

**[SWT VIRTUAL MEETING WEBCAST
LINK](#)**

Members: Lee Baker (Chair), Derek Perry (Vice-Chair), Simon Coles, Hugh Davies, Caroline Ellis, Martin Hill, Janet Lloyd, Steven Pugsley, Vivienne Stock-Williams, Andrew Sully and Terry Venner

Agenda

1. Apologies

To receive any apologies for absence.

**2. Minutes of the previous meeting of the Audit,
Governance and Standards Committee**

To approve the minutes of the previous meeting of the Committee.

3. Declarations of Interest

To receive and note any declarations of disclosable pecuniary or prejudicial or personal interests in respect of any matters included on the agenda for consideration at this meeting.

(The personal interests of Councillors and Clerks of Somerset County Council, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)

4. Public Participation

The Chair 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 who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

(Pages 5 - 12)

Temporary measures during the Coronavirus Pandemic

Due to the Government guidance on measures to reduce the transmission of coronavirus (COVID-19), we will holding meetings in a virtual manner which will be live webcast on our website. Members of the public will still be able to register to speak and ask questions, which will then be read out by the Governance and Democracy Case Manager during Public Question Time and will either be answered by the Chair of the Committee, or the relevant Portfolio Holder, or be followed up with a written response.

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| 5. Audit, Governance and Standards Committee Forward Plan | (Pages 13 - 14) |
| To receive items and review the Forward Plan. | |
| 6. Annual Governance Statement 2019/20 | (Pages 15 - 44) |
| 7. External Audit Findings Report | (Pages 45 - 82) |
| 8. Assessment of Going Concern Status | (Pages 83 - 90) |
| 9. Approval of Statement of Accounts 2019/20 | (Pages 91 - 234) |



JAMES HASSETT
CHIEF EXECUTIVE

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Following Government guidance on measures to reduce the transmission of coronavirus (COVID-19), we will be live webcasting our committee meetings and you are welcome to view and listen to the discussion. The link to each webcast will be available on the meeting webpage, but you can also access them on the [Somerset West and Taunton webcasting](#) website.

If you would like to ask a question or speak at a meeting, you will need to submit your request to a member of the Governance Team in advance of the meeting. You can request to speak at a Council meeting by emailing your full name, the agenda item and your question to the Governance Team using governance@somersetwestandtaunton.gov.uk

Any requests need to be received by 4pm on the day that provides 2 clear working days before the meeting (excluding the day of the meeting itself). For example, if the meeting is due to take place on a Tuesday, requests need to be received by 4pm on the Thursday prior to the meeting.

The Governance and Democracy Case Manager will take the details of your question or speech and will distribute them to the Committee prior to the meeting. The Chair will then invite you to speak at the beginning of the meeting under the agenda item Public Question Time, but speaking is limited to three minutes per person in an overall period of 15 minutes and you can only speak to the Committee once. If there are a group of people attending to speak about a particular item then a representative should be chosen to speak on behalf of the group.

Please see below for Temporary Measures during Coronavirus Pandemic and the changes we are making to public participation:-

Due to the Government guidance on measures to reduce the transmission of coronavirus (COVID-19), we will holding meetings in a virtual manner which will be live webcast on our website. Members of the public will still be able to register to speak and ask questions, which will then be read out by the Governance and Democracy Case Manager during Public Question Time and will be answered by the Portfolio Holder or followed up with a written response.

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SWT Audit, Governance and Standards Committee - 7 December 2020

Present: Councillor Lee Baker (Chair)

Councillors Derek Perry, Simon Coles, Hugh Davies, Caroline Ellis, Steven Pugsley, Terry Venner, Sue Buller, Danny Wedderkopp and Hazel Prior-Sankey

Officers: Paul Fitzgerald, Clare Rendell, Alastair Woodland, Amy Tregellas, Richard Doyle, Andrew Randell, James Barrah, Ian Candlish, Alison North, Stuart Noyce, Richard Sealy, Andrew Pritchard and Adam Evans

Also Present: Councillors John Hassall, Francesca Smith, Ross Henley, Sarah Wakefield, Loretta Whetlor and Mike Rigby

(The meeting commenced at Time Not Specified)

1. **Apologies**

Apologies were received from Councillors Hill, Sully, Lloyd and Stock-Williams.

Councillors Buller, Prior-Sankey and D Wedderkopp attended as substitutes.

2. **Minutes of the previous meeting of the Audit, Governance and Standards Committee**

(Minutes of the meeting of the Audit, Governance and Standards Committee held on 21 September 2020 circulated with the agenda)

Proposed by Councillor Coles and seconded by Councillor Pugsley

Resolved that the minutes of the Audit, Governance and Standards Committee held on 21 September be confirmed as a correct record.

3. **Declarations of Interest**

Members present at the meeting declared the following personal interests in their capacity as a Councillor or Clerk of a County, Town or Parish Council or any other Local Authority:-

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr L Baker	All Items	Cheddon Fitzpaine & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr N Cavill	All Items	West Monkton	Personal	Spoke and Voted
Cllr S Coles	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted

Cllr H Davies	All Items	SCC	Personal	Spoke and Voted
Cllr C Ellis	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr D Perry	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr H Prior-Sankey	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr T Venner	All Items	Minehead	Personal	Spoke and Voted
Cllr D Wedderkopp	All Items	Taunton Charter Trustee	Personal	Spoke and Voted

4. **Public Participation**

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

5. **Audit, Governance and Standards Committee Forward Plan**

(Copy of the Audit, Governance and Standards Committee Forward Plan, circulated with the agenda).

Councillors were reminded that if they had an item they wanted to add to the agenda, that they should send their requests to the Governance Team.

Proposed by Councillor Coles and Seconded by Councillor Perry.

Resolved that the Audit, Governance and Standards Committee Forward Plan be noted.

6. **SWAP Internal Audit - Progress Report 2020-21**

Alastair Woodland introduced the report. The 2020-21 Annual Internal Audit Plan is to provide independent and objective assurance on SWT Internal Control Environment. This work will support the Annual Governance Statement.

This report summarises the work of the Council's Internal Audit Service and provided details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in September 2020.

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

The Internal Audit Progress Report for 2020-21 was contained within the SWAP Report in Appendix A.

Appendix A set out a number of areas such as the internal Audit Work Programme progress, the SWT Plan Performance. The Summary of work Plan and Priority recommendations were also considered.

During the debate the following comments and questions were raised:-

- Further information was requested in relation to the investigations set out in the report. Due to the sensitivity of this information it was agreed to be provided to the committee following the meeting
- Some areas had not been concluded and resolved following the previous update in respect of the delivery of the transformation programme, concerns were raised over the lack of progress being made.
- A completed status for the DLO audit was questioned and when this would be available. An officer had attended the committee to answer questions around this. It was considered that Open contractor software would cease to be used from April and work was underway to ensure all clients are clear on pricing and billing strategy.
- An up to date procurement strategy was overdue, the details around any delays were questioned.

Resolved that the Audit, Governance and Standards Committee:- noted progress made in delivery of the 2020-21 internal audit plan and significant findings since the previous update in September 2020.

7. **Summary of Level 1 and 2 Internal Audit Actions**

The Council has engaged the South West Audit Partnership (SWAP) to carry out its Internal Audit functions; checking the adequacy of controls and procedures across the whole range of Council services.

At the start of each financial year an audit plan is agreed between SWAP and the Council which identifies the areas of highest potential organisational and operational risk within the Council.

When an audit takes place a report is provided to the service manager concerned which gives an audit conclusion and opinion.

Any control or procedural weaknesses are identified within an action plan appended to the audit report.

All findings will be allocated one of 3 priority ratings as set out:

Priority 1 Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management

Priority 2 Important findings that need to be resolved by management

Priority 3 Finding that requires attention

Each finding within the action plan contains a target implementation date which has been agreed between SWAP and the service manager concerned.

All priority 1 and 2 recommendations are captured in a register to ensure progress against the recommendations can be tracked and progress reported to the Audit, Governance and Standards Committee.

This report gives the Committee a progress update on all priority 1 and 2 audit actions, including those where the agreed remedial action is overdue.

A summary of the priority 1 and 2 actions was provided in Appendix A.

Appendix A set out the Update on Priority 1 and 2 Audit Recommendations

During the debate the following comments and questions were raised:-

- E5 and Open Contractor systems were considered. Covid-19 had delayed progress with the process redesign and replacement of these systems. This was ongoing but the aim of completing and implementing the replacement would be achieved in the New Year.
- The transformation process should have brought in systems to resolve the processes of payments and transactions, it was considered if further work was required to address this.
- Tracking transactions through systems was not an easy fix but the team had tracked progress and were working through this.
- Progress in business continuity planning was discussed following the experience of the pandemic.
- Business Continuity plans and escalating high risk issues were referred to Gold as the pandemic was ongoing, risks and issues from these plans would be distributed.
- Further details in the financial actions would be updated in the next report. Revised targets had been set out and resources had been adaptable to Covid-19 grant schemes being implemented to communities.

Resolved that the Audit, Governance and Standards Committee reviewed the overdue actions contained in the report and noted progress to date.

8. **Financial Control and Reporting Procedures**

The Finance Business Partner introduced the report.

The purpose of the report was to provide members of the Committee with an update regarding financial reporting arrangements and progress addressing audit recommendations from key control reports

Effective financial controls are among the key elements of the corporate governance framework and business control environment. A number of key control audits were undertaken as part of the 2019/20 audit plan. The testing largely focussed on the first 69 months of last year, where the Council's controls and processes were particularly susceptible to the impact of organisational disruption, including a high number of staff changes and the transition of systems and procedures to the new Council which was formed on 1 April 2019. The audits undertaken reported a range of risks including some weaknesses in the control environment, with the internal auditor reporting only 'partial assurance'.

The auditor's partial assurance definition is: "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."

The financial key controls audit assurance and number of audit recommendations for each area is summarised as a table in the report:

During the consideration of the item the following comments and questions were raised:-

- The committee thanked officers in the Finance Team for their hard work and congratulated them for their reports and changes implemented to the formatting.
- It was questioned if streamlining had led to less rigorous checks to invoices being paid.
- The banking contract was discussed and consideration given of the renewal of the banking arrangements which were considered overdue.
- It was questioned if attendance of training for budget holders should be mandatory. Officer attendance to budget holder training was strongly encouraged.

Resolved that the Audit, Governance and Standards Committee reviewed and noted the progress in improving financial control and reporting arrangements.

9. **Treasury Management Update - 30th September 2020**

The Finance Business Partner introduced the report.

The purpose of the report provide Members with an update on the Treasury Management activity of the Council for the first six months of 2020/21. It focuses on a review of the Council's borrowing and investment activities.

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit, Governance and Standards Committee.

The Council's treasury management strategy for 2020/21 was approved at a meeting of the Council on 19th February 2020. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was also approved by full Council on 19th February 2020.

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

The Council's treasury management strategy for 2020/21 was approved at the Full Council meeting on 19th February 2020. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was also approved by full Council on 19th February 2020.

During the debate the following comments and questions were raised.

- The committee commended the AA ratings and levels of funding in the various sections. The Finance Team were thanked for their reports.

Resolved that the Audit, Governance and Standards Committee noted the Treasury Management position as at 30th September 2020 (Appendix A attached to this report.

10. **Landlord Health and Safety Property Compliance Update Report**

The Assistant Director for Housing, Property and Communities introduced and presented the item.

This report provided an updated position for the main landlord health and safety property compliance disciplines. Understandably, the Covid-19 pandemic has significantly impacted our ability to progress with a number of the required actions since the last update provided to the Audit, Governance and Standards Committee on 7th September 2020. In particular, limitations within resource (both internally, and for contractors) has led to challenges in undertaking the necessary works. Obtaining access from some vulnerable tenants who are shielding or are anxious about allowing people into their homes during the second lock down continues to create difficulties in maintaining compliance in some areas. However, we are continuing with all compliance activities.

The information within this report summarises the current compliance of Somerset West and Taunton Council in relation to the following six key areas:

Asbestos management
Electrical safety
Fire safety
Gas safety
Lift and Stair-lift management
Water management (Legionella)

Each compliance area is monitored separately as defined by properties contained within either the Council's Housing Revenue Account (HRA) or General Fund (GF) accounts. HRA Blocks refer to all communal area(s) within the block (including any meeting halls), HRA Commercial refers to non-residential properties (e.g. shops or offices), HRA Dwellings refers to the individual property (e.g. house, bungalow, flat, etc.) and GF Property refers to the entire building.

The report identified:

Somerset West and Taunton Councils current compliance status (as at 25th November 2020)

Comparative performance from the previous report submitted on 7th September 2020 wherever possible.

Table properties have changed since the last report following a validation process of required compliance activities, and the separation of properties for ease of servicing and reporting.

Achievements and successes since the last report.

Realignment of audit categories to revised work streams / programmes of work. Issues adversely affecting compliance and action being taken.

Regulations / legislation which affects the way Somerset West and Taunton Council manages its compliance.

Risk ratings and timescales:

Somerset West and Taunton Council will review and where suitable use the ratings and timescales suggested by its approved contractors when receiving an inspection report. Where no timescales are given by the contractor, Somerset West and Taunton Council timescales as set out in its relevant policies will be adopted. Hazards deemed as urgent or as emergency works will be actioned as soon as reasonably practicable. This may include restricting access to areas immediately until the hazard can be removed.

Somerset West and Taunton Council may at times review hazards and change their priority if the original priority does not reflect the current use of the building or if there has been additional measures put in place that reduces the overall risk.

During the debate the following comments and questions were raised:-

- Electrical testing in relation to HRA properties were questioned.
- It was examined if Flook House was a General Fund or HRA property.
- Percentages set out on page 104 was considered. Asbestos surveys were discussed and if delays to these following the Covid-19 pandemic were expected.
- Sympathy around the Covid-19 sensitivities of residents were recognised where planned works on HRA properties were to be undertaken.
- A new tranche of Asbestos surveys were underway. A previous tranche was still held from 2018. These were always conducted before any major works were undertaken on properties.
- Replacement of Fire Doors were ongoing throughout the housing stock although a shortage of these had been experienced.
- Legionella testing was considered on HRA properties. Water risk assessments on shared water systems were undertaken. Individual dwellings would be tested alongside other checks such as gas safety by the compliance team.
- There was overlap between the testing programmes. Some communal areas did vary across the area in terms of the testing required such as electrical and water testing.
- Councillors had reported ongoing issues around furniture and waste in communal areas and how estates officers monitored this. There were particular issues in instances of a lease holder who had been reported in several instances. Estate officers were aware of block inspections and were proactive in reporting any issues encountered whilst these.

Resolved that the Audit, Governance and Standards Committee noted the contents of the report and progress being made in relation to landlord property safety compliance.

11. **Access to Information - Exclusion of the Press and Public**

Resolved that the press and public be excluded during consideration of agenda item 16 on the grounds that, if the press and public were present during the item,

there would be likely to be a disclosure to them of exempt information of the class specified in Paragraph 2 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended as follows: The items contained information that could release confidential information that would reveal the identity of an individual. It was therefore agreed that after consideration of all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

12. **Monitoring Officer Update**

The Monitoring Officer provided an update in relation to recent complaints considered by the standards sub-committee and the numbers of complaints that had been received in relation to local Councillors.

A training session had been undertaken on Zoom for Somerset West and Taunton Councillors.

A meeting of group leaders would be arranged in relation to complaints around conduct with Officers.

A further update of a number of Casual Vacancies from Parish Councils was reported.

Resolved that the Audit, Governance and Standards Committee noted the update from the Monitoring Officer.

(The Meeting ended at Time Not Specified)

	AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	
Meeting Date	Draft Agenda Items	Lead Officer
17 December 2020	Annual Governance Statement 2019/20	Amy Tregellas
Special Meeting	External Findings Report	Jackson Murray/Aditi Chandramouli
Report Deadline	Going Concern Assessment	Paul Fitzgerald
07 December 2020	Statement of Accounts 2019/20	Paul Fitzgerald
01 February 2021	Risk Management Strategy and Update	Amy Tregellas
	Changes to the Constitution	Amy Tregellas
	Local Code of Corporate Governance	Amy Tregellas
	Fraud Update Report	Amy Tregellas
08 March 2021	Grant Thornton External Audit - Progress Report	Jackson Murray/Aditi Chandramouli
Report Deadline	Grant Thornton External Audit - Audit Plan for 2020/21 Accounts	Jackson Murray/Aditi Chandramouli
24 February 2021	Grant Thornton External Audit - Grant Certification Report 2019/20	Jackson Murray/Aditi Chandramouli
09	Grant Thornton External Audit - Annual Audit Letter 2019/20	Jackson Murray/Aditi Chandramouli
13	SWAP Internal Audit - Progress Report 2020/21	Alastair Woodland
	SWAP Internal Audit - Audit Plan and Charter 2021/22	Alastair Woodland
	Audit Findings Action Plan Progress Report	Richard Doyle
	Annual Governance Statement Action Plan Update	Amy Tregellas
	Effectiveness of Internal Audit	Amy Tregellas
	Landlord Compliance Report	James Barra
	Chair's Annual Report	Chair of Committee
	Monitoring Officer Report (standing item)	Amy Tregellas
June 2021	External Audit Fees 2021/22	Paul Fitzgerald
Report Deadline	Grant Thornton External Audit - Progress Report	Jackson Murray/Aditi Chandramouli
TBC	SWAP Internal Audit - Audit Plan 2020/21 Outturn	Alastair Woodland
	SWAP Internal Audit - Annual Audit Opinion 2020/21	Alastair Woodland
	Treasury Management 2020/21 Annual Report	Steve Plenty

	Draft Annual Governance Statement 2020/21	Amy Tregellas
	Audit Findings Action Plan Progress Report	Richard Doyle
	Monitoring Officer Report (standing item)	Amy Tregellas
01 July 2021	Annual Governance Statement 2020/21	Amy Tregellas
Report Deadline	Grant Thornton External Audit - Audit Findings Report 2020/21	Jackson Murray/Aditi Chandramouli
TBC	Assessment of Going Concern Status	Paul Fitzgerald
	Approval of Statement of Accounts 2020/21	Paul Fitzgerald

Report Number: SWT 106/20

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 17 December 2020

Annual Governance Statement 2019/20

This matter is the responsibility of the Leader of the Council, Cllr Federica Smith-Roberts

Report Author: Amy Tregellas, Governance Manager

1 Executive Summary / Purpose of the Report

- 1.1 To present the Committee with the final Annual Governance Statement 2019/20 (Appendix A) and accompanying Action Plan (Appendix B).

2 Recommendations

- 2.1 That the Committee approves the final Annual Governance Statement and Action Plan for 2019/20.

3 Risk Assessment (if appropriate)

- 3.1 Failure to have robust governance arrangements in place could impact on the Council's control environment and ability to operate in an economic, efficient and effective manner. This could lead to recommendations being made by Internal and External Audit.

4 Background and Full details of the Report

- 4.1 The Annual Governance Statement (AGS) is a statutory document which provides assurance on the governance arrangements and control environment within the Council.
- 4.2 The Accounts and Audit Regulations 2015 set out that 'a relevant authority must, each financial year: (a) conduct a review of the effectiveness of the system of internal control; and (b) prepare an annual governance statement
- 4.3 The Statement is prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) guidance titled '*Delivering Good Governance in Local Government: Guidance Notes for English Authorities and Framework.*'
- 4.4 The Framework defines the principles that should underpin governance as:
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the intervention necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

4.5 The Annual Governance Statement includes an Action Plan to address any governance issues identified as a result of the review of the effectiveness of the system of internal control. Details of the Council's Governance Framework is included as part of the Annual Governance Statement (Appendix A).

4.6 In order to ensure that the actions are being delivered it is important that the Committee review progress against the Action Plan, and update reports will be brought to the Committee in December 2020 and March 2021.

4.7 The final version of the Annual Governance Statement is presented to you for approval – following the External Audit process.

5 Links to Corporate Strategy

5.1 Having a robust, effective and efficient governance framework in place is a fundamental element of being a 'well managed' council and avoiding recommendations from Internal and External Auditors.

6 Finance / Resource Implications

6.1 None arising from this report

7 Legal Implications (if any)

7.1 None arising from this report

8 Climate and Sustainability Implications (if any)

8.1 None arising from this report

9 Safeguarding and/or Community Safety Implications (if any)

9.1 None arising from this report

10 Equality and Diversity Implications (if any)

10.1 None arising from this report

11 Social Value Implications (if any)

11.1 None arising from this report

12 Partnership Implications (if any)

12.1 None arising from this report

13 Health and Wellbeing Implications (if any)

13.1 None arising from this report

14 Asset Management Implications (if any)

14.1 None arising from this report

15 Data Protection Implications (if any)

15.1 None arising from this report

16 Consultation Implications (if any)

16.1 None arising from this report

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

Reporting Frequency: Annually

List of Appendices (delete if not applicable)

Appendix A	Annual Governance Statement
Appendix B	Action Plan

Contact Officers

Name	Amy Tregellas
Direct Dial	01823 785034
Email	a.tregellas@somersetwestandtaunton.gov.uk

Annual Governance Statement (2019/2020)

1.0 Introduction

- 1.1 This is the first Annual Governance Statement for Somerset West and Taunton Council.
- 1.2 Everything the Council does is focused around delivering our ambitious vision for Somerset West and Taunton and to ensure that we deliver the best possible services and outcomes for our Community whilst providing good value for our stakeholders
- 1.3 This statement provides an overview of how the Council's governance arrangements operate.
- 1.4 Corporate governance refers to the processes by which organisations are directed, controlled, led and held to account. It is also about culture and values - the way that Councillors and employees think and act.
- 1.5 The Council's corporate governance arrangements aim to ensure that it does the right things in the right way for the right people in a way that is timely, inclusive, open, honest and accountable.
- 1.6 This statement describes the extent to which the Council, has, for the year ending 31st March 2020, complied with its Governance Code and the requirements of the Accounts and Audit Regulations 2015. It also describes how the effectiveness of the governance arrangements have been monitored and evaluated during the year and sets out any changes planned for the 2020-2021 period.
- 1.7 The Statement has been prepared in accordance with guidance produced in 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).

2.0 Key elements of governance

- 2.1 Somerset West and Taunton Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It is also responsible for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiently and innovation.

- 2.2 To meet these responsibilities, the Council acknowledges that it has a duty to have in place sound and proper arrangements for the governance of its affairs, including a reliable system of internal control, and for reviewing the effectiveness of those arrangements.
- 2.3 The key elements of the Council's governance framework are highlighted in Appendix A.
- 2.4 The Governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled, and through which it is accountable to, engages with and leads the community. It enables the Council to monitor the achievement of the strategic themes and expected outcomes as set out in our Corporate Strategy.
- 2.5 The Council's Local Code of Corporate Governance, which was last reviewed and approved in March 2020.
- 2.6 The document included a section on actions for 2020/21 to strengthen the Council's governance arrangements. These actions have been included in the Action Plan which can be found at Appendix B.

Our commitment to good governance is made across the following core principles:

A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

B. Ensuring openness and comprehensive stakeholder engagement

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

F. Managing risks and performance through robust internal control and strong public financial management

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

3.0 Evidence based opinion

3.1 Some of the key pillars of the Council's governance framework are:

3.2 Corporate Strategy & Business Planning

3.2.1 The Council's Corporate Strategy for 2020-24 contains the four priority strategic themes and outcomes, as follows:



3.2.2 The Corporate Strategy helps us to focus our resources and drive improvement, and sets out where we will focus our energies and our increasingly limited resources and how we will measure our success.

3.2.3 An annual plan has been produced which focuses on what the Council has delivered in the 2019/20 year and also to outline the key priorities and areas of focus for the 2020/21 financial year.

3.2.4 Directors are currently working on producing Business Plans for their directorate. Once this work has been completed it will be rolled out across the organisation.

3.2.5 A number of recommended actions are included within the Action Plan to strengthen and improve the Council's governance arrangements in this area

3.3 Evaluating Performance

3.3.1 The Business Intelligence and Performance Manager is working with each Director to draw up a Directorate Performance Scorecard. Once this work has been completed it will be rolled out across the organisation.

- 3.3.2 Two Performance Reports went before Members in 2019/20.
- 3.3.3 There are a number of actions relating to Performance Management within the Action Plan (attached as Appendix B), which will strengthen the Council's arrangements in respect of Performance Management.
- 3.3.4 A Performance Framework has been drafted. An Improvement, Performance and Risk Board has been set up and this involves the Senior Management Team, Assistant Directors and other appropriate officers meeting monthly to consider performance amongst other things.
- 3.4 Managing Risk
- 3.4.1 The management of risk is key to achieving what is set out in the Corporate Strategy and to ensuring that we meet all of our responsibilities.
- 3.4.2 Our Risk and Opportunity Management Strategy is fundamental to the system of internal control and forms part of a sound business operating model. It involves an ongoing process to identify risks and to prioritise them according to likelihood and impact.
- 3.4.3 The Key Business Risk Register is reviewed and challenged by the Senior Management Team on a regular basis, and new and emerging risks are added to the Register.
- 3.4.4 All members and managers are responsible for ensuring that risk implications are considered in the decisions they take. This is especially important in meeting the Council's financial challenges.
- 3.4.5 In 2020/21, the Key Business register will be reviewed and challenged by Members as part of the Performance and Risk Report that will go before Committee on a quarterly basis. This is to ensure that, as far as possible all significant risks have been identified and that the controls manage the risks efficiently, effectively and economically.
- 3.4.6 There are a number of actions relating to Risk Management within the Action Plan (attached as Appendix B), which will strengthen the Council's governance arrangements in respect of Risk Management.
- 3.4.7 The South West Audit Partnership have recently completed a Health Check review of the Council's Risk Management arrangements and have confirmed that the items in the Action Plan are appropriate actions to strengthen our governance arrangements.
- 3.4.8 As outlined above, an Improvement, Performance and Risk Board has been set up and this also considers risk including the key business risks.

3.5 Financial Management

- 3.5.1 The Assistant Director for Finance is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972, and our financial management arrangements are compliant with the governance requirements set out in the Chartered Institute of Public Finance and Accountancy's 'Statement on the Role of the Chief Financial Officer in Local Government' (2016).
- 3.5.2 The Medium Term Financial Plan sets out the Council's strategic approach to the management of its finances and outlines some of the financial issues that we will face over the next three years.
- 3.5.3 Our Treasury Management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review.
- 3.5.4 The Reserves Strategy enables the Council to meet its statutory requirements and sets out the different types of reserve, how they may be used and the monitoring arrangements.
- 3.5.5 Budget monitoring reports have been taken to Committees on a regular basis in 2019/20 and have set out any variances.
- 3.5.6 All members and officers are responsible for ensuring that financial implications are considered in the decisions they take.
- 3.5.7 The Action Plan includes actions relating to strengthening the Council's financial arrangements as well as delivering on actions arising from Internal Audit reports.

3.6 Climate Emergency

- 3.6.1 The Council declared a Climate Emergency in March 2019.
- 3.6.2 The Council's Corporate Strategy includes the priority strategic theme of 'Our Environment and Economy' and has the objective of:

1 Work towards making our District carbon neutral by 2030 - deliver projects based on a Carbon Neutrality and Climate Resilience Plan that work toward this goal (for example installing electric vehicle charging points across the District) .

- 3.6.3 The Council has set up a Members Working Group on Climate Change and officers are working with this Group on the Somerset West and Taunton Carbon Neutrality and Climate Resilience Plan. This document will set out the actions that the Council will deliver in terms of Climate Change.
- 3.6.4 The Action Plan has now been drafted and officers are now working on the delivery of the actions.

3.6.5 Member representatives are on Countywide Groups working on the Somerset Climate Change Strategy.

3.6.6 All members and officers are responsible for ensuring that climate change implications are considered in the decisions they take.

3.7 Decision Making and Responsibilities

3.7.1 The Council consists of 59 elected Members, with an Executive consisting of the Leader and nine Portfolio Holders who are supported and held to account by the Scrutiny Committee.

3.7.2 Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate.

3.7.3 The Articles and Terms of Reference within the Council's Constitution clearly define the roles and responsibilities of:

- Full Council
- The Cabinet
- Scrutiny Committee
- Audit, Governance and Standards Committee
- Planning Committee
- Licensing Committee

3.7.4 The Constitution is updated at least annually to take account of changing circumstances. A Member Working Group has been set up to review the Constitution and any recommendations for change will be made to the Audit, Governance and Standards Committee and then Full Council.

3.7.5 The Constitution sets out the functions of key governance officers, including the statutory posts of 'Head of Paid Service' (Chief Executive), 'Monitoring Officer' (Governance Manager) and 'Section 151 Officer' (Strategic Financial Advisor and S151 Officer) and explains the role of these officers in ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

3.8 Openness and Transparency

3.8.1 Article three of the Council's Constitution sets out citizens' rights in respect of:
(a) Voting and petitions;
(b) Information;
(c) Public Participation; and
(d) Complaints

- 3.8.2 A number of petitions have been presented to the Council in 2019/20.
- 3.8.3 Agendas and papers for all Committee meetings are published at least five clear working days before the meeting and members of the public are able to participate in meetings through Public Question Time.

3.9 Ethical Behaviour and Conduct

- 3.9.1 Our Codes of Conduct for Members and for Officers set out the standards of conduct and behaviour that are required. They are regularly reviewed and updated as necessary and both groups are regularly reminded of the requirements.
- 3.9.2 These include the need for Members to register personal interests and the requirements for employees concerning gifts and hospitality, outside commitments and personal interests.
- 3.9.3 The Council also has an Audit, Governance and Standards Committee which is responsible for promoting and maintaining high standards of conduct by Councillors.
- 3.9.4 An Audit of ethical behaviour and conduct is currently taking place and this includes a survey which has gone out to Officers and Members.

