South Somerset District Council

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Audit Committee

Thursday 15th December 2022

2.30 pm

Council Chamber, Council Offices, Brympton Way, Yeovil, BA20 2HT

(disabled access and a hearing loop are available at this meeting venue)

The following members are requested to attend the meeting:

Chairman: Mike Hewitson
Vice-chairman: Brian Hamilton

Robin Bastable
Mike Best
Dave Bulmer
Andy Kendall
Tim Kerley
Tony Lock
Paul Maxwell
Colin Winder

Any members of the public wishing to attend, or address the meeting at Public Question Time are asked to email **democracy@southsomerset.gov.uk** by 9.00am on Wednesday 14 December, so that we can advise on the options for accessing the meeting.

The meeting will be viewable online by selecting the committee meeting at: **https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA**

If you would like any further information on the items to be discussed, please contact Democratic Services **democracy@southsomerset.gov.uk**

This Agenda was issued on Wednesday 7 December 2022.

Jane Portman, *Chief Executive Officer*

This information is also available on our website www.southsomerset.gov.uk and via the mod.gov app

Information about Audit Committee

Statement of purpose

Our audit committee is a key component of South Somerset District Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our audit committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of South Somerset District Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The Terms of Reference of the Audit Committee are (as revised and agreed at Full Council in March 2022):

1. Governance, risk and control

1.1 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
1.2 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
1.3 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
1.4 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
1.5 To monitor the effective development and operation of risk management in the council.
1.6 To monitor progress in addressing risk-related issues reported to the committee.
1.7 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
1.8 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
1.9 To monitor the counter-fraud strategy, actions and resources.
1.10 To review the governance and assurance arrangements for significant partnerships or collaborations.

2. Internal audit

2.1 To approve the internal audit charter.

2.2 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

2.3 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
2.4 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
2.5 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

2.6 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

2.7 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

  a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work

  b) regular reports on the results of the QAIP

  c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.

2.8 To consider the head of internal audit's annual report:

  a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.

  b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.

2.9 To consider summaries of specific internal audit reports as requested.

2.10 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

2.11 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

2.12 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations.

2.13 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

3. External audit

3.1 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

3.2 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

3.3 To consider specific reports as agreed with the external auditor.

3.4 To comment on the scope and depth of external audit work and to ensure it gives value for money.

3.5 To commission work from internal and external audit.

3.6 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

4. Financial reporting

4.1 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

4.2 To consider the external auditor’s report to those charged with governance on issues arising from the audit of the accounts.

4.3 To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules.

5. Treasury Management

5.1 To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices.

5.2 The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council.

6. Accountability arrangements

6.1 To report to those charged with governance on the committee’s findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

6.2 To report to full council on a regular basis on the committee’s performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

6.3 To publish an annual report on the work of the committee.

Meetings of Audit Committee

Meetings of the Audit Committee are usually held bi-monthly including at least one meeting with the Council’s external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council’s website at www.southsomerset.gov.uk

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for ‘mod.gov’ in the app store for your device and select ‘South Somerset’ from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

Members questions on reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full ‘Policy on Audio/Visual Recording and Photography at Council Meetings’ can be viewed online at:
http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf

Audit Committee

Thursday 15 December 2022

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meetings held on 2nd and 22nd September 2022. The draft minutes can be viewed at: https://modgov.southsomerset.gov.uk/ieListMeetings.aspx?CId=135&Year=0

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on 26 January 2023 in the Council Chamber, Brympton Way, Yeovil.

Items for Discussion

6. 2020-21 Annual Governance Statement (Pages 7 - 20)

7. Audit Findings Report 2020/21 (Pages 21 - 69)

8. Statement of Accounts 2020/21 (Pages 70 - 200)

9. Certification of Claims Report (Pages 201 - 212)

10. 2022/23 Treasury Management Mid-Year Performance Report and Strategy Update (Pages 213 - 243)

11. Audit Committee Forward Plan (Pages 244 - 246)

South Somerset
District Council

2020-21 Annual Governance Statement

Executive Portfolio Holder:	Val Keitch, Leader of the Council
Lead Officers:	Karen Watling, Section 151 and Chief Finance Officer Jill Byron, Monitoring Officer
Contact Details:	Karen.Watling@southsomerset.gov.uk Jill.Byron@southsomerset.gov.uk

Purpose of the Report

1. To inform the Audit Committee of the content of the final Annual Governance Statement for 2020-21 and seek its approval.

Recommendation

2. That Audit Committee approves the 2020-21 Annual Governance Statement.

Background

3. Regulation 6(1)(b) of the Accounts and Audit (England) Regulations 2015 require local authorities to carry out an annual review of the effectiveness of their systems of internal control and publish an Annual Governance Statement in or alongside the annual accounts.

4. The Statement attached as Appendix 1 outlines the governance arrangements that the Council had in place during 2020-21. It has been prepared in accordance with the revised CIPFA/SOLACE Framework "Delivering Good Governance" 2016.

5. The draft Annual Governance Statement was approved by Audit Committee on 30 September 2021. This final version has been amended to take the comments of the external auditor into account. For ease of member reference, the change is highlighted in Appendix 1.

6. In producing the Annual Governance Statement, reports from SSDC's external auditors, Grant Thornton, and its internal auditors, South West Audit Partnership, have been taken into account.

Financial Implications

7. There are no financial implications associated with these recommendations.

Risk Matrix

8. Not applicable

Carbon Emissions and Climate Change Implications

9. There are no carbon emissions or climate change implications associated with these recommendations.

Equality and Diversity Implications

10. There are no equality or diversity implications associated with these recommendations

Privacy Impact Assessment

11. There are no privacy impact implications associated with these recommendations

Background Papers

None.

South Somerset
District Council

ANNUAL GOVERNANCE STATEMENT 2020/21

Annual Governance Statement 2020/21

Introduction

This is South Somerset District Council's Annual Governance Statement (AGS) for 2020/21. The Annual Governance Statement is required by Regulation 6(1)(b) of the Accounts and Audit (England) Regulations 2015.

The Council has responsibility for conducting, at least annually, a review of its governance framework including the effectiveness of the system of internal control. A review of the effectiveness is informed by senior managers within the Council who have responsibility for the development and maintenance of the governance environment, and also by the work of the internal auditors and external auditors. The Senior Leadership Team, comprising the Chief Executive, Directors, Section 151 Officer and Monitoring Officer, reviewed the draft 2020/21 Statement in October 2019 and April 2020. The review was also supported by the Council's Chief Internal Auditor.

The Council publishes the Annual Governance Statement on its website alongside the annual Statement of Accounts.

The Executive approved an updated Financial Strategy in August 2020, which included the savings target approved in August 2019 of £2m per year by 2022/23 – adding to £5.5m of savings delivered since 2017. Increasing our income through generation and commercial investment remain key to our strategy, responding to the financial challenges and ensuring our services are sustainable and affordable for the foreseeable future. Our governance structure supports this commercial approach and ensures risk is considered and managed effectively.

Cllr Val Keitch Leader of Council	Jane Portman Chief Executive

What is Corporate Governance?

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. 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 manner that is timely, inclusive, open, honest and accountable.

The Council's Governance responsibilities

The Council is responsible for ensuring it conducts its business in accordance with the law and to proper standards. It must ensure that public money is properly accounted for and is used economically, efficiently and effectively. It also has a duty to continuously improve the way in which it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiency and innovation.

To meet these responsibilities, the Council has put 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.

The Council is committed to the principles of good governance taking into account the guidance produced by CIPFA and SOLACE including:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable, economic, social and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the Council's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting and audit, to deliver accountability

The Council regularly reviews and updates its Local Code of Corporate Governance, most recently the Audit Committee in October 2019.

The Governance Framework

The governance framework consists of the systems, 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 us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost effective services. As the Council improves the way it provides services, it is important that the governance arrangements are robust and flexible enough to manage this.

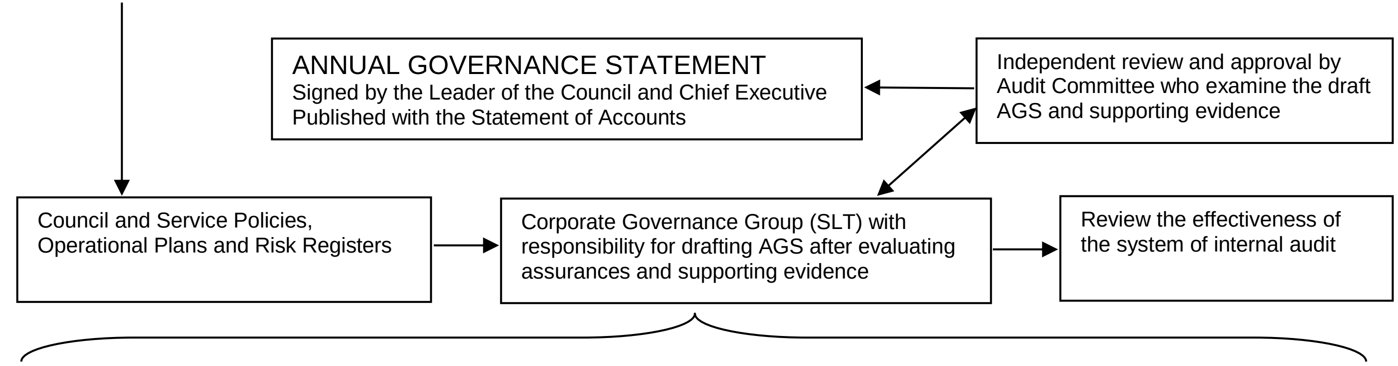
In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Audit Committee, Scrutiny Committees, District Executive or Council as appropriate.

The framework is summarised in the diagram below and some of the key elements of the governance framework are highlighted on the next pages.

