that covers the whole planning cycle, includes consultation on proposals and performance reporting, and is underpinned with effective challenge and assurance processes. • The shared management structure with Taunton Deane has helped to provide Members with more support to enable them to make more informed financial decisions and gain a greater understanding of the budget setting process. • The Council has adequate monitoring arrangements in place at both a Member and officer level.	**Green**
Financial control	• The Council has a strong recent track record on budgetary and financial control, demonstrated by good financial outcomes, which is indicative of a robust financial control framework. The arrangements to monitor delivery of the budget are robust and there are currently sufficient reserves to cover any slippage in savings programmes. The reason in the current year for the overspend was due to events subsequent to the year end therefore the Council was not able to correct in year. • The Council set a minimal capital programme for the year of just over £1 million. The final outturn showed slippage with an overall overspend of £0.039 million from the final approved budget. • The Council's Internal Audit reviews key areas and has confirmed controls are satisfactory and the majority of review were found to be adequately controlled. • The Council continues to maintain and review a joint risk registers.	**Green**
Prioritising resources	• The Council prioritises it resources based on objectives in the Corporate Plan. • The Council has demonstrated a willingness to take on innovative and financially effective solutions to service delivery demonstrating a clear strategy and rationale for the use of its financial and other resources. The Council will have to continue to do this in the future as they proceed through the Transformation process in order to ensure that they are able to reduce budget gaps.	**Green**
Improving efficiency & productivity	• The Council continues to consider a wide range of options to improve efficiency. This is demonstrated by the joining up of the Taunton Deane and West Somerset teams which are now fully integrated and sharing legal services with other Somerset authorities. • The Council can demonstrate through its performance and budget management arrangements that it continues to make improvements in efficiency and productivity. Through its Corporate Plan it can demonstrate that it continues to look for new ways to achieve efficiencies and provide services. • We recognise that further difficult decisions will need to be made to generate further savings to bring the Council back to a sustainable financial position.	**Green**

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
Key indicators of performance *2014/15 – Performance against budgets (revenue capital and savings)*	The Council has a history of under spending against its revenue budget but this year recorded a £0.228 million overspend. The reason for the overspend, the Hinckley B business rate appeal, was out of the control of the Council.	**Amber**
Key indicators of performance *2014/15 – reserves balances*	At 31 March 2015 the Council's general fund reserve totalled £0.53 million, only £0.03 million above the minimum level set by members. The Council needs to work to prioritise resources and look to deliver further savings in order to increase the general fund balance so the Council has reserve resilience for future years.	**Red**
Strategic financial planning *Focus of the medium term financial plan*	The Council's Medium Term Financial Plan (MTFP) outlines how the budget will be delivered over the medium to long term and carefully links to the Council's objectives and considers the changes to funding from central government. The updated MTFP and latest budget gap estimates have been reported to Cabinet in August 2015. The MTFP shows budget gaps from 2016/17 to 2020/21 totalling £1.538 million. If no savings plans are delivered and the Council was to use reserve balances to fund the budget gaps, the general fund reserve would drop below the target minimum in 2016/17 and would move into a negative position in 2017/18. This represents a significant challenge for the Council given the savings it has had to make in recent years. The Council needs to continue to work with members to transform the way business is done within the Council to find more areas of savings to reduce the gap in the MTFP.	**Red**
Strategic financial planning *Adequacy of planning assumptions*	The Council's MTFP does not fully link to all the Council's other strategic documents. The Council recognises it needs to do more to ensure documents such as its asset management plan fully reflects the work required to maintain the Council's non-current assets. Work on developing such plans may further increase the budget gap.	**Amber**
Strategic financial planning *Responsiveness of the medium term financial plan*	The Council has been aware for some time of the risk with outstanding Business Rate appeals. It was not, however, prepared for the extent of the result of the Hinkley B appeal and as such is facing significant financial challenges in the future. The Council should use scenario planning and share this with members when there are significant risks in the MTFP to show how the worst, likely and best case scenario will affect the Council's financial position.	**Amber**

Section 4: Fees, non-audit services and independence

Fees, non-audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	56,700	56,700
Grant certification on behalf of Audit Commission	11,950	*11,950
Total audit fees	**68,650**	**68,650**

*The indicative fee published by the Public Sector Audit Appointments for grant certification work required in 2014/15 for the Council is £11,950. As the work has not yet been completed on the grant certification, we therefore cannot confirm the final fee.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

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

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

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	We recommend that management: - review their ICT security policies and ensure they continue to meet the requirements of PSN connection; - implement a process to ensure that all staff (including temporary, Agency staff, Contractors etc) are provided with up to date policies - ensure that all users acknowledge that they have read, understood and agree to abide by the policies - should consider implementing a process to review user access rights on a periodic basis to ensure that only authorised users have access to the Council systems and the levels of access granted is appropriate for their roles and responsibilities - management should identify critical security logs within all systems and monitor user activity to ensure data integrity.	Medium	The WSC ICT security policy is being reviewed along with the equivalent TDBC policy to create a singe ICT security policy for both organisations. This work is in progress and will be complete by April 2016.	April 2016 ICT and Information Manager

Appendix B: Audit opinion

We anticipate we will provide the Council with a modified audit report

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

We have audited the financial statements of West Somerset District Council for the year ended 31 March 2015 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, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of West Somerset District Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Operations and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts , the Director of Operations is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Operations; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of West Somerset District Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our 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 we report by exception

We are required to report to you if:
in our 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; or
we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to 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, we identified the following matters:

The Authority reported a decrease in the general fund balance of £0.462 million in its financial statements for the year ending 31 March 2015 resulting in a general fund reserve balance of £0.532 million at 31 March 2015, which is very close the minimum level agreed by members.
The medium term financial plan of the Authority for 2015/16 to 2020/21 shows an underlying budget gap of £0.566m for 2016/17 and £1.538 million up to the end of the six year period. As a result, the Council will have significant difficulties in setting a balanced budget for 2016/17.

The decrease in the general fund balance during 20145/15, low general fund reserve balance at 31 March 2015 and future budget gaps are evidence of weaknesses in arrangements in respect of the Authority's strategic financial planning.

Qualified Conclusion
On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are 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 2015.

Certificate

We certify that we have completed the audit of the financial statements 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.

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

Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

[XX] September 2015

Grant Thornton

grant-thornton.co.uk

Report Number:	*WSC 141/15*
Presented by:	*Steve Plenty*
Author of the Report:	*Steve Plenty*
Contact Details:	
Tel. No. Direct Line	*01984 635217*
Email:	*sjplenty@westsomerset.gov.uk*
Report to a Meeting of:	*Audit Committee*
To be Held on:	*28th September 2015*
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:	*N/A*

AUDITED STATEMENT OF ACCOUNTS 2014/15

1. PURPOSE OF REPORT

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

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 None – the Council has a statutory duty to prepare and approve its annual accounts.

3. RECOMMENDATIONS

3.1 The Audit Committee notes the Auditor's unqualified opinion on the Statement of Accounts 2014/15.

3.2 The Audit Committee approves the Statement of Accounts 2014/15.

3.3 The Chair of the Committee and the Section 151 Officer are requested to sign the Statement of Accounts.

4. 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)

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

5. BACKGROUND INFORMATION

5.1 The Accounts and Audit Regulations 2011 require the Statement of Accounts to be approved by a resolution of a nominated committee. The current constitutional arrangements devolve this responsibility to the Audit Committee.

5.2 The Section 151 Officer is required to sign off the unaudited Draft Accounts as true and fair by 30 June each year. The audited Statement of Accounts must be approved by Committee by 30 September each year. Once approved the Statement must be signed by the Section151 Officer and the Chair of the Audit Committee, and published on the Council's website.

5.3 The Council's Statement of Accounts has been audited this year by Grant Thornton UK LLP and are attached to this report. At the time of writing this report, Grant Thornton intend to issue an unqualified opinion, as reported in the Audit Findings Report earlier on the agenda for this meeting. However it should be noted that Grant Thornton are finalising a few areas of their work which will be completed by the date of the committee. Should there be any adjustments to the Statement of Accounts subsequent to this report being issued this will be reported at the Committee meeting.

6. FINANCIAL/RESOURCE IMPLICATIONS

Statement of Accounts

6.1 The Statement of Accounts for 2014/15 has been prepared on an IFRS (International Financial Reporting Standards) basis in line with the CIPFA (Chartered Institute of Public Finance Accounting) Code of Practice on Local Authority Accounting in the UK 2014/15.

6.2 There are no material errors related to previous years, or other material changes to accounting requirements, therefore no further changes to comparative financial details related to 2013/14 have not been restated (except for one minor change in a Note).

6.3 The Statement of Accounts contain four main statements reflecting the position of the Council at 31 March 2015:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement

6.4 There is also a supplementary statement related to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

Movement in Reserves Statement

6.5 This account shows the changes in the Council's financial resources over the year by showing the movement on the reserves held. These are analysed into Usable Reserves (these can be used to fund spending) and Unusable Reserves (reserves that cannot be spent as they contain technical accounting adjustments that do not represent available funding).

6.6 The total of the Council's Usable Reserves (capital and revenue combined) has increased by £2.250m in the year. The largest movement is seen in the General Fund earmarked reserves (increase of £2.525m), mainly due to Business Rates Smoothing to provide funds to meet the deficit on the Collection Fund.

6.7 The Statement shows that the General Reserve (Unearmarked) balance is above the minimum level required in the Council's financial strategy, with General Reserves standing at £0.530m, however shows a decrease of £0.462m during 2014/15 reflecting the impact of Hinkley B Business Rates appeal.

Comprehensive Income and Expenditure Statement

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

6.9 The net Cost of Services has increased by £7.293m compared to the previous year's accounts. The main increase is in relation to the pension accounting entries needed to be made, however this is effectively reversed out again further down the Comprehensive Income and Expenditure Statement.

6.10 The Financial Outturn position for 2014/15 was reported to Scrutiny and Cabinet at their meetings in August 2015. This report included information relating to the Council's financial performance for the 2014/15 financial year, and highlighted key variances to the budget with explanations for these.

Balance Sheet

6.11 The Balance Sheet provides a snapshot of the Council's financial position as at 31 March 2015 (with comparatives for 31 March 2014).

6.12 The Balance Sheet shows that net assets have increased by £0.654m in 2014/15, to a balance of £0.827m as at March 2015.

Cash Flow Statement

6.13 The Cash Flow Statement summarises the flows of cash and cash equivalents into and out of the Council during the year.

6.14 Cash and cash equivalents are represented by the following: cash in hand; deposits with financial institutions repayable without penalty on notice of not more than 24 hours; and investments that mature in one month or less from the date of the balance sheet and are readily convertible into cash.

6.15 During the year the Council's cash and cash equivalents increased by approximately £3.497m. The main reason for the increase is the increased balance of funds held with building societies and banks as at the 31st March 2015 in relation to the Hinkley S106 agreement.

Collection Fund

6.16 The Collection Fund Statement shows the total amount the Council has collected from rate payers on behalf of, and distributed to, all of the precepting authorities – including this council – and central government. The major precepting authorities are Somerset County Council, Avon and Somerset Police & Crime Commissioner, Devon and Somerset Fire and Rescue Authority and Central Government. The Council has a statutory obligation to maintain a separate Collection Fund Account.

6.17 The presentation of the statement shows Council Tax and Business Rates movements and balances clearly separated. The statement shows that the Council has collected £32.1m on behalf of the precepting authorities and Central Government. This comprises council tax income of £19.9m and business rates income of £12.2m.

6.18 The statement currently shows a small surplus of £0.489m (WSC share = £0.067m) in respect of Council Tax and a deficit of £6.013m (WSC share = £2.405m) in respect of business rates. The large business rates deficit includes a net increased provision of £4.247m, which has needed to be accounted for, due in the main, to the settlement of the Hinkley Point B power station appeal along with other appeals and refunds.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 The Council's overall financial position has been well documented recently and remains challenging going forward, with general fund balances just above the risk assessed minimum level of £0.500m.

7.2 I am however satisfied that the accounts represent a true and fair view of the Council's financial affairs.

7.3 I would like to thank the council's finance team for their hard work in producing the 2014/15 Statement of Accounts. The document is inevitably very 'dry' for most users but I am confident that it meets the requirements of the Code. This is borne out by the results of our audit undertaken by the Grant Thornton.

7.4 As well as adjustments needing to be reflected in the Draft Accounts following the announcement of the Hinkley business rates appeal, there were some changes identified during the audit period as noted in the Audit Findings Report. The finance team will undertake a review to reduce the risk of errors in future, however there will always be a risk due to the nature and complexity of accounting and reporting requirements.

8. EQUALITY & DIVERSITY IMPLICATIONS

Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None in respect of this report.

13. LEGAL IMPLICATIONS

13.1 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.

13.2 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 Accounts were signed by the then responsible financial officer (the Section 151 Officer) 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 which are Grant Thornton).

(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.

- The Council's responsible financial officer (as defined in the Regulations as the person identified under section 151 of the local government act 1972), 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.*

West Somerset District Council Statement of Accounts 2014/15

Contents

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 (0.5 people per hectare compared with England & Wales average of 4). 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 dependent upon tourism and during the peak season, the population of the district swells considerably with the influx of many hundreds of thousands of visitors.

This foreword highlights some of the most important matters reported in the accounts and provides a management commentary on the financial performance and standing of the Council. The commentary is focussed both on the performance in the past year and on issues affecting the Council in 2015/16 and beyond.

Following a successful appeal by the Hinkley Point B power station against its rateable value the Council has suffered an on-going reduction in its funding from business rates. The Council is currently working with the Local Government Association to make representations to Government on the impact of this decision.

Although this issue gives uncertainty on future financial sustainability the s151 officer has made appropriate enquiries and has reasonable expectations that the Council will have adequate resources to continue in operational existence for at least the next year. Consequently the Statement of Accounts for 2014/15 has been prepared on a going concern basis.

The Financial Statements

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

- The **Movement in Reserves Statement** (page 14) shows the changes in the Council's financial resources over the year, by showing the movement on the different reserves held, analysed into 'usable reserves' (that can be used to fund spending) or other reserves.
- The **Comprehensive Income and Expenditure Statement** (page 15) brings together details of the Council's day-to-day revenue spending and income on its services, and other gains and losses in the year.
- The **Balance Sheet** (page 16) provides a snapshot of the Council's financial position at 31 March and sets out what is owned and what is owed.
- The **Cash Flow Statement** (page 17) summarises the flows of cash into and out of the Council during the year.
- The **Notes to the Financial Statements** (pages 18-53) provide supplementary information on some of the figures contained within the primary statements. They also include accounting policies, which guide the treatment of income and expenditure, and disclosures relating to the assets and liabilities of the Council.

Financial Overview

General Fund Revenue Budget and Reserves

The Council's Final Net Budget for 2014/15 was £5.438m representing the net cost of General Fund services funded by grants, council tax and retained business rates funding, as shown in the following table.

In setting the budget for 2014/15 the Council agreed to freeze council tax. This meant the annual Band D Council Tax charge for services provided by the Council was set at £137.82.

	£000
Revenue Support Grant	1,225
Retained Business Rates	1,877
Collection Fund Surplus Business Rates	120
New Homes Bonus Grant	443
Other General Government Grants	50
Council Tax	1,823
Collection Fund Surplus Council Tax	0
Net Expenditure Budget	5,438

The Council has reported a net overspend for the year of £0.228m (4.2%) arising from a net underspend on cost of services of £0.122m and a deficit on funding and transfers to earmarked reserves of £0.350m.

The underspend on "cost of services" arose due to variances against several budget areas. The most significant underspends have been reported through housing benefit overpayment recovery, legal services costs, staffing vacancies, planning fee income, and general grant funding.

The deficit on "funding and transfers to earmarked reserves" is the consequence of a particularly large business rates appeal on Hinkley B power station. The Council had previously made provision for this, but it wasn't sufficient to cover the appeal result and subsequent refund back to 2010. The ongoing impact of this is significant for the Council and will reduce our future funding by over £300k per annum.

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

General Fund Outturn 2014/15	Budget £000	Actual £000	Variance £000	Variance %
Net Expenditure on Services	4,773	4,681	-92	-1.9%
Other Operating Costs and Income	8	3	-5	-62.5%
Capital Financing and Debt Repayment	225	200	-25	-11.1%
Net Transfer to Earmarked Reserves	666	-2,525	-1,859	279%
Budgeted Transfer from General Reserves	-234	-234	0	0%
Net Budget before Funding	5,438	7,175	1,737	31.9%
Funding	-5,438	-6,947	-1,509	-27.8%
Net Variance	0	228	228	4.2%

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

The General Fund Reserves have reduced from £0.992m at the start of the year to £0.530m as at 31 March 2015, a net decrease of £0.462m in the year. This again is largely due to the impact of the business rates appeal. Later in this foreword I explain the financial challenges and risks faced by the Council. Having reserves at this level provides minimum resilience as the Council strives to achieve long term financial sustainability.