3.10 Member Training and Development

- 3.10.1 Following the District Council elections in May 2019, a programme of Induction Training was rolled out for all Councillors.
- 3.10.2 All Councillors have been invited to have a one to one session to talk about personal development so that any training and development needs can be identified. A Member Training Plan will then be produced.
- 3.10.3 Regular Member Briefings are held to keep them updated on matters of importance.

3.11 Equality

- 3.11.1 The Council is committed to delivering equality and improving the quality of life for the people of the District. We have nine Corporate Equality Objectives for 2019-2023, which are:

Objective 1: Councillors and officers will fully consider the equality implications of all decisions they make.

Objective 2: Those with protected characteristics feel empowered to contribute to the democratic process and any Council activity that affects them; their input is used to inform the planning and delivery of services.

Objective 3: Communities with protected characteristics are able to access services in a reasonable and appropriate way.

Objective 4: Actions are taken to identify and reduce any inequalities faced by our staff or our potential employees.

Objective 5: Work with communities and voluntary sector groups to address inequalities experienced by low incomes families and individuals.

Objective 6: Improve the opportunities for integration and cohesion.

Objective 7: Improve understanding of mental health and access to support.

Objective 8: Work with the Gypsy and Traveller community to improve the provision of pitches.

Objective 9: Create an Equality Working Group for Staff in the Public Sector in Somerset.

3.11.2 In order to meet these objectives, the Council has a Corporate Equalities Action Plan, which sets out what we are already doing to support each objective as well as actions we will take to deliver against the equality objectives.

3.11.3 Any new Council policy, proposal or service, or any change to these that affects people must be the subject of an Equality Impact Assessment to ensure that equality issues have been consciously considered throughout the decision making processes.

3.11.4 All members and officers are responsible for ensuring that equality implications are considered in the decisions they take.

3.12 Procurement of goods and services

3.12.1 The Council recognises the value of considering different service delivery options in delivering our Council Plan. The effective commissioning and procurement of goods, works and services is therefore of strategic importance to our operations, while robust contract management helps to provide value for money and ensure that outcomes and outputs are delivered.

3.12.2 Operational procedures for tendering, contract letting, contract management and the use of consultants are included in the Contract Procedure Rules which form part of the Council's Financial Regulations.

3.13 Whistleblowing

3.13.1 People who work for or with the Council are often the first to realise that there may be something wrong within the Council. However, they may feel unable to express their concerns for various reasons, including the fear of victimisation.

3.13.2 The Council has a Whistleblowing Policy that advises staff and others who work for the Council how to raise concerns about activities in the workplace. Full details are provided on the Council’s website.

3.14 Counter Fraud

3.14.1 We recognise that as well as causing financial loss, fraud and corruption also detrimentally impact service provision and morale, and undermine confidence in the Council’s governance and that of public bodies generally.

3.14.2 The Council has an Anti-Fraud and Anti-Corruption Policy which adopts a zero tolerance approach to fraud and corruption.

3.15 Audit and Audit Assurances

3.15.1 South West Audit Partnership (SWAP) are the Council’s Internal Auditors.

3.15.2 During the 2019/20 financial year, SWAP have carried out a number of Audits across the Council and given their opinion on the level of assurance as well as risk and priority in terms of taking action in terms of any recommendations, as follows:

Assurance Definitions	
None	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.
Partial	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.
Reasonable	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.
Substantial	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.

Definition of Corporate Risks	
Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

3.15.3 SWAP report regularly to the Audit, Governance and Standards Committee, highlighting any areas of concern.

3.15.4 Any overdue Priority one recommendations are also reported to the Audit Committee.

3.15.5 As well as delivering the Audit programme in 2019/20, SWAP carried out a review of the Transformation Programme, focusing on lessons learnt, that was carried out by Taunton Deane and West Somerset District Councils. This report was discussed by a joint Scrutiny and Audit, Governance and Standards Committee and then Executive in early 2020.

4.0 New and Emerging issues since March 2020

- 4.1 The Council has taken action to play its part in dealing with the Coronavirus Pandemic.
- 4.2 The Council's continuing priorities during the Coronavirus outbreak are to:
- Preserve critical services;
 - Safeguard the public; and
 - Ensure our most vulnerable residents are supported.
- 4.3 Regular weekly meetings take place to discuss Risks, Actions, Issues and Decisions and these have been recorded in one document. Resources have been diverted to focus on delivering the priorities above.
- 4.4 The Council website has a Coronavirus information and advice page for members of the public and weekly newsletters have been going out to District Councillors, Town and Parish Councils, the Business Sector and the Voluntary and Community Sectors. Officers have also been kept up to date with regular internal communications and a staff page on the Sharepoint site.
- 4.5 Since the end of April, the Council has held virtual Committee meetings to ensure that the business of the Council can continue. These meetings are live streamed so that members of the public can watch at home.

5.0 Significant governance issues

- 5.1 At the current time, there are no significant governance issues but a number of recommendations for improvement are set out in Appendix B. The action plan details the governance issues that have been identified, the proposed action, the responsible officer and the target date for completion.
- 5.2 The work of Internal Audit identified 6 systems that were classed as giving partial or no assurance – Payroll, Information Management Project, Bank Arrangements, Treasury Management, Main Accounting System and Debtors.
- 5.3 Three follow up audits were carried out in 2019/20 due to partial or no assurance for these areas in 2018/19 – Fire Safety Management, Supplier Resilience and Bereavement Services.
- 5.4 The Audit, Governance and Standards Committee will continue to review progress against any audit recommendations classed as Priority 1 or 2.

6.0 Conclusion

- 6.1 Currently we can provide partial assurance that the Somerset West and Taunton Council's governance arrangements are fit for purpose.

6.2 However, addressing the issues set out in the Action Plan (Appendix B) will bring the Council's arrangements up to being substantially fit for purpose.

Signed

.....

James Hassett
Chief Executive Officer
Date:

.....

Cllr Federica Smith-Roberts
Leader of the Council
Date:

APPENDIX A - CORPORATE GOVERNANCE FRAMEWORK

Corporate Governance comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities

Key Documents: Annual Review/Production:

- Annual Governance Statement
- Annual Statement of Accounts
- Business Plans
- Committee report procedure
- Constitution
- Corporate Plan
- Performance Report
- Corporate Risk Register
- Delegations from/to Senior Management Team
- Equality Information
- Medium Term Financial Plan
- Members Allowances Scheme
- PSIAS Checklist
- Treasury Management Strategy
- Annual Investment Strategy

Key Documents: Ad-hoc Review/Production:

- Corporate Strategy 2019-2023
- Anti-Fraud and Corruption Policy
- Business Continuity Plans
- Community Engagement Framework
- Declarations of Independence
- Financial Regulations
- Contract Procedure Rules
- Health and Safety Policies
- Information Governance Framework
- Member/Officer Relations Protocol
- Members' Code of Conduct
- Officer Employment Procedure Rules
- Officers' Code of Conduct
- Record of Decisions
- Risk & Opportunity Management Policy
- Whistleblowing Policy

Contributory Processes/ Regulatory Monitoring:

- Audit, Governance and Standards Committee
- Budget Monitoring Process
- Corporate Governance Officer Group
- Corporate Health & Safety Committee and processes
- Corporate Intranet
- Council Tax leaflet
- Customer feedback process
- External Audit
- Joint Independent Remuneration Process
- Internal Audit
- Job Descriptions
- Job Evaluation Process
- Law & Governance
- Member Training Scheme
- Monitoring Officer
- Partnership Arrangements
- Schedule of Council meetings
- Scrutiny Framework
- Staff Induction
-

Appendix B – Annual Governance Statement Action Plan

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline <i>(plus update)</i>
<i>Corporate Governance</i>			
Now that the Council has been operating for 12 months the Constitution is due to be reviewed	A Member Working Group is set up to work with the Monitoring Officer to review and update the Constitution including the Terms of Reference, Council Procedure Rules, Financial Regulations, Contract Standing Orders, Members' Code of Conduct, Officers' Code of Conduct and Member Officer Protocol	Governance Manager and Monitoring Officer	31/12/20 <i>A member Working Group has been set up but has not yet met. This work will commence in January 2021 so as to link in with the work of the Council Governance Arrangements Working Group</i>
The procedure for dealing with complaints about Councillors needs to be reviewed and updated	Review and update the procedure for dealing with complaints about Councillors	Governance Manager and Monitoring Officer	31/10/20 <i>Revised date: 31/03/21</i> This will be reviewed through the Constitution Working Group
The information on the Council website relating to complaints about Councillors needs to be reviewed and updated	Review and update the information on the Council website in respect of complaints about Councillors	Governance Manager and Monitoring Officer	30/09/20 <i>The website has been reviewed as per the current arrangements. If this changes following the work on the Constitution it will be revisited again.</i>

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline <i>(plus update)</i>
The Officer Scheme of Delegation is as up to date as it can be but needs to be amended following the finalising of the staff alignment exercise	Review and update the Officer Scheme of Delegation following the staff alignment into the new Directorates	Governance Manager and Monitoring Officer	<i>Completed 31/07/20 and ongoing</i>
<i>Corporate Strategy and Business Planning</i>			
The Corporate Plan is high level and aspirational	Produce an Annual Plan which sits below the Corporate Strategy and sets out what the Council will do in the next 12 months	Director for Internal Operations	30/06/20 <i>Completed</i>
There is currently no 'golden thread' in terms of Corporate and Business Planning and Individual appraisals	<p>Produce Directorate/Service Business Plans which link to the Corporate Strategy</p> <p>Ensure that the staff appraisal process includes the 'golden thread' so that staff can see how they link to the achievement of the Council's objectives</p> <p>Relaunch of Performance Management in September. Tracking and quality checking will be carried out by the People Business Partners</p>	Director for Internal Operations	30/09/20 <i>Directorate Plans are in the process of being drafted which link to the Corporate Strategy. The Performance Management process was relaunched in September.</i>
Staff are not aware of what the Corporate objectives are	Ensure that staff are reminded of the Corporate Priorities on a regular basis	Director for Internal Operations	<i>30/06/20 and ongoing Covered in the CEO team talks in week commencing 22/06/20</i>

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline (plus update)
The Council's doesn't yet have a vision and mission statement	Develop a vision and mission statement for the Council	Senior Management Team	31/07/20 <i>Completed - Mission statement is 'Public Service Excellence'</i>
No annual report is produced setting out how the Council has performed against the Corporate Strategy objectives	At the end of each year produce an annual report setting out the Council's achievements against the Annual Corporate Plan targets	Director for Internal Operations	31/07/20 <i>Complete – draft annual plan for 2020/21 includes a look back to 2019/20</i>
<i>Performance Management</i>			
The Council's Performance Management framework needs to be documented	Document the Performance Management Framework	Business Intelligence and Performance Manager	30/09/20 <i>Agreed by the Corporate Performance Management Board on 30/07/20</i>
The Council doesn't currently have a Data Quality Policy	Draft a Data Quality Policy	Business Intelligence and Performance Manager	30/10/20 <i>Revised target date of end February 2021 – due to Business Intelligence doing a lot of work on Covid</i>
Performance Reporting needs to be improved	Produce a Performance Scorecard for each Directorate	Business Intelligence and Performance Manager	30/06/20 <i>Revised target date of end January 2021. Nearing completion of the Score cards produced and in ongoing development with Directors</i>

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline (plus update)
Reporting on performance, risk and finances needs to be improved	Ensure that Senior Management Team receive monthly reporting on Performance Indicators, key business risks, budget monitoring and progress against internal audit recommendations	Business Intelligence and Performance Manager	Monthly from 31/05/20 <i>Completed – monthly Performance Management Board meetings set up and sequenced with the Committee cycle. Covers risk, finance, programmes, audit actions, performance, people and H&S</i>
Reporting on performance, risk and finances needs to be improved	Ensure that there is quarterly reporting to the Executive on Performance Indicators, key business risks and budget monitoring and progress against internal audit recommendations	Business Intelligence and Performance Manager	Quarterly from 30/06/20 <i>Now timetabled and ready for reporting from September</i>
Reporting on performance, risk and finances needs to be improved	Ensure that there is half yearly reporting to the Scrutiny Committee and for them to complete an in-depth review of performance indicators, key business risks and budget monitoring	Business Intelligence and Performance Manager	Half yearly in September and February <i>Quarterly reports have gone to Scrutiny Committee and the Executive</i>
Only overdue priority 1 Audit recommendations are reported to the Audit, Governance and Standards Committee	Ensure that the progress against all Internal Audit recommendations classed as level 1 or 2 are reported to the Audit, Governance and Standards Committee on a quarterly basis	Governance Manager and Monitoring Officer	Quarterly from 30/06/20 <i>On track – first report taken on 08/06/20 and scheduled for remainder of the year</i>

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline <i>(plus update)</i>
<i>Risk Management</i>			
The Corporate Risk Register is currently not reported to Members	Ensure that the any risks scoring 15 or above are reported to the Members on a quarterly basis as part of the Performance and Risk Report	Director of Internal Operations	Quarterly from 30/09/20 On track to meet this target
The level and detail of risks captured at operational and service level is weak	Service risk assessments need to be produced and held in a central repository Any service risks scoring 15 or more should be included as part of the key business risk register	Director of Internal Operations	31/12/20
Health and Safety risks need to be linked to the Corporate Risk Register	Ensure that Health and Safety risks are identified and held in a central repository Any H&S risks scoring 15 or more should be included as part of the key business risk register	Health and Safety Officer	30/09/20
Project risks need to be linked to the Corporate Risk Register	Ensure that Project risks are identified and held in a central repository Any Project risks scoring 15 or more should be included as part of the key business risk register	Director of Internal Operations	30/09/20

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline (plus update)
Staff have not received risk management training recently	Run a number of training sessions for officers on Risk Management, ensuring it aligns to the Risk and Opportunity Management Strategy	Director of Internal Operations	30/09/20
Risk language used throughout the Council is not consistent in all areas, nor is the method of risk assessment or scoring	Internal comms to get the key messages about risk assessment and management across to staff Carry our risk assessment training for officers that carry out service risk assessments	Director of Internal Operations	30/09/20
There isn't effective challenge from Members on how well Risk Management is working within the organisation	Run a number of Risk Management training sessions for Members	Director of Internal Operations	30/09/20
<i>Openness and Transparency</i>			
The information on public participation on the website is hard to find and is basic	Review and update the information on the Council website relating to public participation and getting involved in local democracy including how decisions are made at Committee (especially for Planning)	Governance Manager and Monitoring Officer	31/08/20 Public participation to be discussed as part of the work of Constitution Working Group
Currently we do not publish the feedback from complaints on the website	'You said, we did' on the website to demonstrate what we have changed as a result of complaints and feedback	Assistant Director for Customer	30/09/20

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline <i>(plus update)</i>
Currently this is confusing for Members of the public and we need to change our approach in favour of transparency	Give a better explanation re public interest test v confidential session. Use better wording on agendas and at Committees. Give more information on the website	Governance Manager and Monitoring Officer	31/08/20
There is currently no performance data published on the website	Set up a page on the website on performance and ensure that the quarterly reports are available for the public to see	Business Intelligence and Performance Manager	31/12/20
Information relating to accessing information is currently not in one place on the website or easy to find	Set up a page on the website called 'Access to Information'. This to include Data Protection information including Privacy Statements, Freedom of Information including disclosure log, publication scheme and transparency code requirements	Governance Manager and Monitoring Officer	30/09/20
We do not currently publish our responses to FOI requests	Publish a Freedom of Information Disclosure log on the website	Assistant Director for Customer	30/09/20
We do not currently video record or live stream our Committee meetings	Video record and live stream Committee meetings from the start of the new Municipal Year	Governance Manager and Monitoring Officer	31/05/20 Completed
Member Training and Development			

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline (plus update)
Ethical awareness needs to be improved	Ethical awareness training for Councillors at least twice a year	Governance Manager and Monitoring Officer	31/07/20 and 31/03/21
Need to get feedback from Members on training and development that we currently offer	Invite all Members in for a one to one session to get their feedback on how things have been for them since the May 2019 elections and also to discuss their training and development needs	Governance Manager and Monitoring Officer	30/09/20 Some were completed prior to lockdown but the rest will be carried out via Zoom
We do not currently have a training policy for Councillors	Produce a training policy for Councillors	Governance Manager and Monitoring Officer	30/09/20
We don't currently have a Members training plan	Feed the information from the Members training and development requirements into a Member training plan and use this to source future training	Governance Manager and Monitoring Officer	30/10/20
We don't currently have a group set up to focus on training and development	Set up a Member Development Group to focus on training and development	Governance Manager and Monitoring Officer	31/07/20
We don't currently have the Member Development Charter	Apply for the Member Development Charter	Governance Manager and Monitoring Officer	31/03/21
Don't currently record Members feedback	Carry out an annual survey to all Members asking for their views on their working relationships with officers	Governance Manager and Monitoring Officer	31/12/20
<i>Ethical Standards</i>			

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline (plus update)
Ethical awareness needs to be improved	Monitoring Officer to send quarterly updates to Officers and members reminding them to declare any interests and gifts & hospitality	Governance Manager and Monitoring Officer	Quarterly from 30/06/20
Ethical awareness needs to be improved	Quarterly ethical update newsletter for Councillors	Governance Manager and Monitoring Officer	Quarterly from 30/06/20
<i>Member Communications</i>			
Member communication could be improved – officer to member and member to member	Set up a Member Working Group to focus on IT and Communications	Governance Manager and Monitoring Officer	31/07/20
Members are not currently getting feedback from reps on outside bodies	Continue to send the weekly newsletter for Members and include sections on local ward matters and updates from outside bodies	Governance Manager and Monitoring Officer	31/07/20 Expand and change the focus of the SWT newsletter
<i>Policies and Procedures</i>			
Policies are in need of review and update	Review and update the: Whistleblowing Policy Anti-Bribery Policy Anti-Fraud Strategy Anti-Money Laundering Policy	Governance Manager and Monitoring Officer	31/01/21
The Complaints process needs to be reviewed in accordance with new Directorate Structure	Review complaints process - do we want to go back to a two stage process with the first stage being the Service Manager and second stage being Assistant Director	Assistant Director for Customer	30/09/20

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline (plus update)
We do not currently have an up to date Communications Strategy	Need to draft a Communications Strategy	Director of Internal Operations	31/12/20
<i>Contracts and Partnership Working</i>			
We do not currently have an up to date Procurement Strategy	Need to draft a Procurement Strategy	Strategic Procurement Specialist	30/09/20
The Contracts Register is out of date	Ensure that the Contract Register is reviewed and updated	Strategic Procurement Specialist	30/09/20
We do not currently have a register of Partnerships	Ensure that we have a Partnership register	Strategic Procurement Specialist	31/12/20
Regular contract management is needed	Contract management - need to ensure that we have performance measures and SLAs in place to ensure contracts deliver	Strategic Procurement Specialist	30/09/20
The SHAPE Legal contract needs to be reviewed and updated	Review the partnership arrangements with SHAPE Legal	Governance Manager and Monitoring Officer	31/12/20
Officers need to have training in the procurement process	Training for officers on the procurement process	Strategic Procurement Specialist	31/10/20
<i>People Management</i>			
The Council doesn't currently have a	Develop a People/Workforce strategy	HR Business Partner	31/12/20

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline <i>(plus update)</i>
People/Workforce Strategy that aligns with the Corporate Strategy and MTFP			
HR Policies and procedures are out of date	Ensure that all HR policies and procedures have been updated to be relevant for SWT	HR Business Partner	31/03/21
Job descriptions are generic	Job descriptions to be updated to include job related person specifications and wording to make it clear that all staff are responsible for Health and Safety, FOI and Complaints	HR Business Partner	31/12/20
There needs to be a Corporate Training plan	Produce an overarching training and development plan focusing on mandatory training, CPD training and other training	HR Business Partner	30/09/20
The Induction process needs to be improved	Review and update the Induction process for officers and focus on basic things that all officers need to know and tailored induction for items that are more job specific.	HR Business Partner	30/09/20
We currently do not have a corporate appraisal process (forming the 'golden thread')	Appraisals - have a corporate approach and ensure that they focus on the Councils values and behavioural framework as well as tasks	HR Business Partner	30/09/20
Survey staff to get a picture as to how staff are feeling	Carry out annual staff survey and then communicate to staff what actions will be taken as a result of the feedback	HR Business Partner	31/12/20 First survey completed Oct 19

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline <i>(plus update)</i>
<i>Community Engagement</i>			
We don't currently have an up to date Community Engagement Strategy	Draft a Community Engagement Strategy to include the type of issues that we will meaningfully consult on or involve communities, individual citizens and service users.	Director for Housing and Communities	31/03/21
We do not currently publish feedback on consultation on the website	When we carry out consultation need to ensure that the results of the consultation are published on the website along with how this has been taken into account by the Council	Director of Internal Operations	As soon as we carry out consultation
We do not currently ask the public for their views on the Council	Carry out an annual customer survey	Director of Internal Operations	31/03/21
<i>Project Management</i>			
Our current processes and procedures for managing projects needs to be improved	Review the processes and procedures in place to manage projects including a robust business case, performance measures, risk assessment and logs and benefits realisation	Director of Internal Operations	30/09/20
Project Management needs to be led corporately by a dedicated officer	Ensure that the Project Management Office (PMO) function is delivered at a Corporate level	Director of Internal Operations	30/09/20 There is a Corporate PMO role within the structure
<i>Finance</i>			

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline (plus update)
The structures on E5 are out of date	Ensure that the way the finance system is set up aligns with the new Directorates structure	Assistant Director for Finance	31/07/20
Budget monitoring does not currently go before Members on a quarterly basis	Ensure that budget monitoring reports go before Members on a quarterly basis	Assistant Director for Finance	Quarterly from 30/09/20
The MTFP needs to be amended as a result of Coronavirus	Ensure that the MTFP is reviewed and updated to take account of the reduced income streams and potential increase in expenditure	Assistant Director for Finance	31/05/20 <i>MTFP being regularly reviewed by SMT and reports to Members in September 20</i>
<i>Internal Audit Reports</i>			
The Payroll Audit Report only gives partial assurance	Ensure that recommendations set out in the report are delivered within the timescales set out	Director for Internal Operations	As per timescales in the report
The Information Management Project Audit Report only gives partial assurance	Ensure that recommendations set out in the report are delivered within the timescales set out	Director for Internal Operations	As per timescales in the report
The Banking Arrangements Audit Report only gives partial assurance	Ensure that recommendations set out in the report are delivered within the timescales set out	Assistant Director for Finance	As per timescales in the report

Issue Identified	Action to be taken	Lead Responsible Officer	Deadline (plus update)
The Treasury Management Audit Report only gives partial assurance	Ensure that recommendations set out in the report are delivered within the timescales set out	Assistant Director for Finance	As per timescales in the report
The Main Accounting System Audit Report only gives partial assurance	Ensure that recommendations set out in the report are delivered within the timescales set out	Assistant Director for Finance	As per timescales in the report
The Debtors Audit Report only gives partial assurance	Ensure that recommendations set out in the report are delivered within the timescales set out	Assistant Director for Customer	As per timescales in the report
<i>IT Policies and Procedures</i>			
IT Policies and Procedures need to be reviewed in light of the change to working arrangements	To carry out a review of all IT Policies and Procedures	IT Manager	End March 2021

Somerset West and Taunton Council

Audit, Governance and Standards Committee

17 December 2020

Somerset West and Taunton District Council Audit Findings Report 2019/20

This matter is the responsibility of Executive Councillor Henley, Corporate Resources

Report Author: Martin Henwood, Corporate Finance Advisor

1 Executive Summary

- 1.1 This short covering report introduces the annual report of our external auditor Grant Thornton UK LLP outlining their findings from the audit of the 2019/20 Statement of Accounts for Somerset West and Taunton Council (SWTC), and of the arrangements in place to secure Value for Money.
- 1.2 A progress report and sector update was provided to the Audit Governance and Standards Committee on 7 September 2020. It was confirmed at that stage that significant delays had occurred due to coronavirus and that the deadline for completion of audit had moved to 30 November 2020 in updated Accounts and Audit Regulations.
- 1.3 The audit is work in progress and Grant Thornton have indicated at this stage their intent to provide an unqualified opinion in respect of the accounts and value for money conclusion, however this will be confirmed verbally at the meeting when audit testing is expected to be substantially completed.

2 Recommendations

- 2.1 The Committee is recommended to note the Audit Findings Report in respect of SWT's Statement of Accounts 2019/20.
- 2.2 The Committee is recommended to note the Auditor's Opinion in relation to the Statement of Accounts and Value for Money Conclusion

3. Background and Full details of the Report

- 3.1 The 2019/20 Unaudited Draft Statement of Accounts for SWT was signed off by the Council's S151 Officer in 13 August 2020 – within the updated statutory deadline of 31 August due to Coronavirus.

- 3.2 The accounts are subject to independent review by the Council's appointed external auditor – Grant Thornton UK LLP. The updated deadline for this was 30 November 2020, and a notice has been included on the Council's website indicating this date has not been met and that the audited accounts will be published as soon as is practicable.
- 3.3 As with Authorities nationally the delay has arisen due to a combination of factors, including
- the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations,
 - the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed, and
 - in addition for SWTC, the inherent complexity of the Council's 2019/20 statement of accounts as the Council's first year of operation.
- 3.4 The Council is continuing to work closely with the audit team as they complete their work. In line with the Accounts and Audit Regulations 2015, the Council has published a set of draft accounts. The Council will publish a final set of accounts as soon as the audit is concluded, and the signed Audit Report issued. This work is now substantially complete and the draft Audit Findings Report is included within this item.
- 3.5 This situation has occurred for the majority of Councils. As at 30 November 2020 there were 265 of 485 Councils (55%) whose accounts remained to be signed off by their external auditors. This compares to the 43% unsigned at 31 July 2019 which was last year's deadline (pre-COVID).
- 3.6 Grant Thornton has indicated their intention to issue an "unqualified opinion" for the 2019/20 Statement of Accounts for SWT, subject to completing their work, thus agreeing that the accounts provide a true and fair view of the Council's financial position and performance.
- 3.7 The auditor has also reviewed the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, and provides a formal Opinion through their Value for Money Conclusion. Grant Thornton is satisfied "the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

4 Links to Corporate Aims / Priorities

- 4.1 This report links to the Council's aim of achieving financial stability.

5 Finance / Resource Implications

- 5.1 The auditors' report has identified adjustments that have been made to the Unaudited Statement of Accounts and these are itemised at Appendix C of the Grant Thornton Audit Findings Report.

5.2 It is worth noting that the external auditors are under significant pressure from the Financial Reporting Council in relation to property valuations. A consequence of this is that there is significantly more rigour being applied in the audits of property assets, including engaging qualified Valuers to assist in the audit of property assets on occasions. These requirements have impacted on the creation of the new Balance Sheet, where significant evidence is required to prove ownership and value of historic assets has been an onerous task for all parties.

5.3 As this is the first set of accounts for the Council, there are no comparative figures for previous years, in line with required presentation. The new Balance Sheet of the Council as at 1 April 2019 is included at Note 4 within the Statement of Accounts, based on assets, liabilities and reserves transferred to SWTC on that date from Taunton Deane Borough Council and West Somerset Council.

6 Legal Implications

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

Democratic Path:

- Audit Governance and Standards Committee – 17 December 2020

Reporting Frequency: Annually

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The Audit Findings for Somerset West and Taunton Council

Year ended 31 March 2020

08 December 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset West and Taunton Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Financial Statements</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 51</p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially consistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed remotely during July to December 2020. Our findings are summarised on pages 5 to 16. We have identified 4 adjustments to the financial statements that have resulted in a £1.049m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year audits of the predecessor Councils are detailed in Appendix B.</p> <p>Our work remains in progress and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the outstanding matters set out on page 5 of this report.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of land and buildings, Council Dwellings and investment properties and the valuation of investment properties held on behalf of the Council by the Somerset Pension Fund – refer to pages 8 and 9 for further detail. As explained on pages 8 and 9, this is a national issue related to the Covid-19 pandemic and the Council's valuers followed national guidance from RICS in their valuations.</p>
<p>Value for Money arrangements</p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Somerset West and Taunton Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 20.</p>

Headlines

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council has dealt with the administration of grants to businesses, staff re-deployment, closure of car parks, the provision of critical services during lockdown, and then the additional challenges of reopening services under new government guidelines amongst other challenges.

Councils were still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020.

The updated target date for audited financial statements was 30 November 2020. Whilst this date was not achieved, the Council complied with the relevant legislation by including a notice on its website that stated the audit had not been completed due to the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations, the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed, and the inherent complexity of the Council's 2019/20 statement of accounts as the Council's first year of operation.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 15 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and further detail on the work completed is set out on page 7.

Restrictions on non-essential travel have meant both Council and audit staff have had to work remotely, requiring remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing.

We started our audit on 27 July 2020. The Council provided an initial draft set of primary statements to the audit team on 31 July 2020, and the final draft financial statements were provided on 7 August 2020, in advance of the revised national deadline, however later than we had originally planned. The majority of the supporting working papers had not been received by 17 August 2020. This has led to significant delays in completing the audit work to the agreed timescales.