South Somerset District Council – Governance Assurance Framework

Governance Framework – Key Documents/Functions

- Constitution
- Council Plan Service Planning Framework
- Business Transformation Projects
- Access Strategy
- Communication Strategy
- Performance Management Framework
- Schedule of Council Meetings
- Local Code of Corporate Governance
- Record of Decisions
- Fraud and Data Strategy
- Risk Management Strategy
- Partnership Register
- Code of Conduct for Members
- Members Induction & Training Programme
- Code of Conduct for Employees
- Officer and Member Protocols
- Confidential Reporting Policy
- Anti-Fraud & Corruption Policy
- Whistleblowing Policy
- Anti-Money Laundering Policy
- Anti-Bribery Policy
- Project Management Methodology
- Capital Strategy
- Procurement Strategy
- Medium Term Financial Plan/Strategy
- Capital Strategy, Investment Strategy and Treasury Management Strategy
- Commercial Strategy
- Annual Budget and Statement of Accounts
- Financial Procedure Rules
- Procurement Procedure Rules
- Scheme of Delegation
- Complaints Procedure
- Equalities and Diversity Policy



ANNUAL GOVERNANCE STATEMENT
Signed by the Leader of the Council and Chief Executive
Published with the Statement of Accounts

Independent review and approval by Audit Committee who examine the draft AGS and supporting evidence

Council and Service Policies, Operational Plans and Risk Registers

Corporate Governance Group (SLT) with responsibility for drafting AGS after evaluating assurances and supporting evidence

Review the effectiveness of the system of internal audit

Performance Management	**Risk Management**	**Information Governance**	**Legal and Regulatory Assurance**	**Members' Assurance**
• Embedded system • Operates throughout the organisation • Internal and external reviews • Action orientated • Performance Indicators • Periodic progress reports	• Risk management strategy • Embedded in planning processes and project/partnership methodologies • Effectiveness evaluated • Outcomes reported to committee • Training programme	• Training programme • Outcomes reported to committee • Data Protection Officer role • GDPR Compliance • Transparency Code compliance • Data quality assurance for statutory returns and performance data	• Monitoring Officer's reports • Sections of committee reports • Legal advice obtained to support key decisions	• Standards committee • Audit committee • Scrutiny function • Access to policies, information, advice, reports
Assurances by Directors/ Service Leads	**Other Sources of Assurance (including third party)**	**Financial Management**	**Internal Audit**	**External Audit**
• Periodic reports • Internal control reviews • Annual Governance Statement • Internal Audit reports	• Reports by inspectors • Service review reports • Fraud reports and investigations • Ombudsman reports • Post implementation reviews of projects	• Medium Term Financial Plan • Revenue Budget and Capital Programme • Revenue and Capital Management reports • Treasury management • Balance sheet management • Statement of accounts • Compliance with codes of accounting practice • Statutory returns • Grant claims	• Operates under approved terms of reference • Approved risk-based plans • Periodic and annual reports to Audit Committee, Auditor Opinion • PSIAS code compliance assessment • Active Quality Assurance and Improvement Programme in place • Operates under an Internal Audit Charter	• Annual Plan • Audit Findings Report • Audit Opinion and VFM conclusion • Audit Letter • Notice of Completion of Audit • Public Inspection Period

Ongoing assurance on adequacy and effectives of control over key risks

The Corporate Strategy and Plan

Following the District Council election in May 2019, the newly formed Leadership Team spent some time reconsidering their priorities for the term. They translated their vision and aspirations into a new Council Plan and Annual action plan. In February 2020, the Council approved its Council Plan 2020 to 2024, and an Annual Action Plan to set out what the Council will do to deliver and progress the agreed priorities for the year ahead.

The Council Plan draws together the administration's vision for South Somerset and sets out its values, and aims for the District. It draws together our strategies and priority projects for the year, supported by a revised set of key performance indicators.

Annual Action Plan 2020/21
Council Plan themes and Areas of focus for 2020/21

Protecting Core Services

To ensure a modern, efficient and effective council that delivers for its communities, we will:

Economy

To make South Somerset a great place to do business, with clean inclusive growth and thriving urban and rural businesses, we will:

Environment

To keep South Somerset clean, green and attractive and respond to the climate emergency we will work in partnership to:

Places where we live

To enable housing and communities to meet the existing and future needs of residents and employers, we will work to:

Healthy, Self-reliant Communities

To enable healthy communities which are cohesive, sustainable and enjoy a high quality of life, we will:

- Embed social value* into all

The focus for the year 2020/21 was set out in the Action Plan. The Priority projects are highlighted below and full details can be found on the website.

The Council agreed eight Priority Projects for 2020/21 within the Action Plan, as follows:

1) Fully realise the benefits of Transformation and further embed the Commercial Strategy
2) Progress implementation of the Chard regeneration project
3) Continue the refresh of Yeovil Town Centre
4) Progress project to aid the regeneration of Wincanton Town Centre
5) Develop proposals to accelerate the delivery of key housing sites and associated infrastructure
6) Assess options for improving community transport link.
7) Develop proposals to support struggling families and help address child poverty and low rates of social mobility in the district
8) Accelerate action to adapt to and mitigate the effects of climate change and extreme weather.

The Action Plan has also been developed to include Area Chapters – highlighting some key priorities for each area that deliver localised initiatives and improvements that complement the Council Plan themes. The Corporate Plan and Annual Plans are not intended to capture everything that the Council does nor do they include the detail of all our work and projects. That is the role of the Operational and Individual Plans which will flow from the Council Plan.

Decision Making and Responsibilities

The 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, together with 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.

The Council has 60 elected Members. The Council has adopted an executive governance model, which means most member decisions are taken at District Executive level, either collectively as part of a District Executive meeting or by the Leader or Portfolio Holders in accordance with the

Scheme of Delegation set out in the Constitution. The District Executive is supported and held to account by both the Scrutiny Committee and the Audit Committee. In order to give local citizens a greater say in Council affairs, the Council operates four area committees. These are responsible for planning, local regeneration schemes and community development in their area.

The Constitution also sets out the role of key officers, including the statutory roles of Chief Executive (Head of Paid Service), Monitoring Officer and Section 151 Officer, 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.

Equality

The Council is committed to delivering equality and improving the quality of life for the people of South Somerset. 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. The Council approved the current Equality and Diversity Policy in March 2019.

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 applies to all significant programmes, projects and initiatives as well as any recommendations for material changes to current practices.

The Council's risk framework is based on a risk category approach to ensure consistency in risk scoring across the organisation, to provide a clearer route for escalation for risk owners, and improved oversight of risk for management. A standardised risk register template is embedded to encourage utilisation and ownership of risk at the appropriate level of the organisation, and to ensure a standard approach for both project as well as corporate risk management. Update and review of risks is enabled through supported risk reviews according to an agreed timetable.

Senior management is responsible for identifying and managing the principal risks to the Council. These risks are recorded in a Corporate Risk Register. Directors will decide how to structure risk registers within their areas but will use the same risk register template and methodology. As well as describing the risks in a consistent manner using agreed categories of risk, the registers will also record the controls necessary to manage the risks. The registers will be regularly reviewed and challenged by senior management and by the Audit Committee.

Financial Management

The Council has a long established record of effective financial management and managing within our means. It continues to face the challenge of designing a sustainable budget for the future in the face of ongoing reductions in Government funding for local government.

The Council's financial strategies have been heavily focussed on transforming services in a way that reduces costs, and generating additional income through commercialisation of services and increasing financial investment. In 2017 the Council had set an annual savings target rising to £6m by 2021/22, and we have made excellent progress with £5.5m of savings/additional income included in the Medium Term Financial Plan by mid-2019/20. The Financial Strategy was refreshed in September 2019 and set a new Savings Target of £2m by 2022/23 in addition to the £5.5m already built in to the Plan.

South Somerset set a balanced budget for 2019/20, and has also achieved this for 2020/21. The financial environment continues to be challenging. The 2019 Spending Round deferred the Fair Funding Review and Business Rates Reset until 2021/22, which provided a better than expected Settlement for 2020/21. However the funding position remains uncertain thereafter with significant falls in Business Rates and New Homes Bonus funding expected. The Council will be much more reliant on commercial income in future, which presents different risks to be managed. The Council's approach to budgeting and reserves planning ensures ongoing prudent financial management is maintained.

The Section 151 Officer is responsible for the proper administration of the Council's financial affairs, as required by the Local Government Act 1972, and the Council's 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).

There are robust 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. 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 LLP is our appointed auditor for 2020/21 and the subsequent two years.

The Auditor's Annual Report on South Somerset District Council for 2020-21 contained a statutory recommendation from the auditor in respect of a settlement agreement entered into during 2020-21. This recommendation was considered and accepted by a meeting of the Council on 22 September 2022. The Council accepted that the management controls that were in place did not operate as they should have done on that occasion and adopted a revised procedure that took the auditor's findings into account.

The Covid-19 Pandemic

The emergence of the Covid-19 pandemic and the effect on the Council's businesses, residents and workforce has been a particular challenge for 2020/21 and continues to be an area of concern and pressure looking forward into the coming year.

The Council's response to the pandemic and the mobilisation of its staff has shown the benefits of an agile and proactive workforce but also created new governance challenges. At the 19 March 2020 meeting of Full Council, delegated authority was given to the Chief Executive, in consultation with the Leader and relevant Portfolio Holder, to take "Executive and Quasi-Judicial decisions". This delegation was swiftly rendered redundant by the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 which enabled the Council to carry out its business in the normal way remote, virtual meetings using available technology. These Regulations continued in force throughout the period covered by this Statement. Hosting council meetings virtually has been a great success, with many more members of the public being able to access meetings and a consequent increase in transparency. widening of the democratic decisions to continue turning.

The pandemic also created new risks. The administration of business grants, funded centrally, has been an important support system for local businesses, but at the same time put considerable strain on the Council's staffing resource. The Council has had to redeploy people to cope with the volume of grants applied for and paid. Most of the grants are mandatory but come with requirements to sign State Aid declarations, which had to be closely considered by the staff involved. Another of the grants was discretionary in nature. All of this raised new risks as businesses had to self-declare their eligibility and there was a heightened risk of fraud. Sense and reasonableness checks were important and the Council also engaged with its internal audit partners to cast to cast a critical eye over the grants administration process.

The process of recording the business grants and the Covid related costs to the Council has been reflected in the mandatory returns made to Central Government. This is a new, necessary pressure which is time-consuming but ensures that records are maintained accurately and are suitable for scrutiny. The Council has completed these returns on an accurate, time basis.

Commissioning and Procurement of Goods and Services

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.

The Council rolled out new procurement guidance and training during 2018/19 to build organisation-wide knowledge and improve procurement practices. A further review of procurement practice commenced in 20-21 to conclude in late 2021.

Managing Information

The Council recognises that it has a responsibility to safeguard the information it holds and to manage it in accordance with the requirements of the General Data Protection Regulation (GDPR). GDPR came into force on 25 May 2018 and the Council carried out a compliance review in early 2021. The resulting GDPR Action Plan will be implemented in 2021-22 to ensure continued compliance and recognise best practice across all parts of the Council's activities and to raise awareness amongst all staff and members.

Conduct

Our Codes of Conduct set out the standards of conduct and these are regularly reviewed and updated as necessary. These include the need for Members to register personal interests and the requirements for employees concerning gifts and hospitality, outside commitments and personal interests. The requirements of these codes are included in induction training to members and employees and both groups are regularly reminded of the codes.