The Council also carries Earmarked Reserve balances, which represent funds that have been set aside to support specific spending in future years. The General Fund Earmarked Reserves balance as at 31 March 2015 stands at £3.901m. This balance covers a wide variety of planned spending requirements, including: business rates funding volatility 'smoothing reserve', council tax reform and hardship, Working Neighbourhoods Fund, joint management and shared services restructuring and transformation costs, homeless prevention, and a wide variety of other reserves for services and projects.

Capital Spending and Reserves

In addition to our spending on day-to-day service provision, the Council spends money on assets such as buildings, public conveniences, asset disposal costs, IT equipment and systems, and provision of capital grants to others such as disabled facilities and decent homes grants. Capital expenditure in the year totalled £0.854m (£1.101m in 2013/14). This included spending of £0.506m on general schemes and £0.348m on Hinkley impact mitigation schemes.

Summary Capital Spending	£000	Funded by	£000
Affordable Housing	162	Capital receipts	142
Disabled facilities grants	112	Grant income	167
CCTV installation	69	S106 General	197
Asset disposal costs	44	S106 Hinkley	348
IT systems and hardware	44		
Minehead Heritage Trail	29		
Hinkley impact mitigation projects	348		
Various other schemes	46		
	854		854

The Council has carried forward capital spending commitments of £0.578m for general schemes and £1.026m for Hinkley S106 impact mitigation schemes. The Council has sufficient resources available to meet this commitment and the approved capital programme in 2015/16, but will need to raise additional funding through capital receipts, external funding or borrowing to support any new capital investment not currently included in the approved capital programme.

Capital reserves reflect funds set aside to fund investment in capital items in future years, and largely comprise grants, contributions and capital receipts. The Council currently holds £1.112m of capital reserves, providing funding for the 2015/16 Capital Programme. Within the capital strategy and asset management plan is the planned sale of surplus Council assets, notably land at Seaward Way in Minehead. The Council plans to use capital receipts to reduce capital borrowing with a view to reducing annual capital financing costs, as well as provide funding to support new capital investment.

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 Council's share of the overall Pension Fund deficit decreased from £17.136m at 31 March 2014 to £16.616m at 31 March 2015. The deficit has decreased by 3%, which is largely due to a change in actuarial losses on pension liabilities.

In recent years, the level of reported pension deficit has changed significantly from year to year, reflecting the sensitivity to changes in actuarial assumptions and market conditions. Despite the changes in valuation, this is a real liability that has resulted from pension entitlement earned by employees. The liability appears in the Council's Balance Sheet but any immediate impact on levels of Council Tax is neutralised by a matching Pensions Reserve.

Treasury Management and Capital Resources

At 31 March 2015, the Council did not hold any long term investments, but had a balance of £5.651m (£2.153m at 31 March 2014) in 'cash and cash equivalents' – cash and the bank current account plus £6.000m in short term deposits (£nil at 31 March 2014). This balance has increased significantly during the year following the receipt of S106 funds related to the new Hinkley C project. The return on general fund short term investments and deposits included in the revenue accounts amounted to £0.014m (£0.016m in 2013/14). This level of return reflects low investment interest rates and modest cash balances invested during the year. Interest on Hinkley related funds is ring-fenced and added to S106 funds.

Total external borrowing amounted to £1.000m at 31 March 2015 (£3.500m at 31 March 2014) which is owed to the Police & Crime Commissioner for West Yorkshire. This loan is repayable in February 2016, and the Council may need to re-finance depending on the timing and value of capital receipts generated from planned asset disposals. The cost of borrowing and management of debt charged to the revenue accounts during 2014/15 was £0.017m (£0.073m in 2013/14). The cost of short term borrowing is relatively low currently due to ongoing low interest rates.

Proactive treasury management continues to ensure that the Council minimises its interest payable on external borrowing. Investment returns are relatively low as the Council seeks to minimise risk to its capital. As with all councils we are facing increased treasury management risks, mainly within to the Eurozone, and finding a safe place to invest any surplus cash is becoming harder. The investment strategy is to spread this risk wider with the preservation of cash at the heart of any investment decision.

The Council's Capital Financing Requirement (CFR), which is effectively our underlying need to borrow for capital purposes, is summarised in the table below. As the table shows, it has only been necessary to externalise debt for part of the CFR amount, as we have been able to use internal cash balances without the need to take out loans from financial institutions.

	Total £000
Capital Financing Requirement 1 April 2014	7,633
Debt repayment from revenue budget	-200
Debt repayment using capital receipts	-1,800
New expenditure funded through borrowing	0
Capital Financing Requirement 31 March 2015	5,633
Financed by:	
Loan ("External Borrowing")	1,000
Expenditure financed by internal cash resources ("Internal Borrowing")	4,633
Financing as at 31 March 2015	5,633

Material Write-Offs and Significant Provisions or Contingencies

There have been no significant contingencies or material write-offs during 2014/15. As mentioned earlier, the impact of the business rates appeal on Hinkley B results in significant provision for refunds and details are set out below.

Impact of Business Rates Appeal - Hinkley B Power Station

The introduction of the Business Rates Retention system has introduced new financial risks for the Council. The council's share of business rates funding is directly linked to the total amount of business rates due and collected in the area. The outcome of the Hinkley B appeal results in their Gross Rateable Value reducing to £8,000,000 (as at 1 April 2010) – a reduction of £3,180,000 in the 2010 Valuation. There is therefore, due to this result plus the spike in other appeals made, a significant provision in respect of business rates appeals refunds in our accounts. The total provision on 31 March 2015 for estimated appeals and refunds for appeals is £7,946,041. The Council's share of this provision is £3,178,416 (40%).

Although the total retained funding accounted in 2014/15 is above previous forecast, this is skewed by the timing differences in the required accounting and the fact that West Somerset has now accounted for a safety net payment from Government within its funding of £1,227,614. In reality the actual amount due for the year is below the reported amount, with the cost of appeals (see below) resulting in a very large deficit in the business rates Collection Fund.

The Council will need to pay additional funds into the Collection Fund in 2015/16 and 2016/17 to bring the Fund back into balance, and has therefore set aside funds into the Business Rates Smoothing earmarked reserve to mitigate the impact of this in future years. The 2014/15 year-end balance on this Reserve is £2,930,156. The Council's 40% share of the Collection Fund Deficit as at 31 March 2015 is £2,405,130. It is also projected there will be a further deficit in 2015/16 due to ongoing impact of appeals on annual business rates income, which together with the 2014/15 deficit will use up the majority of the Smoothing Reserve balance.

<u>Important Developments and Looking To The Future</u>

Budget Challenges

For 2015/16 the Council has produced a balanced budget and has implemented a council tax increase of 1.99%, resulting in the basic Band D Council Tax increasing to £140.56. The budget has been set without reliance on reserves to support day to day spending, and the Council has taken steps to reduce reliance on New Homes Bonus Funding to support operations.

This, together with the successful delivery of the Joint Management & Shared Services (JMASS) savings is a significant step forward for the Council in its strive to achieve financial sustainability.

The Net Budget for the 2015/16 year is £4.8m, funded as shown in the table below.

2015/16 Budget	£000
Cost of Services	4,640
Financing costs	322
Earmarked reserve transfers	-150
General reserve transfers	0
Net expenditure	4,812
Revenue support grant	880
Retained business rates funding	1,555
Collection Fund Deficit Business Rates	-150
New homes bonus	571
Other general grant funding	0
Council Tax	1,886
Collection Fund Surplus Council Tax	70
Net Funding	4,812

Our Medium Term Financial Plan (MTFP) reflects the continued challenge of achieving “self-financing” – reflecting our assumption that the existing Government Grant support regime will disappear over the next few years. The underlying budget gap for the Council is around £300k per annum, but this has now doubled due to ongoing the impact of the business rates appeal on Hinkley B power station. This is completely outside the Council’s control and means the challenge is tougher than before. Over the coming months, the Council’s MTFP will be subject to external review for robustness and the Council will be progressing plans for “transformation” – with the aim of achieving a sustainable financial position whilst continuing to deliver key services to the community. The Council will also need to review “in year” plans and make decisions on forward commitments in light of this updated position.

Capital Expenditure Plans and Funding

The Council has limited capital resources and has adopted a capital strategy of raising funds through asset sales and only committing to short term, essential capital projects.

The Capital Programme that Members approved in February 2015 has committed the Council to spending £0.790m on general schemes in 2015/16.

2015/16 Capital Programme	£000
Superfast Broadband (in principle)	240
Shared Services ICT Projects	221
Other ICT capital projects	73
Disabled Facilities Grants	241
Premises capital maintenance	15
Total Capital Expenditure	790
Funded by:	
Capital Receipts	472
Grants	241
Revenue contribution	77
Total Funding	790

The Council has effectively committed all of its capital reserves to support the current approved capital programme, therefore any new spending requirement will need to be funded by new capital receipts, revenue contributions or borrowing.

There are emerging asset liabilities that may require capital funding. The Council will review this programme “in year” to ensure only priority and essential schemes proceed whilst these new issues are emerging.

Organisation and Transformation of Council Services

In 2013 West Somerset and Taunton Deane Councils agreed to establish a Joint Management and Shared Services (“JMASS”) structure, with the management and staff of both Councils joining together as “One Team”. The Councils prepared a Strategic Business Case that set out the vision and benefits that joint working would help both Councils achieve.

The Councils’ joint senior management team was in place by March 2014, with the rest of the workforce restructuring progressing during 2014/15. Restructuring was completed by February 2015 – on target – and the Councils have broadly achieved the financial savings identified in the business case. Ongoing savings of £307k for West Somerset is built into our budget.

The next important phase following the implementation of the Joint Management and Shared Service Structure is to progress with transformation of services to further meet the ambitions of the Councils in terms of services to our community, and also to provide further opportunities for savings in recognition of our financial pressures. The transformation programme will be developed during 2015/16, and will require up-front investment. The Council has some funding set aside in earmarked reserves towards meeting this ambition.

Further Information

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

Shirlene Adam, FCCA
Director of Operations & Deputy CEO (Section 151 Officer)

Independent Auditor's Report

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The Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In West Somerset that officer is the Director of Operations
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts.

The Director of Operations is required to:

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

In preparing this Statement of Accounts, the Director of Operations has:

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

The Director of Operations has also:

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

Declaration by the Section 151 Officer

I certify that this Statement of Accounts gives a true and fair view of the financial position of West Somerset District Council at 31 March 2015 and of its expenditure and income for the year ended 31 March 2015.

Shirlene Adam, FCCA
Director of Operations
Section 151 Officer

Date: 28 September 2015

Approval of the Accounts

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

Chair of Audit Committee

Movement In Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. 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 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 2013		**991**	**1,100**	**1,295**	**216**	**3,602**	**(5,332)**	**(1,730)**
Movement in Reserves during 2013/14								
Surplus (or Deficit) on the provision of services		(1,130)				**(1,130)**		**(1,130)**
Other Comprehensive Income and Expenditure		0				**0**	**2,686**	**2,686**
Total Comprehensive Income and Expenditure		**(1,130)**	**0**	**0**	**0**	**(1,130)**	**2,686**	**1,556**
Adjustments between accounting basis and funding basis under regulations	7	1,407		(509)	(77)	**821**	(821)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves		**277**	**0**	**(509)**	**(77)**	**(309)**	**1,865**	**1,556**
Transfers to/(from) Earmarked Reserves	8	(276)	276			**0**		**0**
Increase / (Decrease) in 2013/14		**1**	**276**	**(509)**	**(77)**	**(309)**	**1,865**	**1,556**
Balance at 31 March 2014 Carried forward		**992**	**1,376**	**786**	**139**	**3,293**	**(3,466)**	**(173)**
Movement in Reserves during 2014/15								
Surplus (or Deficit) on the provision of services		(9,236)				(9,236)		(9,236)
Other Comprehensive Income and Expenditure		0				0	8,582	8,582
Total Comprehensive Income and Expenditure		**(9,236)**	**0**	**0**	**0**	**(9,236)**	**8,582**	**(654)**
Adjustments between accounting basis and funding basis under regulations	7	11,299		109	78	11,486	(11,486)	0
Net Increase/Decrease before Transfers to Earmarked Reserves		**2,063**	**0**	**109**	**78**	**2,250**	**(2,904)**	**(654)**
Transfers to/(from) Earmarked Reserves	8	(2,525)	2,525					
Increase / (Decrease) in 2014/15		(462)	**2,525**	**109**	78	2,250	(2,904)	(654)
Balance at 31 March 2015 Carried forward		**530**	**3,901**	**895**	**217**	**5,543**	**(6,370)**	**(827)**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with international accounting standard, 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.

2013/14 Gross Expenditure £000	2013/14 Gross Income £000	2013/14 Net Expenditure £000		Notes	2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000
607	(298)	309	Central Services		738	(286)	452
730	(85)	645	Cultural & Related Services		756	(182)	574
2,457	(225)	2,232	Environmental & Regulatory Services		2,434	(247)	2,187
303	(493)	(190)	Highways and Transport Services		321	(504)	(183)
15,536	(14,781)	755	Housing Services		15,251	(14,791)	460
2,162	(1,001)	1,161	Planning Services		3,120	(482)	2,638
1,190	(173)	1,017	Corporate and Democratic Core		1,392	(341)	1,051
162	0	162	Non Distributed Costs		6,205	0	6,205
23,147	**(17,056)**	**6,091**	**Costs of Services**		**30,217**	**(16,833)**	**13,384**
858	0	858	Other Operating Expenditure	**9**	1,366	0	1,366
850	(191)	659	Financing and Investment Income and Expenditure	**10**	680	(67)	613
0	(6,478)	(6,478)	Taxation and Non-Specific Grant Income	**11**	0	(6,127)	(6,127)
		1,130	**(Surplus) or Deficit on Provision of Services**				**9,236**
		(130)	(Surplus) or deficit on revaluation of property, plant and equipment assets	**24**			(859)
		(2,556)	Remeasurement of the net defined benefit liability	**26**			(7,723)
		(2,686)	**Other Comprehensive Income and Expenditure**				**(8,582)**
		(1,556)	**Total Comprehensive Income and Expenditure**				**654**

Balance Sheet

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

Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

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

31 March 2014 £000		Notes	31 March 2015 £000
14,362	Property, Plant & Equipment	**12**	13,753
3,075	Investment Properties	**13**	2,733
51	Intangible assets	**14**	38
5	Long-term Debtors	**17**	9
17,493	**Long Term Assets**		**16,533**
3,787	Assets Held for Sale	**16**	1,694
2,368	Short Term Debtors	**18**	2,716
2,153	Cash and Cash Equivalents	**19**	5,651
0	Short Term Investments		6,000
8,308	**Current Assets**		**16,061**
(7,828)	Short Term Creditors	**20**	(13,248)
(743)	Provisions	**21**	(3,181)
(8,571)	**Current Liabilities**		**(16,429)**
(17,136)	Other Long Term Liabilities	**22**	(16,616)
(267)	Capital Grants Receipts in Advance	**22**	(376)
(17,403)	**Long Term Liabilities**		**(16,992)**
(173)	**Net Assets**		**(827)**
3,293	Usable Reserves		5,543
(3,466)	Unusable reserves	**23**	(6,370)
(173)	**Total Reserves**		**(827)**

Cash Flow Statement

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

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2013/14 £000		Notes	2014/15 £000
(1,130)	**Net surplus or (deficit) on the provision of services**		**(9,236)**
2,827	Adjustments to net surplus or deficit on the provision of services for non cash movements	**29**	18,875
(106)	Adjustments for items included in the net surplus on the provision of services that are investing and financing activities	**30**	(2,050)
1,591	**Net cash flows from Operating Activities**		**7,589**
(369)	Investing Activities	**32**	(4,091)
0	Financing Activities		0
1,222	**Net increase or decrease in cash and cash equivalents**		**3,498**
931	Cash and cash equivalents at the beginning of the reporting period	**19**	2,153
2,153	**Cash and cash equivalents at the end of the reporting period**	**19**	**5,651**

Notes to the Financial Statements

1 Accounting Policies

General Principles
The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Council 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 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS).

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

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

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance is written down and a charge made for the income that might not be collected.

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. The Council 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 Council's cash management.

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 Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

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

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

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

Termination costs are shown immediately in the Comprehensive Income and Expenditure Statement Surplus or Deficit on Provision of Services; costs from service-specific redundancy decisions are charged to the relevant service, while costs resulting from a Council-wide process, and any past service pension costs, are charged to the non-distributed costs line. If termination benefits fall due more than 12 months after the balance sheet date, they are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds. In the case of an offer made to encourage voluntary redundancy, the cost of termination benefits would be based on the number of employees expected to accept the offer. Where there is uncertainty about the number of employees who will accept any offer of termination benefits, the estimated cost will be shown as a contingent liability.

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

<u>Post-Employment Benefits</u>
Employees of the Council are members of the Local Government Pensions Scheme administered by Somerset County Council (SCC). The scheme provides defined benefits to members (retirement lump

sums and pensions), earned as employees working for the Council.

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

- The liabilities of the Somerset County Council pension fund attributable to West Somerset are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on the annualised yield at the 19 year point on the Merill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with the consideration of the duration of the Employer's liabilities).
- The assets of the Somerset County Council pension fund attributable to West Somerset are included in the Balance Sheet at their fair value and include quoted securities at current bid price and property at market value.