As expected, the finance team has been stretched throughout lockdown, producing the accounts and dealing with audit queries, alongside the "day job" and the requirements of additional government returns, and internal reporting. Due to the challenges in producing a full set of draft financial statements and the supporting working papers we agreed with the Council that we would complete some of our sampling work but return to complete the audit from w/c 23 November 2020. We experienced some challenges with supporting working papers, for example in relation to debtors and creditors, and held a number of discussions with officers throughout the audit to ensure that we received the information that we required to complete the audit.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during these unprecedented times. Our audit was completed remotely, which was a new approach for both the audit team and your finance team. Covid-19 and the pressures resulting from this have meant that we received a set of financial statements later than originally anticipated. The timeliness and quality of working papers require improvement, and a recommendation has been raised in Appendix A. The audit was completed in three phases in July, September and November/December, with outstanding matters to be resolved by your finance team in the intervening periods. We have identified some matters which were raised in September and October which are currently unresolved. This, along with the difficulties caused by remote auditing have led the audit of the financial statements to be further behind than expected at this stage.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

As previously noted, we issued an addendum to our audit plan, as communicated to you on 15 April 2020, to reflect an additional financial statements level significant risk relating to the Covid-19 pandemic.

Conclusion

Our audit of your financial statements is underway, and subject to outstanding testing below being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 17 December 2020, as detailed in Appendix E. The outstanding items referred to above include:

- audit procedures around significant risk areas including valuation of property, plant and equipment and the net pension liability;
- testing of a sample of journals to supporting evidence in order to address the risk of management override of controls;
- substantive audit testing in relation to income, expenditure, debtors, creditors, grants and employee remuneration;
- testing of the rights and obligations of opening property, plant and equipment balances;
- testing of investments and borrowings balances;
- review and testing of disclosure notes, such as financial instruments and capital expenditure and financing;
- review of the Collection Fund and Housing Revenue Account;
- receipt and review of management representation letter; and
- receipt and review of the final set of financial statements.

Materiality

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1.74m	<p>This equates to 1.5% of your 2019/20 forecast gross expenditure for the year. This was determined as the appropriate benchmark for determining materiality. 1.5% has been deemed an appropriate percentage to use in setting materiality, due to this being the Council's first set of financial statements to be audited.</p> <p>This is consistent with the value reported in our Audit Plan in March 2020.</p>
Performance materiality	1.30m	<p>This equates to 75% of materiality.</p> <p>This is consistent with the value reported in our Audit Plan in March 2020.</p>
Trivial matters	87k	<p>ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. We have determined this to be 5% of materiality.</p> <p>This is consistent with that reported in our Audit Plan in March 2020.</p>
Materiality for senior officers' remuneration	14k	<p>Senior Officers' Remuneration is a balance which require a lower materiality due to its sensitive nature.</p> <p>This is consistent with that reported in our Audit Plan in March 2020.</p>

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements could require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk.

The revenue cycle includes fraudulent transactions (rebutted)

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

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. As previously noted, we received draft financial statements in advance of the revised national timetable but later than originally planned;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. An example is in respect of the material valuation uncertainty disclosed by the Council's valuation experts in respect of land and buildings and investment properties as well as pension fund property investments;
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Findings

We received the draft financial statements, and supporting working papers later than originally planned, as set out previously in this report. We continue to liaise with management and the finance team to obtain the evidence required in order for our testing to be completed.

Material valuation uncertainties have been disclosed by the Council's valuation experts in respect of land and buildings and investment properties, as well as pension fund investment properties. This is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations. Our opinion includes an emphasis of matter as a result.

We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
<p>Management over-ride of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk and unusual journals; gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Findings</p> <p>We have not currently identified any matters in relation to management override of controls, however our substantive testing of journals posted during the year and after year end as part of the accounts production process is not yet complete. We will provide members with a verbal update on any findings arising from this significant risk at the Audit, Governance and Standards Committee.</p>
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of This estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, given a rolling programme is used.</p> <p>The Authority also has investment properties which must be valued annually at 31 March.</p> <p>We therefore identified valuation of land and buildings, including investment properties and surplus assets, as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimates, the instructions issued to valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation experts; wrote to the valuers to confirm the basis on which the valuations were carried out; selected a sample of in-year valuations to test; tested the sampled revaluations made during the year to see if they had been input correctly into the Council's asset register; challenged the information and assumptions used by the valuers for the sampled assets to assess completeness and consistency with our understanding; and evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. <p>Findings</p> <p>Our audit work in relation to the valuation of land and buildings, and investment properties is currently underway. The Council's finance team and audit team identified that the Council's investment property balance, and correspondingly the financing and investment income in the Comprehensive Income and Expenditure Statement were overstated by £1.049m.</p> <p>We have identified material balances of £6.198m which have been misclassified between property, plant and equipment, and investment properties. The balance sheet will be adjusted for these misclassifications. We have considered the impact of this error on the opening balances, as some of the misclassifications also existed in the predecessor entities' financial statements. The Council have agreed to amend opening balances.</p> <p>Management's expert has disclosed a material uncertainty with regards to the valuations of land, buildings, dwellings, investment properties and surplus assets. This will result in the audit report including an emphasis of matter as previously noted.</p>

Significant audit risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk.

Auditor commentary

We:

- gained an understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report.

Findings

Our audit work in relation to the valuation of the pension fund net liability is currently underway. We have written to the actuary to get additional information around material experience items and the duration of liabilities.

Somerset Pension Fund has disclosed a material uncertainty with regards to the valuations of property funds included within the pension assets. A corresponding material uncertainty is required to be disclosed in the Council's financial statements as its share of these property funds is material. This will result in the audit report including an emphasis of matter, highlighting this material uncertainty.

Completeness of opening balances

On 1 April 2019, Taunton Deane Borough Council and West Somerset District Council demised, and Somerset West and Taunton Council was formed.

The existing ledger data from the old Authorities was combined to form the opening balances for Somerset West and Taunton Council. There is a risk that the opening balances may be incomplete or inaccurate.

We:

- reviewed the process for transferring balances from the legacy organisations to the new Authority; and
- mapped the closing balances from the 2018/19 general ledgers to the opening position of the new Authority at 1 April 2019 to ensure the accuracy and completeness of the financial information, ensuring the appropriate treatment of any intra-organisation transactions.

Findings

As part of our completeness review, we identified some account codes beginning with 'X' which contained opening balances which had not formed part of the new Council's opening balances. We discussed this with your finance team and identified that these were disclosure account codes which are cleared to nil at year end and do not impact upon opening balances. We consider this to be appropriate.

Our audit work has not identified any issues in respect of the completeness of opening balances.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>IFRS 16 implementation has been delayed by one year</p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases</p>	<p>Note 2 of the draft financial statements identifies that an estimated impact of this standard will need to be reported in the 2020/21 Statement of Accounts, and that the authority is continuing to assess the potential impact. At the time of writing, it was not possible to estimate the likely impact as the Council are still in the process of identifying the lease arrangements most likely to be affected.</p>	<p>We have reviewed the disclosures within the financial statements and consider these to be in line with IAS 8 para 31.</p> <p>Subsequent to the production of the financial statements, CIPFA/LASAAC have also confirmed that IFRS 16 will be deferred for another additional year.</p>

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing - £296.9m	The Council owns 5,741 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks Head and Eve to complete the valuation of these properties. The year end valuation of Council Housing was £296.9m, a net increase of £10.5m from 2018/19 (£286.4m).	<p>From our review of management's processes and assumptions for the calculation of the estimate, no issues were identified in regard to the valuation basis. We have challenged management's expert on the use of an index to undertake the valuations of some properties in year.</p> <p>We evaluated the assumptions made by management in undertaking the valuation of Council dwellings by using comparable indices, and raised follow up queries where variances above our tolerable threshold were identified. These are currently being reviewed by the audit team.</p> <p>Management's expert has reported the valuation of Council Dwellings on the basis of material valuation uncertainty due to Covid-19, and we have asked management to include this material uncertainty within the financial statements</p> <p>Our audit work in this area is currently underway, and we will provide members with a verbal update at the Audit, Governance and Standards Committee.</p>	In progress
Investment Properties - £14m	Management have used Wilks Head and Eve to undertake the valuation of their portfolio of investment properties. The valuer has disclosed the valuations on the basis of material valuation uncertainty. The investment properties are classified as Level 3 investments within the financial statements. The total year end valuation of investment properties was £14m, a net decrease of £7.7m from 2018/19 (£21.7m). The large decrease is due to a reclassification in year.	<p>We evaluated the assumptions made by management in undertaking the valuation of investment properties by using comparable indices, and raised follow up queries where variances above our tolerable threshold were identified. Our testing in this area is currently underway</p> <p>Management's expert has reported a material uncertainty in relation to the valuation of investment properties due to Covid-19, and we asked the Council to include appropriate disclosures to reflect this in the statement of accounts.</p> <p>The finance team and the audit team identified that the investment properties balance had been overstated by £1m and requested that management make an adjustment to correct this in the final version of the financial statements. Whilst this does not represent a material adjustment, the Council have agreed to amend the accounts to correct this.</p> <p>We also identified that reclassifications of £6.2m between property, plant and equipment and investment properties have been incorrectly made whereby they should have been made in the previous year, or the basis of reclassification is incorrect</p>	In progress

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £99.1m	<p>Other land and buildings comprises specialised assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. Other land and buildings which are not specialised in nature are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 50% of total assets were revalued during 2019/20.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.</p> <p>The valuation of properties valued by the valuer has resulted in a net decrease of £8.5m. Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. The audit team are in the process of discussing this assessment with management. The total year end valuation of 'Other land and buildings' was £99.1m, a net increase of £10.9m from 2018/19 (£88.2m). The large increase is due to reclassifications from other asset classes.</p>	<p>Our work in relation to the valuation of land and buildings is underway.</p> <p>We evaluated the assumptions made by management in undertaking the valuation of Land and Buildings by using comparable indices, and raised follow up queries where variances above our tolerable threshold were identified.</p> <p>Management's expert has reported a material uncertainty in relation to the valuation of land and buildings due to Covid-19, and the Council has included appropriate disclosures to reflect this in the statement of accounts.</p>	<p>In progress</p>

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																					
Net pension liability – £111.9m	<p>The Council's net pension liability at 31 March 2020 is £111.9m (PY £105.7m) comprising Local Government defined benefit pension scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>Somerset Pension Fund have disclosed a material uncertainty in relation to their property funds in their financial statements. We have requested that the Council include disclosures on this issue in Note 4.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.7m net actuarial gain during 2019/20.</p>	<p>Our audit work in relation to the valuation of the net pension liability is currently underway.</p> <p>We have undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</p> <p>Somerset Pension Fund have disclosed a material uncertainty in relation to their property funds in their financial statements. As the Council's share of the property assets is material, we recommended that the Council include a corresponding material uncertainty within their financial statements.</p> <p>We have made enquiries of the actuary in relation the McCloud/Sargeant judgments, duration of liabilities and the material experience items recognised in year. We currently await their response. We will also make enquiries of the actuary around the salary growth assessment, as set out in the table below.</p>	Inprogress																					
	<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.90%</td> <td>1.85% - 1.95%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.50%</td> <td>Scheme and employer specific, typically 2.85 – 2.95%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>23.3/24.7</td> <td>21.4-23.3/22.8-24.7</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.7/26.2</td> <td>23.7-24.7/25.2-26.2</td> <td>●</td> </tr> </tbody> </table>	Assumption		Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%	●	Pension increase rate	1.90%	1.85% - 1.95%	●	Salary growth	2.50%	Scheme and employer specific, typically 2.85 – 2.95%	●	Life expectancy – Males currently aged 45 / 65	23.3/24.7	21.4-23.3/22.8-24.7	●	Life expectancy – Females currently aged 45 / 65	24.7/26.2
Assumption	Actuary Value	PwC range	Assessment																					
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Life expectancy – Males currently aged 45 / 65	23.3/24.7	21.4-23.3/22.8-24.7	●																					
Life expectancy – Females currently aged 45 / 65	24.7/26.2	23.7-24.7/25.2-26.2	●																					

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

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

Going concern commentary

Management's assessment process

- Management have prepared a paper which contains a review of the financial position as at 31 March 2020 alongside an assessment of the ability of the Council to continue operating for the foreseeable future.
- Management have also prepared a cash flow forecast from April 2020 to December 2021.
- Management have considered the impact of Covid-19 on the Council's ability to continue as a going concern, and have factored this into their medium term financial planning.
- In making their assessment, management have considered the Council's reserves, liquidity, capital expenditure as well as assumptions about income and expenditure over the next few years.

Work performed

- We have reviewed management's assessment and cashflow projections in arriving at the conclusion that the Council is a going concern, and reviewed the disclosures in the narrative report and financial statements.
- We have also reviewed the Medium Term Financial Plan to 2025-26 and the 2020-21 Budget and are satisfied that the Going Concern basis is appropriate for the 2019-20 financial statements.

Concluding comments

Overall we are satisfied with management adopting the going concern basis of accounting, having reviewed management's going concern assessment and cash flow projections to December 2021.

Auditor commentary

- Management's assessment of the use of the going concern basis of accounting is appropriate.
 - The cashflow projections and medium term financial planning projections are based on prudent assumptions about future income
 - We consider that the medium term financial planning projections are based on prudent assumptions about future income and expenditure.
-
- We have not identified a material uncertainty in relation to management's assessment of the use of the going concern basis of accounting. We consider this to be appropriate.
 - The disclosures in the accounts require amendment to include the going concern basis of accounting within the accounting policies.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee and we have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which is included in the Audit, Governance and Standards Committee papers.
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests for the Council's bank and investment balances. This permission was granted and the requests were sent. 4 of these requests are currently outstanding.</p> <p>We requested permission from management to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the assurances from the pension fund auditor.</p> <p>We requested permission from management to send requests to the Council's two valuers. This permission was granted and the requests were sent. We received responses from one valuer involved and we have completed our audit procedures in relation to this request. We are still awaiting a response from the Council's other valuer.</p>
Disclosures	Our identified disclosure and misclassification errors are reported in Appendix C.
Audit evidence and explanations	We obtained difficulties in obtaining working papers and audit evidence to the required standard. Delays were also experienced in receiving the Council's draft financial statements in line with agreed timescales due to the finance team being stretched throughout lockdown. We continue to engage with the finance team to obtain the required evidence required to complete our audit in a timely manner.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – see Appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • if we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Council does not exceed the threshold set for full audit procedures by the NAO.</p>
Certification of the closure of the audit	<p>We are unable to certify the closure of the 2019-20 audit of Somerset West and Taunton Council in the audit report, due to the outstanding objection in relation to Taunton Deane Borough Council's 2018-19 accounts.</p>

Value for Money

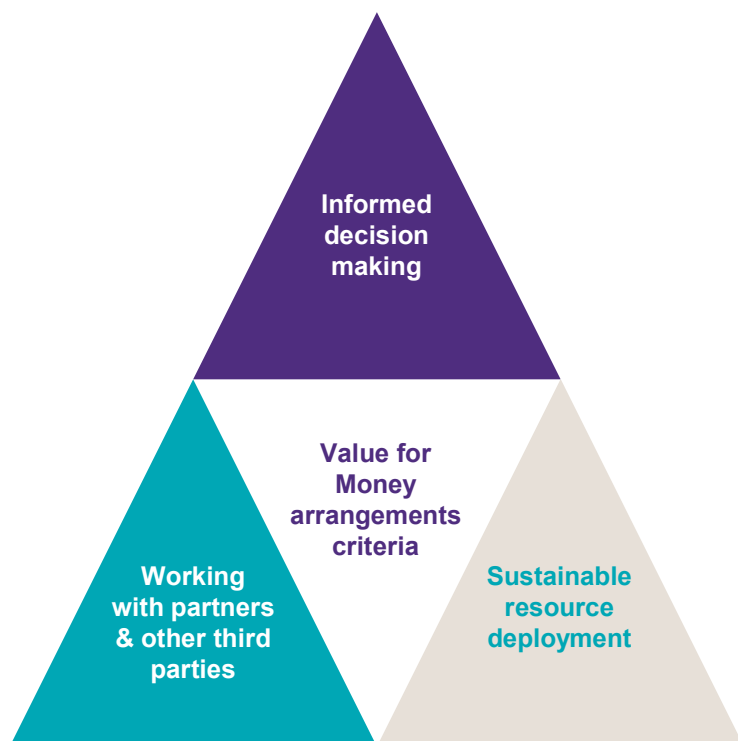
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a significant risk in respect of the Medium Term Financial Position, including the Commercial Strategy. We communicated these risks to you in our Audit Plan in March 2020

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

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

Value for Money

Our work

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

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

- Medium Term Financial Planning and the need to identify further savings in the medium term to balance the budget; and
- future plans to bridge the budget gap, considering the impact of Covid-19 on medium term finances.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 and 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Value for Money

Key findings

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

Significant risk

Findings

Medium Term Financial Position

We reported in our audit plan in March 2020 that the Authority set a budget in February 2019 with a balanced financial plan for 2019/20. This plan includes savings through transformation, and states that there would be a budget deficit of £2.1m per year by 2023/24 without these savings.

We identified that we would review the latest version of the Authority's medium term financial plan (MTFP), and the assumptions that underpin the MTFP including proposed savings, to ensure that these are appropriate.

The Authority is also implementing a capital investment strategy designed to deliver income to support medium term finances. We will consider the governance surrounding this strategy, including the decision making processes and the risk management considerations that support the strategy.

Our detailed review of the assumptions underpinning the MTFP concludes that they are satisfactory and reasonable.

The 2019/20 outturn position was an underspend of £1.8m against the profiled budget which represents a positive variance of 8.2% against the net budget. The budget monitoring report to the end of November 2019 forecasted an overall net overspend of £36k. The previous forecast as at Month 6 was a net overspend of £0.8m largely caused due to additional staffing costs of £0.7m, which was approved via a supplementary budget increase in December 2019. The reason for the underspend is largely due to a number of one-off savings on planning, homelessness, council tax collection, insurance, leisure, and transformation costs. The 2019-20 Capital Outturn shows a significant underspend of £3.6m, which is caused in large part due to timing delays on capital projects which will be carried forward into 2020-21.

Savings are monitored by finance on a regular basis. Savings are built into base budgets, and are therefore monitored through the variances reported in quarterly revenue budget monitoring. The Authority set a balanced budget for the 2020/21 financial year, with a Council Tax increase of £5 for Band D properties being agreed. Significant savings targets are included within the 2021/22 and 2022/23 budgets, which includes income from investment properties in line with the Commercial Strategy, savings from modernisation, as well as reliance on reserves.

In the medium term, the Senior Management Team and the s151 Officer has considered ways in which to create some flexibility around the savings targets and income within the next few years. As a result, there has been a review of the capital programme and this has been reduced by removing some legacy schemes for which firm commitments don't exist. Additionally, the s151 Officer is also looking at funding growth and regeneration capital spend funded through borrowing. The Council are considering a re-refresh of their MRP policy as a result of this which will be completed as part of annual 2021-22 budgeting. The s151 Officer has also obtained approval to transfer £3.9m of New Homes Bonus reserve to General Reserves in 2020-21, noting alternative financing for relevant capital schemes through Community Infrastructure Levy and borrowing. The impact of this is that £3.9m has been released immediately and £0.9m will be released in future years.

The current MTFP runs to 2025/26 with annual savings required by 2025/26 of £6.3m. The MTFP is based on detailed modelling assumptions, which we have reviewed as part of our detailed value for money work. An update to the financial Strategy was taken to Executive Committee in October 2020, and focuses on an update to the financial plan for the 2020-21 to 2022-23 financial years. This includes the impact of Covid-19 on Council Tax and NDR income in future years, and addresses the ways in which risks can be mitigated. This includes the use of reserves. The gap in the MTFP over the next few years represents a significant challenge to the Council, and the use of reserves to bridge the gap is unsustainable. However, the Council has used methods as set out above in relation to the capital programme and commercial strategy in the short to medium term, which will relieve some of the pressure on the use of reserves.

Value for Money

Key findings

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

Significant risk

Findings

Medium Term Financial Position

We reported in our audit plan in March 2020 that the Authority set a budget in February 2019 with a balanced financial plan for 2019/20. This plan includes savings through transformation, and states that there would be a budget deficit of £2.057m per year by 2023/24 without these savings.

We identified that we would review the latest version of the Authority's medium term financial plan, and the assumptions that underpin the MTFP including proposed savings, to ensure that these are appropriate.

The Authority is also implementing a capital investment strategy designed to deliver income to support medium term finances. We will consider the governance surrounding this strategy, including the decision making processes and the risk management considerations that support the strategy.

The Council formally adopted a Commercial Strategy in December 2019. The strategy identified that part of the Council's drive towards financial sustainability would now include identifying new opportunities to generate income and investment in projects which provide good financial returns, in order to fund local authority services where other funding continues to fall significantly. Income from investment property has been budgeted at £2.9m from 2020-21 and has been built into the medium term financial plan.

We have considered the strategy within the current climate, and have also reviewed the arrangements in place to monitor existing investments, and processes for identifying new investments. The governance processes around the Strategy have also been reviewed.

To mitigate against the risk of this new strategy, an investment risk reserve was set up in 2019-20, which has a balance of £3.5m. This has been reallocated from other reserves. The aim of this reserve is to include a buffer against any delays in opportunities or, deals falling through at the last minute which could impact on the income in that particular year. Optimism bias has also been built into the MTFP as management are aware that there are some risks around rate at which assets can be purchased, as well as yield and financing arrangements. This has been built in for 3 years with the intention that any additional income would be transferred to the investment risk reserve to provide protection against potential lower income in future years.

From a review of the governance processes followed, we are satisfied that the governance arrangements included within the commercial strategy have been appropriately followed. The Council's strategy shows that diversification of the market, in terms of the size of property, geographical location, and sector have been clearly considered.

The Council intends to rely on borrowing to fund the initial purchase of commercial properties. On 25 November 2020, at the Spending Review announcement, the Treasury published its response to a consultation on changes to PWLB lending terms. The government said that before borrowing from the facility, councils will now be expected to demonstrate their capital plans do not include any plans to buy assets purely to produce a yield. There is likely to be a significant impact as a result of this on the Council, and we discussed this with the s151 Officer. The Council are exploring what this means for their investment strategy. We would recommend that the Council continue to review their commercial investment strategy in light of this announcement and consider alternative sources of funding.

Conclusion: The Council's MTFP is derived from a robust process and is based on reasonable planning assumptions. The gap in the MTFP over the next few years represents a significant challenge to the Council, and the use of reserves to bridge the gap is unsustainable. The Council has considered this and processes to generate savings in the medium term, such as through the commercial strategy have been considered. The Council's governance processes in relation to the Commercial Strategy are being followed appropriately, however the impact of the Spending Review could have an impact on the Strategy. The Council should continue to monitor the position in light of this announcement. We have raised two recommendations as a result of this in Appendix A.

Independence and ethics

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services




For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of housing capital receipts return	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the combined fees for this work is £23,500 in comparison to the planned fee for the audit of £60,500 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit subsidy claim	18,500	Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.




These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been reported to and approved by the Section 151 Officer and Audit, Governance and Standards Committee. None of the services provided are subject to contingent fees.

Action plan


We have identified 4 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<p>Medium Term Financial Plan</p> <p>The Council's medium term financial plan includes reliance on reserves in the medium term to bridge the budget gap. Whilst an adequate level of resources exists in the medium term, the Council should continue to monitor this and replenish reserves, or find alternative forms of savings to bridge the budget gap.</p>	<p>Management should continue to monitor the medium term financial plan and the reliance on reserves to bridge the budget gap.</p> <p>Management response</p> <p>Agreed. Savings plans will continue to be developed for the short-medium term. Management is mindful of the proposed implementation of unitary structure for local government in Somerset which if approved will provide longer term opportunities for savings.</p>
 Medium	<p>Commercial Strategy</p> <p>The Council's Commercial Strategy is a key strategy within its medium term financial planning, and involves the use of income from investment properties to generate savings. The Spending Review in November 2020 announced that councils will now be expected to demonstrate their capital plans do not include any borrowing to buy assets purely to produce a yield. This may impact upon the Council's ability to fulfil its Commercial Strategy.</p>	<p>Management should continue to review the impact of this announcement on the commercial strategy, and consider alternative sources of funding as appropriate.</p> <p>Management response</p> <p>Agreed. The Council can access a variety of sources for debt and does so as part of the capital and treasury management plans. The S151 Officer will investigate further alternative sources of long term funding if PWLB cannot be used.</p>
 Medium	<p>Counter fraud reporting</p> <p>It was identified that there was no formal counter fraud reporting at the Audit, Governance and Standards Committee.</p>	<p>We recommend that management introduce counter fraud reporting regularly at the Audit, Governance and Standards Committee.</p> <p>Management response</p> <p>Agreed. An annual fraud update report is included in the Audit Governance and Standards Committee Forward Plan for March 2021.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan (continued)

Assessment	Issue and risk	Recommendations
 Medium	<p>Quality of working papers and audit evidence</p> <p>We identified that the quality of working papers, such as creditors and debtors listings, were not to the required standard. Additionally, we identified that sample evidence provided in relation to areas such as capital additions and REFCUS were not based on appropriate third part evidence. This has resulted in delays in the audit process.</p>	<p>We recommend that the Council make improvements to the quality of the working papers identified and provide training to employees around the quality of audit evidence to be provided.</p> <p>Management response</p> <p>Agreed. We have engaged additional temporary capacity within the finance service, with objectives including delivering improvements in the preparation and delivery of financial reporting. This will include building on learning from the challenges faced and ensuring working papers are produced in line with standards clarified through this year's audit.</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of the predecessor Councils' 2018/19 financial statements, which resulted in 5 recommendations being reported in our 2018/19 Audit Findings Reports. We have followed up on the implementation of our recommendations and note that one recommendation has not been addressed, and has also been raised as a recommendation in the current year in the Action Plan.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Taunton Deane and West Somerset: The Council's Medium Term Financial Plan is dependent on savings to be realised from the transformation programme. The programme has incurred higher costs than originally anticipated. The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning, and reserves.	Through discussion with management, we are satisfied that the Council has been monitoring transformation costs in their medium term financial plan.
✓	Taunton Deane: During the course of the audit, it was identified that the Council did not undertake a formal bank reconciliation for the General Imprest (Creditors) bank account. The audit team undertook additional procedures in order to gain assurance over the bank balance as at 31 March 2019. The risk of not undertaking bank reconciliations could be that there might be material variances between the bank and the ledger, therefore the financial statements	During 2019/20 regular monthly reconciliations of the Creditors Account was undertaken as part of monthly control procedures.
✓	Taunton Deane: During the course of our audit work we encountered a number of problems obtaining supporting evidence in relation to payroll supporting documentation, transaction level reports for debtors and creditors, supporting information to prove the completeness of journals and working papers in relation to a number of areas in the financial statements. This led to difficulty undertaking audit procedures.	We encountered difficulties in obtaining working papers and audit evidence during the 2019-20 audit. An updated recommendation has been raised in relation to this in Appendix A.
✓	Taunton Deane: Our testing of Members disclosures of interest found that a proportion of requests had not been returned as at September 2019. Whilst each meeting will require Members to declare interests, we recommend that as there is also a formal process in place for Members to declare any interests, that this process is followed.	Although a similar process for collating Members disclosures was kept in place, the return of forms is now co-ordinated by the Monitoring Officer and other members of the Governance and Democracy Team, who have more regular contact with Members through the committee process. Regular reminders were also given at Council Meetings where outstanding forms were chased.
✓	West Somerset: We identified that the calculation of the provision for Council Tax and NNDR bad debt were not based on specific factors. Specifically, a 30% provision was provided for debts between 2 and 6 years old, which we do not consider to be prudent. Using specific factors as used by Taunton Deane Council, our re-calculated provision for Council Tax is £142k and for NNDR is £151k. The overall difference between the provisions made by the Council and our assessment is £119k.	For Somerset West and Taunton Council calculations were revised based on an average percentage of the former Councils, rounding the percentage up to the nearest 5%.. We have reviewed the bad debt provisions for 2019-20 and can see an increase in these, which is in line with the recommendation.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Investment properties within the Balance Sheet have been overstated by £1.049m. The corresponding adjustment is that Financing and Investment Income and Expenditure has also been overstated.	Dr Financing and Investment Income £1,049	Cr Investment Properties £1,049	£1,049
The categorisation of the bad debt provision has been incorrectly recorded in the Comprehensive Income and Expenditure Statement, with the impact of understating the HRA Expenditure directorate, and overstating Financing and Investment Income and Expenditure by £332k.	Dr HRA Expenditure £332 Cr Financing and Investment Income and Expenditure £332	£0	£0
The movement in reserves statement requires an adjustment between capital grants unapplied and the capital adjustment account of £403k.	£0	Dr Capital Grants Unapplied £403 Cr Capital Adjustment Account £403	£0
Property, plant and equipment, and investment properties have been incorrectly classified, and will require reclassification between the categories of £6.198m.		Dr Property, Plant and Equipment £6,198 Cr Investment Properties £6,198	
Overall impact	£1,049	£1,049	£1,049

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Rental Income from Investment property	Note 15 identifies rental income from investment property as £2.4m, however this should be corrected to £0.5m.	We recommend that management correct this disclosure note	TBC
Revaluation year table	The table currently identifies that land and buildings valued in 2019-20 are £49.3m, and land and buildings valued in 2018-19 are £12.8m. Both figures need to be adjusted by £0.7m to £49.9m and £12.1m respectively.	We recommend that management correct this disclosure note	TBC
Material valuation uncertainty	Note 4 currently reports a material uncertainty in relation to land and buildings. This needs to be expanded to include investment properties and council dwellings. Additionally, Somerset Pension Fund's IAS19 report identifies a material uncertainty in relation to pension fund property investments. As the Council's share of these funds is material, a corresponding uncertainty is required to be disclosed in Note 4.	We recommend that management update this disclosure note	TBC
Contingent liabilities	The contingent liabilities note currently does not include the Derby Teaching Hospitals NHS Foundation Trust & Ors v Aylesbury Vale District Council judgment. This judgment has been allowed an appeal and could impact NNDR payments.	We recommend that management include this judgment within the contingent liabilities note.	TBC
Notes to the Balance Sheet	The Notes to the Balance Sheet note which shows the opening balances as at 1 April 2019 on the Balance Sheet is currently included within the primary statements. This should be moved to be within the 'Notes to the Financial Statements' section.	We recommend that management move the placement of this disclosure note	TBC
Classification of investment properties	Investment properties are shown as being valued as Level 3 investments. These have been valued as Level 2 investments.	We recommend that management update the corresponding disclosure notes to refer to Level 2 rather than Level 3 valuations.	TBC
Going concern	The accounting policies do not make reference to the going concern basis of accounting in preparing the financial statements	We recommend that management add a disclosure in around the going concern basis of accounting	TBC
Salary increases	The salary growth assumption per the actuary's report is 2.5%, but this has been stated as 2.9% in the financial statements	We recommend that management correct the disclosure misstatement	TBC

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our internal actuary has reviewed the impact of GMP equalisation judgement. For councils using Barnett Waddingham the impact is a potential overstatement of the net pension liability of 0.15% equating to £24k for West Somerset District Council, and £134k for Taunton Deane Borough Council. The Councils considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.	£0	£158k	£0	In the prior year, the total impact on the net pension liability was below performance materiality. In the current year, this has been appropriately accounted for within the IAS19 actuary report.
As part of the McCloud ruling the Councils have undertaken a materiality review and identified that there is an understatement in the estimated impact on total liabilities as at 31 March 2019 at Taunton Deane Borough Council of £61k. The revised report showed that there was no impact of the McCloud judgment at West Somerset District Council.	£0	(£61k)	£0	In the prior year, the total impact on the net pension liability was below performance materiality. In the current year, this has been appropriately accounted for within the IAS19 actuary report.
Overall impact	£0	£97k	£0	

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit (excluding VAT)	60,500	TBC*

The fees reconcile to the financial statements.

*Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We will be including an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Microsoft Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC. Our experience identifies average time increases of circa 25%.

As such, we are yet to be in a position to confirm our final fee for the 2019/20 audit. We have also experienced delays during our audit, and will consider any additional costs as we conclude the audit and discuss these with the s151 Officer before taking any proposed fee variances to PSAA Ltd. We will report our final fee via the Annual Audit Letter.

Fees

Non-audit fees for other services	Proposed fee	Final fee
Certification of housing capital receipts return	£5,000	TBC**
Certification of Housing Benefit subsidy claim	18,500	TBC**

** Our work on the Council's claims has yet to be concluded and as such our final fee cannot yet be confirmed. We will report the findings of our work and the final fees upon completion of these engagements.

Audit opinion

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

DRAFT Independent auditor's report to the members of Somerset West and Taunton Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Somerset West and Taunton Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing (HRA) Income and Expenditure Account, the Statement of Movement on the HRA Balance, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Balance Sheet, EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Assistant Director – Finance (S151 Officer) and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

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

- the Assistant Director – Finance (S151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director – Finance (S151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Audit opinion

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

In our evaluation of the Assistant Director – Finance (S151 Officer)'s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings, Council Dwellings, investment properties and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 4 to the financial statements, **[the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in [both] the Authority's property valuer's report [and the pension fund's property valuation reports]].** Our opinion is not modified in respect of this matter.

Other information

The Assistant Director – Finance (S151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Audit opinion

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

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Assistant Director – Finance (S151 Officer) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Assistant Director – Finance (S151 Officer). The Assistant Director – Finance (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Assistant Director – Finance (S151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Assistant Director – Finance (S151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Governance and Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Audit opinion

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Report on other legal and regulatory requirements – Certificate

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector in relation to the 2018-19 Taunton Deane Borough Council financial statements, under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



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Somerset West and Taunton Council

Audit, Governance and Standards Committee – 17 December 2020

Assessment of Going Concern Status – Somerset West and Taunton Council

This matter is the responsibility of Councillor Henley, Corporate Resources

Report Author: Paul Fitzgerald, Assistant Director – Finance (S151 Officer)

1 Purpose of the Report

- 1.1 To inform the Audit, Governance and Standards Committee of the Assistant Director Finance and S151 Officer's assessment of Somerset West and Taunton Council as a "going concern" for the purposes of producing their Statement of Accounts for 2019/20.

2 Recommendations

- 2.1 Members review and note the assessment made of the Council's status as a "going concern" as a basis for preparing their 2019/20 Statement of Accounts.

3 Risk Assessment

- 3.1 There is a presumption that as a local authority the Council is a going concern. However, for the purposes of preparing the accounts the assessment is important as if the assessment for financial reporting purposes is the Council is not a going concern, this places ongoing service delivery, and asset and liability valuations at risk. This is mitigated through effective governance and financial control.

4 Background and Full details of the Report

- 4.1 The concept of a "going concern" assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice (the Code) and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
- 4.2 The Code also confirms that transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements are prepared on a going concern basis.
- 4.3 If the assessment determined that the Council is not a "going concern", particular care

would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.

- 4.4 The council is required to compile the Statement of Accounts in accordance with the current Code of Practice on Local Authority Accounting (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the Statement of Accounts have been prepared assuming that the council will continue to operate in the foreseeable future and that they are able to do so within the current and anticipated resources available. By this, it is meant that the council will realise its assets and settle its obligations in the normal course of business.
- 4.3 The main factors which underpin this assessment are:
- The Council's current financial position;
 - The Council's projected financial position;
 - The Council's governance arrangements;
 - The regulatory and control environment applicable to the Council as a local authority.

5 Current Position

- 5.1 2019/20 is the first year of operation for Somerset West and Taunton Council, with the local authority functions and associated assets, liabilities, rights and obligations having transferred from the predecessor authorities on 1 April 2019. The Shadow Council set a balanced budget for 2019/20, and as shown below the General Fund reported a significant underspend for the year and the Housing Revenue Account came in on budget.
- 5.2 Financial risks during the year were influenced largely by the new Council bedding in and the organisation's management and workforce focussing on stabilising and improvement following the major changes arising through the transformation programme in the previous two years. During 2019/20 four new Director posts were added to the structure, and the leadership team has worked through a process of reshaping the organisation structure to align with four new directorates. Staff capacity has been increased to stabilise and manage service standards following the period of disruption, and this higher cost base has been added into the Medium Term Financial Plan (MTFP) estimates to establish an up to date assessment of baseline costs for financial planning purposes.
- 5.3 The financial risk environment has been significantly influenced, mainly after the reporting date for last year's accounts, by COVID-19 and the impact on service costs and income for the Council. Government emergency funding and income loss compensation scheme have largely mitigated the additional net costs for the Council, but additional funding from reserves is needed in 2020/21. SMT and the S151 Officer have prudently strengthened reserves in view of this immediate risk and also with the aim of supporting the budget over the next 2-3 years. The MTFP assumptions and forecasts have been updated with reasonable estimates of the ongoing impact of COVID on costs and income, however this remains an area of uncertainty that builds risk into the accuracy of those forecasts.
- 5.4 The Council's updated Financial Strategy, agreed by the Executive in October 2020,

highlights significant medium term financial pressures, and the financial plan looks to reduce these pressures by using reserves in 2021/22 and 2022/23. Despite this, the challenge in 2022/23 in particular will require action to manage costs and grow income in order to achieve a balanced budget.

- 5.5 Despite the forecast included in the MTFP, financial forecasting in respect of funding carries a high degree of uncertainty, making medium-long term financial planning extremely difficult. The full Comprehensive Spending Review due in 2019 was deferred (due to UK exiting the EU) with only a 1-year finance settlement provided by Government for 2020/21. The CSR and Autumn Budget have also been delayed in 2020, together with anticipated reviews of business rates retention funding and New Homes Bonus grant, (due to UK exiting the EU and COVID) so funding estimates in our MTFP are currently prepared on a 'roll-forward' basis in the absence of any certainty around possible changes.
- 5.6 Despite the uncertainty, the current financial position is underpinned by healthy reserves, providing a good degree of financial resilience in the short to medium term. The Council has absorbed the in-year pressures from COVID and also provided additional funding to support economic recovery. The Council is holding healthy general reserve balances, and also prudent reserves to mitigate volatility in business rates funding and property investment income.
- 5.7 The prospect of structural change for local government in Somerset is likely, with the districts in Somerset and the County each presenting proposals for unitarisation. Implementing any change will require up-front investment, and would be expected to offer financial savings in the longer term. No assumptions for costs and income related to structural change are currently included in the MTFP pending any decision by Government.

6 The Council's Year End Position

General Fund

- 6.1 The financial performance in 2019/20 resulted in a net underspend of £1.836m (8.2% of Net Budget) for the year. As at 31 March 2020 the Council held a General Reserves Balance of £4.522m (minimum level is set at £2.4m) and held Earmarked Reserves totalling £20.586m. The Earmarked Reserves balance increased in 2019/20 by £2.344m during the year mainly due to monies set aside for Economic Development Initiatives and the Investment Risk Reserve. The adequacy of reserves, and the ongoing requirement for specified earmarked reserves, is reviewed on a regular basis. It is recommended that £1.2m from earmarked balances is returned to General Reserves in 2021/22, together with £3.9m from NHB earmarked reserve and £1m from Business Rates earmarked reserve. This reflects the leadership team's objectives for providing resilience and additional resources to mitigate COVID costs and support economic recovery, and provide flexibility to soften the project budget gap in the MTFP in the next 2-3 years.

Housing Revenue Account

- 6.2 The financial performance in 2019/20 resulted in a small net underspend of £8k (0.03% of Gross Income Budget). As at 31 March 2020 the Council held an HRA Reserve Balance of £2.701m (minimum level is set at £1.8m). In addition there are HRA Earmarked Reserves totalling £1.648m to support specific issues. The level of adequate reserves, and the ongoing requirement for specified earmarked reserves, is reviewed on

an annual basis.

Table 1 – Revenue Reserves Summary

	General Fund		HRA		Total £m
	General £m	Earmarked £m	General £m	Earmarked £m	
Opening Balance	2.857	18.242	2.718	2.719	26.536
Movement in year	1.665	2.344	-17	-1.071	2.921
Closing Balance	4.522	20.586	2.701	1.648	29.457
Minimum Balance	2.400		1.800		

7 The Council's Projected Financial Position

- 7.1 The Council has maintained a medium-term financial plan (MTFP) that is updated annually to reflect a five-year assessment of the Council's spending plans and associated funding. It includes the ongoing implications of approved budgets and service levels and the revenue costs of the Council's capital programme, as well as the management of debt and investments.
- 7.2 A balanced budget for 2020/21 was approved in February 2020, which included allocating an additional £300k to general reserves.
- 7.3 The 2020/21 budget has been reorganised in the early part of the financial year to reflect the new directorate structure. Detailed monthly monitoring is undertaken to ensure costs and income are accurate and up to date, and to enable effective management control and reporting. The directors and their management teams, supported by the finance team, are closely analysing base budgets to inform forecasts for the year.
- 7.4 The forecast for 2020/21 has been extremely challenging and volatile through the impact of COVID on service costs and income. The budget is closely monitored, with updated forecasts reported to the SMT Performance Board monthly, and to Committee quarterly. An overspend is forecast for the year, however this has reduced since the initial forecasts at the beginning of the year. Work undertaken to ensure flexibility in reserves through the financial strategy review means the Council is well placed to mitigate in year pressures.
- 7.5 The projected position in the medium term financial plan is more challenging, primarily due to the expected reduction in business rates and new homes bonus funding, at the same time as service priorities and cost inflation is projected to increase service budget requirements. The Budget Gap has been softened in the near term through planned use of reserves in 2021/22 and 2022/23 in the MTFP, enabled by the financial strategy. However there will be pressure to increase income further, and deliver modern efficient services and sharing of services, to ensure the projected budget gap is addressed.

8 The Current Financial Position (Balance Sheet)

- 8.1 The Balance Sheet shows the value at the end of the financial year of the Council's assets and liabilities. The net assets (assets less liabilities) are matched by reserves held. For 2019/20 accounts, the final Balance Sheet position as at 31 March 2020 shows the Council had net assets of £258.9m. One of the main components within long term liabilities is the pension scheme liabilities which currently stand at £111.912m, and will be reduced over the long term through deficit reduction payments. The other main component relates to external borrowing of £75.601m, which relates entirely to the Housing Revenue Account.

Table 2 – Summary Balance Sheet as at 31 March 2020

	£000
Non-current assets (e.g. land and property, plant, equipment, vehicles)	450.8
Net current assets (debtors, stock and cash less short term creditors and liabilities)	-4.1
Long term liabilities and provisions	-187.8
Net Assets	258.9
Usable reserves	60.5
Unusable reserves	198.4
Total Reserves	258.9

8.2 Included within the net current assets is cash and investments totalling £33.717m. The balance provides an appropriate level of liquidity to meet short term cash flow requirements.

9 Governance Arrangements

9.1 The Council operates within a governance framework very similar to its predecessors. A new senior management structure and leadership team has been established during the year. The political leadership was created following local elections in May 2019.

9.2 The formation of the new Council was one of the outcomes of the transformation programme undertaken by the predecessor Councils, who operated a shared management and workforce. The organisation was fundamentally redesigned through transformation, and further realignment of structures has evolved during the last financial year.

9.3 The Annual Governance Statement (AGS) has concluded the Council's governance arrangements are effective, and whilst there has been a strong focus on stabilising and improving services the AGS contains an action plan identifying further plans for improvement during 2020/21. Some weaknesses in the control environment have been identified through the audit plan, reflecting disruption in workforce and business processes particularly in the first half of 2019/20, and action has been taken and is continuing to manage and mitigate these.

10 The External Regulatory and Control Environment

10.1 As a principal local authority councils have to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and Central Government control there are other factors such as the role undertaken by the External Auditor as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

11 Emerging Risks

COVID and Economic Recession

11.1 The Budget for 2020/21 was before any significant impact of COVID had emerged. COVID has had a significant impact this year, with the Council incurring additional costs to support local communities and business, as well as a large reduction in income particularly during the lockdown period. The Council has also reprioritised reserves to

support economic recovery initiatives. Overall, the additional net costs related to COVID is projected to be c£6m in 2020/21. Approximately 80% of these costs have been supported by additional funding from Government, with the balance to be met from the Council's own resources.

- 11.2 It is anticipated there will be ongoing financial risks due to COVID in future years. The MTFP reflects current estimates of the Council's share of 2020/21 Collection Fund losses through reductions in business rates and council tax income, which will be accounted for in 2021/22. The tax base for both business rates and council tax are also expected to be lower than pre-COVID assumptions, for example as housing growth has slowed and demand for local council tax support has grown.
- 11.3 The Government has supported businesses, particularly in the retail, hospitality and leisure sector, through £44m in grants and £28m in a business rates 'holiday' in 2020/21. This has provided more than £70m in financial assistance to businesses in the district during 2020/21. If the economy doesn't recover sufficiently and financial assistance is not continued next year this will place an increased risk to tax collection and increased service costs next year.

Funding

- 11.4 Following the one-year Spending Round in 2019, the Government has delayed the Autumn Budget Statement until late 2020 and also confirmed there will be a one-year only Spending Review in 2020. It is unclear at this stage what impact this will have on the Finance Settlement for 2021/22, and clearly this adds inherent risk to funding assumptions in future years. We know the Fair Funding Review has been deferred again, and cannot make any realistic assumptions about the impact on the Council's funding at this stage. The Business Rates funding target is due to be reset, which will remove the 'gain' of business rates growth from the funding baseline. It is now anticipated this will also be deferred however this has not yet been confirmed by Government at the time of writing this report. New Homes Bonus is due to be reviewed but again this has been delayed, and it is unclear whether the funding will decline as anticipated in our current MTFP. Council Tax remains the most stable form of funding, however forecasts contain risk due to rate of growth, demand for council tax support, and the continuation of annual announcements from Government on tax increase limitations.

Business Rates

- 11.5 Business Rates funding assumptions contain material risks due to COVID and the Reset as referred above. In addition there are two material risks to rating income. Firstly, there are two challenges currently registered with the Valuation Office to the Rateable Value for Hinkley B power station. This is likely to see a significant reduction in business rates. The Council has no information to predict an outcome pending the VOA completing its valuation process, therefore the MTFP contains a 'reasonable guess' at this stage. In addition, the legal process regarding the NHS Foundation Trusts claims is ongoing, with the risk of a potentially large refund and ongoing reduction in business rates income. Immediate risks are mitigated through reasonable provisions for appeals, prudent budget estimates and the Council's business rates volatility reserve.

Commercial Investment and Income Generation

- 11.6 Following the Council's decision to implement a new Commercial Investment Strategy in December 2019, the Council is actively growing and managing an increased investment property portfolio. This is exposed to market risk, however this is

underpinned by robust governance and due diligence arrangements. Whilst this strategy diversifies the Council's income and helps to mitigate reductions in other funding streams, there is a risk of volatility e.g. through voids. Budget volatility and landlord risk is managed through reasonable budget estimates and holding prudent risk reserves.

Delivering Savings

- 11.7 The Council is required to achieve significant savings in order to balance the medium term financial position, through a combination of income growth and delivering efficiency through modernisation and sharing of services. The budget gap is proposed to be softened over the next 2-3 years through use of reserves as a temporary solution, however longer-term sustainable income/savings will need to be delivered in future years to balance the long term position. Having reduced costs over many years, and now growing income through investment, it will not be easy to deliver the savings needed without potentially difficult choices being made by Members on service priorities.

Unitarisation of Councils in Somerset

- 11.8 Government has invited submissions from local authorities in Somerset to progress the creation of one or more unitary authorities. In terms of financial risks, there will be a need for upfront funding for implementation costs, and a large scale programme of change will inevitably be a priority focus for leadership and management capacity. There is also a risk that resources are focussed on delivering structural change, reducing capacity and focus for delivering income growth and savings and/or affecting the timing of delivery.

12 S151 Officer Opinion

- 12.1 It is considered that, having regard to the Council's arrangement and such factors as are highlighted in this report, the Council remains a "going concern".
- 12.2 The Council has set a balanced budget for 2020/21, and despite the impact of COVID and economic challenges, the Council remains resilient to in year financial pressures both through additional funding provided by Government and the strength of the Council's reserves position.
- 12.3 The short term nature of the finance settlement from Government increases the level of uncertainty in financial planning. The Spending Review was for one year in 2019, and will be again in 2020, which is understandable due to the scale of impact of COVID on public spending and the national economy but makes medium term financial planning difficult. Funding from business rates and new homes bonus is projected to fall sharply in the next two years, however the funding position is not yet confirmed.
- 12.4 The Council's reserves are well-placed to mitigate net spending pressures in 2020/21, and are planned to be used to support the draft budget for 2021/22 in the financial strategy, and it is expected the Council will be able to set a balanced budget in February 2021. The longer term picture is currently projected to be more challenging and, whilst greater certainty is needed to ensure budget targets are realistic, the Council's leadership is encouraged to maintain a longer term perspective in financial planning to ensure ongoing sustainability of services.

Democratic Path:

- **Audit Governance and Standards Committee – Yes 17 December 2020**
- **Executive – No**

- **Full Council – No**

Reporting Frequency: Annually

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Somerset West and Taunton Council

Audit, Governance and Standards Committee - 17 December 2020

Somerset West and Taunton District Council Statement of Accounts 2019/20

This matter is the responsibility of Executive Councillor Henley, Corporate Resources

Report Author: Martin Henwood, Corporate Finance Advisor

1 Executive Summary / Purpose of the Report

- 1.1 The Statement of Accounts for 2019/20 is required to be approved by the Audit Governance and Standards Committee and signed by the S151 Officer and the Chair of the Audit Governance and Standards Committee. The Statement of Accounts document is attached to this report.
- 1.2 As the audit is still work in progress at the time of writing, there may be changes between this and the final document. It is not anticipated that there will be significant changes, and in order to complete the process, it is requested that the formal sign off is delegated to the Chair of the Audit Governance and Standards Committee and the S151 Officer in the event the auditor is not in a position to finalise testing and confirm his opinion by the date of the Committee. If there are significant changes, the Committee will be notified and consideration will be given to a further, special meeting of the Committee in the near future.
- 1.3 This report also links to and reflects the Audit Findings Report which was prepared by and will be presented by the Council's external auditors – Grant Thornton UK LLP.
- 1.4 As part of the overall process for approving the Statement of Accounts, a Management Letter of Representation has to be signed by the Council. A draft letter of representation is attached.
- 1.5 Our external auditors have also asked that from this year the Management Assurance risk assessment document is brought to this Committee for approval, and this is attached with this report.

2 Recommendations

- 2.1 The Committee is recommended to:
 - a) Note the Auditor's unqualified opinion on the Statement of Accounts.
 - b) Approve the 2019/20 Statement of Accounts as attached to this report.

- c) Delegate to the Chairman of the Committee and S151 Officer approval to sign the Statement of Accounts, subject to the caveat identified in paragraph 1.2. above.
- d) Endorse the Chairman of the Committee signs the management letter of representation in respect of the financial statements for the year ended 31 March 2020.
- e) Approve the Management Assurance document.

3 Background and Full details of the Report

- 3.1 The Accounts and Audit Regulations 2015 require the audited Statement of Accounts to be approved by a resolution of a nominated committee. The current constitutional arrangements devolve this responsibility to the Audit Governance and Standards Committee.
- 3.2 The S151 officer is usually required to sign off the unaudited Draft Accounts as true and fair by 31 May. However this deadline was extended to 31 August due to the coronavirus. The unaudited accounts were signed off on 13 August 2020.
- 3.3 The audited Statement of Accounts must usually be approved by Committee by 31 July. Once approved the Statement must be signed by the S151 Officer and the Chair of the Audit Governance and Standards Committee, and published on the Council's website. Due to coronavirus this deadline was extended to 30 November 2020.
- 3.4 As at 30 November, the Council's external auditor, Grant Thornton UK LLP, had not yet concluded the audit, and this was advised on the Council's website. As with Authorities nationally the delay has arisen due to a combination of factors, including:
 - the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations,
 - the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed, and
 - the inherent complexity of the Council's 2019/20 statement of accounts as the Council's first year of operation.
- 3.5 The Council's Statement of Accounts is being audited this year by Grant Thornton UK LLP. At the time of writing this report, Grant Thornton has indicated its intent to issue an unqualified opinion, as reported in the Audit Findings Report however this is subject to completion of residual work to finalise the audit testing.
- 3.6 The Management Letter of Representation is a formal letter to the external auditors, Grant Thornton LLP, which is signed by the Council's senior management. The letter attests to the accuracy of the financial statements that the Council has submitted to the auditors for their analysis.
- 3.7 The Management Letter of Representation enables the Council to declare in writing that the statement of accounts and other presentations to the auditor are sufficient

and appropriate and without omission of material facts to the best of the management's knowledge. The auditors will use this letter as part of their audit evidence.

- 3.8 Each year the Council has to provide a Management Assurance (ISA240) letter to the external auditors. In previous years this has been signed by the Chief Executive and the Chair of the Audit Governance and Standards Committee. In 2019-20, to improve transparency, resilience and reliability of the document, our external auditors have asked that this is also approved by this Committee.

4 Statement of Accounts

- 4.1 The Statement of Accounts for 2019/20 has been prepared on an IFRS (International Financial Reporting Standards) 'true and fair view' basis, in line with the CIPFA (Chartered Institute of Public Finance Accountancy) Code of Practice on Local Authority Accounting in the UK 2019/20.
- 4.2 The Statement of Accounts contain four main statements reflecting the position of the Council at 31 March 2020:
- Comprehensive Income and Expenditure Statement
 - Movement in Reserves Statement
 - Balance Sheet, and
 - Cash Flow Statement
- 4.3 There are also supplementary statements related to the Housing Revenue Account, and the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).
- 4.4 The Council has no subsidiary companies and therefore there are no Group Accounts.

Comprehensive Income and Expenditure Statement

- 4.5 The Comprehensive Income and Expenditure Statement (CIES) shows the day to day revenue spending and income on the Council's services. It also shows the council tax and Government grants received to help pay for those services. The CIES shows the net cost on an "accounting basis" which includes accounting adjustments such as depreciation, impairment and revaluation losses, and other types of accounting adjustments. These adjustments are then reversed out in the Movement in Reserves Statement to show the "funding" position of the Council.
- 4.6 As these are the accounts for the first year of the Council, there are no comparator values for the previous year in the CIES.
- 4.7 The Financial Outturn position for 2019/20 was reported to Executive Committee on 28 October 2020. This included information relating to the Council's financial performance for the 2019/20 financial year. The report highlighted key variances to the budget and provided explanations for these.

Movement in Reserves Statement

- 4.8 This account shows the changes in the Council's financial resources over the year by showing the movement on the reserves held. These are analysed into Usable Reserves (these can be used to fund spending) and Unusable Reserves (reserves that cannot be spent as they contain technical accounting adjustments that do not represent available funding).
- 4.9 The total of the Council's Usable Reserves (capital and revenue combined) has increased by £10.438m in year to £60.530m.
- 4.10 The Statement shows that the General Fund Reserve balance is above the minimum level required in the Council's financial strategy, with General Fund Reserves increasing from £2.857m to £4.522m. The recommended General Fund minimum balance reserve level for SWTC is £2.4m.

Balance Sheet

- 4.11 The Balance Sheet provides a snapshot of the Council's financial position as at 31 March 2020. An indicative opening balance as at 1 April 2019 is provided for comparison purposes, as this is the Council's first year.
- 4.12 The Balance Sheet shows that net assets have fallen slightly from £258.9m to £257.8m. The most significant liability on the balance sheet remains in respect of the Pensions Reserve deficit at £111.9m.

Cash Flow Statement

- 4.13 The cash flow statement summarises the flows of cash and cash equivalents into and out of the Council during the year.
- 4.14 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.
- 4.15 During the year the Council's cash and cash equivalents rose by £6.663m.

Housing Revenue Account

- 4.16 The Housing Revenue Account (HRA) Income and Expenditure Account shows the economic cost in year of providing housing services.
- 4.17 The HRA for 2019/20 shows that net income for the year of (£3.978m) compared with net expenditure of £2.275m in the previous year.

Collection Fund

- 4.18 The Collection Fund Statement shows the total amount the Council has collected from tax payers on behalf of, and distributed to, all of the precepting authorities and Central Government. The major precepting authorities are Somerset County Council, Avon and Somerset Police, Devon and Somerset Fire and Rescue Authority, and Central Government. The Council has a statutory obligation to maintain a separate Collection Fund Account.
- 4.19 The presentation of the statement clearly separates the Council Tax and Business Rates (NDR) movements and balances. The statement shows that the Council has collected £157.475m on behalf of ourselves, the precepting authorities and Central Government. This comprises council tax income of £98.577m and business rates income of £58.898m.
- 4.20 The statement currently shows an end of year deficit of £0.038m (SWT share is £3k) in respect of Council Tax and an end of year surplus of £4.338m (SWT share is (£1,964k)) in respect of business rates.

5 Result of the Audit of the Statement of Accounts

- 5.1 Much of the external audit review has been completed and subject to work outstanding being completed and queries being resolved, the auditor has indicated their intention to issue an “unqualified opinion” for the Statement of Accounts, as showing a true and fair view of the Council’s financial position and performance.
- 5.2 The auditor has also reviewed our arrangements to secure economy, efficiency and effectiveness in our use of resources, and provides an opinion in the form of a value for money conclusion. Their report states that “the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources”.
- 5.3 During the audit misstatement and disclosure changes were identified which have been made in the final set of financial statements. These have been identified in Appendix C of the Audit Findings Report by Grant Thornton included within this Agenda.
- 5.4 The most significant items within Appendix C relate to valuations and classification of property. The adjustments detailed here have been included in the updated Statement of Accounts provided to this meeting. Changing economic conditions have led what might have been expected to be pure investments for financial gain to become PPE Land and Buildings, when assets are retained for their wider benefits to the community rather than being disposed of if the return is not as anticipated.

6 Links to Corporate Aims / Priorities

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

7 Finance / Resource Implications

7.1 These are included within the Statement of Accounts document attached to this report.

8 Legal Implications

8.1 There is a Statement of Responsibilities within the Statement of Accounts, which summarises responsibilities for the Council and its S151 officer. The Accounts are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, which specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council.

8.2 The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003. These proper practices apply to:

- Statements of Accounts prepared in accordance with the statutory framework by the Accounts and Audit (England) Regulations 2015
- The audit of those accounts undertaken in accordance with the statutory framework established by section 5 of the Local Audit and Accountability Act 2014.

Democratic Path

- **Audit Governance and Standards Committee - 17 December 2020**

Reporting Frequency: Annually

List of Additional Documents:

Somerset West and Taunton Council Statement of Accounts 2019/20
Letter of Representation
Management Assurance Letter (ISA 240)

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SOMERSET WEST AND TAUNTON COUNCIL

STATEMENT OF ACCOUNTS 2019/20

AUDIT GOVERNANCE AND STANDARDS COMMITTEE

17 December 2020

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Narrative Report

STATEMENT BY THE ASSISTANT DIRECTOR – FINANCE (S151 OFFICER)

INTRODUCTION

Somerset West and Taunton Council (SWTC) was formed on 1 April 2019, as a single new district council delivering the services and functions previously provided by its predecessor councils: Taunton Deane Borough Council and West Somerset Council. The two councils worked in partnership from 2013, sharing a single team of staff and a Chief Executive. A business case was developed and proposals made to the Government for the councils to create a single new council. This was approved by the Secretary of State for Housing, Communities and Local Government in May 2018.