Whistleblowing

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. The Council has a Whistleblowing Policy that advises staff and others who work for the Council on how to raise concerns about activities in the workplace. There have been no occasions during the last year where whistleblowing has taken place. A review of the Council's policy commenced in early 2021.

Counter Fraud

The Anti-Fraud Policy makes it clear that the Council will not tolerate any form of fraud, corruption or bribery. It provides for deterrents, promotes detection, identifies a clear pathway for investigation and encourages prevention.

Benefits related fraud matters are usually referred to the Department for Works and Pensions, who operate the Single Fraud Investigation Services.

The Council participates in the National Fraud Initiative, which compares data from a range of organisations to identify potential fraud or error cases.

Commercial Services and Investment

The Council approved a new Commercial Strategy in the summer of 2017. This provides the strategic direction for the Council operating in a more commercial way. As part of transformation, the Council has created a focussed commercial team to focus on services funded through direct income (e.g. sale, fees and charges). There is also a strong assets and property function which is driving forward the Council's Commercial Land and Property Development plans in order to reduce costs and increase income.

As part of the Commercial Strategy appropriate governance was put in place to oversee and manage a new Investment Fund to build a portfolio of commercial investment properties. The Council uses specialist staff and advisors to assess and evaluate investment opportunities, with favourable ones presented to an Investment Assessment Group (IAG) comprising the Commercial Services Director, the Commercial Property, Land and Development Manager, the S151 Officer, the Monitoring Officer and the Portfolio Holder for Property and Climate Change and Income Generation. A unanimous vote from all members of the IAG is required for an opportunity to proceed for formal consideration and approval. The Council has delegated authority to the Chief Executive, in consultation with the Leader, to approve individual investments of up to £10m per transaction. Those valued above this amount require approval of District Executive.

The Council approved an updated Capital Strategy and Investment Strategy in February 2021, following the requirements of the Prudential Code and statutory investment guidance. The Council is aware that restrictions on commercial activity are being mooted by central government and will be closely monitoring the position in 2021-22.

Group Operations

This is the second year that the Council has included group operations in a separate section in the Statement of Accounts. The rationale being that they are deemed materially significant and it is appropriate to give more prominence to the performance of these arrangements.

Group operations are subject to the same scrutiny and governance requirements as the single entity operations in that the Council ensures an appropriate level of transparency is maintained and that decisions are made at arm's length. The division of duties and avoidance of conflict of interest is maintained through the appointment of Directors on the Board of SSDC Opium Power Ltd who do not have delegated powers of approval for the Council to make treasury decisions or to approve specific schemes. Any lending to the group is done at arm's length and at market rates thus avoiding unfair competition.

Arrangements are in place ensure that IAG decisions are unanimous and that there is no single point of influence which may favour the Council's group entities. Details of these arrangements are covered to in the previous section on Commercial Services.

Regeneration Programmes

New arrangements were established following the 2018 May Council review of the governance arrangements for Regeneration in South Somerset and have been in operation since 2019/20.

The three Regeneration Programme Boards – for Yeovil, Chard and Wincanton - have been operating and making decisions, notably commissioning the new Leisure Centre in Chard in October 2019, and agreeing Public Realm Design Guide in Yeovil as well as submitting the Council's Future High Street Fund bid. The Wincanton Board approved the Wincanton Town Centre Regeneration Strategy. Membership of the Boards is a mixture of members and officers and, where appropriate, a limited number of key delivery partners. These Boards oversee their programmes, projects, resources and risks, and report to the Strategic Development Board (SDB).

The SDB comprises the Leader, the 4 Area Chairs and the portfolio holders covering Economy, Homes, Environment, Infrastructure, Spatial Planning and Development Management. Its key purpose is to:

- ensure alignment of the appropriate priority projects and have an overview of strategic development to ensure the relevant ambitions of the Council are being delivered
- ensure a coordination and synergy between the Council's key strategies including the Council Plan, Local Plan, Housing Strategy and Economic Development Strategy
- own and overview the delivery of a programme of work (projects, actions, policy initiatives and potentially service delivery initiatives) aimed at achieving the Council's development ambitions as set out in the Council Plan, Local Plan, Housing Strategy and Economic Development Strategy
- overview and coordinate the delivery of the Regeneration Programmes (but accountability for the delivery of Regeneration Programmes would be with their relevant Regeneration Programme Board)
- hold responsibility for overseeing and managing the cumulative impact of programmes and projects including associated risks.

The Strategic Development Board has taken reports on progress on the Area Boards and the local Plan during 2020/21 and progress with the Regeneration programme is reported through the Council's performance management systems.

The 2018 review established an innovative approach to funding, with Gross and Net Budgets set for each active Programme Board (initially Yeovil and Chard). The aim is that the Net Budget will represent the net cost to the Council, but recognises that such programmes require significant up-front investment including through developers and other parties.

Conclusion

South Somerset District Council has continued to operate fit for purpose governance arrangements during the year, reflecting its priorities and risks. The main priorities for the past year have focussed on continuing to provide effective and resilient services in the face of the Covid pandemic alongside continued implementation of the Commercial Strategy including commercial investments, other income generation projects and schemes. The Council has continued to review and improve its strategic planning and performance management arrangements as demonstrated by the new current Annual Action Plan for 2021/22 which was approved at Full Council in February 2021.

The Internal Auditor's Opinion provides reasonable assurance based on the areas reviewed in the annual audit plan, giving confidence over the effectiveness of the systems of internal control.

Note: An issue was identified and investigated during the 2021/22 financial year which related to activities during the 2020/2021 year and previous financial years. Following a full and independent investigation, a former Director of the Council was dismissed in October 2021. Senior Management took a public report on the council's response to the recommendations following the investigation, the actions taken, and the improvements made to our corporate governance arrangements which include tightening our control and monitoring processes, to the meeting of the Audit Committee on 26th May 2022. This will be fully reflected in our Annual Governance Statement for 2021/22.

Improving Governance Actions

There are no significant governance issues to report for 2020-21. It is the assessment of the Leadership Team that the Council's operations and projects have been managed effectively. Assurance is taken from the outcome of the internal audit plan and auditor's opinion.

Improvements and key actions in governance during 20-21 included:

- Risk Management: The Specialist – Procurement provides a strategic focus on risk management for the Council and is responsible for developing the Risk Management Strategy and coordinating regular reviews with support of SLT. This supplements the responsibilities of all councillors, managers, leads and other staff in managing risk appropriately in their areas of control and responsibility. Strategic and Category (Corporate) Risk Registers are now in place and updated on a quarterly basis. The Risk Management Policy and framework was approved by leadership and the Audit Committee (including the proposed risk register hierarchy and escalation, and new risk categories), and risk training was provided to Members on the new model.

  Furthermore, standardised risk registers have been established for key regeneration projects in coordination with Programme leads. Risk registers are also maintained for strategic internal projects and to support the organisational response to COVID.

- Strategic Planning and Operational Planning: Work has progressed well on this to date, with the development of a new approach to our annual planning cycle, with good Member engagement. The development of the Council Plan has progressed well, with a clear link between district wide and local area priorities, reflecting our new Area + working model which came into effect in 2019, as well as clear KPIs which show how we are delivering against our key priorities. A new four-year Council Plan was agreed from 2020 to 2024 containing Vision, Values and Aims and including an Annual Action Plan for 2020/21 around Core Themes, Areas of Focus and Priority Projects, plus Area Chapters.

- Employment Policies: New employment policies were launched with effect from 1st August 2020, following discussion with the Trade Unions and HR portfolio holder. The new contract of employment has been discussed at length with the Trade Unions and whilst GMB accepted our proposals, Unison members rejected the proposals. It is anticipated that we will be revisiting this piece of work, in light of office rationalisation and the ongoing impact of COVID-19.

- Performance Management – During 2019 we reviewed our Key Performance Indicators in line with the revised Council Plan for 2020-24. The Performance Management Framework is being rolled out across the business and has been integrated on the new Learning Management System. This continued until the end of 2020.

- Authorised Officers: Officer delegations for authorising business transitions, such as purchasing and payroll changes, has been updated during the year to reflect the structure of new operating model.

- Financial Regulations: These have been reviewed and updated to reflect the new operating model and appropriately controlled financial rules and procedures to support the transformed Council.

Improvements and key actions in governance planned during the next year include:

- Risk Management: Ongoing work will involve further development of the risk management approach to include opportunity analysis, refinement of the risk framework with guidance from SWAP and Zurich Risk Management, as well as improving engagement with the Audit Committee to provide updates during the latter part of the year on the risk profile.

- Digital Strategy: work to embed the Digital Strategy will continue. The Digital Strategy is explicit about the need for a different governance model "rather than the more traditional top down approach", to reflect the agile nature of the approach.

- Constitution: An appropriate review and update of the Constitution is underway, to ensure it reflects governance requirements.

- Local Code of Corporate Governance: The Local Code will be updated to reflect current guidance, reflecting the principles, values and behaviours the Council will adopt in working for, with and on behalf of the Council, our customers and communities.

Note: plans for 2021-22 will be impacted by the anticipated decision of the Secretary of State in respect of the future of local government in Somerset

South Somerset
District Council

Audit Findings Report 2020/21

Executive Portfolio Holder:	Peter Seib, Finance and Legal Services
S151 Officer:	Karen Watling, Chief Finance Officer
Lead Officer:	Paul Matravers, Lead Specialist - Finance
Contact Details:	Paul.matravers@southsomerset.gov.uk 01935 462275

Purpose of the Report

1. This report introduces Grant Thornton UK LLP's Audit Findings Report for 2020/21.

Forward Plan

2. This report appeared on the Audit Committee Forward Plan with an anticipated Committee date of 2 December 2022. Following the need for additional Audit work, the Audit Committee was moved to 15th December 2022.

Public Interest

3. Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice, the Council's external auditors report on the group and Council's financial statements and the governance of South Somerset District Council.

Recommendation

4. That Audit Committee considers the matters identified in the report from the external auditors, and management's responses to the recommendations made by the auditors.

Background

5. Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice, the Council's external auditors (Grant Thornton) report on the financial statements and the governance of the Council. The review of these reports is included within the remit of this committee under its terms of reference as follows:

   "To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken."

“To review and approve the annual Statement of Accounts, external auditor’s opinion and reports to members and monitor management action in response to issues raised.”

6. The Audit Findings Report summarises the key findings from the review undertaken by Grant Thornton.

Key Features of the Audit Findings Report

7. This is the final audit findings report in respect of the 2020/21 statement of accounts. The interim audit findings report was presented to audit committee on 24 March 2022.

8. The Grant Thornton report gives an opinion on the financial statements for 2020/21 and recommendations for management consideration. Management responses to those recommendations are also included in the report.