The change in the net pension liability is analysed into the following components:

Service cost comprising:

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

Remeasurements comprising:

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

Discretionary Benefits

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

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

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

Financial Assets

Financial assets are classified into two types:

- **Loans and receivables** – assets that have fixed or determinable payments but are not quoted in an active market
- **Available-for-sale assets** – assets that have a quoted market price and/or do not have fixed or determinable payments. Currently the Council does not hold any assets that meet this criteria.

Loans and Receivables

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

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

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

Government Grants and Contributions

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

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

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

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

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

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 £0.010m) 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.

<u>The Council as Lessee</u>

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg. there is a rent-free period at the commencement of the lease).

<u>The Council as Lessor</u>

Operating Leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

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 2014/15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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.

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

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

Measurement
Assets are initially measured at cost, comprising:

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

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

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

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

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:

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

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

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

Disposals and Non-Current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Liabilities

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

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

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

Separate reserves are maintained for capital and revenue spending; in line with legislation and accounting practice, capital reserves cannot be used to support general revenue spending although revenue reserves may be used to support capital spending. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute
Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

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

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

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

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

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

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

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

Accounting for National Non-Domestic Rates

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

- Our share of non-domestic rates debtors (net of the impairment allowances for doubtful debts)
- Our share of creditors for overpaid/pre-paid non-domestic rates
- A debtor for each major preceptor and Central Government for cash paid to them in advance of receipt from non-domestic rate payers
- A creditor for rates collected and not paid for
- A debtor/creditor for the difference between safety net payments made on account and the actual safety net payment due
- A creditor for the actual levy payment due.
- A provision for refunding ratepayers, who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts relating to non-domestic rates charged to businesses in 2012-13 and earlier financial years.

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.

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

The Council has yet to adopt the following accounting standards:

IFRS 13 Fair Value Measurement

IFRS 13 defines fair value and sets out in a single IFRS a framework for measuring fair value. It also identifies the disclosure requirement for items measured at fair value.

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

Annual Improvements to IFRSs (2011-2013 Cycle)

The issues included in the annual Improvemnts to IFRSs 2011-2013 cycle are:

- IFRS 1: Meaning of effective IFRSs;
- IFRS 3: Scope exceptions for joint ventures;
- IFRS 13: Scope of paragaraph portfolio exception; and
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property

IFRIC Interpretation 21 Levies

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

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

3 Critical Judgments in Applying Accounting Policies

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

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for Local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- A Business Rates provision has been made in the accounts for £7.496m (Council's share of this is 40%). The Council has put in its best estimate of the expenditure required to settle the present obligation based on the appeals put in by ratepayers.

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

Item	Uncertainties	Effect If Actual Results Differ From Assumptions
Pensions Liability	Estimation of the net liability to pay pension depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	As at 31 March 2015 the pension liability for West Somerset amounted to £16.616m. An increase over the forthcoming year of 10% in either the total number of claims or estimated average settlement would each have the effect of adding £1.662m to the provision needed.
Arrears	As at 31 March 2015, the Council had a balance of corporate debtors of £0.225m. A review of balances suggested that an impairment allowance of £0.118m 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 £0.118m to be set aside as an allowance.
Business Rates Appeals Provision	Estimates has been made for the provision for refunding ratepayers who have successfully appealed against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed.	There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation.

5 Material Items of Income and Expense

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

Housing Benefit Payments and Subsidy

The Council incurs a significant proportion of 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 £13.284m in 2014/15 compared with £13.927m in 2013/14. Housing Benefit subsidy amounted to (£13.076m) in 2014/15 compared with (£13.788m) in 2013/14.

6 Events after the Balance Sheet Date

The settlement of an outstanding business rates appeal for Hinkley Point B Power Station occurred after the balance sheet date of 31 March 2015, but is material in respect of provisions and therefore the appropriate financial statements and notes have been adjusted for 2014/15.

7 Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2014/15	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	1,512			(1,512)
Movements in the market value of Investment Properties	36			(36)
Amortisation of intangible assets	13			(13)
Capital grants and contributions applied	(708)			708
Revenue expenditure funded from capital under statute	696			(696)
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	2,514			(2,514)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(200)			200
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(85)		85	0
Application of grants received in previous years			(7)	7
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	(2,050)	2,050		0
Use of the Capital Receipts Reserve to finance new capital expenditure		(141)		141
Use of the Capital Receipts Reserve to set aside to repay capital debt		(1,800)		1,800
Adjustment involving the Pensions Reserve:				
Actuarial past service gain adjustment	7,854			(7,854)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(651)			651
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax & Non-domestic rate income credited to the Comprehensive Income and Expenditure Statements is different from council tax income calculated for the year in accordance with statutory requirements	2,442			(2,442)
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.	(74)			74
Total Adjustments	**11,299**	**109**	**78**	**(11,486)**

2013/14 Comparative Figures	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<u>Adjustments involving the Capital Adjustment Account:</u>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation and impairment of non current assets	520	0	0	(520)
Movements in the market value of Investment Properties	(89)	0	0	89
Amortisation of intangible assets	12	0	0	(12)
Capital grants and contributions applied	(404)	0	0	404
Revenue expenditure funded from capital under statute	604	0	0	(604)
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	81	0	0	(81)
Reversal of provisions relating to previously completed capital schemes				
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	(25)	0	0	25
<u>Adjustments primarily involving the Capital Grants Unapplied Account</u>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(5)	0	5	0
Application of grants received in previous years	0		(82)	82
<u>Adjustment involving the Capital Receipts Reserve:</u>				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(106)	106	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(615)	0	615
<u>Adjustment involving the Pensions Reserve:</u>				
Actuarial past service gain adjustment	1,450	0	0	(1,450)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(525)	0	0	525
<u>Adjustments involving the Collection Fund Adjustment Account:</u>				
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	(92)	0	0	92
<u>Adjustment involving the Accumulating Compensated Absences Adjustment Account:</u>				
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	(14)	0	0	14
Total Adjustments	**1,407**	**(509)**	**(77)**	**(821)**

8 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

	Balance at 31/03/13	Transfers Out	Transfers In	Balance at 31/03/14	Transfers Out	Transfers In	Balance at 31/03/15
General Fund - Revenue Earmarked Reserves	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Areas Based Grant	**160**	(46)	0	**114**	(29)	0	**85**
Other Earmarked Reserves	**231**	(171)	216	**276**	(164)	216	**328**
Seaside Towns Reserve	**96**	(80)	4	**20**	(20)	0	**0**
New Homes Bonus Reserve	**194**	(80)	0	**114**	(114)	0	**0**
DCO Reserve	**48**	(48)	0	**0**		0	**0**
Sustainability Reserve	**325**	(404)	137	**58**	0	0	**58**
Joint Management Project	**0**	0	395	**395**	(241)	122	**276**
Business Rate Smoothing	**0**	0	270	**270**	0	2,660	**2,930**
Homelessness Prevention	**0**	0	66	**66**	(22)	0	**44**
Planning Policy Reserve	**0**	0	0	**0**	0	62	**62**
Hinkley Corporate Cost	**0**	0	0	**0**	0	50	**50**
Revenue & Benefit Reserve	**46**	(7)	24	**63**	(16)	21	**68**
Total	**1,100**	**(836)**	**1,112**	**1,376**	**(606)**	**3,131**	**3,901**

Area Based Grant: is a general grant allocated directly to local authorities as additional revenue funding. It is allocated according to specific policy criteria rather than general formulae. Local authorities are free to use all of this non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas. Members have previously earmarked the balance remaining to fund the employment costs of the Economic Regeneration Manager.

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

Joint Management and Shared Services: This reserve represents funds set aside to help fund the costs of implementing the Joint Management and Shared Services arrangements for West Somerset and Taunton Deane Borough Council. The current balance of £275,714 is needed to fund ICT and service transformation costs in the next 1-2 years.

Business Rates Smoothing Reserve: The business rates funding system results in volatility in the Collection Fund balance, which the Council will need to fund in subsequent years. The Council sets aside funds in this smoothing reserve to avoid large spikes in the Revenue Budget. The impact of the Hinkley B refund creates a large deficit, and the Council has set aside £2.930m to fund deficit repayments in 2015/16 and 2016/17.

Homelessness Prevention: Homelessness prevention grant received as part of Revenue Support Grant, therefore appropriate sum has been earmarked in 2014/15 along with the remainder of the Mortgage Rescue Grant.

Planning Policy Reserve: As recognised in Member reports in 2014/15, monies have been set aside to be drawn down in 2015/16 to cover additional costs arising and relating to the West Somerset Local Plan preparation through to examination and beyond to adoption.

9 Other Operating Expenditure

2013/14 £000		2014/15 £000
880	Parish Council precepts	899
3	Levies	3
(25)	(Gains)/Losses on the disposal of non current assets	464
858	**Total**	**1,366**

10 Financing and Investment Income and Expenditure

2013/14 £000		2014/15 £000
72	Interest payable and similar charges	17
776	Net interest on the defined liability (asset)	658
(16)	Interest receivable and similar income	(14)
(89)	Income and Expenditure in relation to investment properties and changes in fair value	36
(84)	Other investment income	(84)
659	**Total**	**613**

11 Taxation and Non Specific Grant Income

2013/14 £000		2014/15 £000
(2,617)	Council tax income	(2,676)
(1,283)	Non domestic rates	(1,002)
(2,170)	Non-ringfenced government grants	(1,725)
(408)	Capital grants and contributions	(724)
(6,478)	**Total**	**(6,127)**

12 Property, Plant and Equipment

	Land & Buildings £000	Vehicles Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Total £000	Investment Properties £000	Surplus Assets Not Held for Disposal £000	Surplus Assets Held for Disposal £000	Total £000	Grand Total £000
Valued at Historic Cost		3,109	6,938	85	**10,132**					**10,132**
Valued at:										
2014/15	67				**67**	1,499	523	2,929	**4,951**	**5,018**
2013/14	9,877				**9,877**					**9,877**
2012/13	6				**6**					**6**
2011/12					**0**					**0**
2010/11	108				**108**					**108**
Total	**10,058**	**3,109**	**6,938**	**85**	**20,190**	**1,499**	**523**	**2,929**	**4,951**	**25,141**

Revaluations

The Council carries out a programme that ensures that all Property, Plant & Equipment is measured at fair value with the latest revaluation exercise being carried out as at 1 April 2014. All valuations are carried out by qualified staff within the shared Asset Management and Property team. Valuations of land and buildings were carried out in accordance with methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

Depreciation

Depreciation is calculated on the following bases:

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

Contractual Commitments

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

Movement in 2014/15	Other Land & Buildings £000	Vehicles Plant & Equip £000	Infrastructure Assets £000	Community Assets £000	Non-Operational Assets £000	Total £000
Cost or Valuation						
At 1 April 2014	**10,272**	**3,015**	**6,916**	**85**	**523**	**20,811**
Additions	0	94	22	0	0	**116**
Revaluation increases/(decreases) recognised in the Revaluation reserve	(43)	0	0	0	0	**(43)**
Derecognition - Disposals	(171)	0	0	0	0	**(171)**
At 31 March 2015	**10,058**	**3,109**	**6,938**	**85**	**523**	**20,713**
Accumulated Depreciation and Impairment						
At 1 April 2014	**(31)**	**(2,866)**	**(3,552)**	**0**	**0**	**(6,449)**
Depreciation charge	(188)	(86)	(189)	0	0	**(463)**
Impairment losses/(reversals) recognised in the Revaluation Reserve		(24)	0	0	0	**(24)**
Impairment losses/(reversals) recognised in the Provision of Services	(25)	0	0	0	0	**(25)**
At 31 March 2015	**(244)**	**(2,976)**	**(3,741)**	**0**	**0**	**(6,961)**
Net Book Value						
As at 31 March 2015	**9,815**	**133**	**3,197**	**85**	**523**	**13,753**
As at 31 March 2014	**10,241**	**149**	**3,364**	**85**	**523**	**14,362**

Comparative Movement in 2013/14	Other Land & Buildings £000	Vehicles Plant and Equip £000	Infrastructure Assets £000	Community Assets £000	Non-Operational Assets £000	Total £000
Cost or Valuation						
At 1 April 2013	**9,965**	**3,564**	**6,881**	**88**	**1,298**	**21,796**
Additions	25	87	35	0	0	**147**
Reclassifications	(216)	0	0	0	0	**(216)**
Revaluation increases/(decreases) recognised in the Revaluation reserve	552	0	0	0	(200)	**352**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(54)	0	0	0	0	**(54)**
Derecognition - Disposals	0	(3)	0	(3)	(75)	**(81)**
Assets reclassified (to)/from Held for Sale	0	0	0	0	(500)	**(500)**
At 31 March 2014	**10,272**	**3,648**	**6,916**	**85**	**523**	**21,444**
Accumulated Depreciation and Impairment						
At 1 April 2013	**(22)**	**(3,430)**	**(3,365)**	**0**	**0**	**(6,817)**
Depreciation charge	(167)	(69)	(187)	0	0	**(423)**
Impairment losses/(reversals) recognised in the Provision of Services	158	0	0	0	0	**158**
At 31 March 2014	**(31)**	**(3,499)**	**(3,552)**	**0**	**0**	**(7,082)**
Net Book Value						
As at 31 March 2014	**10,241**	**149**	**3,364**	**85**	**523**	**14,362**
As at 31 March 2013	**9,943**	**134**	**3,516**	**88**	**1,298**	**14,979**

13 Investment Properties

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

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:

2013/14 £000		2014/15 £000
84	Rental income from investment property	92
84	**Net gain/(loss)**	**92**

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

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

Movement in fair value of investment properties 2013/14 £000		2014/15 £000
3,349	Balance at start of the year	3,075
	Additions:	
20	- Purchases	44
0	Disposals	(350)
89	Net gains/losses from fair value adjustments	(36)
	Transfers:	
217	- To/from Non-Operational Assets	0
(600)	- To/from Assets Held for Sale	0
	Other changes	
3,075	**Balance at end of the year**	**2,733**

14 Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased licences only. All software is given a finite useful life based on assessments of the period that the software is expected to be of use to the Council.

The useful lives assigned to the major software suites used by the Council are:

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

	2013/14		2014/15	
	Other Assets £000	Total £000	Other Assets £000	Total £000
Balance at start of year:				
Gross carrying amount	0	**0**	63	**63**
Accumulated amortisation	0	**0**	(12)	**(12)**
Net carrying amount at start of year	**0**	**0**	**51**	**51**
Additions:				
Purchases	63	**63**	0	**0**
Amortisation for the period	(12)	**(12)**	(13)	**(13)**
Net carrying amount at end of year	**51**	**51**	**38**	**38**
Comprising:				
Gross carrying amounts	63	**63**	63	**63**
Accumulated amortisation	(12)	**(12)**	(25)	**(25)**
	51	**51**	**38**	**38**

15 Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

Categories of Financial Instruments	Current	
	31 Mar 2014 £000	31 Mar 2015 £000
Investment		
Loans and receivables	2,153	11,651
Total investment	**2,153**	**11,651**
Debtor		
Loans and receivables	1,366	1,683
Total debtors	**1,366**	**1,683**
Borrowings		
Financial liabilities at amortised cost	3,502	1,001
Total borrowings	**3,502**	**1,001**
Creditors		
Financial liabilities at amortised cost	1,839	10,831
Total creditors	**1,839**	**10,831**

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:

2014/15	Liabilities measured at amortised cost £000	Loans and Receivables £000	Total £000
Interest Expense	17		17
Interest payable and similar charges (note 10)	**17**	**0**	**17**
Interest Income		(14)	(14)
Interest receivable and similar (note 10)	**0**	**(14)**	**(14)**
Net gain/loss for the year	**17**	**(14)**	**3**

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:

		31 March 2014		31 March 2015	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and Receivables	Investments	2,153	2,153	11,651	11,651
	Debtors	1,366	1,366	1,683	1,683
		3,519	**3,519**	**13,334**	**13,334**
Financial Liabilities at amortised cost	Borrowings	3,502	3,502	1,001	1,001
	Creditors	1,839	1,839	10,831	10,831
		5,341	**5,341**	**11,832**	**11,832**

16 Assets Held for Sale

	Current	
	2013/14 £000	2014/15 £000
Balance outstanding at start of the year	**2,842**	**3,787**
Asset newly classified as held for sale:		
- Property, Plant and Equipment	767	0
- Investment Property	600	0
Revaluation losses	(380)	(144)
Revaluation gains	0	900
Impairment losses	(42)	(856)
Asset declassified as held for sale:		
Asset sold	0	(1,993)
Balance outstanding at end of the year	**3,787**	**1,694**

17 Long Term Debtors

31 March 2014 £000		31 March 2015 £000
5	Other entities and individuals	9
5	**Total**	**9**

18 Short Term Debtors

31 March 2014 £000		31 March 2015 £000
1,045	Central Government bodies	1,657
215	Other local authorities	74
1,586	Other entities and individuals	1,454
(478)	Impairment allowance for doubtful debt	(469)
2,368	**Total**	**2,716**

19 Cash and Cash Equivalents

31 March 2014 £000		31 March 2015 £000
127	Cash held by the Authority	98
1,352	Bank current accounts	893
1,500	Short-term deposits (call accounts)	5,410
(826)	Unpresented Cheques/BACS	(750)
2,153	**Total**	**5,651**

Included within the 'short-term deposits' figure in the above table as at 31 March 2015, there is a balance of £3.360m (£nil as at 31 March 2014), which is being held by the Council on behalf of the Hinkley s106 agreement.