There are 59 councillors, following elections in May 2019, serving the same geographical area as the two former councils.

All the assets, liabilities, rights and obligations from the former councils transferred to Somerset West and Taunton on 1 April, and this document presents the first annual Statement of Accounts for SWTC.

This report highlights some of the most important matters reported in the accounts and provides a management commentary on the financial performance and standing of the Council. The commentary is focused both on the performance in the past year and on issues affecting the Council going forward.

The COVID-19 pandemic is clearly having a major impact worldwide, and started to impact on the Council's services, costs and income late in the financial year. This is expected to have a significant impact during 2020/21 in particular.

SOMERSET WEST AND TAUNTON COUNCIL – KEY INFORMATION

Somerset West and Taunton is a local government district in the County of Somerset. It has an area of 469 square miles and an estimated population of 152,300. The district includes the county town of Taunton and an attractive mix of urban, rural and coastal towns and villages.

As a shire district, the Council delivers local services within a two-tier structure of principal local government authorities, with 'upper tier' services provided by Somerset County Council and 'lower tier' services provided by SWTC. The Council maintains responsibility for the management and ownership of its own social housing stock (more than 5,600 dwellings) transferred from Taunton Deane, with the costs and income for this being accounted for separately in a ring-fenced Housing Revenue Account. The Council is responsible for a wide range of services including (but not limited to):

- Housing policy and enabling
- Housing – management of own stock
- Housing options and homelessness
- Planning
- Waste collection and recycling
- Crematorium and bereavement services
- Economic development
- Regulatory services such as environmental health and licensing
- Council tax and business rates administration
- Housing benefits
- Provision of off-street parking
- Electoral registration and elections
- Planning
- Building control
- Leisure and arts

THE GOVERNANCE FRAMEWORK

The governance framework consists of the systems and processes, and culture and values, by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost effective services.

In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Audit Governance and Standards, Scrutiny, and Executive Committees or Council as appropriate.

Further information is included in the Annual Governance Statement.

THE CORPORATE STRATEGY AND PLAN

Following the formation of the new Council in April and the election of the new political administration in May 2019, the Council has developed a new Corporate Strategy which was approved in October 2019. The Strategy provides a clear direction for the Council to follow, with four key themes where the Council will concentrate its efforts and resources:

Our environment and economy	Outcome: A low-carbon, clean, green and prosperous district that attracts high quality employment opportunities and encourages healthy lifestyles.
A transparent and customer focussed Council	Outcome: A Council which informs and engages openly with our stakeholders and which consistently delivers excellent customer service.
Homes and communities	Outcome: A financially self-sufficient Council which has expanded its commercial activity and generated more income in order to support service provision.
Clarity on the role and purpose of the Council	Outcome: A district which offers a choice of good quality homes for our residents, whatever their age and income, in communities where support is available for those who need it.

The Corporate Strategy is not intended to capture everything that the Council does nor does it include the detail of our work and projects. That is the role of the Corporate, Operational and Individual Plans which will flow from the Corporate Strategy.

DECISION MAKING AND RESPONSIBILITIES

The Council consists of 59 elected Members, with an Executive of Lead Members who are supported and held to account by Scrutiny Committees. Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business including responsibilities and functions of the Council, committees, the Executive and officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate. The Constitution sets out the functions of key governance officers, including the statutory posts of Chief Executive, Monitoring Officer and Section 151 (Chief Finance) Officer. It explains the role of these officers for ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

MANAGING RISK

The Council's Risk Management Policy is fundamental to the system of internal control. It involves an ongoing process to identify the risks to our policies, aims and objectives and to prioritise them according to likelihood and impact. It also requires the risks to be managed efficiently, effectively and economically. All Members and managers are responsible for ensuring that risk implications are considered in the decisions they take. This is especially important as the Council goes through its Transformation programme.

Senior management meet to identify the principal risks to the Council. These risks are recorded in a Corporate Risk Register. Each Service Area also keeps a separate risk register for its area. These registers also record the controls necessary to manage the risks. The registers are regularly reviewed and challenged by senior management and by the Audit Governance and Standards Committee. Specific assurance is sought concerning those risks associated with the key elements of the Governance Framework and that any necessary improvements to controls have been implemented. The Governance

Framework cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

FINANCIAL MANAGEMENT

The Council is financially resilient with a good level of revenue reserves. During 2019/20 the Council has operated with higher than normal degree of risk due to the scale of disruption within the organisation through the major transformation programme running alongside the creation of the new council. The Shadow Council for SWTC set a balanced budget for 2019/20 which reflected transitional costs needed to maintain services during the period whilst operating efficiencies were fully designed and delivered. Significant staff changes took place within the former councils during the previous financial year and this continued in the early months of 2019/20 as the programme of recruitment to new roles was finalised.

The Council set a budget for 2019/20 based on the operating model designed through the transformation programme, with the budget restructured for the start of 2019/20 to fit with this new design. The operating model flexed during the year and the new leadership agreed the appointment of new Directors, who were appointed at the beginning of 2020. The leadership team and finance officers have worked through a process to further restructure budgets to reflect the new Directorate structure ready for 2020/21 financial year. Responsibility for budgets has therefore changed through the year as new staff have been recruited within services and within the finance team, and as budgets have been reorganised to adapt to changes in the management structure.

Despite the challenges due to the scale of change it is pleasing to report the Council has operated within budget for the year, reporting an underspend against budget and an increase in general reserves of £1.67m. This included the net effect of a range of underspends and overspends across services, and also the release of surplus financial provisions set aside in the previous year for the estimated costs of staff exits.

Looking forward, the focus remains on realising the financial benefits of modernising working practices to be more 'lean' and customer focused, as well as delivering ambitious income generation plans. The financial landscape within local government remains challenging, with years of ongoing reductions in grant funding from government driving the need to make savings and deliver income growth through other sources. With this in mind the Council has approved a commercial investment strategy during the year with the aim of prudently diversifying income sources and generating essential funds to enable local service priorities to be delivered.

There are reasonable arrangements for effective financial control through our accounting procedures, key financial systems and the Financial Regulations. These include established budget planning procedures and regular financial performance reports to Councillors. A key focus for the leadership team and finance officers during 2020/21 is to stabilise responsibility for and organisation of budgets, and invest in improved, more regular financial reporting to leadership and management to strengthen budgetary control and reporting of financial performance. Our treasury management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review.

The Council's financial statements and arrangements for securing value for money are reviewed each year by our external auditor. The Council has opted in to the Public Sector Auditor Appointments framework, as an efficient approach to procuring external audit services. Grant Thornton UK LLP is our appointed auditor for 2019/20.

COUNCIL'S PERFORMANCE

The Council's Annual Plan sets out the focus for 2020/21 as well as a look back at some of the highlights for 2019/20. This includes many achievements within the corporate strategy themes, with examples set out below:

Our Environment and Economy

- The Council has declared a climate emergency, we have undertaken public consultation on a Carbon Neutrality and Climate Resilience framework for our District.
- We have offered all parish and town councils the opportunity to apply for grants of between £500 and £1,500 towards the installation of electric vehicle charging points in communities throughout the district.
- In November 2019, working with the Somerset West Private Sector Housing Partnership and the Centre for Sustainable Energy we made a successful bid for more than £900k, into the Warmer Homes Fund. This will help Private Sector Households across Somerset access ways to improve energy efficiency of their homes, to improve heating systems, and energy efficiency within 175 SWT council-owned homes.
- We have started the process for creating a new Local Plan for the new District.
- There has been a great deal of progress developing feasibility studies and engaging with Network Rail, Great Western Railways, Mid-Devon District Council and others regarding the possibility of opening a railway station in Wellington.
- In the winter, a section of the Watchet harbour wall failed. The Council promptly arranged for temporary repairs to be made and have approved a budget to provide a long-term solution to safeguard the integrity of this important harbour.
- Throughout the year we have supported various events designed to bring people into Taunton, increase spend and make the town centre more vibrant. Particular highlights include supporting the extremely successful Cricket World Cup, held at the County Ground during May and June. We also enhanced Taunton's festive offer last year by funding a real ice rink on Castle Green, which was also extremely popular.

A Transparent and Customer-focused Council

- We have created new and improved online services to report an abandoned vehicle, make a freedom of information request, make a compliment or complaint, Council Tax and business rates paperless billing requests, and report a tree, hedge or grass problem to enable our customers to do more with the Council from the comfort of their homes, 24/7.
- The Council went live with a new website in April 2019 which has been independently rated by Sitemorse (www.sitemorse.com) 9th best local authority website in the UK; against 8 assessment categories, including accessibility and performance.
- We have installed audio visual equipment in our public meeting rooms at the Deane House and West Somerset House. This will enable the live streaming of meetings of the Council, to enhance participation in the democratic process for those unable to, or who don't wish to attend, our meetings in person.

Homes and Communities

- The Council approved a 30-Year Business Plan for its housing services, including a commitment to add 1,000 new homes for social rent.
- We purchased 46 properties for social rent during the last year.
- Good progress has been made on Phase A of the North Taunton regeneration project. The site has been cleared and an experienced contractor, capable of delivering good quality, energy efficient homes that the Council and community can be proud of has been appointed.
- The Council has been using money awarded from the Government's 'Rough Sleepers Initiative Fund' to pay for specialist support to settle rough sleepers into permanent homes. The Streetwise Team have also set up monthly visits from the award-winning charity Dogs on the Streets to provide veterinary care, equipment and advice to the homeless community with dogs. We have also been successful in bidding for Severe Weather Provision funding of £35,000 and have been able to work with partners to provide a night shelter over the weekends during the Winter period as well as any nights when the weather becomes too severe.

An Enterprising Council

- The Council has approved a Commercial Investment Strategy that will deliver essential income towards the cost of delivering services to our communities.
- We have commenced a new contract with SLM (trading as Everyone Active) to deliver leisure services and at the same time deliver significant financial savings to the Council.
- We have let office space at Deane House and are actively pursuing further letting to generate additional income to the Council.

FINANCIAL PERFORMANCE

Economic Environment

It has been well documented that Local Government has seen major cuts over the last decade. The core finance settlement (adding together the 2 former councils' positions for comparison) has reduced in real terms of £8.5m or 66% between 2013/14 and 2019/20. The future funding remains uncertain, making longer term financial planning more difficult. The funding position for SWTC was set by adding together the funding baseline of the two former councils. The Government's Spending Review planned for 2019 was replaced with a 1-year Spending Round, with the full 3-year Review postponed until 2020, resulting in a one-year only settlement provided for 2020/21.

Housing growth has generally had a positive impact on our funding, with New Homes Bonus (NHB) Grant funding of £3.8m in 2019/20 as well as a steady increase in the council tax base. The Council participates in the Somerset Business Rates Pool together with Somerset County Council (SCC) and other 3 District Councils within the SCC administrative boundary. The Pool was successful in bidding to become a one-year only Pilot for 75% business rates retention for 2019/20, which together with a lower provision for appeals, provided significant increase in funding for the year.

Looking ahead, the funding position remains uncertain with key funding developments to be resolved including:

- The Spending Review 2020 – how much funding will be provided for local government services in future?
- The Fair Funding Review – what share of the funding will each authority receive?
- Business Rates Retention system review – how will local authorities benefit from business rates growth, how long for, and will there be pooling incentives?
- Business Rates Reset – how much of historic business rates growth will be removed at the Reset?
- New Homes Bonus – the scheme is due to be reviewed by Government during 2020, and it is assumed this funding will disappear over the next 3 years. How will housing growth be incentivised and local authorities be funded for increased demand on services?

There is significant wider economic uncertainty due to Brexit, and now what the impact of COVID-19 will have on the local and national economy and demand for services and welfare support.

We continue to act prudently in the face of these uncertainties and risks, and have acted prudently to try and protect services to the local communities and businesses, as well as ensure the Council remains financially resilient.

FINANCIAL OVERVIEW

General Fund Revenue Budget and Reserves

The Council's Original Net Budget for 2019/20 was £22.378m, representing the net cost of General Fund services funded by business rates and council tax as shown in the following table.

	£k
Business Rates	9,368
New Homes Bonus	3,809
Council Tax	9,201
Total	22,378

As 2019/20 is the first year of the new Council, we harmonised the council tax charges to residents so that these are uniform across the whole area. The rates for the former councils were similar, and the approach was taking to apply the lower of the two councils 2018/19 plus an increase of £5 on the Band D average. This meant that the Band D Council Tax rate became £159.63 including £1.75 collected on behalf of the Somerset Rivers Authority.

The Council's actual net expenditure in 2019/20 was £20.981m which together with a funding surplus of £438k for business rates results in a reported net underspend of £1.836m (8.2% of final Net Budget). The net underspend arose due to variances in several budget areas. The most significant underspends have been reported against homelessness, planning, leisure services, and bereavement services. The underspend also included accounting adjustments for the release of provisions previously set aside for redundancy costs, where the actual costs arising during the year were lower than previously estimated. These together with other smaller underspends have enabled the Council to offset budget overspends/shortfalls in arriving at the net position. The following table provides a summary of the financial results for the year compared to budget.

General Fund Outturn 2019/20	Budget £k	Outturn £k	Variance	
			£k	%
Performance and Governance	14,019	12,177	-1,842	-8.2
Communication and Engagement	562	567	5	0.0
Customer	-3,454	-3,173	281	1.3
Localities	4,026	4,352	326	1.5
Commercial Investment	2,107	2,257	150	0.7
Strategy	606	628	22	0.1
Net Cost of Services	17,866	16,808	-1,058	-4.8
Interest and Investment Income	-473	-993	-520	-2.3
Investment Properties	-496	-514	-18	-0.1
Transfers to/from Earmarked Reserves	7,124	7,529	405	1.8
Transfers from General Reserves	-171	-171	0	0
Capital and Other Adjustments	-1,471	-1,677	-206	-0.9
Net Budget	22,379	20,981	-1,398	-6.2
Funding	-22,379	-22,817	-438	-2.0
Variance	0	-1,836	-1,836	-8.2

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

The General Fund Reserves have increased from £2.857m at the start of the year to £4.522m at 31 March 2020. The minimum assessed balance for adequate reserves is £2.4m therefore the balance provides a good level of resilience against financial risks in the year ahead, which will be particularly important if reserves are needed to offset the impact of COVID on costs and income in 2020/21.

The Council also carries Earmarked Reserve balances, which represent funds that have been set aside to support specific spending in future years. The General Fund Earmarked Reserves balance at 31 March 2020 stands at £20.586m. This balance covers a wide variety of known planned spending commitments, including: Business Rates funding deficit; New Homes Bonus Growth Reserve; Creating a New Council; and Garden Village together with several other smaller commitments which we have prudently put aside.

CAPITAL SPENDING AND RESERVES

In addition to our spending on day-to-day service provision, the Council spends money on assets such as land and buildings, vehicles and equipment, systems and technology, and contributions to jointly-financed schemes. Capital expenditure in the year totalled £36.142m, comprising £20.073m on General Fund schemes and £16.069m on HRA capital works, as summarised in the table below. The General Fund capital spending related to a wide range of projects which included costs for the Coal Orchard development

in Taunton. Seaward Way development in Minehead, a capital loan to the Somerset Waste Partnership for new vehicles, strategic purchase of land at ex-bus station site in Taunton for regeneration, and a variety of other projects. HRA capital works are largely related to purchase of additional properties, progressing the North Taunton housing regeneration scheme, maintaining and improving housing standards including heating systems, insulation, fire safety, and other related works.

General Fund Capital Schemes	£k	HRA Capital Schemes	£k
Coal Orchard work in progress	3,957	Heating improvements	916
Waste partnership capital loan	4,125	Fasciae and soffits	770
Investment properties	2,204	Insulation	613
Seaward Way employment site	1,617	Asbestos works	461
Watchet Harbourside regeneration	1,211	Accessibility adaptations	387
Land at ex-Taunton Bus Station site	1,004	Environmental improvements	325
Taunton Technology Park	944	Other major repairs and improvements	2,175
Stogursey Victory Hall capital grant	663	Housing acquisitions	7,557
Firepool infrastructure	405	North Taunton housing regeneration	2,865
Watchet Splashpoint sea defence repairs	296		
Hinkley impact mitigation projects	765		
S106 General	855		
Various other capital projects	2,027		
Total	20,073	Total	16,069

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

Sources of Capital Funding	£k
Revenue Funding	1,184
Earmarked Reserves	1,050
Capital Grants and Contributions	4,368
Capital Receipts	2,579
Borrowing	21,063
Major Repairs Reserve (HRA)	5,898
Total	36,142

The General Fund Capital Programme has budgeted capital spending in future years of £146.400m. The HRA Capital Programme has budgeted capital spending into future years of £31.633m.

The Council plans to support future spending largely through a combination of existing capital reserves, capital receipts, external funding, and borrowing. Capital reserves reflect funds set aside to fund investment in capital items in future years, and largely comprise grants, contributions and capital receipts that are committed on projects to be completed in the current approved capital programme. The Council currently holds £31.073m of capital reserves.

Balance Sheet

Below is an extract from our Balance Sheet showing the position at year end and the comparison with the balances transferred to the Council on 1 April 2019.

Balance Sheet extract	1 April 2019 £k	31 March 2020 £k
Long term assets	438,026	450,766
Net current assets – debtors, stock and cash less short term creditors and liabilities	6,267	-4,124
Long term liabilities and provisions	-185,407	-187,757
Net assets	258,886	258,885
Represented by: Usable reserves	50,092	60,530
Represented by: Unusable reserves	208,794	198,355
Total Reserves	258,886	258,885

Housing Revenue Account (HRA) Budget and Reserves

The Council is a major provider of social housing, working closely with housing associations and other social landlords to provide affordable housing for tenants in the District. The Housing Revenue Account (HRA) only accounts for the costs and income related to provision of Council-owned accommodation. The Local Government Act 1989 requires that this expenditure is ring-fenced and cannot be subsidised by the General Fund.

The Net Budget for the HRA is £Nil, reflecting the self-financing nature of the account. However, financial performance is measured against the Gross Income budget, which is £26.475m for the year. The HRA has reported a small net surplus of £0.008m for 2019/20.

HRA Outturn 2019/20	Budget	Outturn	Variance	
	£k	£k	£k	%
Gross Income	-26,475	-26,718	-243	0.92
Service Expenditure	14,102	14,071	-31	-0.22
Other Operating Costs and Income	9,382	9,852	470	5.01
Earmarked Reserve Transfers	0	26	26	0
Capital Financing and Debt Repayment	2,991	2,761	-230	-7.69
Net Variance	0	-8	-8	-0.03

The Housing Revenue Account Reserve has increased from £2.692m at the start of the year to £2.700m at 31 March 2020. The year-end balance is still well above the minimum level set within the Council's financial strategy of £1.800m, providing some resilience for financial and service risks and opportunities.

The HRA Earmarked Reserve balance at 31 March 2020 is £1.648m, a decrease of £1.070m in the year. The reserves are committed predominantly to support Social Housing Development Fund (£1.232m) to support new build and acquisition of additional homes, and a range of other smaller reserves.

Treasury Management

Total cash and cash equivalents plus short term investments at 31 March 2020 were £33.717m. The main factors that would affect cash in the future are:

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

	1 April 2019	31 March 2020
	£k	£k
Cash and other cash equivalents	22,028	28,691
Short term investments	17,055	5,026
Total	39,083	33,717

Pensions

The Council's share of the overall Pension Fund deficit increased from £105.7m at 1 April 2019 to £111.9m at 31 March 2020. The deficit has increased by 5.9%.

FUTURE DEVELOPMENTS AND OUTLOOK

During 2019/20 the Council focused on stabilising and improving services following the period of disruption as the transformation programme was implemented. A balanced budget 2020/21 was approved in February 2020, and the medium term financial plan projected a budget gap by 2024/25 of £1.7m. This relies on savings targets agreed in the Financial Strategy set in 2019 being delivered. Due to the level of uncertainty on future funding the financial projections will need to be monitored carefully and reviewed as new information becomes available.

COVID-19: The Government's lockdown, announced on 20th March 2020, has had a significant impact upon the Council with significant additional costs and loss of income. These additional costs have not had a dramatic impact on the financial outturn for 2019/20 as the pandemic only started to make a notable impact on the public's and businesses' behaviour in the last two weeks of March. However, the true scale of its impact on the Council's finances will be felt during 2020/21. There have been significant additional costs in supporting our most vulnerable, and also a major reduction in income in particular through fees and charges for car parking.

It is difficult to quantify the impact with certainty at this stage, but the impact will be carefully monitored during 2020/21. It is highly likely that, despite the receipt of additional emergency funding from Government, there will be net losses that will need to be covered by the Council's reserves. Through last year's outturn and plans to be considered in the updated financial strategy this year we are strengthening the Council's reserves to ensure we remain financial resilient, and can support the impact on our communities and the economic recovery moving forward.

The Council has been instrumental to date in supporting the local community, quickly implementing the Government's business rates holiday scheme for 2020/21 (estimated £28m discounts applied) and processing grants to small businesses and to the retail, hospitality and leisure sector (estimated £42m).

The Government has announced the Fair Funding Review and Business Rates Retention review have been deferred and will not be implemented in April 2021 as originally planned. We will continue to engage and monitor developments to ensuring financial planning and decision making is based on reasonable assumptions and reliance information.

EXPLANATION OF ACCOUNTING STATEMENTS

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

- The **Comprehensive Income and Expenditure Statement** (page 17) brings together details of the Council's day-to-day revenue spending and income on its services, and other gains and losses in the year.
- The **Movement in Reserves Statement** (page 18) shows the changes in the Council's financial resources over the year, by showing the movement on the different reserves held, analysed into 'usable reserves' (that can be used to fund spending) or other reserves
- The **Balance Sheet** (page 19) 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 20) summarises the flows of cash into and out of the Council during the year.
- The **Notes to the Financial Statements** (pages 21 to 82) provide supplementary information on some of the figures contained within the primary statements. They also include accounting policies, which guide the treatment of income and expenditure, and disclosures relating to the assets and liabilities of the Council.

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

FURTHER INFORMATION

Further information on the contents of these statements, easy to read summary versions and additional copies of this booklet can be obtained from:

P Fitzgerald ACMA CGMA, Assistant Director – Finance (Section 151 Officer), Deane House, Belvedere Road, Taunton, TA1 1HE

Telephoning: (01823) 217557

E-mail to: S151@somersetwestandtaunton.gov.uk

The Statement of Responsibilities for the Statement of Accounts

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Assistant Director – Finance (S151 Officer).
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Strategic Finance Advisor is required to:

The Assistant Director – Finance (S151 Officer) is responsible for the preparation of the Council's Statement of Accounts which, in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance and Accounting) Code of Practice on Local Authority Accounting in the United Kingdom (referred to as the Code).

In preparing this Statement of Accounts, the Assistant Director – Finance (S151 Officer) has:

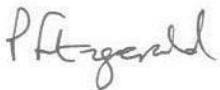
- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the local authority Code.

The Assistant Director – Finance (S151 Officer) has also:

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

Certification of the Accounts

This Statement of Accounts gives a true and fair view of the financial position of Somerset West and Taunton Council at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.



P Fitzgerald ACMA, CGMA
Assistant Director Finance (S151 Officer)

To be updated 2020

Approval of the Accounts

This draft Statement of Accounts is unaudited and as published may be subject to change. The audited Statement of Accounts will be presented to be approved by resolution of the Audit, Governance and Standards Committee as soon as practicable following the conclusion of the audit, under powers allocated by the constitutional arrangements of the Council, and signed by the Chair of the Committee.

Independent Auditor's Report

The Auditor's opinion will appear here when issued.

Please see Appendix E to the Audit Findings Report from Grant Thornton.

Independent Auditor's Report

The Auditor's opinion will appear here when issued.

Independent Auditor's Report

The Auditor's opinion will appear here when issued.

Independent Auditor's Report

The Auditor's opinion will appear here when issued.

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Councils raise taxation (and rents) 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.

	Notes	Gross Expenditure £000	2019/20 Gross Income £000	Net Expenditure £000
Commercial Investment		15,619	(1,398)	14,221
Communications & Engagement		763	(150)	613
Customer		42,454	(42,192)	262
Localities		9,080	(3,544)	5,536
Performance and Governance		18,155	(1,673)	16,482
Strategic Board		1,111	(1)	1,110
Strategy		1,096	(576)	520
Housing Revenue Account		22,759	(26,737)	(3,978)
Cost of Services		111,037	(76,271)	34,766
Other Operating Expenditure	11			1,001
Financing and Investment Income and Expenditure	12			5,647
Taxation and Non-Specific Grant Income	13			(32,995)
(Surplus) or Deficit on Provision of Services				8,419
(Surplus) or deficit on revaluation of Property, Plant and Equipment assets				(6,705)
Remeasurement of the net defined benefit liability				(664)
Other Comprehensive Income and Expenditure				(7,369)
Total Comprehensive Income and Expenditure				1,050

Somerset West and Taunton Council came into existence on 1st April 2019. All operations were acquired from the predecessor councils and, therefore, there are no prior year comparative details available.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The net increase / decrease line shows the statutory general fund balance and Housing Revenue Account (HRA) balance movements in the year following those adjustments.

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
2019/20								
Balance at 1 April 2019	-21,100	-5,437	-15,242	-2,712	-5,601	-50,092	-208,794	-258,886
Movement in Reserves during 2019/20								
Total Comprehensive Income and Expenditure	10,210	-1,791				8,419	-7,369	1,050
Adjustments between accounting basis and funding basis under regulations (note 8)	-14,217	2,879	-2,540	-996	-3,982	-18,856	18,856	0
Increase/(Decrease) in 2019/20	-4,007	1,088	-2,540	-996	-3,982	-10,438	11,488	1,050
Balance at 31 March 2020	-25,107	-4,349	-17,782	-3,708	-9,583	-60,530	-197,306	-257,836

Somerset West and Taunton Council came into existence on 1st April 2019. All operations were acquired from the predecessor councils and, therefore, there are no prior year comparative details available.

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 is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

	Notes	31 March 2020 £000
Council Dwellings		296,914
Other Land and Buildings		105,255
Vehicles, Plant and Equipment		6,402
Infrastructure Assets		12,007
Community Assets		7,876
Surplus Assets		177
Assets Under Construction		6,925
Total Property, Plant and Equipment	15	435,556
Heritage Assets		141
Investment Property	16	6,764
Intangible Assets		647
Long-term Investments	17	3
Long-term Debtors	19	6,606
Long Term Assets		449,717
Short Term Investments	17	5,026
Assets Held for Sale	18	3,260
Inventories		172
Short Term Debtors	19	13,524
Cash and Cash Equivalents	20	28,691
Current Assets		50,673
Short Term Borrowing	17	(25,507)
Short Term Creditors	21	(28,345)
Provisions	22	(945)
Current Liabilities		(54,797)
Long Term Borrowing	17	(75,601)
Other Long Term Liabilities	36	(111,912)
Long Term Creditors		(244)
Long Term Liabilities		(187,757)
Net Assets		257,836
Usable Reserves	23	(60,530)
Unusable reserves	24	(197,306)
Total Reserves		(257,836)

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

	Notes	2019/20 £000
Net surplus or (deficit) on the provision of services		(6,026)
Adjustments to net surplus or deficit on the provision of services for non cash movements	24	17,429
Adjustments for items included in the net surplus on the provision of services that are investing and financing activities	24	<u>(5,562)</u>
Net cash flows from Operating Activities		5,841
Investing Activities	25	(7,678)
Financing Activities	26	<u>8,500</u>
Net increase or decrease in cash and cash equivalents		6,663
Cash and cash equivalents at the beginning of the reporting period	18	<u>22,028</u>
Cash and cash equivalents at the end of the reporting period	18	<u>28,691</u>

Notes to the Core Financial Statements

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

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end on 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

The accounts have been prepared on a going concern basis.

ii. Accruals of Income and Expenditure

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

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

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of the balance sheet and that are readily convertible to known amounts of cash with insignificant risk of change in value. As the majority of the Council's own bills are due in one month or less, the Council treats cash on deposit for more than one month (and so not immediately available to pay bills) as a short-term investment rather than a cash equivalent available alongside cash itself.

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

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

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

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

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

v. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current (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
- Amortisation of intangible assets attributable to the service.

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

The Council's adopted Minimum Revenue Provision (MRP) Policy is the Equal Instalment Method whereby MRP is linked to weighted asset life. This is considered to be a prudent approach as it takes into account the materiality of each asset and its remaining useful life. MRP in respect of Capital Grants is calculated on a straight-line basis over 25 years.

vi. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be

credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

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

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave, and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi-time) earned by employees but not taken before the year end which the employees can carry forward into the next financial year. The accrual is made at the wages and salary rates applicable at the end of the year, which is considered to represent a fair value for 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 entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-Employment Benefits

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

The Local Government Pension Scheme

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

- The liabilities of the SCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.35% (based on the annulaised Merrill Lynch AA rated corporate bond yield curve, where the spot curve is assumed to be flat beyond the 30 year point).
- The assets of the SCC pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

The change in the net 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 as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- net interest on the net defined benefit liability – i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line 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 at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses – changes in the net pension 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 SCC 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 and Housing Revenue Account balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the

Movement in Reserves Statement, this means that there are transfers 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 any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits 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.

viii. Events After The Reporting Period

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

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

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

ix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes 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 rate of interest is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are, therefore, classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

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

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

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

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

x. 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 in the form of 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 and Expenditure (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 or Housing Revenue Account 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.

xi. Business Improvement District

A Business Improvement District (BID) scheme applies to the town of Minehead within the West Somerset district. The scheme is funded by a BID levy paid by non-domestic ratepayers within Minehead. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

xii. Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for Government grants and contributions as set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible assets held by the Council meet this criterion and they are, therefore, carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiv. Investment Property

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund balance. However, revaluation and disposal gains 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 proceeds greater than £10,000) the Capital Receipts Reserve.

xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risk and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Operating Leases

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

The Council as Lessor

Operating Leases

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

xvi. Overheads and Support Services

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

xvii. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Council has a discretionary de minimis level for recognising property, plant and equipment of £10,000.