9. The changes made from the interim audit findings report are highlighted in the text of the report.

Financial Implications

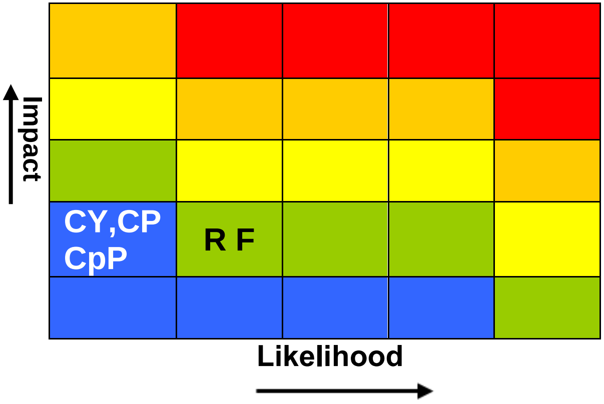
10. The fees charged for the audit of the Statement of Accounts as per the audit plan are detailed in the table below. In addition, there are non-audit fees which are payable in respect of the certification of grant claims and returns for the year.

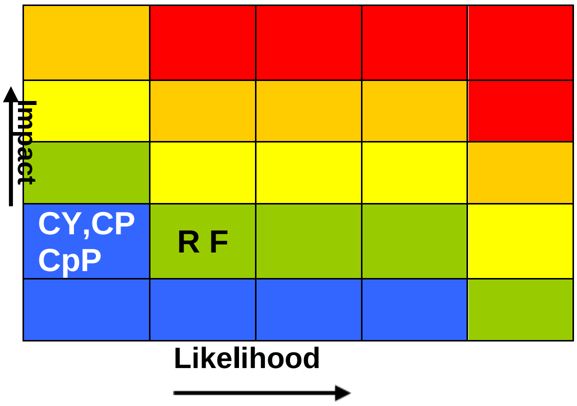
Fee Element	**£**
Fees payable with regard to external audit services carried out by the appointed auditor	66,943
Additional Audit Fees subject to approval by PSAA	175,000
Estimated Total audit fees (TBC)	**241,943**
Fees payable with regard to certification of grant claims and returns for the year: Non-Audit Fee agreed upon procedures on the council’s Housing Benefit Subsidy Claim 2020-21	38,000
Total audit and non- audit fees (TBC)	**279,943**

Risk Matrix

Risk Profile before officer recommendations

Risk Profile after officer recommendations





Key

Categories	**Colours** *(for further detail please refer to Risk management strategy)*
R = Reputation CpP = Corporate Plan Priorities CP = Community Priorities CY = Capacity F = Financial	Red = High impact and high probability Orange = Major impact and major probability Yellow = Moderate impact and moderate probability Green = Minor impact and minor probability Blue = Insignificant impact and insignificant probability

Council Plan Implications

11. The Audit Findings Report is an integral part of the auditing of the Statement of Accounts which are closely linked to the Council Plan and maintaining financial resilience and effective resource planning is important to enable the council to continue to fund its priorities for the local community.

Carbon Emissions and Climate Change Implications

12. There are no carbon emissions or climate change implications in this report.

Equality and Diversity Implications

13. There are no equality or diversity implications

Privacy Impact Assessment

14. There is no personal information included in this report.

Background Papers

15. None

Audit Findings for South Somerset District Council

Year ended 31 March 2021

South Somerset District Council
8 December 2022

Contents

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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 planning 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 the Council or all 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.

This Audit Findings 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. Its contents have been discussed with management.

Barrie Morris
Grant Thornton UK LLP

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Somerset District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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 group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's 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.

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 inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed through a combination of on site and remote working. We initially started our work during June 2021 but were unable to progress as the council did not provide us with draft accounts in line with the agreed timescales. Following discussions with the finance team on their revised expected timescales, we re-allocated the audit team to other audits in July 2021 and restarted audit work at South Somerset DC in October 2021. At the time of writing this report, we are still undertaking work due to a number of issues that are referenced throughout this report. Our findings are summarised on pages 6 to 24. We have identified seven adjustments to the financial statements that have resulted in a £0.230m net adjustment (£1.352m gross value) to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. In addition, we have also identified six further errors, with a value of £0.512m net (£0.802m gross), that management have decided not to adjust on the grounds of materiality. We have raised a number of recommendations for management to consider which should improve the overall quality of the financial statements, and the underlying arrangements for their preparation, as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

An interim version of this Audit Findings Report was presented to the Audit Committee in March 2022, with further updates reported to the May 2022 and July 2022 Committee meetings. Whilst our audit work has yet to be fully completed, we are anticipating that this will be completed in order for us to provide our audit opinion shortly after the Audit Committee meeting on 15 December 2022, subject to satisfactory responses being received. The key areas yet to be concluded are:

- completion of testing of Consolidated Group Accounts, going concern, Group Land & Buildings revaluation, Investments, Grant income, Payroll and remuneration disclosures;
- concluding procedures;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have now completed our VFM work and presented our Auditor's Annual Report at the September 2022 Audit Committee. This report will be finalised after the opinion on the 2020-21 financial statements has been given. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the following risks of significant weakness in our audit plan:

- The council's external commercialisation strategy and it's impact on the Medium term Financial Strategy.
- The council's priorities post transformation.
- Arrangements for securing value for money in the council's local government reorganisation proposals
- The council's arrangements to maintain a strong leadership team with the right skills and experience
- Amended governance arrangements in light of the coronavirus pandemic

As a result of audit work during the year, we identified two further risks of significant weakness:

- Subsequent to the end of the financial year, in May 2021, an investigation was instigated into a former Director of the Council, identified behaviours and actions that were not consistent with the Nolan principles of standards in public life. Given the timing of this issue which was during the course of our annual audit, we have identified this as an emerging risk and considered the Councils response.
- The capacity of the council to produce financial statements and high quality supporting working papers to ensure the audit process is undertaken efficiently.

Following our detailed VFM work, we have concluded that:

- There are significant weaknesses in the Governance arrangements at the Council:
    - We have raised a statutory recommendation following a settlement agreement that the Council made with an employee without following appropriate governance arrangements, including its own policies and procedures;
    - We have identified a further significant weakness in the Councils arrangements for producing the financial statements with sufficient and appropriate supporting schedules in a timely way
    - There are four other areas where improvements in the Council's governance arrangements should be made.
- Whilst no significant weaknesses were identified in the Council's arrangements to secure Financial Sustainability, we did identify four areas where improvements should be made.
- In addition, whilst no significant weaknesses were identified in the Council's arrangements to improve economy, efficiency and effectiveness in the use of its resources, we did identify four areas where improvements should be made.

Full details are provided in the Auditors Annual Report.

1. Headlines

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.

Other than the statutory recommendation identified in respect of the Governance arrangements following our detailed VFM work, reported on the previous page, we have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of the NAO's group audit procedures.

Significant Matters

As reported in March 2022, we are aware that there have been, and continue to be, a number of conflicting priorities impacting capacity levels at the Council, including Local Government Reorganisation, loss of experienced and key staff in the finance team and the budgeting processes, that has contributed to significant delays in both the preparation of the financial statements and supporting the audit process. We acknowledge the actions taken by management to alleviate some of these issues including employing temporary additional resources to support the audit process.

However, there have been significant challenges in completing the audit due to the issues identified above. In addition, we have experienced unexpected challenge and some behavioural issues that have further impacted on the timely delivery of the audit, including not engaging with the audit process in a positive and professional manner by a small number of staff. Our audit has been impacted in a number of ways:

- The date by which the council agreed to provide us with draft financial statements was missed, resulting in our team having to stop work on South Somerset DC and move to other clients;
- Management have not implemented the audit recommendations reported in the prior period (as detailed in Appendix B);
- Insufficient supporting working papers were provided to the audit team;
- Work had to be re-performed on disclosures such as Group accounts consolidation as a result of errors identified such as a company having been excluded from consolidation;
- A number of errors requiring adjustment the financial statements have been identified;
- Errors in floor areas which impact the valuation of PPE have been identified, an issue we also reported on in the prior year;
- We have had to extend our sample testing in a number of areas as a result of errors identified;
- We experienced significant difficulties in obtaining breakdowns of debtor and creditor balances that could be sampled;
- Responses to audit queries took longer to be received, with a number of queries initially raised in June 2021 not being answered until January 2022; and
- In a number of areas initial responses received were insufficient and we have had to further challenge management for sufficient and appropriate audit evidence.

All of the issues above have resulted in significant additional work being required which will translate into significant further audit fees being levied on the Council.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report, which follows the Interim Audit Findings Report presented in March 2022 and supplemented by two further updates presented to the May 2022 and July 2022 Audit Committee meetings, presents the observations arising from the audit progress to date 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. We have updated this report to provide the final position at the conclusion of the audit, but have retained, where appropriate, previous commentary, so that this report provides a comprehensive reflection of the audit findings.

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 group business and is risk based, and in particular included:

- An evaluation of the group internal controls environment, including its IT systems and controls;
- An evaluation of the component/s of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specific scope procedures on material group balances need to be performed by Old Mill, as component auditor, with specific scope procedures to be performed by the GT audit team over the valuation of Property, Plant and Equipment.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. These outstanding items are detailed on page 3.

As previously highlighted, the impact of the pandemic and local government reorganisation has meant that your finance team faced significant audit challenges this year. As a result of the pandemic, we have also had to complete most of the audit work remotely, which has impacted the following elements of our work; remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity and access to key data from Council staff. This, coupled with the impact of the finance team's lower capacity resulted in us having to stop and restart audit procedures and idle time for our team members.

We have had to undertake extensive additional audit procedures and involve technical specialists as auditors' experts in order to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements. This has resulted in significant additional audit fees, which are subject to final approval by PSAA Ltd.

Acknowledgements

We recognise that this has been a very challenging audit process indicating the need for significant changes for future years. There have been many conflicting priorities impacting those officers that both produce the financial statements and support us in the audit. We acknowledge their continuing support in resolving our queries to enable us to conclude the audit.

Barrie Morris
Grant Thornton UK LLP

2. Financial Statements

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 for the Council remains the same as reported in our audit plan on 18 May 2021. On the other hand, we have revised the materiality for the Group accounts as the net assets changed significantly due to the inclusion of an additional subsidiary.