20 Short Term Creditors

31 March 2014 £000		31 March 2015 £000
(1,234)	Central Government bodies	(964)
(606)	Other local authorities	(869)
(5,988)	Other entities and individuals	(11,415)
(7,828)	**Total**	**(13,248)**

Included within the ‘other entities and individuals’ figure in the above table is the short term borrowing amounts outstanding as at 31 March. This amounted to £3.502m in 2013/14 and £1.001m in 2014/15.

21 Provisions

		NNDR Appeals £000	Severance Costs £000	Total £000
Balance as at	**1 April 2013**	**0**	**(3)**	**(3)**
Additional provisions made in 2013/14		(740)	0	**(740)**
Balance as at	**1 April 2014**	**(740)**	**(3)**	**(743)**
Additional provisions made in 2014/15		(2506)	0	**(2,506)**
Amounts used in 2014/15		68	0	**68**
Balance as at	**31 March 2015**	**(3,178)**	**(3)**	**(3,181)**

The Local Government Finance Act 2012 introduced changes to the accounting arrangements for Business Rates. These changes require the Council to put in a provision for appeals in respect of refunding ratepayers who have appealed the rateable value of their properties on the rating list. The Council has included a best estimate of its share of expenditure required to settle the present obligation within the collection fund (see page 54).

22 Other Long Term Liabilities

31 March 2014 £000		31 March 2015 £000
(17,136)	Other Long Term Liabilities	(16,616)
(267)	Capital Grants Receipts in Advance	(376)
(17,403)	**Total**	**(16,992)**

23 Unusable Reserves

31 March 2014 £000		Notes	31 March 2015 £000
6,710	Revaluation reserve	**24**	6,045
6,929	Capital Adjustment Account	**25**	6,538
(17,136)	Pensions Reserve	**26**	(16,616)
105	Collection Fund Adjustment Account	**27**	(2,337)
(74)	Accumulating Compensated Absences Adjustment Account	**28**	0
(3,466)	**Total Unusable Reserves**		**(6,370)**

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.

2013/14 £000			2014/15 £000
6,649	**Balance as at 1 April**		**6,710**
893	Upward revaluation of assets	1,224	
(763)	Services	(365)	
130	Surplus or deficit on revaluation of non-current assets not posted to the Surplus on the Provision of Services		859
(69)	Difference between fair value depreciation and historical cost depreciation	(63)	
0	Accumulated gains on assets sold or scrapped	(1,461)	
(69)	Amount written off to the Capital Adjustment Account		(1,524)
6,710	**Balance as at 31 March**		**6,045**

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

2013/14 £000			2014/15 £000
6,862	**Balance as at 1 April**		**6,929**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
(520)	Charges for Depreciation and impairment of non current assets	(1,512)	
(12)	Amortisation of intangible assets	(13)	
(604)	Revenue expenditure funded from capital under statute	(696)	
(81)	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	(2,514)	
(1,217)			**(4,735)**
69	Adjusting amounts written out of the Revaluation Reserve		1,524
(1,148)	**Net written out amount of the cost of non current assets consumed in the year**		**(3,211)**
	Capital financing applied in the year:		
615	Use of the Capital Receipts Reserve to finance new capital expenditure	1,941	
404	Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	708	
82	Capital Grant Applied	7	
25	Statutory provision for the financing of capital investment charged against the General Fund balances	200	
1,126			**2,856**
89	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Account		(36)
6,929	**Balance as at 31 March**		**6,538**

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.

2013/14 £000		2014/15 £000
(18,767)	**Balance as at 1 April**	(17,136)
2,556	Remeasurements of the net defined benefit liability/(assets)	7,723
(1,450)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(7,854)
525	Employer's pension contributions and direct payments to pensioners payable in the year	651
(17,136)	**Balance as at 31 March**	**(16,616)**

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.

2013/14 £000		2014/15 £000
13	**Balance as at 1 April**	**105**
92	Amount by which council tax & non-domestic rates income credited to the Comprehensive Income and expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(2,442)
105	**Balance as at 31 March**	**(2,337)**

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.

2013/14 £000		2014/15 £000
(88)	**Balance as at 1st April**	**(74)**
14	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	74
(74)	**Balance as at 31st March**	**0**

During 2014/15 all staff originally employed by West Somerset District Council were transferred to be employed by Taunton Deane Borough Council, therefore the accumulated absences account is no longer applicable to West Somerset District Council as at 31 March 2015.

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

2013/14 £000		2014/15 £000
423	Depreciation	463
12	Amortisation	13
97	Impairment and downward valuations	1,049
(89)	Revaluation of Investment Properties	36
1,725	(Decrease)/Increase in creditors	5,401
(1,140)	(Increase)/Decrease in debtors	(352)
81	Carrying Value of Non Current Assets Disposed	2,514
1,450	Movement in Pension Liability	7,854
(525)	Pension Payable for year	(651)
740	(Decrease)/Increase in Provisions	2,438
54	(Decrease)/Increase in Capital RIA	109
(1)	Other Movements	1
2,827		**18,875**

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

2013/14 £000		2014/15 £000
(106)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(2,050)
(106)		**(2,050)**

31 Cash Flow Statement – Operating Activities

The cash flow for operating activities includes the following items:

2013/14 £000		2014/15 £000
(16)	Interest Received	(14)
72	Interest Paid	17
56		**3**

32 Cash Flow Statement – Investing Activities

2013/14 £000		2014/15 £000
(475)	Purchase of Property, Plant & Equipment, Investment Property and intangible assets	(141)
0	Purchase of Short Term Investments	(6,000)
106	Proceeds from the sale of property, plant and equipment	2,050
(369)	**Net cash flows from investing activities**	**(4,091)**

33 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 Council's Cabinet on the basis of budget reports analysed across services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

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

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

Income and Expenditure 2014/15	Assistant Chief Executive £000	Corporate Services £000	Resources £000	Operational Delivery £000	Housing & Community £000	Property & Development £000	Planning & Environment £000	Business Development £000	Nuclear Programme £000	Total £000
Fees, charges and other service income	(1)	(375)	(859)	(862)	(40)	(261)	(313)	(143)	(737)	**(3,591)**
Interest and investment income	0	0	(14)	0	0	0	0	0	0	**(14)**
Government grants	(26)	0	(13,282)	0	0	0	0	(14)	0	**(13,322)**
Total Income	**(27)**	**(375)**	**(14,155)**	**(862)**	**(40)**	**(261)**	**(313)**	**(157)**	**(737)**	**(16,927)**
Employee expenses	50	755	267	395	166	49	56	46	185	**1,969**
Other service expenses	222	1,298	14,213	2,358	280	201	392	164	487	**19,615**
Interest payments	0	0	218	0	0	0	0	0	0	**218**
Total Expenditure	**272**	**2,053**	**14,698**	**2,753**	**446**	**250**	**448**	**210**	**672**	**21,802**
Net Expenditure	**245**	**1,678**	**543**	**1,891**	**406**	**(11)**	**135**	**53**	**(65)**	**4,875**

Income and Expenditure 2013/14	Assistant Chief Executive £000	Corporate Services £000	Resources £000	Operational Delivery £000	Housing & Community £000	Property & Development £000	Planning & Environment £000	Business Development £000	Nuclear Programme £000	Total £000
Fees, charges and other service income	(24)	(201)	(499)	(907)	(42)	(236)	(271)	(123)	(469)	**(2,772)**
Interest and investment income	0	0	(16)	0	0	0	0	0	0	**(16)**
Government grants	(1)	0	(14,042)	0	(60)	0	0	(20)	0	**(14,123)**
Total Income	**(25)**	**(201)**	**(14,557)**	**(907)**	**(102)**	**(236)**	**(271)**	**(143)**	**(469)**	**(16,911)**
Employee expenses	159	1,074	549	635	278	71	317	92	316	**3,491**
Other service expenses	140	757	14,431	2,117	333	83	77	83	186	**18,207**
Interest payments	0	0	96	0	0	0	0	0	0	**96**
Total Expenditure	**299**	**1,831**	**15,076**	**2,752**	**611**	**154**	**394**	**175**	**502**	**21,794**
Net Expenditure	**274**	**1,630**	**519**	**1,845**	**509**	**(82)**	**123**	**32**	**33**	**4,883**

The way in which the above tables have been reported in this year's Statement of Accounts, is different to that which has been previously reported, This is due to the shared service arrangement the Council now has with Taunton Deane Borough Council and therefore figures in respect of 2014/15 and the comparative year have been prepared in line with the new reporting structure currently in place.

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

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

2013/14 £000		2014/15 £000
4,883	Net expenditure in the analysis	4,875
1,208	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	8,509
6,091	**Cost of Services in Comprehensive Income and Expenditure Statement**	**13,384**

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.

2014/15	Analysis £000	Amounts not reported to management for decision making £000	Amount not included in the CIES £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Cost of services £000
Fees, charges and other service income	(3,591)	(626)	658	(3,318)	(6,877)	(723)	(7,600)
Interest and investment income	(14)		14		0	(99)	(99)
Income from council tax	0				0	(2,676)	(2,676)
Government grants	(13,322)				(13,322)	(2,727)	(16,049)
Total Income	**(16,927)**	**(626)**	**672**	**(3,318)**	**(20,199)**	**(6,225)**	**(26,424)**
Employee expenses	1,969	6,463			8,432	658	9,090
Other service expenses	19,615	692	3		20,310	3	20,313
Support Service recharges	0			3,318	3,318		3,318
Depreciation, amortisation and impairment	0	1,523			1,523	36	1,559
Interest Payments	218		(218)		0	17	17
Precepts & Levies	0				0	899	899
Gain or Loss on Disposal of Fixed Assets	0				0	464	464
Total Expenditure	**21,802**	**8,678**	**(215)**	**3,318**	**33,583**	**2,077**	**35,660**
Surplus or Deficit on the Provision of Services	**4,875**	**8,052**	**457**	**0**	**13,384**	**(4,148)**	**9,236**

Comparative Figures 2013/14	Analysis £000	Amounts not reported to management for decision making £000	Amount not included in the CIES £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Cost of services £000
Fees, charges and other service income	(2,772)	(214)	617	(2,917)	**(5,286)**	(408)	**(5,694)**
Interest and investment income	(16)	0	16	0	**0**	(16)	**(16)**
Income from council tax	0	0	0	0	**0**	(86)	**(86)**
Government grants	(14,123)	0	0	0	**(14,123)**	(6,343)	**(20,466)**
Total Income	**(16,911)**	**(214)**	**633**	**(2,917)**	**(19,409)**	**(6,853)**	**(26,262)**
Employee expenses	3,491	128	0	0	**3,619**	776	**4,395**
Other service expenses	18,207	501	(3)	0	**18,705**	3	**18,708**
Support Service recharges	0	0	0	2,917	**2,917**	0	**2,917**
Depreciation, amortisation and impairment	0	532	0	0	**532**	(89)	**443**
Interest Payments	96	0	(96)	0	**0**	73	**73**
Precepts & Levies	0	0	0	0	**0**	881	**881**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	(25)	**(25)**
Total Expenditure	**21,794**	**1,161**	**(99)**	**2,917**	**25,773**	**1,619**	**27,392**
Surplus or Deficit on the Provision of Services	**4,883**	**947**	**534**	**0**	**6,364**	**(5,234)**	**1,130**

34 Members Allowances

2013/14 £000		2014/15 £000
77	Basic Allowance	77
64	Special Responsibility Allowance	64
14	Expenses	12
155	**Allowances paid in the year**	**153**

35 Officers Remuneration

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

The remuneration paid to the Council's senior employees is as follows:

Post holder information (Post Title)		Salary (including fees and allowances) £	Expenses Allowances £	Total Remuneration excluding pension contributions £	Pension contributions £	Total Remuneration including pension contributions £	Annualised Salary £
Chief Executive	**2014/15**	120,000	1,459	**121,459**	0	**121,459**	120,000
	2013/14	123,090	1,310	**124,400**	0	**124,400**	120,000
Strategic Director A	**2014/15**	85,425	1,581	**87,006**	11,532	**98,538**	82,425
	2013/14	78,157	1,542	**79,699**	14,259	**93,958**	85,000
Strategic Director B	**2014/15**	80,400	1,354	**81,754**	10,854	**92,608**	80,400
	2013/14	73,543	1,094	**74,637**	13,532	**88,169**	80,000
Strategic Director D	**2014/15**	80,400	0	**80,400**	10,854	**91,254**	80,400
	2013/14	62,134	0	**62,134**	12,210	**74,344**	80,000
Assistant Chief Executive and Monitoring Officer	**2014/15**	63,818	6	**63,824**	8,615	**72,439**	63,818
	2013/14	15,875	417	**16,292**	2,921	**19,213**	63,500
Assistant Director A	**2014/15**	60,300	12	**60,312**	8,141	**68,453**	60,300
	2013/14	56,684	841	**57,525**	10,430	**67,955**	60,000
Assistant Director B	**2014/15**	60,300	1,659	**61,959**	8,141	**70,100**	60,300
	2013/14	56,684	1,725	**58,409**	10,430	**68,839**	60,000
Assistant Director C	**2014/15**	60,300	947	**61,247**	8,141	**69,388**	60,300
	2013/14	57,104	1,107	**58,211**	10,430	**68,641**	60,000
Assistant Director D	**2014/15**	60,441	900	**61,341**	8,296	**69,637**	60,441
	2013/14	57,403	1,239	**58,642**	11,293	**69,935**	60,000
Assistant Director E	**2014/15**	60,300	0	**60,300**	8,141	**68,441**	60,300
	2013/14	15,000	0	**15,000**	2,760	**17,760**	60,000
Assistant Director F	**2014/15**	60,300	259	**60,559**	8,141	**68,700**	60,300
	2013/14	10,000	226	**10,226**	1,840	**12,066**	60,000
Assistant Director G	**2014/15**	46,741	798	**47,539**	6,310	**53,849**	46,741
	2013/14	0	0	**0**	0	**0**	0
Assistant Director H	**2014/15**	54,494	4,734	**59,228**	7,357	**66,585**	60,300
	2013/14	0	0	**0**	0	**0**	0

These costs are shared between the two authorities on a proportionate share basis and the costs applicable to West Somerset District Council during 2014/15 are shown in the table below:

Post holder information (Post Title)	Date Appointed	Cost Spilt		West Somerset Council Cost
		WSC	TDBC	
		%	%	£
Chief Executive	24 October 2013	50	50	60,730
Strategic Director A	01 January 2014	20	80	19,708
Strategic Director B	01 January 2014	20	80	18,522
Strategic Director D	01 January 2014	10	90	9,125
Assistant Chief Executive and Monitoring Officer	01 January 2014	50	50	36,220
Assistant Director A,B,C,D & E	01 January 2014	20	80	69,204
Assistant Director F	01 February 2014	50	50	34,350
Assistant Director G	01 April 2014	20	80	10,740
Assistant Director H	06 May 2014	20	80	12,004

The table below shows the number of other employees, (excluding the senior employees in the table above) whose remuneration, (excluding employer's pension contributions) was £50,000 or more for the year in bands of £5,000:

Remuneration Band	2013/14 Number of employees Total	2014/15 Number of employees Total
£50,000 - £54,999	1	1
£55,000 - £59,999	0	4
£60,000 - £64,999	0	2
£65,000 - £69,999	0	3
£70,000 - £74,999	0	1
£75,000 - £79,999	0	3
£85,000 - £89,999	1	0
£105,000 - £109,999	0	1
£130,000 - £134,999	1	0

The number of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below and are in respect of both West Somerset Council and Taunton Deane Borough Council:

Exit Package Cost Band (including special payments)	Number Of Compulsory Redundancies		Total Number Of Exit Packages By Cost Band		Total Cost Of Exit Packages In Each Band	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
£0 - £20,000	3	0	3	0	£25,530	£0
£20,001 - £40,000	4	9	4	9	£128,160	£308,870
£40,001 - £60,000	0	6	0	6	£0	£312,780
£60,001 - £80,000	3	5	3	5	£212,580	£319,060
£80,001 - £100,000	2	3	2	3	£181,450	£338,860
Total	**12**	**23**	**12**	**23**	**£547,720**	**£1,279,570**

36 External Audit Costs

2013/14 £000		2014/15 £000
56	Fees payable to external auditors with regards to external audit services carried out by the appointed auditor for the year	56
10	Fees paid to external auditors for the certification of grant claims and returns for the year	12
66	**Total**	**68**

37 Grant Income

Contributions and donations to the Comprehensive Income and Expenditure Statement	2013/14 £000	2014/15 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(1,579)	(1,225)
New Homes Bonus	(393)	(447)
Capital Grants and Contributions	(5)	0
Section 106 Agreement	(228)	(193)
Disabled Facilities Grant	(176)	(184)
Transformation Award	(150)	0
Capitalisation Provision	(8)	0
Section 31 - NNDR	(249)	(353)
Rural LA Transitional Funding	(23)	(5)
Community Right to Challenge	(9)	(9)
Asset of Community Value	(8)	(8)
EDF - Hinkley C S106 Contribution - Capital Grant	0	(348)
Council Tax Freeze Grant	0	(21)
Business Rates New Burden Grant	0	(10)
Total	**(2,828)**	**(2,803)**
Credited to Services		
DWP - Housing Benefit Subsidy	(13,788)	(13,076)
DSS - Benefit Administration Grant	(273)	(248)
Rent Rebate Grant	(33)	(39)
NNDR Cost of Collection Grant	(74)	(75)
DHP Grant	(140)	(59)
DCLG Benefit Admin Grant	(33)	(60)
New Burden Grant	(35)	0
EDF - Hinkley C S106 Contribution	(364)	(863)
Bellwin Scheme - Flooding	(10)	0
Section 31 - Flooding	(18)	0
National Grid PPA	(24)	(24)
CCTV Grant	0	(59)
Individual Electional Registration (IER)	(13)	(26)
Other Grants and Contributions	(84)	(69)
DEFRA - Repair & Renewal Grant	0	(43)
DCLG - Transparency Code Set Up	0	(6)
Total	**(14,889)**	**(14,647)**

38 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).