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.

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings - the Major Repairs Allowance is used as a reasonable estimate for depreciation
- Other buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- Infrastructure – straight-line allocation over 25 years (or the life of the asset if less).

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

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 recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other

Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

xviii. Provisions and Contingent Liabilities

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 met by another party (e.g. from an insurance claim), this is only recognised as income in 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.

xix. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance or Housing Revenue Account balance. 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 transferred back into the General Fund balance or Housing Revenue Account balance so that there is no net charge against council tax for the expenditure.

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

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

xx. 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 is 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.

xxi. VAT

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

xxii. Fair Value Measurement of non-financial assets

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

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the new or amended standards within the 2020/21 Code.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code:

- Amendments to IAS 28 Investment in Associates and Joint Ventures: Long Term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement
- IFRS16 Leases - This standard will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities rather than expense the rental charge through the Comprehensive Income and Expenditure Statement. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021. An estimated impact of this standard will need to be reported in the 2020/21 Statement of Accounts, so the authority is continuing to assess the potential impact. At the time of writing, its currently not possible to estimate the likely impact as we are still in the process of identifying the lease arrangements most likely to be affected.

None of these changes are expected to have a material impact on the Council's statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies the Council has had to make judgements about complex transactions or those involving uncertainty about future events.

The main critical judgements made in this Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. This was already the case before the Covid-19 pandemic due to the one year financial settlement for 2020/21 and the government review into local government funding – the Fair Funding Review. However, the Council has determined that this uncertainty is not sufficient to indicate that any of its assets might be impaired as a result of a need to close facilities or reduce levels of service provision. The Covid-19 pandemic impacted from March 2020 therefore the full impact is not reflected in the Statement of Accounts. The Council is expecting significant challenges and cost pressures in the year ahead as it deals with the ongoing crisis, and has received additional grant funding from Government to reduce the impact on Council reserves, but is reviewing its reserves strategy to identify mitigations.
- A Business Rates provision has been made in the accounts for £0.925m. The Council has included its best estimate of the expenditure required to settle the present obligation based on the appeals put in by ratepayers.

4. Notes to the Balance Sheet

2019/20 is the first year of Somerset West and Taunton Council which came into existence on 1st April 2019. All operations were acquired from the predecessor councils and, therefore, there are no prior year comparative details available.

However, in accordance with the requirements of the Code of Practice, this note shows the opening balance sheet on the creation of Somerset West and Taunton Council on 1st April 2019.

	1 April 2019 £000
Council Dwellings	286,386
Other Land and Buildings	89,758
Vehicles, Plant and Equipment	7,352
Infrastructure Assets	12,640
Community Assets	7,775
Surplus Assets	1,046
Assets Under Construction	7,715
Total Property, Plant and Equipment	412,672
Heritage Assets	141
Investment Property	20,063
Intangible Assets	728
Long-term Investments	2,161
Long-term Debtors	2,261
Long Term Assets	438,026
Short Term Investments	17,055
Assets Held for Sale	1,290
Inventories	156
Short Term Debtors	13,549
Cash and Cash Equivalents	22,028
Current Assets	54,078
Short Term Borrowing	-13,501
Short Term Creditors	-30,792
Provisions	-3,518
Current Liabilities	-47,811
Long Term Borrowing	-79,105
Other Long Term Liabilities	-105,732
Long Term Creditors	-570
Long Term Liabilities	-185,407
Net Assets	258,886
Usable Reserves	50,092
Unusable reserves	208,794
Total Reserves	258,886

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

The Statement of Accounts necessarily contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Significant Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment (PPE)	<p>Due to the COVID-19 pandemic, our valuers have indicated that there may be a material uncertainty with the valuations provided. However, they are of the view that as at the valuation date the valuations produced are appropriate based on the comparable and cost data available at the valuation date.</p> <p>This material uncertainty applies to all property assets - General Fund PPE and Investment properties, the HRA (Housing Revenue Account) and Pension Fund.</p>	<p>If valuation assumptions are different to actual results, this will result in either a revaluation upwards or impairment charge being applied to the assumptions currently included within long term assets on the balance sheet.</p>
Property, Plant and Equipment (PPE)	<p>PPE assets are depreciated over useful lives that are chosen based on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the working lives change significantly as a result of the Council's review of its services then those useful lives may lengthen or shorten.</p>	<p>Depreciation is calculated to spread the cost of an asset over its estimated working life. If the working life is reduced, depreciation goes up and carrying-value goes down; if the working life is extended, depreciation goes down and so carrying value goes up. For example, with vehicles costing approximately £1.4 million and an average working life of around five years, extending the life by 1 year would reduce annual depreciation by £47k.</p>
	<p>The carrying values of assets such as council houses depend very much on outside factors; for example, the significant revaluation in 2016/17 was due to a change in the discount factor applied nationally to social housing. This factor depends on market conditions such as the value of similar properties in an open market and rent yields for the private sector. The discount factor for the south-west in 2015/16 was 31%; in 2019/20 it is 35%.</p>	<p>With council housing having a balance-sheet value of around £297m, each 1% change in the social housing discount factor moves the valuation up or down by £3.0m while having no effect on the actual housing stock itself.</p>

Item	Significant Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	<p>Estimates of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Council works in partnership with other local authorities to engage a firm of consulting actuaries to provide expert advice about the assumptions to be applied, and reviews those assumptions in discussion with its partner Councils. Part of the annual accounts process is to review previous assumptions and test them against what actually happened, to provide further data for future assumptions.</p> <p>With so much national debate and change in pension provisions, the assumptions are both difficult to predict from historical data and likely to change significantly in the short to medium term. The pension liability and its underlying data is therefore very much a carefully-reasoned estimate of the most likely combination of factors, but by its very nature is significantly uncertain.</p>	<p>The effects on the net pension liability of many changes in individual assumptions can be measured. For example, if the discount rate were to change by plus or minus 0.1% from its assumed 2.35%, then the projected service cost would be between £4.958m to £5.248m. A similar change of 1 year in the mortality age range assumption means the projected service cost could be from £4.948m to £5.258m.</p> <p>However, the assumptions interact in complex ways; for example, pension membership may fall, the proportion of commutable pension exchanged by members for cash on retirement may go up while members live longer and equity yields improve.</p>
Business Rates Appeals Provision	<p>Estimates have 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.</p>	<p>There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation.</p>
Arrears	<p>At 31 March 2020 the Council had a balance of Council Tax debtors of £9.1m, this level of debtor is to be expected when collecting Council Tax of around £98m each year. The Council has made an impairment provision within the collection fund of £4.8m to cover debts that are not collectible for a variety of reasons; this Council's share of this is 11.5% of the total. However, in the current economic climate the level of unpaid debts could change significantly at short notice.</p>	<p>The Council is confident that the current levels of provision present a true and fair estimate of likely unpaid debts. However, the figures are large; with council tax income of nearly £98m this year from approximately 73,000 households, a 0.1% change in the collection rate changes the amount collected by circa £98k in a full year (the Council's risk would be 11.5% of this amount). The Council's collection rate for 2019/20 was 97.35%.</p>

6. Material Items of Income and Expense

During the year, there have been 45 sales of Council dwellings to Council tenants; this has resulted in a gain shown in the Comprehensive Income and Expenditure Statement of £1.449m.

The Council incurs a significant proportion of spend on benefit payments, which is funded predominantly by Government grant. Housing Benefit and subsidy payments are included within Customer on the face of the Comprehensive Income and Expenditure Statement and payments amounted to £30.261m 2019/20. Housing Benefit subsidy amounted to (£30.128m) in 2019/20.

7. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Assistant Director – Finance (S151 Officer) on 13 August 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Britain leaving the European Union - There is a level of uncertainty about the implications of Britain's departure from the European Union. At the current time it is not possible to predict the agreement that will be reached at the end of the transition period in December 2020, therefore it is not possible to predict whether non-current asset values, investments or the discount rate of the pension fund liability will consequently change. Since 31 March 2020 there has been no impact on the value of these balances which would affect the understanding and financial position of the Council's balance sheet.

There have been no other events after the balance sheet date of 31 March 2020 that require the financial statements or notes to be adjusted for 2019/20.

8. Expenditure and Funding Analysis

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

	Net Expenditure Chargeable to the General Fund and HRA Balances £000	2019/20 Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Commercial Investment	3,631	10,571	14,203
Communications & Engagement	604	9	613
Customer	(2,298)	2,560	262
Localities	3,443	2,049	5,492
Performance and Governance	11,648	4,834	16,482
Strategic Board	1,110		1,110
Strategy	511	9	520
Housing Revenue Account	(11,239)	7,261	(3,978)
Net Cost of Services	7,410	27,293	34,704
Other Income and Expenditure	(10,331)	(18,347)	(28,678)
(Surplus) or Deficit	(2,921)	8,946	6,026
Opening General Fund and HRA Balance	(26,537)		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	(2,920)		
Closing General Fund and HRA Balance at 31 March *	(29,457)		

**For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement*

Notes to Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes Note 1 £000	Net Change for Pensions Adjustments Note 2 £000	Other Statutory Differences Note 3 £000	Total Statutory Adjustments £000
2019/20				
Commercial Investment	10,553	14	4	10,571
Communications & Engagement		2	7	9
Customer	2,416	89	55	2,560
Localities	1,998	69	(18)	2,049
Performance and Governance	1,256	3,919	(342)	4,833
Strategic Board		7	(6)	1
Strategy		8	1	9
Housing Revenue Account	7,133	103	25	7,261
Net Cost of Services	23,356	4,211	(274)	27,293
Other Income and Expenditure from the Expenditure and Funding Analysis	(21,504)	2,633	524	(18,347)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	1,852	6,844	250	8,946

Adjustments for capital purposes - Note 1

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

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

Net change for the pensions adjustments - Note 2

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

- For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- For **financing and investment income and expenditure** -- the net interest on the defined benefit liability is charged to the CIES.

Other statutory adjustments - Note 3

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

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

Segmental Income

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

	2019/20
	£000
Commercial Investment	(703)
Communications & Engagement	(149)
Customer	(9,496)
Financing & Investment Income	(27)
Localities	(3,371)
Performance and Governance	(1,088)
Strategic Board	(1)
Strategy	(11)
Housing Revenue Account	<u>(26,234)</u>
Income analysed on a segmental Basis	<u>(41,080)</u>

9. 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, however the balance is not available to be applied to fund Housing Revenue Account (HRA) services.

Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year-end.

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.

Somerset West and Taunton Council

The table below shows the adjustments that have been made between the accounting basis and funding basis:

2019/20	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources					
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements</i>					
Pension costs (transferred to or from the Pensions Reserve)	5,924	919			
Financial Instruments (transferred to the Financial Instruments Adjustment Account)	1,491				
Council Tax and NNDR (transfers to or from the Collection Fund)	(967)				
Holiday Pay (transferred to or from the Accumulated Absences Account)	(299)	25			
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	9,768	11,001			3,982
Total Adjustment to Revenue Resources	15,917	11,945	0	0	3,982
Adjustment between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	0	(5,562)	5,562		
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		59	(59)		
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)		382	(382)		
Posting of HRA resources from revenue to the Major Repairs Reserve		(6,894)		6,894	
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	(455)	(1,821)	(334)		
Capital expenditure financed from revenue balances	(1,245)	(988)			
Total Adjustments between Revenue and Capital Resources	(1,700)	(14,824)	4,787	6,894	0
Adjustments to Capital Resources					
Use of the Capital Receipts reserve to finance capital expenditure			(2,581)		
Use of the Major Repairs Reserve to finance capital expenditure				(5,898)	
Application of capital grants to finance capital expenditure					
Deferred Debtors repaid			334		
Total Adjustments to Capital Resources	0	0	(2,247)	(5,898)	0
Total Adjustments 2019/20	14,217	(2,879)	2,540	996	3,982

10. Movements in Earmarked Reserves

The table below shows the amounts set aside from the General Fund and HRA balances in capital or revenue earmarked reserves to provide financing for future expenditure plans. It also shows the movement in each major earmarked reserve where amounts have either been posted to the reserve or back to meet General Fund and HRA expenditure in 2018/19. Reserves indicated with an asterisk (*) are held for capital purposes.

Earmarked Reserves	Balance at 01/04/2019 £000	Transfers Out £000	Transfers In £000	Balance at 31/3/2020 £000
General Fund				
Asset Maintenance & Compliance	233			233
Asset Management - Leisure	137	(62)	62	136
Brewhouse Refurbishment	150			150
Business Rates Smoothing Reserve	3,547	(4,254)	4,010	3,303
Capital Financing Reserve *	650	(482)	288	456
Carry Forwards	1,135	(1,135)	61	61
CEO Initiatives	50	(50)		0
Contingency (Negative RSG)	0	(20)	128	108
Corporate Training	99			99
DLO Vehicle Replacement Reserve *	239			239
Eco Towns Projects	238	(90)	90	238
Economic Development & Growth Initiatives	193	(125)	1,200	1,268
Elections Reserve	156	(136)		20
Enterprising Minehead	64	(46)	7	25
Garden Village	944	(827)	697	814
Homelessness Prevention	44		120	164
Housing Enabling	20	(137)	147	30
Hurlestone Bothy	50	(50)	50	50
Investment Risk Reserve	0		3,500	3,500
Local Plan Development and Inspection Costs	311	(166)	33	178
Minehead Esplanade	59	(64)	50	45
Monkton Heathfield	347	(357)	199	189
Neighbourhood Planning Grant	122	(87)	41	76
New Homes Bonus Reserve	6,168	(2,425)	3,117	6,860
Parking	243	(75)		168
Performance & Client Consultancy	40	(40)		0
Planning Policy	84			84
Planning Reserve	50			50
Resources Service Costs	33			33
Rough Sleepers Initiative	0		81	81
Self Insurance Fund	200			200
Strategic Housing Market Area Assessment	576	(7)		569
Strategy - Future High Street	0		80	80
Steam Coast Trail	93			93
Sustainability Reserve	78			78
SWP Recycle More	55	(55)		0
Transformation Reserve	564	(402)	164	326
Transition	262	(507)	386	141
Travel Plan	192	(30)	30	192
Waste Earmarked Reserve	106	(129)	89	66
Other Earmarked Reserves	710	(635)	108	183
Total General Fund	18,242	(12,393)	14,737	20,586

Earmarked Reserves	Balance at 01/04/2019 £000	Transfers Out £000	Transfers In £000	Balance at 31/3/2020 £000
Housing Revenue Account (HRA)				
Carry Forwards	186	(186)	0	0
Electrical Testing	474	(474)	0	0
Employment & Skills	102	0	0	102
Asbestos Surveys	0	(68)	170	102
One Teams	50	(13)	0	37
Social Housing Development Fund	1,339	(107)	0	1,232
Transformation Reserve	379	(204)	0	175
Transition	178	(178)	0	0
Other Earmarked Reserves	10	(10)	0	0
Total HRA	2,718	(1,240)	170	1,648

The purposes for which individual reserves with balances in excess of £1 million are held are as follows:-

- Business Rates Smoothing Reserve – to smooth the effect of successful business rates appeals
- Economic Development & Growth Initiatives Reserve – monies set aside from the business rates pooling gain to aid economic development and growth initiatives
- Investment Risk Reserve – to manage commercial investment net income volatility
- New Homes Bonus Reserve - to receive and distribute the New Homes Bonus Grant
- Social Housing Development Fund – to provide funding towards Social Housing Development

11. Other Operating Expenditure

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

	2019/20 £000
Parish Council precepts	2,072
Payments to the Government Housing Capital Receipts Pool	382
Pension Administration Costs	92
(Gains)/Losses on the disposal of non-current assets	(1,545)
Total	1,001

12. Financing and Investment Income and Expenditure

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

	2019/20 £000
Interest payable and similar charges	2,486
Net interest on the net defined liability (asset)	2,541
Interest receivable and similar income	(855)
Income and expenditure in relation to investment properties and changes in their fair value	(33)
Bad Debt Impairment Allowance	(27)
Investment Expected Credit Losses	<u>1,535</u>
Total	<u>5,647</u>

13. Taxation and Non Specific Grant Income

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

	2019/20 £000
Council tax income	(11,091)
Non domestic rates income and expenditure	(10,956)
Non-ringfenced Government grants	(3,809)
Capital grants and contributions	(7,139)
Total	(32,995)

More details of grants the Council has received can be found in Note 31 Grant Income.

14. Expenditure and Income Analysed by Nature

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

	2019/20 £000
Expenditure	
Employee Benefits Expenses	29,786
Other Services Expenses	57,592
Depreciation, Amortisation, Impairment and Revenue Expenditure funded from Capital under Statute	23,418
Loss / (Gain) on the Disposal of Assets	(1,545)
Interest Payments	6,562
Precepts and Levies	2,072
Payments to Housing Capital Receipts Pool	382
Total Expenditure	118,267
Income	
Fees, Charges and Other Service Income	(40,987)
Income from Council Tax, Non-Domestic Rates, District Rate Income	(22,047)
Government Grants and Contributions	(45,926)
Income and Expenditure in relation to investment properties and changes in their fair value	(33)
Interest and Investment Income	(855)
Total Income	(109,848)
(Surplus) or Deficit on the Provision of Services	8,419

15. Property, Plant and Equipment

The table below details the movement on the Council's assets shown on the Balance Sheet as property plant and equipment.

	Council Dwellings £000	Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
2019/20								
Cost or Valuation								
At 1 April 2019	286,386	89,302	13,548	17,564	7,852	1,046	7,715	423,413
Adjustment to Opening Balance		1,608						1,608
Additions	16,625	1,980	309		2		6,292	25,208
Revaluation increases / (decreases) recognised in the Revaluation reserve	-132	-110			-189	-238		-669
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services		-7,819			-124	-211		-8,154
Derecognition - Disposals	-3,233	-91						-3,324
Assets reclassified within Property, Plant and Equipment		7,122			380	-420	-7,082	0
Assets reclassified (to)/from Investment Property		14,981			32			15,013
Assets reclassified (to)/from Held for Sale	-2,732							-2,732
At 31 March 2020	296,914	106,973	13,857	17,564	7,953	177	6,925	450,363
Accumulated Depreciation and Impairment								
At 1 April 2019	0	-1,152	-6,196	-4,924	-77	0	0	-12,349
Depreciation charge	-6,805	-1,240	-1,259	-633				-9,937
Depreciation written out to the Revaluation Reserve	6,805	663						7,468
Depreciation written out to the Surplus/Deficit on the Provision of Services		10						10
Derecognition - Disposals		1						1
At 31 March 2020	0	-1,718	-7,455	-5,557	-77	0	0	-14,807
Net Book Value								
At 31 March 2020	296,914	105,255	6,402	12,007	7,876	177	6,925	435,556

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – Various components over useful lives of between 15-100 years
- Other Land and Buildings – Straight Line allocation over a useful life of up to 60 years
- Vehicles Plant and Equipment – Straight line basis over a useful life of up to 20 years
- Infrastructure – Depreciation on a straight line basis over 25 years

The major commitments on the Council's General Fund and Housing Revenue Account Capital Programme in 2019/20 are shown below.

General Fund

The Council is currently under contract for the development of the site at Coal Orchard in Taunton, and the Seaward Way site in Minehead. The total commitment on these sites at 31st March 2020 is £11.1m

The Council has also entered into a contract to commit a contribution of £1.5m towards the M5 Junction 25 Capacity Improvement Scheme.

Some sites were reviewed as to whether they should be categorised as Land and Buildings within PPE or as Investments, depending on whether their prime use is towards the benefit of the community or as income generators. One of these, Thales, was found to have changed to PPE on 28 March 2019, so the opening balance in 2019/20 has been amended to reflect this. The others were recategorised or confirmed as PPE in 2019/20. These sites were: Firepool, Land at Ash Meadows, Blenheim Gardens Café, Watchet West Pier (Sea Scouts Changing Facilities), Goodlands Gardens, Taunton, The Shed Café, Minehead Kiosk on Harbour, and Harbour Studios (Formerly Marina Office on the East Wharf).

Housing Revenue Account

Housing Revenue Account capital works are largely related to purchase of additional properties, progressing the North Taunton housing regeneration scheme, for which there is an approved budget of £14.1m as at 31st March 2020, maintaining and improving housing standards including heating systems, insulation, fire safety, and other related works.

Revaluations

The Council carries out a rolling programme of asset valuations to ensure that all property, plant and equipment required to be measured at fair value is revalued at least every five years.

Valuations at 31 March 2020 have been carried out by Wilks Head & Eve, Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest prices adjusted for the condition of the asset.

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

- Planning Proposals
 - We have not made formal written enquiries of the Local Authority Planning Departments to ascertain if there are any adverse proposals likely to affect specific properties. We are instructed, however, that for the purposes of this Valuation Certificate, we should assume that there are no planning proposals that are likely to have an effect on the value of the properties unless these were specifically notified to us

- Construction and State of Repair
 - Structural / Condition surveys have not been undertaken of the properties nor have the service installations been tested.
 - We have not carried out a structural survey nor have we inspected those parts of the properties that are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts.
 - No allowances have been made for rights, obligations or liabilities arising from the Defective Premises Act 1972.
 - Unless we are aware that a specific property has a limited economic life, we have assumed that the assets are at a suitable level of condition for service provision, and that all internal and external repairs and maintenance have been carried out. We have assumed that these repairs do not constitute improvement to the properties and do not have a material effect on asset value
- Hazardous or Deleterious Materials
 - We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this report we have assumed that such investigation would not disclose the presence of any such material in any adverse condition
- Contaminated Land
 - We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out on the property. We have not carried out any investigation into past or present uses either of the properties or of any neighbouring land to establish whether there is any potential for contamination from these sites to the subject property and have therefore assumed that none exists
 - Should it however be established subsequently that contamination exists at any of the properties or any neighbouring land or that the properties have been or are being put to a contaminative use this might reduce the values now reported
- Plant and Machinery
 - Any plant and machinery that has been considered to form part of the property or service installations is included in the valuation. Where there is doubt as to the correct classification, assets installed primarily to provide services to the properties have been valued with the land and buildings and assets primarily serving the commercial or industrial process have been excluded. Any departure from this is stated on the relevant Valuation Statement.
- Lotting
 - Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if several properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.
- Taxation
 - No allowance has been made for liability for taxation which may arise on disposal, whether actual or notional. Where possible VAT and Capital Gains Tax are specifically excluded,

and our valuation does not reflect costs of realisation unless specifically requested by the client. No additions have been made for Stamp Duty Land Tax (SDLT).

- Acquisition and Disposal Costs
 - No notional directly attributable acquisition costs or selling costs have been applied to or deducted from the Current Value and Fair Value figures provided within this report.
 - For indicative purposes only, the Valuer would expect purchaser's cost to be in the region of 0.5% and 5.0% (plus or minus) dependant on the overall value of the asset and property type on an acquisition or disposal respectively.
 - The Valuer has made no allowance for any vendor's costs or taxation (actual or notional) nor has any allowances been made for any capital or annual grants or incentives to which a purchaser may be entitled.
 - The Valuer has not been asked by the client to specifically reflect these costs separately.
 - Guidance on this matter is provided within UKVS 1 Paragraph 1.7 Costs to be excluded of the Red Book:
 - The valuer must not include directly attributable acquisition or disposal costs in the valuation. When asked by the client to reflect costs, these must be stated separately.
 - In determining the figure to enter into the balance sheet (the 'carrying amount'), FRS 15 requires the addition of notional, directly attributable acquisition costs, where material, to the EUV. Likewise, where property is surplus to the entity's requirements and valued on the basis of market value, there should be a deduction for expected, directly attributable selling costs, where material. If requested to advise on these costs, the Valuer should report them separately and not amalgamate them with either the EUV or market value. The valuation should reflect the Valuer's opinion of the consideration that would appear in the hypothetical sale and purchase contract.
 - FRS 15 states that directly attributable costs can include stamp duty, import duties and non refundable purchase taxes, as well as professional fees, the Valuer is alerted to a potential problem with a property that would, or would potentially, be subject to VAT in any transaction but the entity may not be able to reclaim the VAT. The decision whether or not to treat this as a directly attributable acquisition cost should be determined by the entity, together with its auditors. Even if this is the case the Valuer should state clearly in the report what assumptions have been made and the likely impact of VAT in any transaction.
 - In the case of surplus properties, directly attributable selling costs that are material may need to be itemised separately. If this is the case, they will include not only the transaction costs but also any marketing costs that can be reasonable anticipated.
- Energy Performance Certificates
 - In England and Wales, the Energy Performance of Buildings Directive requiring Energy Performance Certificates (EPC) is relevant.
 - This directive requires all properties to have an Energy Performance Certificate (EPC) covering the residential and commercial sectors. The Certificate is valid for ten years and includes an Energy Efficient Rating of between A and G.

- Since 26th March 2015 the minimum energy efficiency standard (MEES) has been introduced.
 - This minimum standard applies to both domestic and non domestic property and from 1st April 2018 Landlords have been unable to let an F or G rated commercial property on a new or renewed tenancy / lease.
 - From 1st April 2020, the regulations apply to all property leases, initially for domestic properties, and then in 2023 non domestic properties too.
 - Exceptions include leases of less than six months and leases of longer than 99 years as well as listed buildings.
 - For these purposes we have assumed that all properties valued within the portfolio meet the E or higher required rating for letting purposes.
- **Deminimis Levels of Value**
 - Only those properties the value of which is considered likely to exceed the “deminimis” level of value determined by The Authority are included separately in this valuation. In all cases, we have included the valuation within the main body of the report as well as summarising them in letter format even if the Authority chooses not to include these within their financial statements.

The table below shows the values against the latest valuation dates for each group of assets:

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Asset Under Construction £000	Total £000
Valued at Fair Value	0	0	0	0	0	177	0	177
Valued at Historic Cost	0	0	6,402	12,007	7,876	0	6,925	33,210
Valued at:								
31 March 2017	304	180	0	0	0	0	0	484
31 March 2018	0	36,852	0	0	0	0	0	36,852
31 March 2019	32	12,102	0	0	0	0	0	12,134
31 March 2020	296,578	56,121	0	0	0	0	0	352,699
Total Net Book Value	296,914	105,255	6,402	12,007	7,876	177	6,925	435,556

16. Investment Property

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.

	2019/20 £000
Rental income from investment property	525
Costs of servicing investment properties	tbc
Total	525

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:

	2019/20 £000
Balance at start of the year	20,064
Additions	2,205
Disposals	0
Net gains/(losses) from fair value adjustments	-492
Transfers:	
(To)/from Property, Plant & Equipment	-15,013
Balance at end of the year	6,764

Fair Value Measurement of Investment Property

Details of the Council's investment properties and information about the fair value hierarchy are as follows:

Significant Unobservable Inputs (Level 2)	2019/20 £000
Commercial Buildings	5,376
Commercial Land	1,388
Investment Property	6,764

Significant Unobservable Inputs – Level 2

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

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

Highest and Best Use of Investment Properties

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

Valuation Techniques

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

17. Financial Instruments

The definition of a financial instrument is: 'Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity'.

The term 'financial instrument' covers both financial assets and financial liabilities. These range from straightforward trade receivables and trade payables to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Council's borrowing, finance leases and investment transactions are also classified as financial instruments.

Financial Liabilities

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

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

- Long-term loans from the Public Works Loan Board and commercial lenders
- Short-term loans from other local authorities
- Trade payables for goods and services received

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following classifications:

Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:

- Cash in hand
- Bank current and deposit accounts with NatWest Bank
- Fixed term deposits with banks and building societies
- Loans made to Somerset CCC, Somerset Waste Partnership and others for service purposes
- Trade receivables for goods and services delivered

Fair value through profit and loss (all other financial assets) comprising:

- Money market funds and other collective investment schemes
- Covered bonds issued by building societies
- Property funds managed by fund managers

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

Financial Instruments - Balances

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities	31 March 2020	
	Long Term £000	Short Term £000
Loans at amortised cost:		
Principal sum borrowed	(75,500)	(25,500)
Accrued interest	(101)	(7)
Total Borrowing	(75,601)	(25,507)
Liabilities at amortised cost:		
Trade payables	0	(3,683)
Included in Creditors	0	(3,683)
Total Financial Liabilities	(75,601)	(29,190)

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Assets	31 March 2020	
	Long Term £000	Short Term £000
At amortised cost		
Principal	3	2,931
Accrued interest	0	3
Loss Allowance	0	0
At fair value through profit & loss		
Fair value	0	2,092
Total Investments	3	5,026
At amortised cost		
Principal	0	4,286
Accrued interest	0	4
Loss Allowance	0	0
At fair value through profit & loss		
Fair value	0	24,401
Total Cash and Cash Equivalents	0	28,691
At amortised cost		
Trade receivables	0	1,245
Loans made for service purposes	6,606	0
Included in Debtors	6,606	1,245
Total Financial Assets	6,609	34,962

Soft Loans

Soft loans are those advanced at below market rates in support of the Council's service priorities. The Council has no material outstanding soft loans and has made no material soft loans in 2019/20.

Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

	2019/20			Total £000
	Financial Liabilities Amortised Cost £000	Financial Assets Amortised Cost £000	Fair Value through Profit & Loss £000	
Interest expense	2,486	0	0	2,486
Losses on derecognition	0	0	0	0
Interest payable and similar charges	2,486	0	0	2,486
Interest income	0	137	718	855
Gains from changes in fair value	0	4	-	4
Interest and investment income	0	141	718	859
Net impact on surplus/deficit on provision of services	2,486	141	718	3,345
Losses on revaluation	0	0	(1,487)	(1,487)
Impact on other comprehensive income	0	0	(1,487)	(1,487)
Net Gain/(Loss) for the year	2,486	141	(769)	1,858

Financial Instruments – Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For these assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2020, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

31 March 2020			
Financial Liabilities	Fair Value Level	Carrying Amount £000	Fair Value £000
Financial Liabilities held at Amortised Cost			
Long Term Loans from PWLB	3	76,063	86,383
LOBO Loan	3	3,038	5,199
Other Short Term Loans	3	22,007	22,007
Total		101,108	113,589
Liabilities for which fair value is not disclosed	*	3,683	
Total Financial Liabilities		104,791	
Recorded on Balance Sheet as:			
Short Term Creditors		3,683	
Short Term Borrowing		25,507	
Long Term Borrowing		75,601	
		104,791	

31 March 2020			
Financial Assets	Fair Value Level	Carrying Amount £000	Fair Value £000
Financial Assets held at Fair Value			
Bond Funds	1	16,632	16,632
Covered Bonds	1	2,092	2,092
Deposit Fund	1	1,000	1,000
Money Market Funds	1	6,769	6,765
Financial Assets held at Amortised Cost			
Bank Accounts	*	2,393	2,385
Term Deposits	*	4,834	4,840
Loans made for Service Purposes	3	6,606	6,606
Total		40,326	40,320
Assets for which fair value is not disclosed	*	1,245	
Total Financial Assets		41,571	
Recorded on Balance Sheet as:			
Long Term Investments		3	
Long Term Debtors		6,606	
Short Term Investments		5,026	
Short Term Debtors		1,245	
Cash & Cash Equivalents		28,691	
Total Financial Liabilities		41,571	

* The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

* The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is lower than the current rates available for similar loans as at the Balance Sheet date.

18. Assets Held for Sale

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

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

Also included as assets held for sale are Right-To-Buy (RTB) applications where it is highly probable the Council Dwelling will be sold through the RTB process.

Assets Held for Sale are revalued every year at 31 March and are recognised at the lower of carrying value and fair value less costs to sell. The maximum amount at which an asset is carried is the amount at which it was initially recognised as Held for Sale. All valuations were carried out in accordance with standards set out by the Royal Institution of Chartered Surveyors (RICS).

	Current 31 March 2020 £000
Balance outstanding at start of the year	1,290
Assets newly classified as held for sale:	
Property, Plant and Equipment	2,732
Assets declassified as held for sale:	
Property, Plant and Equipment	0
Surplus assets not held for sale	0
Downward Revaluation	(127)
Assets sold	<u>(635)</u>
Balance outstanding at year end	<u>3,260</u>

19. Debtors

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

Current Debtors:

	31 March 2020
	£000
Trade receivables	1,245
Prepayments	402
Other receivable amounts	11,877
Total	13,524

Long term Debtors:

Long term debtors are debtors that are due in over 12 months.

	31 March 2020
	£000
Sundry Mortgages	183
Car/Bike Loans to Employees	3
Somerset CCC Loan	675
Somerset Waste Partnership Loan	4,901
COACH Loan	33
Hestercombe Loan	79
YMCA Loan	716
Sundry Debtors	50
Expected Credit Losses	(34)
Total	6,606

Debtors for Local Taxation:

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

	31 March 2020
	£000
Less than one year	1,140
One to two years	504
Two to three years	323
More than three years	874
Total	2,841

20. Cash and Cash Equivalents

The table below shows how the balance of cash and cash equivalents held by the Council at 31 March is made up. Cash and cash equivalents are highly liquid investments that are readily convertible into known amounts of cash. The details of what is included in as cash and cash equivalents is detailed in (iii) of Accounting Policies.

	31 March 2020 £000
Cash held by the Council	53
Bank current accounts	537
Call Accounts	1,800
Bond Funds	16,632
Deposit Funds	1,000
Debt Management Office	1,906
Money Market Fund	6,769
Unpresented Cheques / BACS	(6)
Total Cash and Cash Equivalents	28,691

21. Creditors

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

	31 March 2020 £000
Trade payables	(3,683)
Other payables	(24,662)
Total	(28,345)

Long Term Creditors

	31 March 2020 £000
Capital Grants Receipts in Advance	(244)
Total	(244)

22. Provisions

	31 March 2020		
	NDR Appeals £000	Other Provisions £000	Total £000
Balance at start of year	2,805	713	3,518
Additional provisions made in year	281		281
Amounts used in year	(223)	(693)	(916)
Unused amounts reversed in year	(1,938)		(1,938)
Balance at year-end	925	20	945

Business Rates Appeals

The Local Government Finance Act 2012 introduced changes to the accounting arrangements for Business Rates. These changes require the Council to put in a provision for appeals for refunding ratepayers who have appealed against the rateable value of their properties on the rating list. The Council has to put in its best estimate of the expenditure required to settle the present obligation which totals £2.104m in respect of the Business Rates Collection Fund. There has not been any significant increase in the number of appeals during 2019/20 but the Council continues to take a prudent approach to evaluating the risk.

Other Provisions

The balance of £20k is in respect of the Deposit Protection Scheme run by the Council to enable tenants to obtain private sector rented accommodation.

23. Usable Reserves

The table below details the Council's usable reserves which can be applied to fund expenditure or reduce local taxation. Further detail can be found with the Movement in Reserves Statement on page 18.

	31 March 2020
	£000
General Fund Balance	4,523
General Fund Earmarked Reserves	20,586
Housing Revenue Account Balance	2,700
Housing Revenue Account Earmarked Reserves	1,648
Capital Receipts Reserve	17,782
Major Repairs Reserve	3,708
Capital Grants Unapplied Account	9,583
Total Usable Reserves	60,530

24. Unusable Reserves

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

	2019/20
	£000
Revaluation Reserve	125,398
Capital Adjustment Account	183,433
Pensions Reserve	-111,912
Collection Fund Adjustment Account	1,959
Accumulated Absences Account	-82
Available-for-sale Financial Instruments Reserve	-1,490
Total Unusable Reserves	197,306

Revaluation Reserve

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

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of and the gains are realised.

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

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

	2019/20 £000
Balance as at 1 April	119,129
Upward revaluation of assets	14,693
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-7,988
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	6,705
Difference between fair value depreciation and historical cost depreciation	-403
Accumulated gains on assets sold or scrapped	-33
Amount written off to the Capital Adjustment Account	-436
Balance as at 31 March	125,398

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The account is credited with amounts set aside by the Council as finance for the cost of acquisition, construction and subsequent costs.

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

The Account also contains revaluation gains and losses on Property, Plant and Equipment before 1 April 2007 - the date that the Revaluation Reserve was created to hold such gains.

Note 8 – Adjustments between Accounting Basis and Funding Basis under Regulations, provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2019/20 £000	
Balance as at 1 April		194,761
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</i>		
Charges for Depreciation and impairment of non current assets	-9,936	
Revaluation losses on Property, Plant and Equipment	-10,510	
Amortisation of intangible assets	-269	
Revenue expenditure funded from capital under statute	-5,034	
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	-3,958	
	<hr/>	-29,707
Adjusting amounts written out of the Revaluation Reserve		436
Net written out amount of the cost of non current assets consumed in the year		-29,271
<i>Capital financing applied in the year:</i>		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,581	
Use of Major Repairs Reserve to finance new capital expenditure	5,899	
Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,713	
Application of grants to capital financing from the Capital Grants Unapplied Account	403	
Direct Revenue Financing	0	
Capital Grant Applied		
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	2,610	
Capital expenditure charged against the General Fund and HRA balances	2,232	
	<hr/>	16,438
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		1,839
Deferred Debtors repaid		-334
		<hr/>
Balance as at 31 March		183,433

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns in any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to the pension fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that the funding will have been set aside by the time the benefits come to be paid.

Transactions in the pension reserve are as shown in the table below:

	2019/20 £000
Balance as at 1 April	(105,732)
Remeasurement of the net defined benefit liability/(assets)	664
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	(12,112)
Employer's pension contributions and direct payments to pensioners payable in the year	5,268
Balance as at 31 March	(111,912)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Non-Domestic Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers and business ratepayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

The balance shown on the Collection Fund Adjustment Account represents the Council's share of the Collection Fund surplus or deficit.

	2019/20		
	Council Tax £000	Business Rates £000	Total £000
Balance as at 1 April	215	777	992
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(218)	1,185	967
Balance as at 31 March	(3)	1,962	1,959

Accumulated Absences Account

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

	2019/20	
	£000	£000
Balance as at 1st April		(356)
Settlement or cancellation of accrual made at the end of the preceding year	356	
Amounts accrued at the end of the current year	<u>(82)</u>	
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.		<u>274</u>
Balance as at 31st March		<u>(82)</u>

Available for Sale Financial Instrument Reserve

	2019/20
	£000
Balance as at 1st April	0
Balance transferred to General Fund on adoption of IFRS 9	
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	<u>(1,490)</u>
Balance as at 31st March	<u>(1,490)</u>

25. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2019/20
	£000
Interest received	785
Interest paid	(2,483)
	(1,698)

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

	2019/20
	£000
Depreciation	9,936
Impairment and downward valuations	8,116
Amortisation	81
Movement in fair value of investment property	(1,839)
Increase/(decrease) in impairment for bad debts	521
(Decrease)/increase in creditors	(2,432)
(Increase)/decrease in debtors	(4,841)
(Increase)/decrease in inventories	(16)
Movement in pension liability	6,844
(Decrease)/Increase in Capital RIA	(326)
Carrying amount of non-current assets sold or derecognised	3,958
Increase/(decrease) in provisions	(2,573)
Other Adjustments	17,429

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities: (Note 25):

	2019/20
	£000
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(5,562)
	(5,562)

26. Cash Flow Statement – Investing Activities

	2019/20 £000
Purchase of Property, Plant and Equipment, Investment Property and intangible assets	(27,414)
Purchase of short-term & long-term investments	(22,128)
Other payments for investing activities	0
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,562
Proceeds from short-term and long-term investments	36,302
Other receipts from investing activities	0
Net cash flows from investing activities	(7,678)

27. Cash Flow Statement – Financing Activities

	2019/20 £000
Cash receipts of short-term and long-term borrowing	22,000
Repayment of short-term and long-term borrowing	(13,500)
Net cash flows from financing activities	8,500

Reconciliation of Liabilities Arising From Financing Activities

	2019/20 £000
As at 1 April	
Long Term Borrowings	79,000
Short Term Borrowings	13,500
	92,500
Financing Cash Flows	
As at 31 March	92,500
Long Term Borrowings	75,500
Short Term Borrowings	25,500
Total	101,000

28. Members' Allowances

The table below shows the amounts payable to Members of the Council as allowances and expenses during the year. More details of what was paid to our Members is available on our website:

www.somersetwestandtaunton.gov.uk

	2019/20 £000
Allowances	399
Expenses	24
Allowances paid in the year	423

29. Officers' Remuneration

The remuneration of those senior officers on the payroll of Somerset West and Taunton Council were as follows:

Post holder information (Post Title)	2019/20	Salary, Fees and Allowances	Compensation for Loss of Office	Expenses Allowances	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration	Annualised Salary
		£	£	£	£	£	£	£
Chief Executive	2019/20	117,300	0	0	117,300	18,064	135,364	117,300
Deputy Chief Executive and Director of Operations	2019/20	46,008	97,827	0	143,835	7,405	151,240	92,016
Director for Housing & Communities	2019/20	91,069	0	310	91,379	14,025	105,403	91,069
Head of Communications & Engagement	2019/20	85,982	0	0	85,982	0	85,982	81,600
Head of Localities	2019/20	66,116	0	0	66,116	10,182	76,298	86,603
Head of Customer	2019/20	78,030	0	310	78,340	12,017	90,357	78,030
Head of Strategy	2019/20	78,030	0	315	78,345	12,017	90,362	78,030
Head of Performance & Governance	2019/20	64,929	0	0	64,929	9,999	74,928	81,600
Assistant Director & S151 Officer	2019/20	70,155	0	1,851	72,006	10,804	82,810	70,155

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 were:

Remuneration Band	2019/20 Number of employees Total
£50,000 - £54,999	19
£55,000 - £59,999	3
£60,000 - £64,999	1
£65,000 - £69,999	1

30. Termination Benefits

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

Exit Package Cost Band (including special payments)	Number of Other Departures Agreed 2019/20	Number of Compulsory Redundancies 2019/20	Total Number of Exit Packages By Cost Band 2019/20	Total Cost of Exit Packages In Each Band (£) 2019/20 £000
£0 - £20,000	10	0	10	127,461
£20,001-£40,000	3	0	3	89,388
£60,001-£80,000	1	0	1	67,500
Total included in the CIES	14	0	14	284,349

31. External Audit Costs

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

	2019/20 £000
Fees payable to external auditors with regards to external audit services carried out by the appointed auditor for the year	61
Fees paid to external auditors for the certification of grant claims and returns for the year	41
Total	102

32. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

	2019/20 £000
Credited to Taxation and Non Specific Grant Income	
Revenue Support Grant	0
New Homes Bonus	(3,809)
Other Non Specific Government Grants	0
Capital Grants	(7,139)
Total	(10,948)
Credited to Services	
Rent Allowances	(20,949)
Rent Rebates	(9,180)
Housing Benefit Admin	(371)
Other Grants and Contributions	(4,479)
Total	(34,979)
	(45,927)

33. Related Parties

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

UK Central Government

UK Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grant income is shown in Note 30.

Transactions to and from the Pension Fund are detailed in Note 34.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2019/20 is shown in Note 26.

During 2019/20, works and services to the value of £18,218 were commissioned from an organisation in which one Member had an interest. Contracts were entered into in full compliance with the Council's standing orders. In addition, the Council paid grants totalling £294,253 to voluntary organisations in which five Members held positions of trustees within the various organisations. In all instances, the grants were made with proper consideration of declarations of interest. Details of all these interests are recorded in the Register of Members Interests, open to public inspection at the Council office during office hours.

The Council also purchased a private property owned by a Councillor as part of acquiring additional Housing Revenue Account dwellings for social rent, in order to increase the Council's stock of affordable housing.

Officers

During 2019/20 works and services to the value of £31,263 were commissioned from an organisation in which one senior officer held a position. Contracts were entered into in full compliance with the Council's standing orders.

The Council is a member of South West Audit Partnership Limited, a company limited by guarantee which provides internal audit services to its twenty four members (including this Council). During the year the Governance Manager replaced the Head of Performance and Governance as a Director of South West Audit Partnership Limited.

34. Capital Expenditure and Capital Financing

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

	2019/20 £000
Opening Capital Financing Requirement	123,483
<i>Capital investment</i>	
Property, Plant and Equipment	23,647
Loans made for service provision	4,125
Intangible Assets	188
Investment Properties	3,149
Revenue Expenditure Funded from Capital under Statute	5,033
	36,142
<i>Sources of finance</i>	
Capital receipts	(2,579)
Government Grants and Other Contributions	(4,368)
Major Repairs Allowance	(5,898)
<i>Sums set aside from revenue</i>	
Direct revenue contributions	(2,234)
Minimum Revenue Provision (MRP / VRP)	(2,610)
	(17,689)
Closing Capital Financing Requirement	141,936
Explanation of movements in the Capital Financing Requirement in year:	
Increase / (Decrease) in underlying need to borrowing (unsupported by Government financial assistance)	18,453
Increase/(decrease) in Capital Financing Requirement	18,453

35. Leases

The Council has leased a number of vehicles for its own use (lessee) and, as lessor, has leased some of its own property to third-party users. IAS17 Leases (the relevant International Accounting Standard) sets out a range of factors to decide whether a lease is an operating lease or a finance lease. The factors are simple in principle but can be complex in practice; in summary, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership while a lease is classified as an operating lease simply if it is not a finance lease.

The accounting treatment is quite different. Finance leases are in effect a way of transferring ownership, assets leased under finance leases are shown in the Council's balance sheet as assets, and the cost of the lease is shown as a liability. Operating leases are in effect a way of obtaining the use of an asset, so the lease costs are charged directly to services and the asset is not shown in the balance sheet.

Council as Lessor

Operating Leases

As part of its work to support local communities, the Council has granted leases in respect of a number of its properties (principally commercial premises and business units) which are treated as operating leases.

Due to the nature of leases granted by the Council, and in particular its aim of tackling community deprivation and sustainable community deprivation mixed with its commercial awareness, the gross investment in the lease and the minimum lease payments that will be received over the following periods are subject to significant and sometimes unpredictable variables such as property values at rent-review intervals and the subsequent change in lease payments. For example, particularly in the current economic climate, it is in practice impossible to reliably predict how long a new or renewing leaseholder may be prepared to commit to. The figures in the table below are therefore a reasoned estimate assuming that annual lease income remains constant.

	2019/20 £000
Not later than one year	49
Later than one year and not later than five years	62
Later than five years and not later than ten years	0
Total payments due in future years	111

The minimum lease payments above do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. Due to the inherent variability of rental income in the medium to long term, the information in this note has been closed-off at ten years. This will be reviewed in future years if less volatile information becomes available.

Council as Lessee

	2019/20 £000
Not later than one year	(525)
Later than one year and not later than five years	(1,929)
Later than five years and not later than ten years	(2,066)
Total payments due in future years	(4,520)

36. Defined Benefit Pensions Schemes

Participation in Pension Schemes

As part of the terms and conditions of the 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 need to be disclosed at the time that the employees earn their future entitlement.

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

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

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

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

Transactions relating to post-employment benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and the HRA via the Movement in Reserves Statement. The following transactions shown in the table have been made in the Comprehensive Income and Expenditure Statement and the General Fund / HRA Balance via the Movement in Reserves Statement during the year:

2019/20
£000

Comprehensive Income and Expenditure Statement (CIES)**Cost of Services**

Current service cost	9,479
Administration expenses	92

Financing and Investment Income and Expenditure:

Net interest expense	2,541
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Total Post Employment Benefits charged to the Surplus on the Provision of Services

12,112

Remeasurement of the net defined liability comprising:

Return on assets (excluding the amount included in the net interest expense)	10,477
Other Actuarial gains and losses on assets	414
Actuarial gains and losses arising on changes in financial assumptions	(18,465)
Actuarial gains and losses arising on changes in demographic assumptions	1,611
Experience gain and loss on defined benefit obligation	5,299

Total Post Employment Benefit Charged to the Income and Expenditure Statement

(664)

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	(12,112)
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Actual amount charged against the General Fund balance for pensions in the year:

Employers contributions payable to scheme	5,268
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Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Local Government Pension Scheme	2019/20 £000
Present value of the defined obligation	(225,076)
Fair value of plan assets	116,540
Sub-total	(108,536)
Present value of unfunded obligation	(3,376)
Net liability arising from defined benefit obligation	(111,912)

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

Funded liabilities: Local Government Pension Scheme	2019/20 £000
Opening balances as at 1 April	(233,266)
Current service cost	(5,599)
Interest cost	(5,566)
Contributions from scheme participants	(1,034)
Remeasurement (gains) and losses	
Actuarial gains/losses arising from changes in demographic assumptions	(1,611)
Actuarial gains/losses arising from changes in financial assumptions	18,465
Experience loss n defined benefit obligation	(5,299)
Past service cost	(3,880)
Benefits paid	9,112
Past service costs	
Entity combinations	
Unfunded Pension Payments	<u>226</u>
Closing balance as at 31 March	<u>(228,452)</u>

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme	2019/20 £000
Opening fair value of scheme assets	127,534
Interest income	3,025
Remeasurement (gain/loss):	
The return on plan assets, excluding the amount in the net interest expense	(10,477)
Actuarial gains and losses	(414)
Contributions from employers	5,268
Contributions from scheme participants into the scheme	1,034
Benefits paid	(9,338)
Administration expenses	<u>(92)</u>
Closing balance as at 31st March	<u>116,540</u>

Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets	2019/20 £000
Equities	78,603
Gilts	7,638
Other bonds	11,679
Property	11,050
Cash	7,570
Total	116,540

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The Local Government Pension Scheme has been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

Local Government Pension Scheme	2019/20
Long-term expected rate of return on assets in the scheme:	
Mortality assumptions:	
<u>Longevity at 65 for current pensioners</u>	
- Men	23.3
- Women	24.7
<u>Longevity at 65 for future pensioners</u>	
- Men	24.7
- Women	26.2
Rate of inflation - CPI	1.90%
Rate of increase in salaries	2.50%
Rate of increase in pensions	1.90%
Rate for discounting scheme liabilities	2.35%

Sensitivity Analysis:

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

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0	-0.1%
Present Value of total obligation	224,051	228,452	232,944
Projected service cost	4,958	5,101	5,248
Adjustment to long term salary increase	+0.1%	0	-0.1%
Present Value of total obligation	228,752	228,452	228,156
Projected service cost	5,103	5,101	5,099
Adjustment to pension increases and deferred revaluation	+0.1%	0	-0.1%
Present Value of total obligation	232,660	228,452	224,324
Projected service cost	5,246	5,101	4,960
Adjustment to life expectancy assumptions	+0.1%	0	-0.1%
Present Value of total obligation	238,466	228,452	218,884
Projected service cost	5,258	5,101	4,948

Impact on the Council's Cash Flows

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £89.484m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The deficit on the Local Government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The total of contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2021 is £4.695m.

37. Contingent Liabilities

Business Rates payable by hospitals

Along with other local authorities we have received claims from a local trust hospital to receive mandatory charitable relief (under Section 47 of the LGFA 1988) in relation to their Business Rates bills, including backdating the relief to 2012. If these claims are successful this would result in an 80% mandatory award being applied per application. Currently Trusts or Foundation Trusts are not considered charitable organisations but rather public funded organisations with boards of directors and not trustees.

The original judgement for the case found the claim was not successful, however the claimant has been granted leave to appeal. The matter therefore continues to be subject of a legal process nationally, and local government stand by the stance that relief is not applicable. We have therefore not provided for any settlement in our accounts.

SWTC General Fund would be liable for a proportion of any refund under the Business Rates Retention (BRR) system, with the actual loss of funding value dependent on the rules of the BRR system and the whole total of business rates income reported in the financial year that the matter is concluded. Due to uncertainty it is not possible to provide a reliable estimate of this loss.

38. Contingent Assets

Hinkley Point C

There are two s106 agreements in place, one in relation to the site preparation works planning permission granted by West Somerset Council in January 2012 and the other in relation to the development consent order granted by the Secretary of State in March 2013. Thus far, all contributions have been paid on time and in full. A total of £0.146m is due in June 2020.

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

The Council will receive a minimum of £4.744m (maximum £5.432m) in total from the s106 relating to the development consent order. The payments are due over a number of years with the last one due in 2023.

39. Nature and Extent of Risks Arising From Financial Instruments

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in December 2017).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance for Local Authorities. This guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury

Management Strategy, together with its Treasury Management Practices, are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's treasury management activities expose it to a variety of financial risks including:

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

Credit Risk: Treasury Investments

The Council manages credit risk by ensuring that investments are placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, and other local authorities without credit ratings. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A limit of up to £9.0m is placed on the amount of money that can be invested with a single counterparty. The Council also sets a total group investment limit for institutions that are part of the same banking group. No more than £40.0m in total can be invested for a period of longer than a year.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £9.0m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise.

The Council does not hold collateral against any investments.

Credit Risk Exposure

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

Credit Rating	2019/20	
	Long Term £000	Short Term £000
AAA	0	26,366
AA	0	4,834
A	0	1,800
Total	0	33,000

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 150% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a "D" credit rating or equivalent. At 31st March 2020, £0.001m of loss allowances related to treasury investments.

Trade Receivables

During 2019/20 the Council continued to carefully review historic debtor balances and has written off old irrecoverable debts. The Council has a policy of exploring cost effective ways to ensure debts are fully recovered and thus minimise exposure to credit risk.

The following analysis summarises the Council's trade and lease receivables, by due date. Only those receivables meeting the definition of a financial asset are included.

	31 March 2020
	Trade Debtors
	£000
Past due less than 3 months	1,168
Past due over 3 months up to 12 months	232
Past due over 12 months up to 24 months	208
Past due over 24 months	129
	1,737

Credit Risk: Loans

In furtherance of the Council's service objectives, it has lent money to local organisations at market rates. The amount recognised on the balance sheet is £6.455m and the Council's total exposure to credit risk from these instruments is £7.658m.

The Council manages the credit risk inherent in its loans for service purposes in line with its published Investment Strategy.

Loss allowances on loans for service purposes total £0.034m and have been calculated by reference to 12-month expected credit losses as there is no experience of default on such loans.

Liquidity Risk

The Council has ready access to borrowing at favourable rates from the Public Works Loans Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. The risk is managed by maintaining a spread of fixed rate loans.

The maturity analysis of the principal sums borrowed is as follows:

Credit Rating	2019/20	
	Long Term	Short Term
	£000	£000
Loans by Type		
Public Works Loan Board	72,500	3,500
Other Financial Institutions	3,000	0
Other Local Authorities	0	22,000
	75,500	25,500
Loans by Maturity		
Less than 1 year	0	25,500
Over 1 but not over 2 years	10,000	0
Over 2 but not over 5 years	18,000	0
Over 5 but not over 10 years	40,500	0
Over 10 but not over 15 years	0	0
More than 20 years	7,000	0
	75,500	25,500

Market Risks:**Interest Rate Risk**

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	50
Increase in interest receivable on variable rate investments	261
Impact on Surplus or Deficit on the Provision of Services	311
Decrease in fair value of fixed rate borrowings	(5,399)
Decrease in fair value of fixed rate investment assets	(18)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council does not generally invest in equity shares and is therefore not subject to equity price risk.

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies, thus has no exposure to loss arising from movements in exchange rates.

Housing (HRA) Income and Expenditure Account

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

	2019/20	
	£000	£000
Income		
Dwelling Rents		(24,050)
Non Dwelling Rents		(672)
Charges for Services/Facilities		(1,591)
Contributions Towards Expenditure		(424)
		(26,737)
Expenditure		
Repairs and Maintenance	3,102	
Supervision and Management	11,647	
Rents, Rates, Taxes and Other Charges	315	
Depreciation and Impairment of Fixed Assets	7,133	
Movement in the Allowance for Bad Debts	333	
		22,530
Net Income of HRA Services as included in the Comprehensive Income and Expenditure Statement		(4,207)
HRA Service Share of Corporate and Democratic Core		229
Net (Income)/Expenditure of HRA Services		(3,978)
HRA Share of Operating and Expenditure included in the Comprehensive Income and Expenditure Statement:		
Pension Administration Costs		28
(Gain) or Loss on Sale of HRA Fixed Assets		(1,635)
Interest Payable and Similar Charges		2,624
Interest and Investment Income		0
Pension Interest Cost		788
Capital grants and contributions		382
(Surplus)/Deficit for the year on HRA Services		(1,791)

Statement of Movement on the HRA Balance

	2019/20	
	£000	£000
Balance on the HRA at the end of the previous year		2,718
Surplus or the year on the HRA Income and Expenditure Account	1,791	
Adjustments between accounting basis and funding under Statute (see analysis in Notes to the Supplementary Statements)	<u>(2,879)</u>	
Net Increase or (Decrease) before transfers to or from Reserves	(1,088)	
Transfers (to) or from Reserves	<u>1,070</u>	
Increase or (Decrease) in the Year on the HRA		<u>(18)</u>
Balance on the HRA at the end of the current year		<u>2,700</u>

Housing Revenue Account Notes

A Housing Stock

The Council was responsible for managing 5,744 dwellings during 2019/20. The stock at 31 March was made up as follows:

	2019/20
	£000
Houses	2,833
Bungalows	847
Flats and Maisonettes	<u>2,061</u>
	5,741
Shared Equity	<u>3</u>
	<u>5,744</u>

B Value of Assets

The balance sheet value of HRA assets at 31 March 2019 and 31 March 2020 is shown below.

Movement in 2019/20	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infra- structure Assets £000	Total Property, Plant and Equipment £000	Assets Held For Sale £000	Intangible Assets £000	Total £000
Cost or Valuation								
At 1 April 2019	286,386	8,810	333	1,987	297,516	635	776	298,927
Additions	16,625				16,625			16,625
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(132)	(36)			(168)			(168)
Revaluation increases / (decreases) recognised in the Surplus/deficit on the Provision of Services		(3)			(3)			(3)
Derecognition - Disposals	(3,233)				(3,233)	(635)		(3,868)
Derecognition - Other					0			0
Reclassified within Property, Plant and Equipment					0			0
Reclassified (to)/from Held From Sale	(2,732)				(2,732)	2,732		0
At 31 March 2020	296,914	8,771	333	1,987	308,005	2,732	776	311,513
Accumulated Depreciation and Impairment								
At 1 April 2019	0	0	(183)	(563)	(746)	0	(752)	(1,498)
Depreciation charge	(6,805)	(90)	(43)	(79)	(7,017)		(5)	(7,022)
Depreciation written out to the Revaluation Reserve	6,805	1			6,806			6,806
Depreciation written out to the Surplus / Deficit on the Provision of Services					0			0
At 31 March 2020	0	(89)	(226)	(642)	(957)	0	(757)	(1,714)
Net Book Value								
At 31 March 2020	296,914	8,682	107	1,345	307,048	2,732	19	309,799

C Value of Dwellings at 31 March 2020

The open market value of dwellings within the HRA at 31 March 2020 is £848.327m compared with the balance sheet value of £296.914m. The difference of £551.413m represents the economic cost to the Government of providing Council housing at less than open market rents.