We detail in the table on the right our determination of materiality for South Somerset District Council

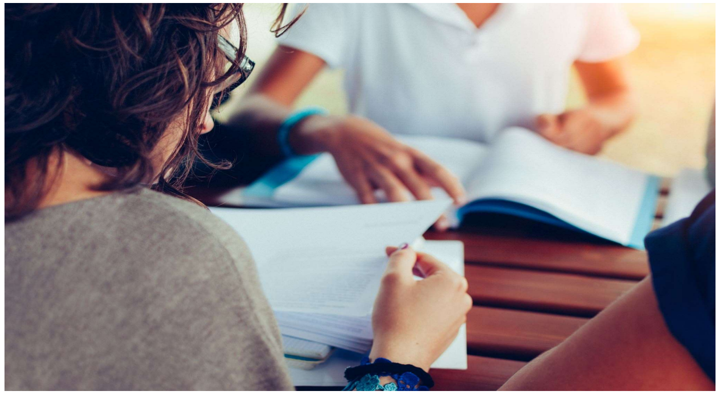
	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	2,200,000	1,800,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the Net Cost of Services level was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 2% was an appropriate rate to apply to the expenditure benchmark. We have used total assets as benchmark for the Group financial statements, as this is the benchmark with additional group items. Considering that this is the first year that the component auditors undertake work on the components financial statements. We deemed that 1.4% was an appropriate rate to apply to the total asset benchmark.
Performance materiality	1,430,000	1,260,000	We considered factors such as control environment, prior year experience, other sensitivities and the nature of significant estimates included in the financial statements. We determined 70% and 65% of materiality as an appropriate threshold for the council and group, respectively .
Trivial matters	110,000	90,000	5% of materiality was determined as an appropriate level for triviality
Senior Officer remuneration disclosure table	N/A	50,000	A lower level of materiality was determined for the Senior Officer Remuneration disclosures in the single entity accounts due to the sensitivity and potential public interest in these disclosures.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	**Commentary**
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • Performed testing of unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our IT General controls work in prior periods identified issues with the Council's admin access rights and segregation of duties. As a result, we have undertaken additional work in our journals testing to reflect the increased risk associated with the control findings. We have not identified any instances of management override of controls. All journals tested were deemed to be appropriate transactions. However, we identified two users who had administrative and user level access. This deficiency was addressed during the period and we confirmed that no journals were posted by either individual. As noted in Appendix A, we also noted nine journals that were not approved due to the exclusion of a batch type in the authorisation report.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

ISA240 revenue risk – the Council's reported revenue contains fraudulent transactions (partially rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

For the group (excluding the Council), as revenue is immaterial, we have concluded we can rebut this risk, as group income is not material.

For the Council we have concluded that the greatest risk of material misstatement relates to Fees & Charges income. We have therefore identified the accuracy and occurrence of Fees and Charges income (and associated receivable balances) as a significant risk, which is one of the most significant assessed risks of material misstatement.

For the remaining revenue streams, we have rebutted this risk because:

other income streams are primarily derived from grants or formula-based income from central government and taxpayers; and opportunities to manipulate revenue recognition are very limited.

Commentary

As reported in our Audit Plan, we have rebutted elements of this presumed risk, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited;
- the culture and ethical frameworks of local authorities, including South Somerset District Council, mean that all forms of fraud are seen as unacceptable; and
- Group income streams are not material to the group accounts

In relation to fees and charges, we have:

- evaluated the council's accounting policy for recognition of income from fees and charges and evaluate the design of associated controls; and
- tested, on a sample basis, amounts recognised as income from fees and charges in the financial statements to supporting documentation.

We initially experienced difficulties with the population provided as it contained a significant number of debits and credits that we were unable to match off. After discussions with the finance team, we were unable to identify an alternative report that could be provided in order to appropriately sample the fees and charges balance. We therefore had to sample test a greater number of items than would usually be required given the nature of the population.

Our work over the council's fees & charges identified that a number of internal recharges included in the Income and expenditure by nature note had not been appropriately reversed through the Expenditure and Funding Analysis (EFA) and were present in the CIES, which is not in line with the CIPFA code. See Appendix C for more details. No other issues were identified.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Properties The Council revalues Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£80m) and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of Investment Properties as a significant risk and one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register As noted on page 5, we experienced a number of challenges in our enquiries with some council staff. We made initial requests for supporting information in June 2021 and, received responses to all our queries in March 2022. We identified an error in our testing of the council's investment property income. More detail is included in Appendix C. We also identified errors in the floor areas when compared to supporting evidence provided. A similar issue was identified last year. As noted in Appendix A, we have recommended that management undertakes a full re-measurement exercise in order to satisfy themselves that their property records are accurate. Our work in this area has concluded and we are satisfied the valuations are materially accurate. We identified an unadjusted error with a value of £0.145m with one of the properties, as detailed in Appendix C.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of 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 (£101.0m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate 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 Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority 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; • undertook 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; • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our work on the pension liability is complete. We have identified a number of presentational errors that are included in Appendix C. No other issues have been identified.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Land and Buildings (including Group Land & buildings) The Authority revalue 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 (£47m council and £26m group) and the sensitivity of this estimate to changes in key assumptions. 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, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • performed testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • undertaken procedures to confirm that the group Property Plant & Equipment has been included in the group financial statements at the appropriate valuation. Our audit work has identified several issues in respect of valuation of land and buildings for the council both in terms of the quality of supporting evidence and the timeliness in providing responses to our enquiries. We identified that the valuation of the Fareham property was undertaken at the incorrect date and there have been delays in obtaining the valuations for the correct date. In addition, we have identified inaccuracies in the floor areas included in the valuations for the second year in a row. For more detail on each of these errors, please see the appendices. Finally, in relation to Group PPE, our work in this area is yet to commence due to: • the original version of the accounts received for audit had not consolidated all group companies and the updated version of the accounts was not received until the start of March 2022; and • We received supporting calculations from the council's external valuer Fisher German in March 2022 despite requesting initial information in January 2022 and followed up through a series of communications. The initial valuation of the Taunton site was included in the updated draft accounts provided to us in January 2022 was £20m. Following our initial audit inquiries and requests for a detailed analysis of how the valuation had been derived, the Council engaged a modelling expert who revised this valuation down to £16m. Our auditor's expert undertook a review of the inputs and assumptions included within the model. Our expert's review identified that the discount rate used by management's expert was significantly lower than the expected range, which produced a higher than expected valuation Management reviewed their valuation model and engaged a second valuer to produce an alternative valuation of £17m. Our auditor's expert undertook a review and confirmed that the assumptions and inputs used in the updated model were not unreasonable as at 31 March 2021. This review did identify a number of areas for further consideration by management in preparing subsequent years' valuations. We have completed our work in relation to the council's Land & Buildings. Our work identified two recommendations, in relation to obsolescence and floor areas. These are detailed in Appendix A. We note that in Appendix B our prior period recommendation that management undertake an assessment of the movement in asset values between the valuation date and the year end has not been implemented.

2. Financial Statements - Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The below table was reported in our Audit Plan, but we have updated it to reflect the additional subsidiary in year.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
South Somerset District Council	Yes	🟪	Risks reported on pages 8 - 12	Full scope audit performed by Grant Thornton UK LLP
SSDC Opium Power Limited (50% Owned by South Somerset District Council)	Yes	⬛	Valuation of Property Plant & Equipment (as detailed on page 12) Management override of controls (as detailed on page 8)	Specific scope procedures on material group balances to be performed by Old Mill, as component auditor, with specific scope procedures to be performed by the Grant Thornton UK LLP audit team over the valuation of Property, Plant and Equipment. The nature, time and extent of our involvement in the work of Old Mill will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of their audit documentation and meeting with appropriate members of management.
Fareham Limited (100% owned by SSDC Opium Power)	Yes	⬛	Valuation of Property Plant & Equipment (as detailed on page 12) Management override of controls (as detailed on page 8)	Specific scope procedures on material group balances to be performed by Old Mill, as component auditor, with specific scope procedures to be performed by the Grant Thornton UK LLP audit team over the valuation of Property, Plant and Equipment. The nature, time and extent of our involvement in the work of Old Mill will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of their audit documentation and meeting with appropriate members of management.

Audit scope

🟪 Audit of the financial information of the component using component materiality
⬛ Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
🟦 Review of component's financial information
▩ Specified audit procedures relating to significant risks of material misstatement of the group financial statements
⬜ Analytical procedures at group level

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Fareham Limited	Old Mill	The original draft Group accounts did not include the Fareham Limited accounts, as they had been erroneously excluded from consolidation.	Following initial queries from ourselves over the Group transactions, management alerted us to this error in November 2021 and provided us with an updated set of Group Accounts in March 2022. Our work in this are is still in progress.

Due to the fact our work on the Group PPE balance is incomplete, we are yet to undertake our detailed work in this area and as such our findings to date are limited.

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
Recognition and Presentation of Grant Income The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal or agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income	The Council undertook a review of each of the grants received in year in order to determine the appropriate accounting treatment. Significant sums of money were paid out locally in the form of Business Grant and the Council was required to assess whether these monies should be reflected in the Comprehensive Income and Expenditure Statement (where acting as principal) or whether the year end position should be reflected within the Balance Sheet (where acting as agent).	We performed testing of the Council's grants and contributions . Our testing confirmed that the Council had treated the grants appropriately, and we gained assurance over the accounting entries for the relevant types of grant received in year.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	**Summary of management's approach**	**Audit Comments**	**Assessment**
Land and Building valuations – £43.49m **Investment Properties valuations – £79.81m** **Group - £23m**	Other land and buildings comprises £18.539m of specialised assets such as libraries, 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. The remainder of other land and buildings £24.954m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged an internal valuer to complete the valuation of properties as at 31 December 2020 on a five yearly cyclical basis. 62% of Land and Building assets were revalued during 2020/21. All investment property assets were revalued as at 31 March 2021 using a fair value methodology. The valuation of properties as at 31 March 2021 has resulted in a net decrease of £2.91m for Land & Buildings and a decrease of £2.51m for Investment Properties. Management have considered the year end value of non-valued properties, but have not considered the potential valuation change in the assets revalued at 31 December 2020. As part of their review, management have applied indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties not revalued in the period.	We have: • undertaken a review of the work of management's expert (Internal Valuer). This assessment included a review of their experience, capabilities and independence to the council. We have not identified any issues; • considered the assumptions adopted by the expert. This includes a review of the consistency of the estimates with those provided by Gerald Eve; • challenged management as to why no assessment of the movement between the valuation date and the year end has been undertaken and performed our own assessment, using indices provided by Gerald Eve, of the movement to gain assurance that the assets revalued as at 31 December 2020 are not materially misstated; • confirmed the completeness of the data provided to the valuer by agreeing the amounts submitted for valuation back to the fixed asset register. No issues have been identified; • tested individual asset revaluations to confirm that the treatment of these assets within the financial statements has been correct and that the source data used in these valuations agrees to underlying evidence. We have reviewed amounts to ensure the asset register and the valuation reports agree as well as reviewing the revaluation reserve treatment for a sample of assets; • reviewed the adequacy of fair value disclosures in the statement of account; • engaged an auditor's expert valuer to review the valuation of a sample of Investment Property assets to confirm the methodologies are appropriate; • confirmed that all Investment Property assets were revalued as at 31 March 2021; and	●