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 2014/15, although one member has disclosed that they are named on the lease of an Investment Property held by the Council for which a rent of £0.019m was received during 2014/15.

During 2014/15 grant payments were made to local organisations on which District Members also serve. Two such organisations were Artlife and the West Somerset Advice Bureau with grants amounting to £0.013m and £0.038m being made respectively.

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 2014/15.

During 2014/15 no senior officers of the Council declared any material pecuniary interest in any works, services or grants commissioned or awarded by the Council.

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

Grant payments, other than precepts were also made to Parish Councils where District Council Members are also Parish Council Members. In all instances, the grants were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. The total paid to Parish Councils during 2014/15 other than Precept payments amounted to £0.015m.

Related party transactions with the precepting bodies are disclosed on page 55, note 48-49 and with the pension fund which is on pages 48-50, note 42 respectively within the Statement of Accounts. The Council had no significant interest in companies.

Amounts due to or from those parties able to control or influence the Council or to be controlled / influenced by the Council during 2014/15 are as follows:

	2014/15 £000
Amounts due to Central Government	964
Amounts due to other Local Authorities	869
Amounts due from Central Government	1,657
Amounts due from other Local Authorities	74

39 Capital Expenditure and Capital Financing

2013/14 £000		2014/15 £000
7,658	**Opening Capital Financing Requirement**	**7,633**
	Capital Investment	
147	Property, Plant and Equipment	116
20	Investment Properties	44
63	Intangible Assets	0
267	Assets Held for Sale	0
604	Revenue Expenditure Funded from Capital under Statute	696
	Sources of finance	
(615)	Capital receipt	(141)
(486)	Government Grant and other contributions	(715)
	Sums set aside from revenue	
(25)	MRP/loans fund principle	(2,000)
7,633	**Closing Capital Financing Requirement**	**5,633**
	Explanation of movements in year	
(25)	Increase / (Decrease) in underlying need to borrowing (unsupported by government financial assistance)	(2,000)
(25)	**Increase/(decrease) in Capital Financing Requirement**	**(2,000)**

40 Leases

Council as Lessee

Finance Leases

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

	31 March 2014 £000	31 March 2015 £000
Land and Buildings	41	39
Total	**41**	**39**

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

The value as at 31 March 2014 has been restated from £0.032m to £0.041m as a result of the incorrect asset value being recorded in respect of one of the assets concerned.

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

	2013/14 £000	2014/15 £000
Not later than one year	89	75
Later than one year and not later than five years	254	203
Later than five years	111	86
	454	**364**

The expenditure charged to the Comprehensive Income and Expenditure Statement during 2014/15 in relation to these leases was £0.083m.

Council as Lessor

Finance Leases

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

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

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

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

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

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

	2013/14 £000	2014/15 £000
Not later than one year	93	93
Later than one year and not later than five years	371	365
Later than five years	2,449	2,362
	2,913	**2,820**

41 Impairment Losses
Impairment losses have been recorded, where applicable, following the formal revaluation exercise undertaken on the Council's asset base, carried out by qualified staff within the shared Asset Management and Property team as at 1 April 2014.

42 Defined Benefit Pension Schemes

Participation in pension schemes

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

West Somerset participates in the Local Government Pension Scheme, administered locally by Peninsula Pensions on behalf of the Somerset Pension Fund. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

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

Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge 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	2013/14 £000	2014/15 £000
Comprehensive Income and Expenditure Statement		
Cost of Services		
- Service costs	667	(2,551)
- Administration Expenses	7	8
Financing and Investment Income and Expenditure:		
- Net interest on the defined liability	776	658
Total Post Employment Benefits charged to the Provision of Services	**1,450**	**(1,885)**
Remeasurement of the net defined liability comprising:		
- Return on assets (excluding the amount included in the net interest expense)	269	906
- Change in financial assumptions	500	(3,208)
- Change in demographic assumptions	(1,431)	0
- Experience (gain) / loss on defined benefit obligation	2,750	243
- Liabilities assumed / (extinguished) on settlements	0	9,782
- Other actuarial (gains) / losses on assets	468	0
Total Post Employment Benefit Charged to the Income and Expenditure Statement	**2,556**	**7,723**
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	(1,450)	(7,854)
Actual amount charged against the General Fund balance for pensions in the year:		
- Employers contributions payable to scheme	525	651

Assets and Liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

Reconciliation of present value of the scheme liabilities	Funded liabilities: Local 2013/14 £000	2014/15 £000
Opening balances as at 1 April	**(36,243)**	**(35,583)**
Current service cost	(638)	(388)
Interest cost	(1,501)	(1,254)
Change in financial assumptions	500	(3,208)
Change in demographic assumptions	(1,431)	0
Contributions by scheme participants	(141)	(90)
Experience loss / (gain) on defined benefit obligation	2,750	243
Benefits Paid Out	1,058	1,506
Past service costs, including curtailments	(29)	(286)
Settlements	0	9,739
Unfunded Pension Payments	93	93
Closing balance as at 31 March	**(35,583)**	**(29,228)**

Reconciliation of fair value of scheme assets:

Reconciliation of Fair Value of the Scheme Assets	2013/14 £000	2014/15 £000
Opening balances as at 1st April	**17,476**	**18,447**
Interest on assets	725	596
Return on assets less interest	269	906
Other actuarial gains / (losses)	468	43
Administration expenses	(7)	(8)
Employer contributions	525	651
Contributions by scheme participants	141	90
Benefits paid	(1,150)	(1,599)
Settlement	0	(6,514)
Closing balance as at 31st March	**18,447**	**12,612**

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.

Scheme History	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Present value of liabilities:	(28,635)	(32,651)	(36,243)	(35,583)	(29,228)
Fair value of assets in the Local Government Pension Scheme	16,295	15,657	17,476	18,447	12,612
Surplus/(deficit) in the scheme:	**(12,340)**	**(16,994)**	**(18,767)**	**(17,136)**	**(16,616)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £16.616m 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 £0.827m. 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 employer's contributions over the remaining working life of employees together with lump sum deficit funding, as assessed by the scheme actuary.

The above liability is split between funded obligations (£15.110m) and unfunded obligations (£1.506m).

The total projected contribution the Council expects to make to the Local Government Pension Scheme in the year to 31 March 2016 is £0.445m.

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 Peninsula Pensions 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 2013.

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

Basis for Estimating Assets and Liabilities	Local Government Pension Scheme 2013/14	2014/15
Long-term expected rates of return on assets in the scheme:	6.0%	13.0%
Mortality assumptions:		
Longevity at 65 for current pensioners		
- Men	23.6	23.7
- Women	26.0	26.1
Longevity at 65 for future pensioners		
- Men	25.8	26.0
- Women	28.3	28.4
Rate of inflation - RPI	3.6%	3.2%
Rate of inflation - CPI	2.8%	2.4%
Rate of increase in salaries	4.6%	4.2%
Rate of increase in pensions	2.8%	2.4%
Rate for discounting scheme liabilities	4.5%	3.3%
Take up option to convert annual pension into retirement lump sum	10.0%	10.0%

The following assumptions have also been made:

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

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

LG Pension Scheme Assets	2013/14	2014/15
Equities	71%	70%
Gilts	6%	7%
Other bonds	11%	10%
Property	10%	9%
Cash	2%	4%
Total	**100%**	**100%**

Sensitivity Analysis	Local Government Pension Scheme £000	£000	£000
Adjustment to discount rate	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	28,707	29,228	29,758
Projected service cost	479	491	503
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	29,233	28,228	29,222
Projected service cost	491	491	491
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	29,757	29,228	28,708
Projected service cost	503	491	479
Adjustment to mortality age rating assumption	**+1 Year**	**None**	**-1 Year**
Present value of total obligation	28,212	29,228	30,251
Projected service cost	475	491	507

43 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 31 March 2015 the Council owned two such properties, 7, and 15 Clanville Grange for which it paid £0.194m. The Deed of Pre-emption has rendered the properties at Clanville Grange un-mortgageable and in order to address this, in January 2014 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 when they are sold on, they will be sold with a 25% discount and with a restrictive Covenant rather than a Deed of Pre-emption. This means that there will be no ongoing liability to the Council. One property (Number 21) has already been removed from the scheme in this way.

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.

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

44 Contingent Assets

Hinkley Point C - Of the £28.000m mitigation monies in respect of the Hinkley Point C site preparation works project, the largest part of this, some £17.000m, has been and is due to be paid to West Somerset District Council upon commencement of earthworks at the Hinkley Point site. EDF has commenced earthwork in May 2014, when West Somerset District Council received £9.600m from EDF. A further £2.400m was paid in May 2015.

The remainder of the mitigation monies due to paid to West Somerset District Council (about £2.000m) will be paid at various stages throughout the project. All contributions which have been due have been paid on time and in full to date.

Any contributions which have been spent and/or distributed by the Council have been in accordance with the approval sought and received from Cabinet or Council following discussion at either the Councils internal Planning Obligations Group or the Planning Obligations Board which involves Sedgemoor District Council, Somerset County Council and EDF Energy. The joint board has been established in accordance with the legal agreement to consider and make recommendations to West Somerset's Cabinet and Council about projects to be funded from around £10.000m of contributions relating to Community Impact Mitigation, Housing and Economic Development. This has so far resulted in funding being made available to a range of both public and community-led projects of around £1.300m.

45 Nature and Extent of Risks Arising From Financial Instruments

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments;
- 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.

The 2014/15 Treasury Management Strategy which incorporated the prudential indicators was approved by Council on 26 March 2014 and is available on the Council website. Full Council approved the current strategy on 18 March 2015. The key issues within the 2014/15 strategy were:

- The Authorised Limit for 2014/15 was set at £10.000m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £7.700m. This is the expected level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and fully based on the Council's net debt.

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

Credit risk

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

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

Aged Debt Analysis	31 March 2014	31 March 2015
Less than three months	254,600	80,406
Three to six months	22,000	30,385
Six months to one year	61,400	60,471
More than one year	569,500	586,433
Total	**907,500**	**757,695**

At the beginning of 2014/15 the provision for impairment of sundry debts (excluding council tax & business rates) stood at £0.402m. The Council has now made a provision for impairment of sundry debts of £0.397m in the 2014/15 accounts, which is an overall decrease of £0.005m. The revised level of provision has been reviewed in light of the current economic conditions.

Liquidity risk

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

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the PWLB (Public Works Loan Board) and money markets for access to longer-term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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 maturity analysis of financial liabilities is as follows:

Maturity Analysis	31 March 2014 £000	31 March 2015 £000	Notes
West Yorkshire PCC	3,500	1,000	Repayable in February 2016
Total	**3,500**	**1,000**	

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:

- <u>Borrowings at variable rates</u> – the interest expense charged to the Comprehensive Income and

Expenditure Statement will rise;

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

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

2013/14 Business Rates £000	2013/14 Council Tax £000	2013/14 Total £000		Notes	2014/15 Business Rates £000	2014/15 Council Tax £000	2014/15 Total £000
			Income				
(12,411)	0	(12,411)	Business Rates Receivable		(12,194)	0	(12,194)
0	(19,503)	(19,503)	Council Tax Receivable		0	(19,902)	(19,902)
(12,411)	**(19,503)**	**(31,914)**	**Total Income**		**(12,194)**	**(19,902)**	**(32,096)**
			Expenditure				
			Apportionment of Previous Year Surplus:				
0	0	0	- Central Government		150	0	150
0	81	81	- Somerset County Council		27	238	265
0	13	13	- Police & Crime Commissioner for Avon & Somerset		0	39	39
0	6	6	- Devon and Somerset Fire and Rescue Authority		3	17	20
0	15	15	- West Somerset District Council		120	46	166
0	**115**	**115**			**300**	**340**	**640**
			Precepts and Demands:				
5,194	0	5,194	- Central Government		5,900	0	5,900
935	13,213	14,148	- Somerset County Council	**50**	1,062	13,590	14,652
0	2,161	2,161	- Police & Crime Commissioner for Avon & Somerset	**50**	0	2,267	2,267
104	970	1,074	- Devon and Somerset Fire and Rescue Authority	**50**	118	1,017	1,135
4,155	1,773	5,928	- West Somerset District Council	**50**	4,720	1,823	6,543
0	771	771	- Parish Councils	**50**	0	812	812
10,388	**18,888**	**29,276**			**11,800**	**19,509**	**31,309**
			Charges to the Collection Fund:				
16	22	38	Write offs of uncollectable amounts		8	164	172
0	40	40	Increase / Decrease (-) in Bad Debt Provision		10	(65)	(55)
1,850	0	1,850	Provision for Appeals		6,267	0	6,267
0	0	0	Provision for Appeals - Settlements 14-15		(170)	0	(170)
74	0	74	Cost of Collection		75	0	75
1,940	**62**	**2,002**			**6,190**	**99**	**6,289**
(83)	**(438)**	**(521)**	**(Surplus) / Deficit for the year**		**6,096**	**46**	**6,142**
0	**(97)**	**(97)**	**(Surplus) / Deficit b/fwd 1st April**		**(83)**	**(535)**	**(618)**
(83)	**(535)**	**(618)**	**(Surplus) / Deficit c/fwd 31st March**	**51 & 52**	**6,013**	**(489)**	**5,524**

Income from Business Ratepayers

The Council collects National Non-Domestic Rates (NNDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government. In previous financial years the total amount due, less certain allowances, was paid to a central pool (the NNDR pool) administered by Central Government, which, in turn, paid to Local Authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the administration of NNDR changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NNDR to the central pool, local authorities retain a proportion of the total collectable rates due. In the case of West Somerset District Council the local share is 40%. The remainder is distributed to preceptors and in the case of West Somerset these are Central Government (50%), Somerset County Council (9%) and the Devon and Somerset Fire & Rescue Authority (1%).

46 Business Rates

2013/14 £		2014/15 £
31,377,851	Total non-domestic rateable value at end of year (31 March)	31,289,671
47.1p	National non-domestic rate multiplier for the year	48.2p
46.2p	Small business non-domestic rate multiplier for the year	47.1p

47 Council Tax Base

Band	Chargeable Dwellings	Conversion Factor	Band D Equivalent	Income £000
A	2,013	6/9	1,342	1,979,115
B	3,064	7/9	2,383	3,514,329
C	2,893	8/9	2,572	3,793,057
D	2,645	9/9	2,645	3,900,714
E	1,477	11/9	1,805	2,661,924
F	1,047	13/9	1,512	2,229,822
G	541	15/9	902	1,330,225
H	34	18/9	68	100,283
	13,714		**13,229**	**19,509,468**

48 Council Tax Amount (Band D)

2013/14 £		2014/15 £
1,027.30	Somerset County Council	1,027.30
168.03	Police & Crime Commissioner for Avon & Somerset	171.37
75.39	Devon and Somerset Fire and Rescue Authority	76.89
137.82	West Somerset District Council	137.82
59.92	Parish/Town Councils	61.37
1,468.46	**Total**	**1,474.75**

49 Precepts and Demands

2013/14 £000		2014/15 £000
13,213	Somerset County Council	13,590
2,161	Police & Crime Commissioner for Avon & Somerset	2,267
970	Devon and Somerset Fire and Rescue Authority	1,017
1,773	West Somerset District Council	1,823
771	Parish/Town Councils	812
18,888	**Total**	**19,509**

50 Allocation of Council Tax Year End Surplus

2013/14 £000		2014/15 £000
373	Somerset County Council	338
62	Police and Crime Commissioner for Avon and Somerset	58
28	Devon and Somerset Fire and Rescue Authority	26
72	West Somerset District Council	67
535	**Total**	**489**

51 Allocation of Non Domestic Rate Year End Surplus

2013/14 £000		2014/15 £000
42	Central Government	(3,007)
7	Somerset County Council	(541)
1	Devon and Somerset Fire and Rescue Authority	(60)
33	West Somerset District Council	(2,405)
83	**Total**	**(6,013)**

Glossary of Terms

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

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

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

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

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

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

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

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

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

Balances
are the accumulated surplus of revenue income over expenditure.