D Rent Arrears

Rent arrears as at the end of the financial year were as follows:

	31 March 2020
	£000
Rent Arrears	770
Provision for Bad Debts	<u>(483)</u>
Anticipated Collectable Arrears	287
Arrears as % of Gross Rent Income	1.08%

E Rent Rebates

Assistance with rents is available under the Housing Benefits scheme for tenants on low incomes. The rent shown in the HRA is the gross rent before rent rebates are granted.

F Gross Rent Income

This is the total rent income due for the year after allowing for voids. During the year 1.77% (1.77% in 2018/19) of available properties were vacant. Average weekly rents were £80.87, a decrease of £0.82 (-1.00%) over the previous year.

G Major Repairs Reserve

The Council is required to maintain a Major Repairs Reserve. The account is credited with depreciation and is used to finance HRA capital expenditure. The depreciation charge for council dwellings is funded by the major repairs allowance, which is included within the HRA subsidy, and reflects the cost of keeping the stock in its current condition.

	2019/20
	£000
Balance as at 1 April	2,711
Transfer from Revenue to Major Repairs Reserve	6,894
Financing of HRA Capital Expenditure	<u>(5,898)</u>
Balance as at 31 March	3,707

H Total Capital Expenditure and Receipts

	2019/20
	£000
HRA Capital Expenditure	
Dwellings	16,007
Intangible Assets	62
Vehicles, Plant and Equipment	0
Revenue Expenditure funded from Capital under Statute	0
	16,069
Financed By	
Capital Receipts	2,456
Government Grants and Contributions	0
Contribution from Revenue	940
Major Repairs Reserve	5,898
Borrowing	6,775
	16,069

The table below shows the amount of capital receipts received by the HRA:

	2019/20
	£000
Dwellings	4,323
Administrative Cost of Sales	(59)
	4,264

I Pension Scheme

Following advice issued by CIPFA regarding Accounting for Defined Benefit Retirement Benefits in the HRA, Somerset West and Taunton Council has concluded that neither ring-fencing nor resource accounting in the HRA require the HRA to be treated differently from other services on the grounds of proper practice. There is therefore an amount of £102,610 included within management expenditure, which reflects the current service costs of the Pension Scheme, in accordance with IAS 19. These costs are currently notional and do not represent real cash outflows. Within the Housing Revenue Account these costs are negated by a contribution from the pension reserve.

J Adjustments between Accounting Basis and Funding Basis under Statute

This note details the adjustments that are made to the surplus/deficit for the year recognised by the Council on the HRA Statement 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.

	2019/20
	£000
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statute	25
Reversal of (gain) or loss on sale of HRA non-current assets	(1,635)
Capital expenditure charged against revenue	(2,427)
HRA share of contributions to or from the Pensions Reserve	919
Transfer to/(from) the Major Repairs Reserve	(6,894)
Transfer to/(from) the Capital Adjustment Account	7,133
Balance on the HRA at the end of the current year	(2,879)

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 fund from taxpayers and distribution to local authorities and the Government of Council Tax and Business Rates.

	Business Rates £000	2019/20 Council Tax £000	Total £000
Income			
Council Tax Receivable	0	(98,577)	(98,577)
Business Rates Receivable	(58,898)	0	(58,898)
Transitional Protection Payments	274	0	274
Apportionment of Previous Year's Surplus/(Deficit)			
Central Government	1,665	0	1,665
Somerset County Council	300	746	1,046
Police and Crime Commissioner for Avon and Somerset	0	121	121
Devon & Somerset Fire & Rescue Authority	33	53	86
Somerset West and Taunton Council	1,332	116	1,448
Total Income	(55,294)	(97,541)	(152,835)
Expenditure			
Demands and Shares			
Central Government	14,260	0	14,260
Somerset County Council	17,112	70,197	87,309
Police and Crime Commissioner for Avon and Somerset	0	12,333	12,333
Devon & Somerset Fire & Rescue Authority	570	4,899	5,469
Somerset West and Taunton Council	25,098	9,039	34,137
Parish / Town Councils	0	2,118	2,118
Costs of Collection	250	0	250
Increase/(Decrease) in Provision for Appeals	(4,911)	0	(4,911)
Increase/(Decrease) in Allowance for Impairment of Bad and Doubtful Debts	318	976	1,294
Interest on Refunds	6	0	6
Disregarded Amounts	205	0	205
	52,908	99,562	152,470
(Surplus)/Deficit for the year	(2,386)	2,021	(365)
(Surplus)/Deficit Balance Brought Forward	(1,952)	(1,983)	(3,935)
(Surplus)/Deficit Balance Carried Forward	(4,338)	38	(4,300)
Attributable to:			
Central Government	(740)	0	(740)
Somerset County Council	(1,591)	28	(1,563)
Police and Crime Commissioner for Avon and Somerset	0	5	5
Devon and Somerset Fire and Rescue Authority	(43)	2	(41)
Somerset West and Taunton Council	(1,964)	3	(1,961)
	(4,338)	38	(4,300)

Collection Fund Notes

Council Tax

The Council's tax base for 2019/20, i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply), converted to an equivalent number of Band D dwelling, was calculated as follows:

Band	Number of Taxable Dwellings after Discount	Ratio	Band D Equivalent Dwellings
A (Disabled Reduction)	14.08	5/9	7.82
A	6,538.26	6/9	4,358.84
B	15,695.82	7/9	12,207.86
C	12,978.75	8/9	11,536.67
D	9,855.17	9/9	9,855.17
E	7,505.04	11/9	9,172.83
F	4,554.10	13/9	6,578.15
G	2,126.81	15/9	3,544.67
H	110.75	18/9	221.50
	59,378.78		57,483.51
Less adjustment for Non-Collection of Rates			(860.73)
Council Tax Base			56,622.78

Income from Business Ratepayers

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate. The Local Government Act 2012 introduced a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. Somerset West and Taunton Council were part of a Business Rates Pilot Area and therefore pays 25 per cent to Central Government, 30 per cent to Somerset County Council, 1 per cent to Devon and Somerset Fire Authority and retains 44 per cent itself.

The total non-domestic rateable value at 31 March 2020 was £152,241,865 (31 March 2019 £149,750,729). The standard national non-domestic multiplier for the year was £0.504 (2018/19 £0.493); the national non-domestic small business multiplier for the year was £0.491 (2018/19 £0.480).

Glossary of Terms

Local government, in common with many other specialised fields, has developed over the years its own unique set of terms and phrases. This glossary helps to identify some of those terms and phrases, which will be found in this statement.

Accruals

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

Amortisation

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

Amortised Cost

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

Apportionment

The sharing of costs fairly based upon usage of a service.

Assets Held for Sale

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

Assets under Construction

Assets under construction are assets that are currently being developed and are not yet completed. They are capitalised at cost.

Band D Equivalent

A band D is the average property valuation band. This is calculated by multiplying the number of properties by the band D ratio to produce an equated tax base i.e. as if all properties were in band D.

Billing Authority

A local authority responsible for the collection of council tax and non-domestic rates.

Budget Requirement

The budget requirement is the net revenue expenditure calculated in advance each year by every billing authority and precepting authority. It is important for two reasons; as a step in the valuation of council tax and as a basis for local authority capping. It is calculated as the estimated gross revenue expenditure minus the estimated revenue income, allowing for movements in reserves.

Capital Charges

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of their services; the charges reflect notional depreciation costs only.

Capital Expenditure

Expenditure on the purchase or provision of assets, which will be of long-term value to the Council e.g. land, buildings, vehicle, plant and equipment.

Capital Receipts

The proceeds from the sale of land and other assets. Capital receipts can be used to finance new capital expenditure, within rules set down by the Government, or to repay debt on existing assets.

Cash Equivalents

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

Capital Financing Requirement (CFR)

CFR measures the Council's underlying need to borrow or finance by other long-term liabilities for a capital purpose.

Chartered Institute of Public Finance Accountancy (CIPFA)

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

CIPFA/LASAAC

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

Collection Fund

A statutory fund maintained by a billing authority, which is used to record council tax and non-domestic rates collected by the Council, along with payments to precepting authorities as well as into its own general fund.

Collection Fund Adjustment Account

The collection fund adjustment account represents the Council's share of the collection fund surplus or deficit.

Community Assets

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Commutated Sum

An amount paid to the Council by a developer to cover the cost of maintaining a piece of land over a number of years, usually play areas.

Componentisation

Where an asset is split into significant components (e.g. a building could be split into building/windows/roof/boiler) to enable them to be depreciated over their separate useful lives.

Council Tax

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

Creditors

Amounts owed by the Council at the balance sheet date in respect of goods and services received before the end of the financial year.

Debtors

Amounts owed to the Council but unpaid at the balance sheet date.

Depreciation

Represents the reduction in useful economic life of an asset whether arising from use, the passage of time, or obsolescence.

Direct Service Organisation (DSO)/Direct Labour Organisation (DLO)

The term direct service organisation (DSO) is used to cover both direct labour organisations (DLO's) established under the Local Government, Planning and Land Act 1980 and DSO's established under the Local Government Act 1988. These organisations are set up by a local authority to provide services subject to compulsory competitive tendering (CCT). Although the requirements of CCT no longer apply to these services, the terms DLO and DSO are still commonly used.

Earmarked Reserves

Amounts of money set aside for a specific purpose.

Estimates

The amounts which are expected to be spent, or received as income, during an accounting period. The term is also used to describe detailed budgets, which are either being prepared for the following year, or have been approved for the current year.

Fair Value

The amount for which an asset could be exchanged, or liability settled between knowledgeable and willing parties in an arm's length transaction.

Fees and Charges

Income raised by charging for the use of facilities or services.

Financial Instruments

Cash, evidence of an ownership interest in an entity, or a contractual right to receive, or deliver, cash or another financial instrument.

Finance Lease

A lease that transfers substantially all of the rewards of ownership of a fixed asset to the lessee.

General Fund

All district councils have to maintain a general fund which is used to pay for day-to-day items of non-housing revenue expenditure such as wages and salaries, heating and lighting, office supplies, etc. Spending on the provision of council housing, however, must be charged to a separate Housing Revenue Account.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Gross Expenditure

The total cost of providing the Council's services, before taking into account income from government grant and fees and charges for services.

Housing Revenue Account (HRA)

Local authorities are required to maintain a separate account – the Housing Revenue Account – which sets out the expenditure and income arising from the provision of housing. Other services are charged to the general fund. Since 1990/91, local authorities have not been allowed to transfer monies between their General Fund and their HRA; this is known as "ring fencing".

IFRS

International Financial Reporting Standards (IFRS's) are issued by the Accounting Standards Board. The Council's accounts conform to IFRS's where they are applicable to local authorities.

Impairment

A reduction in the value of fixed assets caused either by a consumption of economic benefits or by a general fall in prices.

Infrastructure Assets

Fixed assets that by their nature cannot be sold and therefore expenditure is only recoverable by continued use of that asset. Examples of infrastructure assets are highways and footpaths.

Inventories

Inventories include goods or other assets purchased for resale, consumable stores and raw materials.

Investments

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments are classified as such only when it is intended to hold the investment for more than one year or where there are restrictions on the investor's ability to dispose of it. Investments which do not meet the above criteria should be classified as current assets.

Investment Properties

Investment Properties are properties which are held by the Council solely to earn rentals or for capital appreciation or for both.

Liquid Resources

Assets which are readily convertible into known amounts of cash.

Loans and Receivables

Loans and receivables are financial instruments that have fixed or determinable payments and are not quoted on the stock market.

LGA

The Local Government Association is the national voice of local government. They work with councils to support, promote and improve local government.

Minimum Revenue Provision (MRP)

The 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.

Money Market Funds

A money market fund is an open-ended mutual fund that invests in short term debt securities.

Net Book Value

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and for its existing use.

Net Expenditure

Gross expenditure less specific service income, but before deduction of revenue support grant.

Net Realisable Value

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

National Non-domestic Rate (NNDR)

A levy on businesses, based on a national rate in the pound set by the government multiplied by the "rateable value" of the premises they occupy. NNDR is collected by billing authorities. Also known as "business rates", the "uniform business rate" and the "non-domestic rate".

Operating Lease

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

Post Balance Sheet Events

Events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Council approves the financial statements.

Precept

The levy made by precepting authorities on billing authorities, requiring the latter to collect income from council taxpayers on their behalf.

Precepting Authorities

Those authorities which are not billing authorities i.e., do not collect the council tax and non-domestic rate. County councils and police and fire authorities are "major precepting authorities" while parish, community and town councils are "local precepting authorities".

Property Plant and Equipment

Property Plant and Equipment is the word used for a group of assets which consist of the following: Council Dwellings, Other Land and Buildings, Vehicles Furniture Plant and Equipment, Infrastructure Assets, Community Assets, Assets under Construction and Assets Held for Sale.

Provisions

Provisions are amounts set aside in one year for liabilities or losses which are likely or certain to be incurred, but uncertain in timing or value.

Public Works Loan Board (PWLB)

A central government agency, which provides long and shorter-term loans to local authorities.

Rateable Value

Estimate of the value of a property which is used as a basis for local taxation.

Re-chargeable Works

Ad-hoc jobs, the costs of which are recoverable from third parties.

Reserves

Reserves are amounts set aside which do not fall within the definition of provisions and include general reserves (or "balances"), which every authority must maintain as a matter of prudence.

Revenue Expenditure

This can be defined as expenditure on the day-to-day running of the council.

Revenue Expenditure funded from Capital under Statute

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

Revenue Support Grant (RSG)

This is the grant which the government pays to the Council to bridge the gap between income raised by the council tax and NDR and the total assessment of the authority's need to spend (as measured by its standard spending assessment). The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

Support Service Recharges

The allocation of the costs of back office functions such as Accountancy, HR or ICT etc. to front line services.

Tangible Assets

Tangible assets that yield benefits to local authority and the services it provides for a period of more than one year.

Useful Life

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

Work in Progress

The value of work on an uncompleted project at the balance sheet date, which has yet to be recovered from the client.

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0EL

Our Ref: Letter of Representation
Your Ref:
Date:

Dear Sirs

Somerset West and Taunton Council Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Somerset West and Taunton Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. The adjustments to the opening balances disclosed in the 'Notes to the Balance Sheet' note are accurate and complete. There are no other prior period errors to bring to your attention.
- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the

grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards at its meeting on 17 December 2020

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council



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Informing the audit risk assessment | Somerset West and Taunton Council 2019/20

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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Somerset West and Taunton Council's external auditor and the Audit Governance and Standards Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make enquiries of the Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Governance and Standards Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Governance and Standards Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Governance and Standards Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Governance and Standards Committee and supports the Audit Governance and Standards Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Governance and Standards Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud
- Laws and Regulations
- Going Concern
- Related Parties
- Accounting Estimates

Purpose

This report includes a series of questions on each of these areas and the response we have received from Somerset West and Taunton Council's management. The Audit Governance and Standards Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>This is the first year of operation of the Council, which incorporates the responsibilities of two previous district Councils – Taunton Deane Borough and West Somerset. The assets, liabilities, rights and obligations of these predecessors were transferred to SWTC on 1 April 2019. SWTC accounting policies and estimation techniques are similar to its predecessors', however moving to a consistent approach may result in some adjustments (e.g. assessment of aged debt impairment).</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Somerset West and Taunton Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes. The accounting policies have been reviewed to ensure consistency with the 2019/20 Code of Practice. No significant changes have been made and no events or transactions require new or altered accounting policies.</p> <p>The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 were introduced in response to COVID-19, however this has extended the deadlines for completing the accounts. CIPFA and Government considered options for reducing the reporting burden however no changes to the Code requirements were subsequently made.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>The Council has used a range of financial instruments including treasury investments and borrowing. No derivatives have been used.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>No.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	The impact of COVID-19 on the economy and financial markets has been considered when valuing assets.
6. Are you aware of any guarantee contracts?	In March 2013, new governance arrangements were approved with the formation of a new company limited by guarantee to replace the previous Joint Committee. Taunton Deane, at its Full Council meeting on 4 March 2013, and West Somerset Council, at its Full Council meeting on 27 February 2013 elected to become Members of the Company – South West Audit Partnership Ltd – with effect from 1 April 2013. At the TDBC Full Council meeting on 4 March 2013 the Council offered to guarantee to the Somerset Pension Fund the level of deficit funding related to ex-TDBC employees, estimated at £268k
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Contingent assets and liabilities are disclosed in the financial statements in respect of a Low Cost Affordable Housing scheme, Municipal Mutual Insurance, and SWAP pension fund deficit (see above), and Hinkley Point C S106 agreements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Somerset West and Taunton Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Somerset West and Taunton has no in-house solicitors. From the 1 April 2015 the former TDBC legal function, now SWT, was devolved to Mendip District Council under an inter authority agreement for the provision of a shared legal service hosted by Mendip. External legal services have also been used for projects including: Grant Thornton LLP (Corporate Management), Clarke Willmott (various projects), Ashfords (Regeneration/other projects), Womble Bond Dickinson (transformation programme), Thrings LLP (heritage project), No5 Chambers (planning), Porter Dobson LLP (asset management).
9. Have any of Somerset West and Taunton Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council engaged the services of a range of advisors through the year. For example, Mace Ltd (project and cost management), Bruton Knowles (Estate Management), Stantec UK Ltd & Environment Agency (planning and environment strategy support), Jubb Clews Ltd (Heritage and risk), BH Compliance Ltd (Asbestos/Fire/Water compliance strategy), etc. Further details provided to auditor in working papers.

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit, Governance, and Standards Committee and management. Management, with the oversight of the Audit, Governance, and Standards Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit, Governance, and Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Somerset West and Taunton Council's external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit, Governance, and Standards Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit, Governance, and Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit, Governance, and Standards Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Somerset West and Taunton Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Somerset West and Taunton Council assessed the risk of material misstatement in their financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do Somerset West and Taunton Council's risk management processes link to financial reporting?</p>	<p>The Council places reliance on its Financial Procedure Rules, and internal controls and audit functions to minimise the risk of fraud and error. The risk of material misstatement is considered to be low.</p> <p>Key decision reports and financial reports incorporate risk assessments including financial risks. Any fraud and error losses will be reflected in the reported income and expenditure for the authority, and material losses reflected in budget monitoring reports as well as report to Audit Governance and Standards Committee.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>A fraud prevention and detection service is operated in partnership with Powys Council, which includes transactional areas assessed as higher risk e.g. Right to Buy sales and benefit payments / council tax discounts.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Somerset West and Taunton Council as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No formal reports were made to the AGS Committee during 2019/20, however this will be added to the forward plan for 2020/21 including an 'annual report' for the year to August 2020 (the contract for the counter-fraud service operates August-August).</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Somerset West and Taunton Council where fraud is more likely to occur?</p>	<p>There are known areas of risk, and these are managed through the operation of appropriate controls as well as targeted reviews through internal audit and counter-fraud processes. A number of areas are reviewed each year. Specific higher risk locations have not been identified.</p>
<p>5. What processes do Somerset West and Taunton Council have in place to identify and respond to risks of fraud?</p>	<p>Management controls, business processes and procedures, internal and external audit functions, and fraud prevention and detection function.</p>
<p>6. Would you assess that the overall control environment for Somerset West and Taunton Council, including:</p> <ul style="list-style-type: none"> • the process for reviewing the effectiveness the system of internal control; and • internal controls, including segregation of duties <p>exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>A proportionate approach has been adopted to the internal control environment. Some risk has been accepted whilst the Council has adapted to organisational changes e.g. through the implementation of some lower value purchase transactions being input and approved by one officer. Wrap around controls are in operation such as exception reports to provide management assurance that controls are not being bypassed or manipulated.</p> <p>During 2019/20 the Internal Auditor has provided Partial Assurance overall, with some key control reports also assessed as Partial Assurance. The Council has now tightened its process for addressing and monitoring internal audit recommendations. There is an action plan within the Annual Governance Statement identifying areas where controls need to be strengthened and the AGS Committee will keep this under regular review.</p> <p>Staff and customers may report suspected fraud via the Council's website.</p> <p>There are no known or expected areas where there is potential for override of controls or influence over financial reporting.</p>

Fraud risk assessment

Question	Management response
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Controls in place should mitigate any risk of misreporting.</p>
<p>8. How does Somerset West and Taunton Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported?</p>	<p>The Council operates within a governance framework that includes a range of policies and Codes of Conduct, including Whistleblowing Policy and Anti-Fraud and Corruption Policy. Staff work within a behaviours framework, and conduct and performance matters are covered in team/line management arrangements.</p> <p>Fraud reporting is available on the website, and staff can raise concerns with their managers or report directly to the fraud team.</p> <p>No significant issues have been reported last year, however suspected fraud / error cases have been considered and investigated by the fraud team or audit team.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>No specific new assessment of 'high risk posts' has been undertaken. Financial controls are in place as part of the internal control framework that seek to minimise risk of fraud and error. Business processes include management / supervision checks and separation of duties on a proportionate basis. Adequacy of controls is reviewed through implementation of the internal audit plan, which is agreed with SMT on a risk-based approach. SMT monitor the delivery of the action plan in response to internal audit recommendations.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related party transactions are disclosed in the accounts as appropriate. Elected Members and officers with a position of significant influence (e.g. CEO / Directors / S151 Officer) complete the register of interests and also complete a related parties return annually for the annual accounts reporting process. Relevant Codes are in place and communicated. Staff have employment contracts and are supported with access to relevant policies and training.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit, Governance, and Standards Committee? How does the Audit Governance and Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The Governance Manager has a standing agenda item to update the Committee on governance matters. The Internal Auditor reports on a quarterly basis on delivery of the audit plan and will highlight significant fraud issues or risks identified. In future, a specific fraud risk update report will be added to the Forward Plan to provide a focussed report in this area.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes. The Council's whistleblowing policy has been followed and investigation undertaken where assessed as appropriate. Significant matters to bring to the attention of those charged with governance is included in the Monitoring Officer update the AGS Committee.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

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Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit, Governance, and Standards Committee, is responsible for ensuring that Somerset West and Taunton Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As an auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit, Governance, and Standards Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements do Somerset West and Taunton Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to Somerset West and Taunton's Council's regulatory environment that may have a significant impact on their financial statements?</p>	<p>We have a Constitution which sets out our legal and procedural framework and includes the Financial Rule and Contract Standing Orders.</p> <p>We have an Officer Scheme of Delegation which means that the appropriate level of professional officer ensures that all relevant laws and regulations are complied with.</p> <p>Statutory post of the Monitoring Officer – who is able to report to Members any areas where she feels laws and regulations aren't complied with. If appropriate</p> <p>Both MO and S151 Officer had access to SMT last year, and are now formal members of SMT from August 2020, to give professional advice re laws and regulations as appropriate.</p> <p>The Council uses SHAPE Legal if there are any legal queries.</p> <p>All Committee reports contain a section on Legal implications and reports now have to be discussed and signed off by SMT before going forward through the democratic process</p> <p>Professionally qualified officers ensure that all relevant laws and regulations are followed.</p> <p>Job Descriptions and Person Specifications specify requirements to ensure recruitment and selection of appropriately qualified professional officers.</p> <p>We are not aware of any changes to the regulatory environment that may have a significant impact on the financial statements.</p>
<p>2. How is the Audit, Governance, and Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The AGS Committee receives reports on matters such as compliance and health & safety, with higher risk areas included on the Audit Plan. There is also a standing item on the committee agenda for the Monitoring Officer to provide an update on governance/legal matters.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The only such matter is the claim by NHS Foundation Trusts in respect of business rates liability. Legal representation has been commissioned through the LGA, and a relevant contingent liability disclosure is included in the Statement of Accounts.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements do Somerset West and Taunton Council have in place to identify, evaluate and account for litigation or claims?	Any litigation claims that are received should be passed on to SHAPE Legal for evaluation and appropriate action.
6. Has there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Somerset West and Taunton Council? What was the outcome of that assessment?</p>	<p>Going concern status for local government is a presumption in law. The S151 Officer completes a going concern assessment considering financial position and this is reported to AGS Committee alongside the Statement of Accounts.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the budget and the financial information provided to the Audit, Governance, and Standards Committee throughout the year?</p>	<p>Budget and financial information is provided to the Executive and Full Council, which is scrutinised by the Scrutiny Committee. Assumptions are consistent with previous reports where appropriate and updated where necessary to reflect subsequent events and current information.</p>

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Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in Somerset West and Taunton Council's financial forecasts and report on going concern?	Yes
4. Have there been any significant issues raised with the Audit, Governance, and Standards Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	There are no significant issues casting doubt on assumptions made. A number of key control internal audits have highlight 'partial assurance' particularly where evidence for those audits was for the first few months of the year at the peak of organisational disruption through changes being implemented under transformation. Appropriate action has been taken to mitigate and address points raised with no significant impact on the underlying financial position of the authority.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	The Council's cash flow position is strong and well managed. The number of creditor payments paid over 30 day target was above average during first three months of the year, reflecting organisational disruption at that time rather than any cash flow issue.

Going concern considerations

Question	Management response
<p>6. Do Somerset West and Taunton Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of their objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>The Council (and its predecessors) experienced significant staff turnover as part of transformation. On recommendation from the CEO, the Council approved the creation of 4 Director posts to enhance leadership, with posts filled January/February 2020. The new leadership has realigned staff structure and resources during the latter part of the financial year, with the structure finalised in April. Capacity has been maintained to deliver priorities through agency and temporary staff in the interim.</p>
<p>Do Somerset West and Taunton Council have procedures in place to assess their ability to continue as a going concern?</p>	<p>Yes. The Council prepares/reviews its financial strategy annually, and budgets are prepared for approval by Council. The Council fulfils its requirement of setting a balanced budget, accompanied by statements from the S151 Officer regarding robustness of budget estimates and adequacy of reserves.</p>
<p>Is management aware of the existence of events or conditions that may cast doubt on Somerset West and Taunton Council's ability to continue as a going concern?</p>	<p>No. There is a high degree of uncertainty over future funding levels however prudent assumptions and estimates are included in the financial strategy and medium term financial plan. Financial planning and budgeting process will determine action required to ensure ongoing financial sustainability.</p>

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit, Governance, and Standards Committee?</p> <p>How has the Audit Governance and Standards Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes – the S151 Officer reports the going concern assessment to the AGS Committee alongside the Statement of Accounts.</p> <p>The Committee will review and consider the assessment presented and advice by the S151 Officer.</p>

Related Parties

Issue

Matters in relation to Related Parties

Somerset West and Taunton Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Somerset West and Taunton Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over Somerset West and Taunton Council;
- key management personnel, and close members of the family of key management personnel; and
- post-employment benefit plans (pension fund) for the benefit of employees, or of any entity that is a related party of Somerset West and Taunton Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the entity's perspective but material from a related party viewpoint then the entity must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls do Somerset West and Taunton Council have in place to identify, account for and disclose related party transactions and relationships ?	A review of related party transactions and disclosure requirements forms part of the year end programme of work to complete the accounts and supporting audit pack.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Somerset West and Taunton Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit, Standards, and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No. Judgements will be required in relation to additional funding provided by government in terms of treatment as principal or agency, however this will impact on the 2020/21 accounts. Relevant items are disclosed in Appendix A.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
3. How is the Audit Governance and Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounts are prepared by qualified accounting professionals in accordance with the CIPFA Local Authority Accounting Code of Practice and the Council's accounting policies, and certified by the Council's S151 Officer who must be a professionally qualified accountant. The external auditor presents and Audit Findings Report including his opinion regarding the true and fair view of the accounts.

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations Page 225	Non-current assets are valued in accordance with the guidance published by the Royal Institute of Chartered Surveyors. The valuations were done on the basis of Existing Use Value, Market Value or, in the case of specialised properties on the basis of, Depreciated Replacement Cost in accordance with the RICS Valuation Standards. Valuations are reviewed and signed off by Sally Stark (asset specialist).	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20.	Yes, the valuer is a member of RICS. Valuations performed by Guy Harbord (Wilks Head & Eve) RICS qualified valuer. Valuations are reviewed and signed off Sally Stark (asset specialist).	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No



Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<p>Estimated remaining useful lives of PPE</p> <p>Page 226</p>	<p>Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.</p>	<p>Consistent asset lives applied to each asset category.</p>	<p>Yes, the valuer is a member of RICS. Valuations performed by Guy Harbord (Wilks Head & Eve) RICS qualified valuer.</p>	<p>Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.</p>	<p>No</p>



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for on all assets with a determinable finite life (except for investment properties) by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.	Consistent application of depreciation methods across all assets.	See above	See above	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments Page 228	<p>Review of all assets undertaken annually to assess whether there is any indication that an asset may be impaired.</p> <p>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.</p>	See left	Discussion with internal property team as appropriate.	N/A.	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Financial instruments are valued at fair value based on the advice of external treasury consultants and investment fund managers.	All financial instruments are reviewed at year end and advice taken from professional advisors.	Yes	Instruments are valued on an individual basis with advice from treasury management professionals and investment fund managers.	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made whenever an event takes place that give the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefit or service potential, and a reliable estimate can be made of the amount.	Each provision is separately reviewed by financial accountants and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No
Bad Debt Provision / expected credit losses	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the Comprehensive Income and Expenditure Account.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts, with accounting valuations agreed by a qualified accountant.	N/A	N/A	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	Accruals for income and expenditure have been principally based on known values. Where accruals have been estimated, the latest available information has been used.	No
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Defined benefit pension amounts and disclosures	Staff are members of the LGPS, administered by Somerset County.	Rely on the calculations made by the actuary. Challenge any unusual movements or assumptions with the actuary.	The actuary of the pensions scheme.	Reliance on the expertise of the actuaries of the pension scheme.	No
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Barnett Waddingham. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body.	The Council are provided with an actuarial report by Barnett Waddingham (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No

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