Assessment

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

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	**Summary of management's approach**	**Audit Comments**	**Assessment**
Continued.. Land and Building valuations – **£43.49m** **Investment Properties valuations – £79.81m** **Group - £23m**	The total year end valuation of Other land and buildings was £43.49m, a net decrease of £1.338m from 2019/20 (£42.152m). The total year end valuation of Investment properties was £79.809m, a net increase of £7.836m from 2019/20 (£71.973m).	• reviewed the adequacy of management's disclosure of the material uncertainty reported by their internal valuer. As noted on page 11, our work in this area has identified a number of issues relating to the property asset valuations. Further detail is included in Appendix C. We also identified one control recommendation in relation to the valuations of assets. This was raised in the prior year and management have not addressed this, despite our request for the work in June 2021. See Appendix A for details. Our work on the Council's Land & Building Assets is complete and we are satisfied the valuations are materially accurate. Our work on the Group PPE is substantially complete, but remains in progress as detailed on page 12.	●

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate | **Summary of management's approach** | **Audit Comments** | **Assessment**

Significant judgement or estimate: **Net pension liability – £101.0m**

Summary of management's approach:

The Council's net pension liability at 31 March 2021 is £101.0m (PY £79.9m) comprising the Somerset Pension Fund Local Government pension scheme obligations. 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.

The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £17.0m net actuarial gain/loss during 2020/21.

Audit Comments:

We have:

- reviewed the estimate, undertaking tests on the asset and liability elements of the net liability. Using analytical procedures we have compared actual results with expectations and have concluded that the results are reasonable;
- We have reviewed the work of Barnett Waddingham, through the use of an auditor's expert, PWC;
- We have undertaken an assessment of the actuary's roll forward approach, including completing detail work to confirm reasonableness of their valuation approach.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95%-2.05%	✓
Pension increase rate	2.80%	2.80%-2.85%	✓
Salary growth	3.80%	1% above CPI	✓
Life expectancy – Males currently aged 45 / 65	23.1 / 24.4	20.5 – 23.1 / 21.9 – 24.4	✓
Life expectancy – Females currently aged 45 / 65	24.6 / 26.0	23.3 – 25.0 / 24.8 – 26.4	✓

- We have undertaken checks on the completeness and accuracy of the underlying information used to determine the estimate in order to determine the reasonableness of increase in the estimate. We have also ensured adequacy of the disclosure of the estimate in the financial statements.

We have concluded that the assumptions used by the Actuary are appropriate. Our work in this area is complete and there are no issues to report.

Assessment: ●

Assessment

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

2. Financial Statements - key judgements and estimates

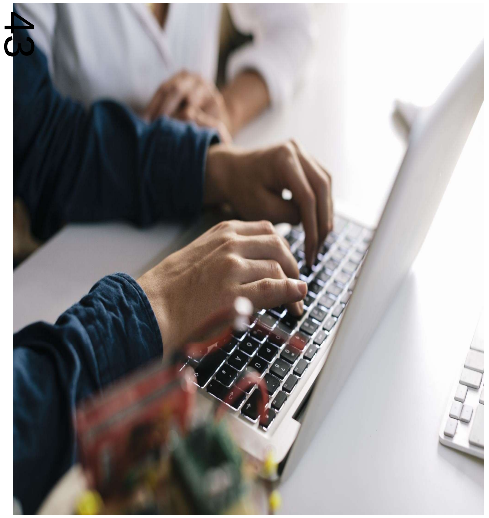
Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £828k	The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £828k, a net increase of £308k from 2019/20.	• We confirmed that the council's MRP charge has been calculated using a method that is in line with the statutory guidance. • We have challenged management as to how they are satisfied that their calculation complies with statutory guidance, given they have not included any MRP in relation to capital loans to third parties, which in our view is not consistent with the regulations or statutory guidance. We await this response from management. • We also challenged management on the size of their MRP charge and whether it is deemed to be prudent, given it is less than 2% of their Capital Financing Requirement. Our work in this area has concluded and we have reported an un-adjusted misstatement in Appendix C.	🟦

Assessment

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

2. Financial Statements - other communication requirements

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



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. Our work in this areas is still ongoing at the time of writing.
Matters in relation to laws and regulations	Management 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	Written representations will be requested from management at the conclusion of the audit. Given we still have a number of significant areas to complete, we will request representations at a future date.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and institutions, the Council had year-end investments and borrowing with. This permission was granted, and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	As referred to on page 5 we encountered a number of difficulties in completing our audit work, including late accounts, slow response times and inadequate and, at times, inappropriate responses.

2. Financial Statements - other communication requirements

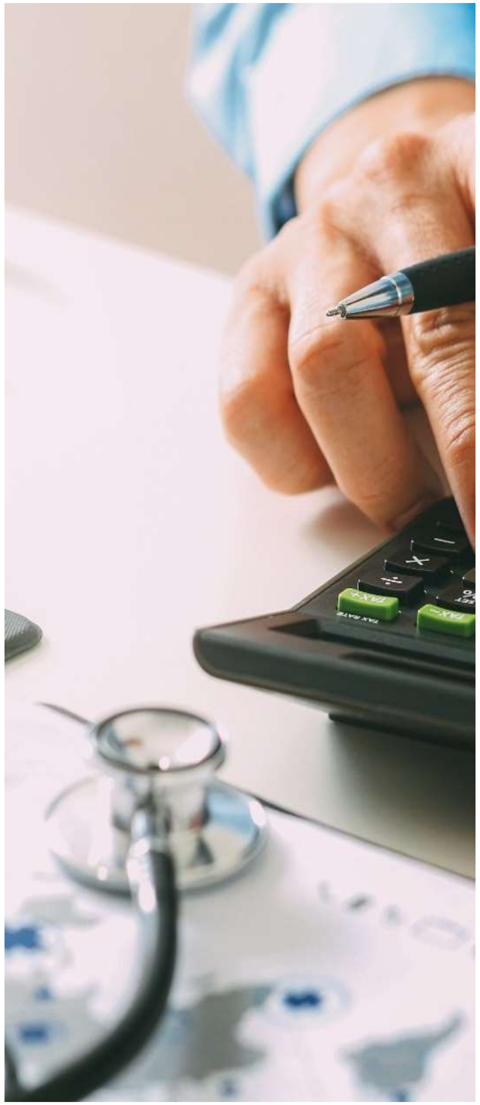
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	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. We received a draft of the Narrative report in February and are yet to complete our review of this. Our review of the draft Annual Governance statement has identified that the statement does not make reference to the actions of a previous council director who left employment after a series of allegations emerged after the year end. We believe that appropriate wording should be included within the AGS as part of the section on significant governance issues identified in the period.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. As identified on page 4, and within the next section, we have identified two significant weaknesses, one of which has resulted in a statutory recommendation. Full details are reported within our Auditors' Annual Report.
Specified procedures for Whole of Government Accounts	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. Our assurance statement will be submitted to the NAO on completion of audit procedures.
Certification of the closure of the audit	We intend to certification of the closure of the 2020/21 audit of South Somerset District Council in the audit report.
Query from a local resident	During September 2021 the council and a local resident contacted us in relation to a query about the 2020-21 financial statements and the Public Inspection Period. We liaised with both management and the local resident and determined that there was no further audit action required. However, we would encourage that the Council ensures it has proper arrangements in place to ensure that it deals with any queries received in the public inspection period in a timely way in order that interested parties are able to exercise their statutory rights.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have now completed our VFM work and our Auditor's Annual Report is being presented to the September committee. As part of our work, we consider whether there are any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. A summary of our findings is included below, with further detail included in the Auditor's Annual Report.

Criteria	Original risk assessment at planning stage	Findings and conclusions following detailed audit work	Risk rating
Governance	No risks of significant weakness identified.	A statutory recommendation has been made with regard to the governance arrangements in respect to a settlement agreement that the Council made with an employee. A significant weakness has been identified in relation to the final accounts process and the capacity within the Council to produce the financial statements. A significant weaknesses has been identified in relation to the risk the Council is exposed to from the Commercial Strategy. Four improvement recommendations relating to wider governance arrangements have also been made.	🟥
Financial sustainability	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	🟨
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations made	🟨

🟩	No significant weaknesses in arrangements identified.
🟨	No significant weaknesses in arrangements identified, but improvement recommendations made.
🟥	Significant weakness in arrangements identified and statutory or key recommendations made.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

Barrie Morris is currently serving his 5th year on the engagement. As discussed and agreed with Public Sector Audit Appointments Limited (PSAA), Barrie will remain in post until the conclusion of the 2022-23 audit period because after that date the council will cease to exist.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in 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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

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 group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	**Fees £**	**Threats identified**	**Safeguards**
Audit related			
Certification of Housing Benefit Claim	38,000*	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 fee for this work, relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee based on the amount of work required and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

*The fee for certification of the Housing Benefit Claim is currently estimated, as we have re-negotiated based on a change in the scope of work.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 10 recommendations for the group 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 2021/22 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
●	We experienced issues with understanding some of the supporting working papers, several which were produced by staff who have since left the organisation. We also experienced some issues with the supporting evidence provided to us and had to request additional evidence to support items selected for testing. We have encountered unnecessary challenge and inappropriate communications from some members of the Council's staff. This has hampered the efficient and effective delivery of the audit.	We recommend that management takes time to review working papers to ensure they are sufficiently clear and provide appropriate information and detail in order that the work can be easily reperformed and management can be confident the values in the financial statements are appropriate. Whilst we appreciate the pressures the South Somerset staff are facing, to facilitate a smoother audit process in future periods, we also recommend that management ensures all team members are aware of the requirements to produce sufficient, appropriate audit evidence and responses (ideally including third-party corroboration) to reduce the number of follow-up queries. We also recommend that management encourages all team members to liaise to audit queries with mutual professional respect. Management response We have recently undertaken training sessions involving officers across the organisation on the closedown process and timetable for the 2021/22 cycle. This training included guidance on the importance of ensuring officers gather and record information that will be needed for the external audit process. The S151 Officer has commissioned the finance team to prepare guidance on mandatory standards required in working papers compiled for the closedown process. In addition a communications protocol on working with external auditors is being prepared. These will be shared with all officers engaged in the closedown and external audit process.