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

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 council benefits from the expenditure. The account will also record the resources set aside to finance capital expenditure.

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

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

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

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

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

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

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

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

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

CIPFA
is the Chartered Institute of Public Finance and Accountancy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liabilities
must be included in the financial statements when West Somerset District Council owes money to others. There are different types of liability: -

- A current liability is a sum of money that will or might be payable during the next accounting period. e.g. creditors or cash overdrawn.
- A deferred liability is a sum of money that will not be payable until some point after the next accounting period or is paid off over a number of accounting periods.

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

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

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

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

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

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

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

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

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

Non-Current Asset Held for Sale
is a non-current asset that becomes available for sale and it is probable that the carrying amount of that asset will be recovered through a sale transaction rather than 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; Police and Crime Commissioner for Avon and Somerset; Devon and Somerset Fire and Rescue Authority and the parishes obtain their revenue income from the District Councils' Collection Fund.

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

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

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

Related Parties
are when at any time during the financial period:-

- One party has direct or indirect control of the other party
- The parties are subject to common control from the same source
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own interests.

Related Party Transactions
is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether or not a charge is made.

Remuneration
includes taxable salary payments to employees, together with non-taxable payments on termination of employment (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Reserves
result from the accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at West Somerset's discretion.

Residual Value
is the value of an asset at the end of its useful life.

Revaluation Reserve
records the unrealised revaluation gains, arising since 1 April 2007 from holding non-current assets. Previously such gains were credited to the Fixed Asset Restatement Account.

Revenue Expenditure
is the day-to-day spending on salaries, maintenance of assets, purchase of stationery etc after deducting income such as fees and charges.

Revenue Expenditure Funded Capital under Statute
Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax.

Revenue Support Grant
is a general grant paid by the Government to local authorities as a contribution towards the cost of their services.

Usable Reserves
are reserves that can be applied to fund expenditure or reduce local taxation.

Report Number: *WSC 142/15*
Presented by: *Alastair Woodland, Audit Manager*
Author of the Report: *Alastair Woodland, Audit Manager*
Contact Details:
Tel. No. Direct Line *01823 356160*
Email: *Alastair.woodland@southwestaudit.co.uk*

Report to a Meeting of: *Audit Committee*
To be Held on: *22 September 2014*
Date Entered on Executive Forward Plan
Or Agreement for Urgency Granted:

INTERNAL AUDIT PLAN 2015-16 PROGRESS UPDATE

1. PURPOSE OF REPORT

1.1 To update members on the Internal Audit Plan 2015-16 progress and bring to their attention any significant findings identified through our work.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council's internal auditors, South West Audit Partnership.

3. RECOMMENDATIONS

3.1 Members are asked to note progress made in delivery of the 2015/16 internal audit plan and note the significant findings.

4. RISK ASSESSMENT (IF APPLICABLE)

4.1 Any organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. WSC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement. The most significant findings are reported to this committee in terms of significant corporate risks or in terms of high priority findings at an individual service level.

5. BACKGROUND INFORMATION

This report summarises the work of the Council's Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in June.

- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these (Appendix A).

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 There are no specific finance issues relating to this report.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 No Specific comments.

8. EQUALITY & DIVERSITY IMPLICATIONS

8.1 There are no direct implications from this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 There are no direct implications from this report.

10. CONSULTATION IMPLICATIONS

10.1 There are no direct implications from this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 There are no direct implications from this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 There are no direct implications from this report.

13. HEALTH & WELLBEING

13.1 There are no direct implications from this report.

14. LEGAL IMPLICATIONS

14.1 There are no specific legal issues relating to this report.

West Somerset Council

Report of Internal Audit Activity, September Update, 2015/16

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox
Chief Executive
Tel: 01935 462371
gerry.cox@southwestaudit.co.uk

Ian Baker
Director of Quality
Tel: 07917628774
Ian.baker@southwestaudit.co.uk

Alastair Woodland
Assistant Director
Tel: 01823 356160
Alastair.woodland@southwestaudit.co.uk

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS and the CIPFA Code of Practice for Internal Audit in England and Wales.

Our audit activity is split between:

- **Operational Audit**
- **Key Control Audit**
- **Governance, Fraud & Corruption Audit**
- **IT Audit**
- **Special Reviews**

See Appendix A for individual audits

Role of Internal Audit

The Internal Audit service for West Somerset Council is provided by South West Audit Partnership (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Corporate Governance Committee and last reviewed at its meeting on 9th March 2015.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes;

- Operational Audit Reviews
- Key Financial Control Reviews
- Cross Cutting Fraud and Governance Reviews
- IT Audit Reviews
- Other Special or Unplanned Reviews

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 2015.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk. Key Control Audits are undertaken in quarter three of each year and these are planned in conjunction with the Council's External Auditor to assist in their assessment of the Council's financial control environment. This reduces the overall cost of audit to the Council.

Update 2015-16

Completed Audit Assignment in the Period

Audit Plan Progress

The schedule provided at **Appendix A** contains a list of all audits as agreed in the Annual Audit Plan 2015/16. 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" opinions 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**

As can be seen from **Appendix A** the following audits have been progressed to date:

Operational:

- In Progress, 1 review
- Not Started, 1 review

Governance, Fraud and Corruption:

- Drafting 1 review
- In Progress, 1 review
- Not started, 2 reviews

Follow-up Reviews:

- Complete, 1 review

ICT Reviews

- In Progress, 1 review

Non Opinion reviews:

- Not started, 2 reviews

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Audit Plan Progress

Key Control reviews:

- In Progress, 1 review
- Not started, 4 reviews

Audit Plan Progress – Outstanding 2014-15 Audits

I have provided an update since the last progress report in June 2015. There were eight reviews not at final report stage in June 2015. Five have now been finalised, two are discussion document and one at the review stage. Details of these eight reviews are provided at the end of **Appendix A**.

Report on Significant Findings

As agreed with this Committee where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified. I attach as Appendix B, a summary of the agreed actions relating to those reviews completed for 2013/14 that have not been previously reported where the Auditor assessed the priority to be a level 4 (Medium/High) or 5 (High).

Since my last update there are two reviews concluded and assessed as 'Partial'.

Creditors – Partial Assurance

This report acknowledges the significant changes that West Somerset Council is undergoing in developing integrated functions with Taunton Deane Borough Council. Recommendations seek, where possible, to help align controls and processes in Creditors functions. It is anticipated that a reasonable assurance opinion will be possible once the recommendations detailed in this report are implemented.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Report on Significant Findings Continued

Issues identified during the audit included a lack of segregation of duties, explanations for purchase orders, authorised signatory list not up to date with financial limits and scope to strengthen the fraud prevention controls with suppliers.

Anti-Bribery Arrangements – Partial Assurance

It was found that key documentation such as the Anti-bribery policy, Whistleblowing policy and Contract Standing Orders are in place, however, at the time of the audit these documents had not been reviewed for several years and not all areas of good practice were included, such as the Anti-Bribery Policy does not cover penalties and risk assessments. With the organisation workforce joining with TDBC it was also unclear how embedded these policies are.

Further, whilst there is a contracts register in place it does not include certain key information and there are control weaknesses over the access to the register that could permit unauthorised amendments. There are also control weaknesses over the contracts register which allows for the scope of fraud. Although separately the recommendations are not high priority, when looked at holistically the impact is greater, which is why partial assurance has been awarded.

Future Planned Work/Plan Changes

The audit plan for 2015/16 is detailed in Appendix A. Members will note that where necessary any changes to the plan throughout the will have been subject to agreement with the appropriate service manager and the Section 151 Officer.
A number of partial assurance audits have been identified and whilst there is time available to accommodate some of these reviews, there will be a need to review the plan to ensure that all partial assurance audits can be followed up. This is to provide assurance to the audit committee that areas of control failure/weakness are addressed.

Conclusions

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 B. I am pleased to report that a number of outstanding 2014-15 audits have now been finalised.

Although we have identified two partial assurance areas we are pleased to report that our work to date has not identified any high risks that need to be brought to your attention. All audits have agreed action plans where managers have committed to addressing weaknesses found. All our reports are also copied to the Strategic and Performance Manager so actions can be monitored through the corporate performance monitoring framework.

Audit Plan Progress 2014-15 APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major Recommendation 1	2	3	4	5	Comments
Final											
Follow Up	Data Transparency	Q1	Final	Non Opinion	0	0	0	0	0	0	
Draft											
Governance, Fraud & Corruption	Business Continuity incl Disaster Recovery WSC	Q1	Under Review								
In Progress											
ICT	Data Migration from Northgate to Civica Open Revenues	Q1	In Progress								This review is running alongside the project – expected completion Dec ember 2015.
Operational	Food Safety	Q2	In Progress								
Governance, Fraud & Corruption	Cash & Banking	Q2	In Progress								
Key Control	Debtors	Q3	In Progress								

Audit Plan Progress 2014-15 APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major Recommendation 1	2	3	4	5	Comments
Not Started											
Governance, Fraud & Corruption	Declaration of Interests, gift & Hospitality	Q2	Not started								
Non Opinion	Transformation Programme	Q3	Not started								
Key Control	Council Tax & NDR	Q3	Not started								
Key Control	Main Accounting	Q3	Not started								
Key Control	Creditors	Q3	Not started								
Key Control	Treasury Management	Q3	Not started								
Operational	Homelessness	Q4	Not started								
Governance, Fraud & Corruption	Hinkley	Q4	Not started								
Non Opinion	Waterways/Beach Safety	Q4	Not started								

Audit Plan Progress 2014-15 APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major Recommendation 1	2	3	4	5	Comments
Outstanding from 2014-15 Audit Plan as of July 2015											
Governance, Fraud & Corruption	Fraud Theme - Bribery	Q3	Final	Partial	11	0	1	8	2	0	
Governance, Fraud & Corruption	Housing Applications	Q3	Final	Non Opinion	2	0	1	1	0	0	
ICT	Financial Controls/Access	Q3	Final	Reasonable	10	0	1	9	0	0	
Key control	Creditors	Q3	Final	Partial	13	0	2	9	2	0	
Governance, Fraud & Corruption	Private Water supply - theme	Q4	Discussion Document								
Follow up	Public safety follow up	Q4	Final	Follow-Up	0	0	0	6	2	0	
Operational	Choice Based Lettings – Somerset Wide Review	Q4	Review								
Governance, Fraud & Corruption	Asset Management	Q4	Discussion Document								

Audit Framework Definitions

Control Assurance Definitions

Appendix B

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.

Report Number: *WSC 143/15*
Presented by: *Paul Harding*
Author of the Report: *PAUL HARDING, CORPORATE STRATEGY AND PERFORMANCE MANAGER*
Contact Details:
Tel. No. Direct Line *01823 356309*
Email: *P.HARDING@TAUNTONDEANE.GOV.UK*

Report to a Meeting of: *Audit Committee*
To be Held on: *28 September 2015*
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:

UPDATE ON ANNUAL GOVERNANCE STATEMENT ACTION PLAN

1. PURPOSE OF REPORT

1.1 This report provides an update of progress against the Annual Governance Statement Action Plan at September 2015.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 None – this is a governance matter.

3. RECOMMENDATIONS

3.1 Members of the Audit Committee are Members are asked to note current progress in relation to completing the actions identified within the Annual Governance Statement.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
None in respect of this report			

5. BACKGROUND

5.1 The Annual Governance Statement (AGS) is a statutory document which provides assurance on the governance arrangements in place within the Council. The statement is produced following a review of the council's governance arrangements

5.2 The AGS includes an action plan to address any new governance issues identified by the Corporate Governance Officers Group; relying on reports from internal and external audit as well as their own understanding of the organisation. It also contains any AGS actions from the previous year which remain outstanding.

6. THE ACTION PLAN

6.1 The action plan is set out in Appendix A. It consists of two parts. The first part contains new actions identified within the most recent Annual Governance Statement. The second part contains actions that were carried over from 2014/15.

6.2 The action plan uses the following key in order to report progress:

☺	Progress on track or action completed. No significant issues.	😐	Some issues or concern at progress but being actively worked on.	☹	Action significantly overdue and / or progress not being made.

6.3 High level overview of the status of the 2015/16 AGS Actions identified:

We have not included a RAG status for the actions carried over from 2014/15 as all actions are overdue.

GREEN ☺	AMBER 😐	RED ☹	TOTAL
3	5	0	8

7. FINANCIAL/RESOURCE IMPLICATIONS

7.1 None in respect of this report.

8. COMMENTS ON BEHALF OF SECTION 151 OFFICER

8.1 Contained in the body of the report.

9. EQUALITY & DIVERSITY IMPLICATIONS

Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

10. CRIME AND DISORDER IMPLICATIONS

10.1 None directly within this report.

11. CONSULTATION IMPLICATIONS

11.1 None in respect of this report.

12. ASSET MANAGEMENT IMPLICATIONS

12.1 None in respect of this report.

13. ENVIRONMENTAL IMPACT IMPLICATIONS

13.1 None in respect of this report.

14. LEGAL IMPLICATIONS

14.1 Regulation 4 of The Accounts and Audit (England) Regulations 2011 requires that the Council must conduct a review at least once a year of the effectiveness of its systems of internal control and committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

WSC Action Plan 2015/16 **APPENDIX A**

Issue	Action	Who	Progress	When	Status
Corporate Plan **1.** The Council's current Corporate Plan expires April 2016.	Refresh the Council's Corporate Priorities and Corporate Plan, re-focusing on the purpose of the Council and on outcomes for the community. Take through the democratic process and publicise through traditional and social media.	Richard Sealy	**Sept 2015:** Current there are two JMASS Phase 2 projects taking place, one is the Affordability Review, being led by Shirlene Adam, this is designed to examine our MTFP (with help from the LGA) and to get clarity regarding the size of our financial challenge. The second work stream is the Corporate Priorities Project. Five Member Workshops took place in August where Ward and Borough issues were raised and discussed. A "mop up" session took place on the 7 September where the information gathered from all the workshops has been amalgamated and common themes and priorities were relayed to the members. Members will then be asked to "sign off" the material enabling the project to progress to the next stage. The overall deadline is to have a Corporate Plan in place by November 2015, which will steer the delivery of JMASS Phase 2 (Transformation)	Priorities – Oct 15 Plan – Feb 16	**Green**
Transparency **2.** Requirement to meet increased transparency requirements.	Add further open data to the Council's website to meet the requirements of the Transparency Code 2015. To meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision, making process and help shape public services	Richard Sealy	**Sept 2015:** A significant piece of work has been undertaken to make sure the WSC website meets the requirements of the Transparency Code 2015. This was subject to a "follow" up internal audit in July 2015 where a revised target date of 30 September 2015 was given for the website to be compliant. The WSC website is now fully upto date with the Transparancy Code 2015 requirements with the data to be updated on an annual bases as the code requires.	By September 2015	**Green**
Developing ONE TEAM working. **4.** Ensuring staff have the knowledge and skills of key controls and governance process.	Develop a new staff Intranet, so there is a single repository of up to date policy and procedures which staff can easily access irrespective of their location.	Richard Sealy	**Sept 2015:** A new staff intranet site has been created and a soft roll out implemented. A development plan is currently in progress for overall role out and staff training. A job vancany for a ICT Project and Support Officer to deliver key ICT projects including the new OneTeam Intranet was advertised in late August 2015.	Ongoing	**Amber**
	Develop a robust staff induction process for all staff in the One Team ways of working and behaviour.		In progress not yet due.	Dec-15	**Green**
	Deploy eLearning solution in order to deliver refresher training in DPA, FOI, Health and safety etc and have a real-time record of who has undertaken the training.		**Sept 2015:** Work is currently being under taken to get this up and running. All data has been gathered for modules and these are currently being reviewed and will be signed off by the relevant officers. The e-learning system is being demonstrated to managers on the 10 September and roll-out to all staff is anticipated in October.	Early Sept 15	**Amber**
ICT security policy **4.** The ICT security policy requires updating. Highlighted by Audit.	• Update the policy and take through the democratic process. • Provide awareness to all staff of the new policy; • document the process for undertaking user access rights; • look to implement an appropriate level of monitoring of system security logs.	Richard Sealy	**Sept 2015:** The WSC ICT Security Policy is being reviewed along with the equivalent TDBC Policy to create a single ICT Security Policy for both organisations. The work is underway and will be complete by April 2016	By 31st Oct	**Amber**
Health & Safety **5.** SWAP identified health and safety risks in relation to parks and open spaces that require mitigation.	Progress the two issues identified as per the agreed management action plan for these audits.	Chris Hall	Time has been taken up dealing with other complex issues impacting on the Open Spaces function. (Harbours and coastal errosion) The risk assessment for Blenheim Gardens is underway. We will endeavour to complete by the end of October 2015. Tenders have been returned, interviews held and a prefered contractor selected. Funds now need to be identified and the survey will begin.	August 15 – issue one Target date for completion April 2016 – issue two	**Amber**
Assurance **5.** Ensuring the 'basics' are in place within each team.	Initiate a process of assurance that the basics are in place across the One Team– for example regular team meetings, risk registers, appraisals etc	Richard Sealy	**Sept 2015:** We are currently working with All Assistant Directors to identify the current position of theirservice "basics". These "basics" include each Service Area holding updated Quarterly Performance "One Team" Service Scorecards, which would include a measure tracking regular team meetings and Service Level "One Team" Risk Registers and Project Risk Registers (as well as our current Corporate Risk Register) Over the coming weeks we are holding meetings with several AD's to assist in the updating and creation of new Service Scorecards and Service Risk Registers which will monitor the Services across the One Team. HR have also been working with AD's to assess the current position of Staff Appraisals/PREDS, currently 50% of staff have had their PREDS/Appraisals and HR have a plan scheduled to ensure that all are completed .	Oct-15	**Amber**

Action Plan 2014/15

The following actions were identified within the 2014/15 Annual Governance Statement as matters which the Council sought to progress during 2015/16.