Key

- ● High – Significant effect on control environment or a potential material impact on the financial statements
- ● Medium – Some effect on control environment or on the accuracy of the financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	Our valuations expert identified a number of recommendations in relation to the council's Group PPE valuation model.	For future models it is recommended that: • management provide workings to justify the discount rates used in the model • revenue forecasts should be disaggregated and power curves should be obtained up to the end of the asset's project life. • costs, revenues and the life of the asset should be appropriately aligned. • management should review the impact of including outages for maintenance work and the profiling of periodic maintenance upgrades. • management should consider whether the flat rate adopted is reasonable in light of available data points for the short-term. Management should also consider the impact of the CPI-H reform that will take place in 2030 and whether a transition to CPI alignment, is appropriate. • management incorporates corporation tax changes and changes to working capital in future models • management separately reference degradation and availability assumptions in the model Management response We will work with the company's externally appointed experts (JLL and Fisher German) to incorporate the recommendations made in the 2021-22 Group PPE evaluation models.

Key

● High – Significant effect on control environment or a potential material impact on the financial statements

● Medium – Some effect on control environment or on the accuracy of the financial statements

● Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
🟣	As part of our testing of the obsolescence factor used in DRC valuations, we challenged officers as to how they had determined the specific factor for each asset. We received a detailed explanation with an example of the valuer's rationale for one property, but none of this information was noted within the individual asset valuation report, or corroborated by evidence.	We recommend that management ensure that as part of valuation the knowledge of the valuer used in setting obsolescence rates is noted down and evidenced (for example through photographs or recent renovations). Management response Management agrees the recommendations -regarding the rationale and evidence required to assess obsolescence of each asset as part of the depreciated replacement cost methodology. These changes to processes will be introduced for the 2022/23 draft and final accounts.
🟣	As part of our testing of the senior officer remuneration note, we identified a lack of formalised arrangements for the council's previous monitoring officer. The monitoring officer was seconded from another council on a temporary basis. The original contract for the service ended in July 2020 however the council continued with the arrangement without a formal contract in place until March 2021. Our inquires identified that finance, payroll and HR staff did not have any details of the arrangements.	We recommend that management ensures that all secondment arrangements are formalised. Management response Agreed and implemented. A review of secondments and fixed term contracts has been undertaken to ensure formal contracts of employment or contracts for services are in place and are reviewed and updated where required.
🔵	We identified a number of assets that had a useful life which was outside of the stated range within the council's policy.	We recommend that management review all useful lives to ensure that they comply with their policy ranges unless there are exceptional circumstances, the rationale for which should be clearly evidenced. Management response We accept the recommendation and will review and amend the asset lives where necessary.
🔵	This is the second year that we have identified issues with the agreement of floor areas as part of our testing of the Council's internal valuations. There is a risk that the Council is not keeping appropriate records of their properties in order to support valuations.	We recommend that management revisits all asset floor areas, and appropriately documents the remeasurements to ensure appropriate records are kept. Management response We accept the recommendation and will amend the floor area measurements and document them as part of the 2021/22 closedown process.
🔵	Testing of journal entries identified nine journals that has not been authorised appropriately due to a batch type being excluded from authorisation reports.	We did not identify concerns with the journals that were not authorised, however we recommended that management include all batch types in their authorisation report. Management response Agreed and implemented.

Key

- 🟣 High – Significant effect on control environment or a potential material impact on the financial statements
- 🔵 Medium – Some effect on control environment or on the accuracy of the financial statements
- ⚪ Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
●	Testing of the annual leave accrual back to payroll / contract data identified some errors. Once extrapolated this indicated the accrual was understated by approximately £19k. There is a risk that the council's accrual will be based on incorrect data if amounts are not able to be agreed to contractual data.	We recommend that management ensures that in future periods, the annual leave accrual details reconcile to the payroll records. Management response Whilst the difference of £19k was immaterial we do accept your recommendation and have included in the 2021/22 closedown work plan enhanced arrangements for independent quality assurance of key working papers by other team members and/or finance management.
●	As part of our debtors testing, we identified a number of debts that had not been paid and were well overdue.	The council had provided for these debts, but we recommend considering write off of a number of long-standing debts, and implementing regular reviews of the outstanding balances to ensure long-standing debts are written off. Management response The council continues to review older debts, and many have now been passed back to our enforcement agents to attempt collection prior to request for write off. Additional resources have been found to improve rates of collection. The need for a consistent approach to debt management across the new Unitary Authority is included in the LGR workstreams that SSDC officers and members contribute to.
●	Within the opening balances of the council's fixed asset register, we identified a difference in the net book value and gross book values of Investment properties and heritage assets, where we would expect these assets to have the same values, due to their revaluation as at the balance sheet date. The council has stated that this difference has arisen as a result of the historical cost depreciation.	Whilst the difference is not significant, we recommend that management review it's fixed asset register to ensure that the register is up-to-date and we recommend clearing historical differences where applicable to ensure the correct balances are carried moving forwards. Management response We accept the recommendation and work is already in progress on this issue as part of the 2021/22 closedown process.

Key

- ● High – Significant effect on control environment or a potential material impact on the financial statements
- ● Medium – Some effect on control environment or on the accuracy of the financial statements
- ● Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of South Somerset District Council's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note all are still to be fully completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Valuation movement between the valuation date and the year end** We identified that, whilst management undertakes an exercise using indices to review the movement in value of those Land and Building assets not revalued in the current year, that this same exercise is not undertaken for any assets revalued in year as at the 31 December 2019.	We requested a similar exercise for the current year audit (i.e. a consideration of the movement between the valuation date of 31 December 2020 and year end). We first requested these workings in June 2021 and to date have not received any workings to support this assessment. Management have therefore not actioned our recommendation from the prior period.
Partially	**Subsidiary Company audit requirement** We identified that the council's subsidiary companies do not have audits undertaken. Under the Companies Act there is a requirement for all group companies to be audited annually.	The council has engaged with a local audit provider, Old Mill to undertake audit work on their subsidiaries. At the time of signing, the audits of SSDC Opium power and Fareham Energy Reserve Limited are fully complete. The audits of other group companies have not yet been finalized, but have been commissioned.
In progress	**Deminimis Level** Through discussions with the Council, it was identified that a de minimis level of £2,000 was set for accruing income and expenditure however, there is no formal policy for this that has been formally agreed.	The council has determined that it would be appropriate to reduce the level of it's deminimis to £500. A report is due to go to Audit Committee to notify them of the change from 2021/22 onwards.

Assessment

✓ Action completed

X Not yet addressed

C. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Note 28 - Short term creditors - Other Local Authorities was found to contain an NNDR debtor of £442k So Other Local Authorities within note 28 should be increased by £442k, and 'Other Local Authorities' within the short term debtors note should be increased by £442k.	£nil	Cr Creditors £442 Dr Debtors £442	£nil
As a result of guidance provided by central government, the council updated it's Non-Domestic Rates provision during the audit, removing all material change of circumstances claims from their assessment. This reduced the provision by £730,000.	(£730)	(£730)	(£730)
We identified an error in the apportionment of some council's third party cash balance. An amount of £236k had been allocated as relating to Yeovil Without Parish Council rather than the Burial accounts. The net impact on the balance sheet was £nil.	£nil	£nil	£nil
The council's draft Cash balance included a £6.518m creditor relating to agency covid grants, which should have been recorded as a Creditor.	£nil	Dr Cash £6,518 Cr Creditors £6,518	£nil
Our grants testing identified one item amounting to £236k that had been recognised twice in the council's accounts.	£236	£nil	£236
During the period, the Council transferred an asset to held for sale, but did not write out the accumulated depreciation	£280	Cr Accumulated Dep 280	£280
Our testing of commercial investment property income identified that recharges had inappropriately been included in the CIES, when they should have been reversed out using the Expenditure and Funding Analysis (EFA) note. The amount adjusted for in both income and expenditure was £1.8m, but the net impact on the CIE was £nil.	Cr Financing and Investment Expenditure £18.m Dr Financing and Investment Income £18.m	£nil	Cr Financing and Investment Expenditure £18.m Dr Financing and Investment Income £18.m
Overall impact	(£214)	(£344)	(£214)

C. Audit Adjustments

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 / error	Details	Adjusted?
Prior to the council producing the final draft accounts, we undertook some initial work on pension disclosures. We identified a £500k variance between the current service cost per the disclosure note and the amount disclosed in the actuary report.	We recommended that management adjust for this difference. Management agreed and amended the accounts prior to finalising the draft statements.	✓
The draft Pension note detailed RPI of 3.8% for 2020-21, however the amount per the actuary report was 3.2%.	We recommended that management adjust for this difference, which they did.	✓
General amendments to presentation, grammar, rounding and typographical errors were made in various areas of the accounts.	We brought these to the attention of management, who adjusted most of these errors.	✓
The FTE value disclosed in the draft annual report did not reconcile to the FTE data provided to the audit team for payroll testing.	We requested that management confirm which set of data was correct and they adjusted the value in the annual report.	✓
The income from two of the council's investment property assets was double counted within the leases disclosure note.	The note was overstated by £6m. We requested that management adjust, which they did.	✓
The council's draft remuneration disclosure tables included a blank compensation for loss of office column.	The disclosure was updated to reflect the appropriate loss off office numbers.	✓
In our reconciliation of the Exit packages note to the trial balance, we identified that an additional £106k was included that related to 2021/22. The council had correctly accrued for the exit package, as it was agreed prior to the 31 March 2021, but had not disclosed the amount in it's exit package note.	The disclosure was updated to include the exit payment	✓
The senior officer remuneration tables originally named the council's Chief Executive. Given the individual earns less than £150k per annum, the CIPFA code does not require disclosure of their name. We also noted that the council's new Director of Finance had a pro-rata salary that was in excess of £150k per annum, and therefore the director of finance was required to be named in the disclosure.	The council adjusted the disclosure note for both of these errors.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The council has a carried forward debtors of £102k relating to elections included in it's financial statements. We were unable to verify this amount to supporting information, and as such are not able to verify it is appropriate.	£nil	£102	£nil	Not material
Our testing of one of the Council's Investment Properties identified two differences when agreeing valuation inputs to supporting evidence. Firstly, the market rent used was incorrect by £62k and secondly, the estimated costs associated differed to actuals by £82k. The total impact on the valuation was an understatement of £145k.	(£145)	£145	(£145)	Not material, and one element related to estimation differences
Our testing of the senior officer remuneration note identified that the council was unable to verify the period that invoices for the previous monitoring officer's salary related to. The council have therefore included the April invoice in the disclosure, and while we agree that this is likely to relate to 2020-21, we cannot confirm this. As such there is a potential error included within the note.	£2	(£2)	£2	Not material
As reported in the prior year, the council incorrectly includes it's share of a joint venture (Lufton 2000) in it's single entity accounts. The council have not adjusted for this error in 2020-21.	£12	£649	£12	Not material

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	**Comprehensive Income and Expenditure Statement £'000**	**Statement of Financial Position £' 000**	**Impact on total net expenditure £'000**	**Reason for not adjusting**
We identified that management are not providing for Minimum Revenue Provision (MRP) on commercial loans. As noted on page 19 in our view this is not in line with the prudential code and as a result the MRP is understated for the current year.	£401	£nil	£401	Not material
*** Fees & Charges recharges ***				
Our testing of a sample of grant income identified one grant that related to 2021-22 but had been accounted for in 2020-21. Income is overstated by £242k.	£242	£nil	£242	Not material
Overall impact	£512	£894	£512	

C. Audit Adjustments

Impact of unadjusted estimation differences

The table below provides details of projected errors and estimation differences identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below. Given the nature of extrapolated errors, we would not expect management to adjust these given they are not actual errors, but projected errors.