Action	Comment
1. Improve the communication of the authority's purpose and vision and its intended outcomes to citizens and users	In light of the Council's Corporate Priorities being refreshed during 2015/16 it seems sensible to carry over this action but to ensure that the refreshed priorities, together with vision and outcomes are effectively communicated to our stakeholders through a range of media and channels.
2. Draft a community engagement and communications plan for the Council.	Not progressed as not considered to be a priority issue.
3. Undertake comparisons with other Councils to evidence value for money is being achieved.	Officers have registered with an organisation called LG Inform which compiles performance information relating to a number of Council services. Additional sources of comparative information are also used such as the datasets provided by the Department for Communities and Local Government (DCLG). Where data is available benchmarking can be carried out. However, since the Best Value Performance Indicators were abolished the range of comparable performance information available is more limited than it once was. A number of visits and events have taken place at officer and Member level with other Councils in relation to joint working and transformation in order that we can identify new ways of working and further efficiencies to use our limited resources most effectively.
4. Undertake Member Development as part of the overall joint working programme	A comprehensive Member induction programme was put in place as a result of the May 2015 local elections which was also open to existing Members. **11 May 2015** - Welcome Session - An introduction to the council by the Joint Chief Executive and the other members if the Joint Management Team. **13 May 2015** - The Corporate Strategy of the Council and its Financial Position. **15 May 2015** - A brief introduction to the Council **19 May 2015** - The role of a Councillor - Outside facilitator covered the roles and responsibilities of a new councillor. **21 May 2015** - The Role of a Councillor on the Planning Committee - Mandatory training for all new councillors appointed to the Planning Committee. **2 June 2015** - Licensing Training - Mandatory training for all new councillors appointed to the Licensing Committee. **19 June 2015** - Essential Skills for the 21st Century Councillor, taster day - event arranged by South West Council. **The following training sessions also took place in June 2015:** An introduction to Local Government Scrutiny Introduction to the Hinkley Point C Project and the Council's involvement Site visit to Hinkley Point and Training on nuclear safety/regulatory regime and nuclear power. Ethical Governance Audit Training
5. Prepare an annual summary of progress of the key actions to deliver the 2013-16 Corporate Plan, also achievements and challenges throughout the year.	In light of the significant organisational changes which took place in 2014/15 this action was not considered to be a high priority. The aim is to look at this during 2015/16. Performance updates against the Corporate Plan have however been regularly reported to Scrutiny and Cabinet throughout the year and published on the Council's website and the corporate plan has been refreshed annually.

Agenda Item 11

Report Number:	*WSC 144/15*
Presented by:	*PAUL HARDING, CORPORATE STRATEGY AND PERFORMANCE MANAGER*
Author of the Report:	*AS ABOVE.*
Contact Details:	
Tel. No. Direct Line	*01823 356309*
Email:	*P.HARDING@TAUNTONDEANE.GOV.UK*
Report to a Meeting of:	*Audit Committee*
To be Held on:	*28th September 2015*
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:	

CORPORATE RISK MANAGEMENT UPDATE

1. PURPOSE OF REPORT

This report provides an update on the corporate risks which are being managed by the Joint Management Team (JMT).

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 Effective risk management underpins every element of the Council's business.

3. RECOMMENDATIONS

3.1 That the committee:

- note the current position in relation to corporate risk

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
There is the general risk that if the Council fails to make good use of the management of risk processes it is likely to lead to uncontrolled exposure to many high level strategic and operational risks.	Feasible (3)	Major (4)	Medium (12)
The mitigation for this will be the identification and management of risk at all levels of the organisation and oversight of the key strategic risks facing the Council by Members and JMT.	Unlikely (2)	Significant (3)	Low (6)

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

5. BACKGROUND INFORMATION

5.1 West Somerset Council recognises the importance of effective identification, evaluation and management of all key strategic and operational risks. This is endorsed by the increased focus on the importance of Corporate Governance to public sector bodies. The Council also has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts & Audit Regulations 2003:

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes the arrangements for the management of risk."

5.2 Risk management is a key element of the Council's overarching Governance arrangements.

5.3 Risk management is not about being 'risk averse' – it is about being 'risk aware'. Risk is ever present and some amount of risk taking is inevitable if the Council is to achieve its objectives. Risk Management is about making the most of opportunities and about achieving objectives once those decisions are made. By being 'risk aware' the Council is in a better position to avoid threats and take advantage of opportunities.

6. THE CORPORATE MANAGEMENT UPDATE

6.1 The Corporate Risk Register is a 'live' document which highlights the key corporate risks facing the Council. The register is a joint one between West Somerset and Taunton Deane and is formally reviewed by JMT on a quarterly basis as part of the corporate performance review day. The last JMT review took place on 28 July 2015.

6.2 These regular reviews ensure that new strategic-level risks can be recognised; continuing risks can be re-assessed in the light of management actions to date; and risks which are no longer considered significant threats can be removed.

6.3 Risk registers exist with divisions, teams, projects and programmes.

6.4 Risks which are managed at a corporate level are those which have a significant risk to the delivery of a corporate priority or which are cross-cutting risks that don't naturally sit with a single department or team. These risks have been identified and escalated from other risk registers within the Councils, officer concerns or from external sources.

6.5 There are currently 17 strategic risks identified and approved by JMT (15 joint risks and 2 TDBC specific risks).

6.6 These risks have been plotted on a risk matrix below in order to provide a quick visual overview of the current assessment for these risks (the numbers shown relate to the Risk No. shown in the risk register).

		IMPACT				
		1. Insignificant	2. Minor	3. Significant	4. Major	5. Critical
PROBABILITY	5 Very Likely	Low Risk	Medium Risk	High Risk	High Risk	High Risk
	4 Likely	Low Risk	Low Risk	Medium Risk	High Risk	High Risk
	3 Feasible	Low Risk	Low Risk	Medium Risk **14**	Medium Risk **9,10,11,12,16,17**	High Risk **4,6,15**
	2 Slight	Low Risk	Low Risk	Low Risk **13**	Low Risk **5**	Medium Risk **1,2,3,7,8**
	1 Unlikely	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk

6.7 A copy of the corporate risk register is attached at **Appendix A.** Risks 7 & 9 are TDBC-specific Risks which are therefore not shown within Appendix A.

7. RISK MOVEMENT

7.1 Since the last update to Corporate Governance, on 9th March 2015, 1 additional strategic risk has been added to the corporate risk register. This relates to the community impact of austerity. This is listed as risk number 17 within the register.

7.2 Mitigating actions have continued to be delivered in respect of the various risks. These are set out in the risk register and will continue in order to manage down the risks to an acceptable level.

8. EXTERNAL SCANNING FOR EMERGING RISK

8.1 To ensure the Council has a more complete awareness of emerging strategic risks we regularly look outside of the organisation. This helps provide assurance that JMT are focussing on the 'right' risks and gives early warning of emerging risks which may need attention in case this has not been identified by our officers and managers.

8.2 This helps provide assurance that JMT are focussing on the ‘right’ risks and gives early warning of emerging risks which may need attention in case this has not been identified by our officers and managers.

8.3 We do this in a number of ways. The Councils are members of ALARM (Association of Local Authority Risk Managers) who hold regular meetings where emerging risks are discussed. The Corporate Strategy and Performance Manager attends these meetings and feeds back to JMT any emerging risks which are not already being managed by JMT for their consideration. The Corporate Strategy and Performance Manager also attends the South West Risk Managers Forum which carry out horizon scanning as well as comparing the corporate risk registers of a number of local authorities.

9. FINANCIAL/RESOURCE IMPLICATIONS

9.1 None flowing directly from this report.

10. COMMENTS ON BEHALF OF SECTION 151 OFFICER

10.1 Risk will be managed throughout the organisation, with significant strategic risks being escalated to the Corporate Risk register for the review and attention of JMT and visibility or Members.

11. EQUALITY & DIVERSITY IMPLICATIONS

Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

11.1 Equalities impact has been considered in relation to this report. It has been concluded that since this is an update report only and there are no obvious equalities issued raised an Equalities Impact Assessment is not required.

12. CRIME AND DISORDER IMPLICATIONS

None directly within this report.

13. CONSULTATION IMPLICATIONS

None directly within this report.

14. ASSET MANAGEMENT IMPLICATIONS

14.1 None directly within this report.

15. ENVIRONMENTAL IMPACT IMPLICATIONS

15.1 None directly within this report.

16. HEALTH & WELLBEING

Demonstrate that the authority has given due regard for:

- People, families and communities take responsibility for their own health and wellbeing;
- Families and communities are thriving and resilient; and
- Somerset people are able to live independently.

17. LEGAL IMPLICATIONS

17.1 The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts & Audit Regulations 2003.

APPENDIX A

TDBC & WSC Corporate Risk Register (last updated 1 September 2015)

Risk No.	Date raised	Risk group heading	Risk / Issue description	TDBC, WSC, or BOTH	Risk Owner	Current Assessment		Score	Movement
						Probability	Impact		⇩⇧⇔
1	Dec-13	Transformation	**<u>Joint-management & shared services ('JMASS')</u>** TDBC & WSC have now fully implemented the initial phase of the JMASS Business Case. As we continue to develop our knowledge across both Councils means we are still discovering "issues" an "backlogs" **Risk of not adequately managing capacity issues now we have ONE team supporting both Councils.** Effects: Member's expectations not met / loss of political support, breakdown in relationships between Leaders & CEO, savings projections / timeline not delivered, existing projects , priorities negatively impacted & demotivated workforce.	BOTH	**Shirlene Adam**	Slight(2)	Critical(5)	10	⇔
2	Dec-13	Transformation	**<u>The wider transformation programme</u>** The Corporate Business Plan includes objectives to transform services and 'the way we work' - some projects have already been or are to be initiated (ie Customer Access & Council Accommodation). If a robust and effective approach to Programme and Change management is not implemented, or the existing contractual relationships in place for the supply of ICT services restricts the ability to deliver the new capability requirements - **Risk of failure to deliver an effective programme of change to achieve the desired outcomes and benefits for the council(s) and Communities.** Key effects: programme benefits not realised, financial loss, loss of political appetite for change, services do not embrace & adopt new ways of working, decline in staff morale & performance, detrimental impact on the quality of service & project delivery, failure to maximise service efficiency	BOTH	**Shirlene Adam**	Slight(2)	Critical(5)	10	⇩
3	Dec-13	Transformation	**<u>Shared Services across Somerset and wider Public Sector</u>** Government policy is pushing wider transformation of public sector. No clear ambition has emerged for Somerset. **RISK - wider transformation opportunities may be missed - or - if identified could slow down the pace of the TDBC / WSC transformation programme.** Effects: (as per Risk no. 1 above)	BOTH	**Penny James**	Slight(2)	Critical(5)	10	⇔
4	Jan-14	Political	**<u>National law and policy</u>** Changes advocated or made maybe missed or not evaluated in a timely manner. **There is a risk that the Councils are failing to meet an existing legislative requirement or fail to implement new requirements.** Key effects: The Councils are non-compliant leading to financial and /or reputational damage.	BOTH	**Penny James**	Feasible(3)	Critical(5)	15	⇔
5	Jan-14	Financial	**<u>Asset Management</u>** **RISK - failure to manage existing assets appropriately.** Key effects: ~ financial (asset base that is unaffordable to maintain, inability to maximise income opportunities) ~ failure to comply with community requests relating to assets ~ increased risk & liabilities in relation to disrepair & compliance matters ~ Energy performance ~ Environmental sustainability ~ Adaptations and accessibility. ~ Lack of synergy in the integration of the asset management for the two councils. ~ Limiting the ability of the asset management function to be proactive and nimble in the provision of solutions.	BOTH	**James Barrah**	Slight(2)	Major(4)	8	⇔
6	Dec-13	Financial	**<u>Medium Term Financial Planning (MTFP)</u>** The key financial risk factors are: continuing budgetary pressures due to demographic change and the impact of the Gov's austerity measures (such as: Business Rates retention, Revenue Support Grant, Council Tax & Council Tax Support, Income from Fees & Charges, Capital investment), uncertainty as to the long-term sustainability / affordability of the existing contract with Somerset Waste Partnership, the shrinking of the General Fund (impact on the HRA). **Risk of failure to agree and deliver a sustainable MTFP for the next 5 years** Key effects may include: ~ short-term or 'knee jerk' decisions with detrimental long-term implications ~ Government intervention ~ Adverse impact on the council's limited reserves & financial standing ~ Potential service closure / reduced service quality & therefore inability to deliver customer expectations ~ Insufficient capital resources to fund Corporate Strategy objectives ~ Inability to continue funding partnerships (eg Tone Leisure, SWP) ~ Unable to maximise investment returns	BOTH	**Shirlene Adam**	Feasible(3)	Critical(5)	15	⇔
7				TDBC				10	
8	Dec-13	Leadership & People	**<u>Political leadership and decision-making</u>** Either Council has a 'no overall control' position, therefore the political balance of the council can present difficulties with decision-making. If there is a lack of clear political leadership, then - **There is a risk of failure to reach decisions on key strategic issues.** Key effects may include: ~ difficulties with long-term strategic & operational planning; ~ lack of cross-party buy-in to the corporate strategy There will be new political leadership in WSC from May 2015, this may require new relationships to be built within WSC and across the two Councils especially between the two political Leaders. Risks if these relationships are not effective or not developed in a timely manner.	BOTH	**Penny James**	Slight(2)	Critical(5)	10	⇩

Risk No.	Date raised	Risk group heading	Risk / Issue description	TDBC, WSC, or BOTH	Risk Owner	Current Assessment		Score	Movement
						Probability	Impact		⇩⇧⇔
9				TDBC				12	
10	Dec-13	Corporate Aim (WSC)	**Hinkley Point** The development of a the new Hinkley C power station (a 10 year construction period) may cause a variety of threats and opportunities to the achievement of our strategic objectives. **There is a risk that the development will have an adverse impact on local accommodation, skills & employment and highways, and/or Economic & Social opportunities may not be realised (eg benefits to local businesses & the local economy of permanent inward migration, receipt of significant Community Fund grant monies).** Key effects may include: ~ homelessness increases and the council is unable to discharge its homelessness obligations; ~ increase in housing demand & lack of affordable housing; ~ increased congestion (impacting on Growth & Regeneration goals / inward investment) ~ Local businesses are not able to win contracts to participate in the project ~ Local people aren't trained and are unable to gain employment on the project	BOTH	**Brendan Cleere / Andrew Goodchild**	Feasible(3)	Major(4)	12	⇔
11	Dec-13	Communities	**Welfare Reforms** There is an on-going requirement to reduce benefit payments (CTRS, Business Rates, Universal Credit) - the Welfare Reforms will mean that people in the welfare system will receive less Council Tax support. It will also mean that Universal Credit will be paid directly to tenants rather than the HRA housing landlord. a) Risk of the Council failing to adequately support our community and services for the impact of the Government's Welfare Reform Agenda. b) Risk of the Housing Service having substantially reduced collection rates on introduction of Universal Credit Key effects include: ~ taxes and rents harder to collect ~ reduced rent collection could affect ambitions of HRA business plan ~ more vulnerable people - individuals & families may be unable to manage ~ increased pressure and demand on services	BOTH	**Paul Fitzgerald / Simon Lewis**	Feasible(3)	Major(4)	12	⇔
12	Dec-13	Communities	**Addressing deprivation** Deprivation is worsening and deepening in North Taunton and Taunton East, with other key community issues being rural isolation and an ageing population, and in West Somerset, the key issues are rural deprivation, fuel poverty & 'access to services'. Initiatives such as Taunton Deane Partnership's 'Priority Areas Strategy' (PAS) programme and the Health & Wellbeing Strategy are being developed & delivered to address the issue, however, if the work is not supported, or not adequately resourced: There is a risk that the programmes & activities may be unsuccessful and we fail to reduce levels of deprivation in our most deprived communities. Key effects may include: ~ areas of deprivation remain or worsen; ~ other areas slip into deprivation; ~ community expectations are not managed or delivered ~ further burden on TDBC resources (eg increase in 'Troubled Families' interventions, Housing demand etc) ~ lost opportunities for additional funding, reduced service costs, reduced work duplication, improved experience for the customer ~ negative impacts on individuals, families & communities, plus the financial cost to public sector agencies increases	BOTH	**Simon Lewis**	Feasible(3)	Major(4)	12	⇔
13	Dec-13	Communities	**Gypsies & Travellers** Local Authorities have a (planning) duty to allocate suitable provision for Gypsies & Travellers. TDBC has had previous experience of illegal Gypsy & Traveller encampments. **There is a risk that TDBC is unable to identify suitable provision if required and cannot defend against future illegal encampments.** Key effects may include: ~ unable to respond to community or political pressure; ~ financial impact (eg high legal fees); ~ reputational damage	BOTH	**Tim Burton + Terry May / Simon Lewis**	Slight(2)	Significant(3)	6	⇧

Risk No.	Date raised	Risk group heading	Risk / Issue description	TDBC, WSC, or BOTH	Risk Owner	Current Assessment		Score	Movement
						Probability	Impact		⇩⇧⇔
14	Dec-13	Corporate Governance	**Corporate Governance arrangements on running the business** There is a need for robust arrangements, and on-going monitoring and focus on embedding effective corporate governance arrangements (ie budget monitoring, risk management, debt management, performance management, Treasury management, compliance with audit recommendations, asset management, Equalities duties, Business Continuity Planning, Information Governance & Security, Health & Safety management). **Risk of failure to comply with key internal controls & corporate governance arrangements.** Key effects include: ~ inaccurate budget forecasting & financial loss ~ failure to adhere to HRA ringfence ~ project or service failure or under-performance ~ reputational damage ~ Government intervention ~ Failure to comply with statutory duties & regulations (eg Health & Safety, Equalities, Data Security / Data Protection, Safeguarding) causing harm or injury ~ lack of resilience to unexpected events / failure of IT systems / data loss ~safeguarding	BOTH	**Shirlene Adam**	Feasible(3)	Significant(3)	9	⇔
15	Dec-13	Communities	**Civil Contingency and Service Continuity** There is a need for adequate planning and effective Civil Contingency arrangements to be in place and tested. The new joint management & shared services arrangements between TDBC & WSC have also extended the geography & facilities and widened the scope of our responsibilities. **There is a risk that the council may be unprepared for and unable to provide an adequate response to a major emergency incident (including pandemic and widescale evacuation).** Key effects may include: ~ loss of life; ~ major disruption to services; ~ unplanned costs; ~ Reputational damage;	BOTH	**Chris Hall**	Feasible(3)	Critical(5)	15	⇔
16	Oct-14	Leadership & People	**Staff Engagement & Development** There is a risk that due to increased opportunities in the private sector, as the economy improves, and austerity continues within the public sector that the organisation finds it difficult to atract and retain the right skills - leads to use of expensive agency workers or disruption to service provision. The Organisation has also been through a period of significant restructure and needs to ensure its staff are fully enaged in the changes underway and being planned.	BOTH	**Shirlene Adam**	Feasible(3)	Major(4)	12	⇔
17	Jul-15	**NEW**	**Community Impact of Austerity** Austerity measures will impact on services to the community. This may manifest in a number of ways including (but not limited to): - direct impact on household income e.g. through cap / reduction in benefits - leading to increased debt and subsequent issues - Lack of income where households are subject to DWP sanctions - leading to crisis and requirement for food banks - Reduced ability to pay council tax, housing rent (Council or private) and utility bills, leading to potential evictions, homelessness and health issues - reduction in level of support that can be delivered by the district councils directly, or through grant-funded providers e.g. reduced ability to support One Team measures through rent changes to HRA - leading to reduced support for deprived communities - Reduced ability to support Under 21s where they are unable to claim HB and need support with potential of increased homelessness and sofa surfing and associated risks (e.g. CSE) - impact of service reductions by other local authorities such as County Council (e.g. P4A and P2I cuts leading to increased homelessness) - Increasing aging population with unmet Health and Social Care needs struggling to live comfortably This risk links to others on the register including Welfare Reform and Addressing Deprivation	**BOTH**	**Paul Fitzgerald / Simon Lewis**	Feasible(3)	Major(4)	12	⇔

Report Number: *WSC 145/15*
Presented by: *Steve Perkins- Senior Debt and Recovery Officer*

Author of the Report: *Steve Perkins*

Contact Details:

Tel. No. Direct Line *01984 635247*

Email: *srperkins@westsomerset.gov.uk*

Report to a Meeting of: *Audit Committee*

To be Held on: *28 September 2015*

Date Entered on Executive Forward Plan
Or Agreement for Urgency Granted:

DEBT ANALYSIS – AS AT 30 JUNE 2015

1. PURPOSE OF REPORT

1.1 To provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 30 June 2015.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 The Council's debt position links to the Local Democracy priority of achieving financial sustainability.

3. RECOMMENDATIONS

3.1 That Audit Committee note the information contained within the report.

3.2 That Audit Committee no longer receives routine debt monitoring information, as this is not a typical Audit Committee function. The Committee notes debt management information will be included within financial performance reports to Scrutiny and Cabinet.

4. RISK ASSESSMENT

Risk Matrix

Description	Likelihood	Impact	Overall
That the Council does not put in place appropriate arrangements to recover monies that are owed to the Authority.	3	4	12
Continued collection of debt following the procedures and arrangements the Authority has in place.	2	3	6
That from 1st April 2013 there is a detrimental financial impact on the Council due to unpaid Business Rates.	4	4	16
Continued collection of debt following the procedures and arrangements the Authority has in place.	2	3	6

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

4.1 As the table shows, the arrangements in place in respect of income collection has a positive impact on mitigating the identified risks.

5. BACKGROUND INFORMATION

5.1 This report sets out below details of the different streams of income and outstanding debt owed to the Authority as at 30 June 2015, comparing this to what was outstanding at as 30 June 2014 (the previous year).

Corporate (Sundry) Debts

Age of debt	Amount Outstanding As At 30 June 2015 (£)	Amount Outstanding As At 30 June 2014 (£)
Less than 3 months	125,864	160,476
3 to 6 months	7,688	21,546
6 months to 1 year	33,328	14,722
Over 1 year	95,832	129,990
Total Balance	**262,712**	**326,734**

5.2 Sundry Debts are a mixture of all different invoices raised by Council services. Some examples are licencing fees, water testing charges, rent and building control charges. For the Council's cash flow/income streams it is important (with the help of the corporate recovery team) that staff and managers are fully aware of any unpaid cases and swift follow up action is undertaken to recoup the amount owed. Our standard processes are designed to facilitate this approach.

5.3 The newest debts (less than three months) show a significant reduction of £35k. The oldest debts (over 1 year) show a healthy decrease of £34k in comparison to the previous year.

5.4 The chasing of these old debts by services and the corporate recovery department continues to work well. In extreme cases when payment is not made, a County Court Judgement is obtained. This further course of action is at the discretion of the Senior Debt and Recovery Officer after liaison with the service area because any further action will have budgetary implications.

5.5 For this quarter, a total of £11,283 of old corporate debts has been written off, with the majority of cases being uncollectable Housing debts. To put this amount in context over £1.4 million is raised in invoices on an annual basis.

5.6 It can be confirmed that 100% of the £11,283 has been charged to the write off provision already included in the authority's Statement of Accounts.

Housing Benefit Overpayments

	Figures at 30 June 2015 (£)	Figures at 30 June 2014 (£)
Overpayments Created over whole year	83,334	151,399
Debts being recovered automatically from system via ongoing entitlement to Housing Benefit	57,441	60,621
Debts being recovered from former claimants (Manual Invoices)	33,221	60,064

Write Offs	5,781	2,506
Total Outstanding		

5.7 The annual collection target monitored against all debt (old and new) is 43%. To date the collection rate at the end of June is targeted at 10.75% and is currently above this at 14.71%.

5.8 It should also be noted that previous years' collection figures have excelled in comparison to the thirteen members of the South West Overpayments Liaison Group and last year we were commended as one of the top performing Councils in the country for overpayment collection by the Department of Works and Pensions.

5.9 After some very large increases in overpayment creation in previous quarters (due to the Benefits Department receiving real time information on pension and income changes from the Inland Revenue) creation has dipped for the first time in this quarter by a huge £68k, nearly half when compared to last year. Because of this significant reduction in overpayments creation it follows that the automatic collection of overpayments through the Northgate system has dipped although this is only very slightly from £60k to £57k.

5.10 Recovery officer manual collection levels have noticeably dropped this quarter by nearly a half from £61k to £33k. However, this can solely be contributed to the knock on effect of two huge invoices that were repaid in Quarter 1 last year totalling £26k. Officer resource has continually been directed at this income stream because the Council benefits greatly financially. It should be noted that unlike any other revenue stream the Council receives additional income of 40%, through benefit subsidy, on most overpayments and with additional repayments from customers it is possible to receive more money than the original overpayment.

5.11 Write off levels remain at very low levels with just £5,781 being written off this quarter and even though this doubled when compared to last year when compared to the large amount of overpayments raised that exceeds half a million pounds.

Council Tax Debts

Year from 1 April to 31 March	Amount Outstanding As At 30 June 2015 (£)	Amount Outstanding As At 30 June 2014 (£)	Reduction (£)
Pre 2008	53,667	139,268	85,601
2008	40,968	49,360	8,392
2009	19,478	40,953	21,475
2010	51,756	77,700	25,944
2011	68,452	109,681	41,229
2012	111,475	177,378	65,903
2013	245,113	538,349	293,236
2014	510,173	13,931,654	13,421,481
Total (Old)	**1,101,082**	**15,064,343**	**13,963,261**
2015	14,062,420	N/A	
Total (All)	**15,163,502**		

5.12 The table above reflects that all old debt years have decreased with a total reduction of £13,963,261.It should also be recognised that the Council Tax increases year on year and the opening net collectable debit in 2015/16 was £20,442,685 compared to an opening debit in 2014/15 of £19,941,907.

5.13 The current collection rate is 40.50% and this has surpassed last year's collection rate of 39.41%. As a reminder, detailed below are some of the factors that have increased the risk of both delays and the possibility of non-collection that came into force in April 2013:

- 15% Council Tax now payable by 1,433 working age claimants (many of whom paid nothing prior to 1 April 2013)
- A full Council Tax charge for owners of empty properties after 1 month (they were previously entitled to a 6 months empty exemption)
- 150% premium for long term empty properties (an increase of 50%)

5.14 The Debt Recovery team only has a finite amount of resource and workloads in recent times have dramatically increased, with a peak of over 1,700 cases beyond Liability Order stage with a current balance of £782k. Current caseload is around 1,400 and this figure can be broken down into eight specific recovery areas with the actual case numbers, values and monetary value as a percentage quoted below:

- o Enforcement Agent/Bailiff (or awaiting) 718 cases value £438k (57%)
- o No Trace 140 cases value £74k (9%)
- o Arrangement 210 cases value £89k (11%)
- o Possible Committal 36 cases value £48k (6%)
- o Write-Off 95 cases value £48k (6%)
- o On Hold 25 cases value £31k (4%)
- o Attachment of Earnings 27 cases value £15k (2%)
- o Attachment of Benefits 167 cases value £39k (5%).

5.15 The employment of the enforcement agents which allows commission free collection remains the most cost effective way for the Council to collect from a majority of these debts. This is reflected in the above figures with well over half the arrears caseload being referred onto them. Their fees have now all been standardized and are detailed in statute with £75.00 being incurred as soon as a case is sent to them and a further fee of £235.00 can only be charged once for the first and subsequent visits, even if multiple cases are held.

5.16 The Council continues to operate an active committal programme for the recovery of large debts as a very last resort. A handful of selective cases are taken before the Somerset Magistrates each year. This action has been very successful with only a few liability remissions and a majority of cases either paying in full or subjective to payment arrangements imposed by the court with a suspended prison sentence.

5.17 Bankruptcies are also taken against individuals but only in extreme cases and where all other recovery avenues have been considered.

5.18 A few areas of concerns have been highlighted by the recovery team for review in an effort to make the service both more efficient and enhance ongoing collection rates:

- The large number and monetary value of gone away/no trace cases. This has more recently been reduced from a peak of 252 cases with a value of £149k to 140 cases with a value of £74k. Staff have now been fully trained on a new Experian tracing product (Citizen View Plus) and this should enhance both the speed of traces carried out and the level of tracing achieved.

- Resources has been put into the monitoring of on hold cases (including a lot of small balance cases). The previous quarter reported 165 cases with a value of £61k this has now decreased to 25 cases with a value of £31k.

- The stricter monitoring of arrangement cases. This has halved the amount of arrangements in more recent times by bringing in a more stringent cancellation period with arrangements now being sent cancellation letters after only being 7 days in arrears (previously 40 days).

- The large amount of post outstanding this has peaked in the last year at over 1,200 items and recovery action was held on all accounts with a post item. A backlog busting plan was put in place to tackle this large amount of post and to stop the recovery holds on accounts. This plan has been successful with 709 items of post outstanding on 30 June and recovery holds are no longer put in place to stop reminders. The post is also much more up to date with the oldest less than a month old.

5.19 Benchmarking continues to be carried out with the five Somerset Authorities and West Somerset is comparable.

5.20 No significant write off levels to report this quarter, however, the writing back of credits in preparation for software conversion has resulted in write on adjustments of £32k.

Business Rates Debts

Year from 1 April	Amount Outstanding As At 30 June 2015 (£)	Amount Outstanding As At 30 June 2014 (£)	Reduction (£)
Pre 2008	3,878	3,397	(481)
2008	2,308	4,630	2,322
2009	4,298	1,760	(2,538)
2010	11,535	15,552	4,017
2011	30,214	41,783	11,569
2012	76,765	104,577	27,812
2013	110,046	175,986	65,940
2014	193,407	8,843,613	8,650,206
Total (Old)	**432,451**	**9,191,298**	**8,758,847**
2015	5,559,818	N/A	
Total (All)	**5,992,269**		

5.21 The table above reflects all old debt years have decreased with a total reduction of £8,758,847. The opening net debit rises each year with the increase in the multiplier in 2014/15 it was £12,658,643 compared to an opening net debit in 2015/16 of £12,719,693.

5.22 As previously reported, Business Rate Collection is closely monitored and currently the collection rate stands at 50.06% compared to 30.19% this time last year.

5.23 The peak in the collection rate can be explained because Hinkley Point paid the April and May's instalments of £459,000 prior to their large refund and reduction in rateable value being processed and now instalments have been reduced to £75,000.The collection rate will even out at year end.

5.24 The overall levels of overall debts have risen and balances subject to further court action (beyond Liability Order stage) have increased from last year £136k to £183k.

5.25 Due to retention (the possible financial losses to the Council mentioned below by the Finance Manager) and the fact that there are only 38 business rate recovery cases, when compared to the large number of Council Tax accounts, these cases are monitored to a much greater degree. The £183k can be broken down into six specific recovery areas with the actual case numbers, values and monetary value as a percentage:

- Enforcement Agent/Bailiff (or awaiting) 15 cases £103k (56%)
- Arrangement 8 cases £30k (16%)
- Possible Committal 1 case £16k (9%)

- o On Hold 5 cases £11k (6%)
- o No Forwarding 4 cases £9k (5%)
- o Write Offs 5 cases £14k (8%).

5.26 As with Council Tax enforcement agent action remains the most cost effective way of recovery for non-contact cases with half the caseload at this stage.

5.27 There are no write offs of business rates to report this quarter.

5.28 As at 30 June 2015 the total amount of appeals outstanding is very high at 147 cases. The Gross Rateable Value (GRV) under appeal totals over £8.1m and represents 28.8% of the £28.1m total GRV for all non-domestic properties in the district.

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 Clearly the collection of income and debts due to the authority is very important as the Net Budget for provision of services includes assumptions and targets for income. Where costs are not covered by general grant funding, business rates or council tax, the customer pays additional fees and charges as set by the Council. Failure to collect debts could eventually lead to losses which would be a cost to the General Fund, and therefore adversely affect reserve balances.

6.2 As the billing authority for Council Tax and Business Rates, we also collect taxation income that is due to be paid over to Central Government, the County Council, Police and Fire authorities. Failure to collect these monies will affect this Council's funding, but also that of these other organisations.

6.3 The risk of non-collection is assessed each year as part of the financial year end arrangements, with some provision made for potential losses, however the Council's takes all possible action to avoid non-collection. Debt write-off is very much a last resort.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 Levels of debt can adversely affect the Council's cash flow as well as the underlying funding position as described above. As such all debt is actively managed to keep outstanding amounts to a minimum.

7.2 The risk in respect of cash flow and non-collection is greater than previous years following the introduction of Business Rates Retention, as the payments of Standard Shares in Business Rates to Government, County and Fire authorities is based on budget estimates. As from 1st April 2013 the Council also has to bear 40% of the costs of any debts written off in respect of Business Rates.

7.3 This is a comprehensive report, presenting detailed information regarding the Council's performance in managing income collection and debt recovery for a number of income streams. This content fits with the function of Scrutiny and Cabinet in monitoring the financial performance of the Council. It is therefore proposed to incorporate debt monitoring information as part of future Financial Performance reports, negating the need to duplicate this reporting at Audit Committee.

8. EQUALITY & DIVERSITY IMPLICATIONS

Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None in respect of this report.

13. LEGAL IMPLICATIONS

13.1 None in respect of this report.