Detail	**Comprehensive Income and Expenditure Statement £'000**	**Statement of Financial Position £' 000**	**Impact on total net cost of services £'000**
Our testing of Investment property income identified an error. Once extrapolated it suggested a potential overstatement of £103k.	£103	£nil	£103
We were unable to corroborate the same value management had used in their floor areas for a number of properties. When extrapolated it projected an understatement of property values of £112k.	(£112)	£112	£nil
Testing of the annual leave accrual back to payroll / contract data identified some errors. Once extrapolated this indicated the accrual was understated by £19k.	£19	(£19)	£19
Our testing of Other Expenditure identified three errors, across both in year expenditure and prepayments. When extrapolated over the population these errors indicate a potential error of £476k.	£476	£476	£476
The audit team's re-calculation of the council's Non-Domestic Rates provision projected a potential understatement of the provision of £426k.	£426	£426	£426
Overall impact	£912	£995	£912

C. 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 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Lufton 2000 Joint Venture	£30	£638	£30	The amount is not material
Investments Three investment confirmations were received as at 5th April and recorded in the accounts at that date's value. These differed to the 31 March balance by £181k.	(£181)	(£181)	(£181)	The amount is not material
NDR Bad Debt Provision We identified that the NDR Bad debt provision formula did not pick up one cell, therefore understating the provision by £375k	(£375)	(£375)	(£375)	The amount is not material
Manual Creditor accruals In our creditors testing, we identified two errors. Both were confined to the manual creditors population, and when extrapolated, this indicated a potential overstatement of £453k.	£453	£453	£453	The amount is not an actual error identified, and is only a projected error. We would never ask management to adjust for this type of finding.
Property Plant & Equipment – Land & Buildings Floor areas issue to be quantified and written up	£nil	(£55)	(£55)	The amount is not material
Minimum Revenue Provision As noted, we identified that MRP was not being provided on capital loans to third parties. We have therefore assessed the impact on the general fund, by considering prior period understated balances	£776	£nil	£776	The amount is not material
Overall impact	£576	£353	£576	

D. Fees

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

Audit fees	**Proposed fee**	**Interim fee**	**Final fee**
Council Audit	£66,943	£175,000*	£TBC
Total audit fees (excluding VAT)	£66,943	£175,000	£TBC

Note that the draft accounts provided for audit did not include the audit fee as stated in the audit plan. We challenged management on this, and they have updated their accounts to reflect the draft fees disclosed in the Audit Plan.

*The final audit fee is to be confirmed, pending discussions with Officers and PSAA regarding significant additional fee as a result of the delays in producing the financial statements compared to the agreed timescales and the impact on audit resources not being able to be re-deployed at short notice, the additional work required to resolve the very high number of questions we raised, inadequate explanations to our questions and the number of amendments required to the Statement of Accounts. We have included in indication of the current fee based on the work completed to date. This is a significant increase over the planned fee due to the extensive issues and challenges that have been experienced during the consequent additional audit work required. This proposed fee is subject to review and approval by PSAA Ltd.

Non-audit fees for other services	**Proposed fee**	**Final fee**
Certification of Housing Benefits claim	£38,000	TBC**
Total non-audit fees (excluding VAT)	**£38,000**	**£TBC**

**While a fee structure has been agreed, the final audit fee is to be confirmed, pending discussions with Officers and the completion of our work.

Grant Thornton

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Independent auditor's report to the members of South Somerset District Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of South Somerset District Council (the ‘Authority’) and its subsidiaries (the ‘group’) for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements and Group financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group’s expenditure and income and the Authority’s 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 2020/21; 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, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. 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 group and 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.

Emphasis of matter – Local Government Reorganisation in Somerset

In forming our opinion on the financial statements, which is not modified, we draw attention to note 5 to the financial statements, which indicates that South Somerset District Council will cease to exist as an organisation on 31 March 2023 and the assets and liabilities wil transfer to a newly created Authority, Somerset Council on 1 April 2023.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Finance 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

2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, 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 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 the 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 in April 2020 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 '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.

Opinion on other matters 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, the other information published together with the financial statements in the Statement of Accounts 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 no other matters to report in respect of the above matters, except on 23 August 2022 we issued a written statutory recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014The statutory recommendation was issued due to the Authority not following appropriate governance arrangements, including its own policies and procedures, in award of a settlement agreement

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained 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 Chief Finance Officer. The Chief Finance 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance 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 Chief Finance Officer is responsible for assessing the Authority's and the group'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 and the group will no longer be provided.

The Audit 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to manual journal entries, management estimates and judgements and transactions outside the course of normal business.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual journals;

  challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, the valuation of investment property and defined benefit pensions liability valuations];
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, the valuation of investment property and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's;
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE

    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
    - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
    - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter except on 23 August 2022 we identified three significant weaknesses in the Council's governance arrangements. These significant weaknesses related to the following areas.

- During 2020-21 the council made a settlement agreement and was unable to demonstrate that it's constitution and financial regulations followed. A statutory recommendation was raised to ensure the council is able to demonstrate compliance with it's own financial regulations, standing orders and constitution for future settlement agreements.
- The second significant weakness identified related to the capacity of the authority to produce the financial statements and supporting working papers of a sufficient quality in a timely way. We raised a key recommendation that management ensure timely and accurate preparation of financial statements.
- The third significant weakness identified related to the councils Investment strategy. The council has funded investment property purchases through a large level of short-term borrowing. We have raised a key recommendation that the council develops a clear plan to address and mitigate the risks it is exposed to as a result of this investment in commercial property.

There are no further matters we need to report.

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 issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of South Somerset District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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.

Signature:

Name Barrie Morris, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

South Somerset
District Council

Statement of Accounts 2020/21

Executive Portfolio Holder:	Peter Seib, Finance and Legal Services
S151 Officer:	Karen Watling, Chief Finance Officer
Lead Officer:	Paul Matravers, Lead Specialist – Finance
Contact Details:	paul.matravers@southsomerset.gov.uk or 01935 462275

Purpose of the Report

1. The purpose of this report is to present the 2020/21 Statement of Accounts to Audit Committee for approval.

Forward Plan

2. This report appeared on the Audit Committee Forward Plan with an anticipated Committee date of 2 December 2022. Following the need for additional Audit work, the Audit Committee was moved to 15 December 2022.

Public Interest

3. As a local authority SSDC is required to demonstrate compliance with the underlying principles of good governance and that a framework exists to demonstrate this. By preparing and publishing the annual Statement of Accounts the Council achieves the objective of accountability.

Recommendations

4. That Audit Committee:

   a) note the external auditor’s unqualified opinion on the financial statements;

   b) approve the 2020/21 Statement of Accounts (a copy of the Statement of Accounts has been circulated separately with this agenda) and to authorise, if required, the Chair of Audit Committee and the S151 Officer to approve adjustments to the statement of accounts;

   c) To authorise, or if required, delegate the signing of the Letter of Representation to the Chair of Audit Committee and the S151 Officer in the event that all audit work has not been completed by the date of this meeting.

Background

5. The Accounts and Audit Regulations (England) 2015 came into force on 1 April 2015, bringing a requirement for the Responsible Finance Officer to certify the annual accounts no later than 31 May and to publish with the audit opinion, having

been approved by Members and re-certified by the responsible finance officer, no later than 31 July.

6. The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) superseded these requirements and extended the statutory audit deadline for 2020/21 for all local authorities, to 30 November 2021. Due to the completion of the statement of accounts taking longer than anticipated and therefore not being provided to the external auditors in line with the agreed timetable SSDC's accounts were not signed off by the required date.

7. Under the Accounts and Audit Regulations (England) 2015 regulations, the Responsible Finance Officer was required to ensure that the period for the exercise of public rights includes the first 10 working days of June. The period for the exercise of public rights (which includes the rights of objection, inspection and questioning of the external auditor) may only be exercised within a 30 day period.

8. However, the Accounts and Audit (Coronavirus) Amendments Regulations 2020 superseded this requirement. The regulations now state that Local authorities had to commence the public inspection period on or before the first working day of August 2021. The accounts, confirmed by the Responsible Finance Officer, were published on the 30 July 2021 and the 30 day inspection period ended on 10 September 2021.

9. In previous years Audit Committee considered the Statement of Accounts once it had been audited alongside the external audit opinion and the audit findings report.

10. The S151 Officer changed the approach with the statements being presented to the Audit Committee for review in their draft pre-audited stage (meeting date: 30th September 2021). This allowed the Audit Committee to review the statements in detail and ask officers questions on the figures and information included in the accounts. This subsequent meeting enables committee members to focus on the audit finding report, the audit opinion and the changes to the statements as a result of the audit. Members will also then be asked to agree the audited Statement of Accounts for the financial year 2020/21.

Changes to the 2020/21 Statement of Accounts

11. An update on the 2020/21 audit was provided to audit committee on 2 September 2022. At this meeting details of one of the main issues outstanding on the audit was provided to the committee. The issue was in respect of the Group Property, Plant and Equipment element of the audit with the committee being informed that this area was the key reason why the audit could not be concluded at that point.

12. An update on the issue was provided and the committee were notified that a second valuation on the battery energy storage site in Taunton would be required in order that the audit could be concluded. A timescale of one month was indicated in terms of the report being received by the Council. This would then

need to be reviewed and agreed by Council Officers before being forwarded to the External auditors to do their work in this area.

13. The second valuation was received by the council on the 30 September, the report was reviewed and forwarded to the external auditors on the 4 October. The auditors reviewed the report and responded with several queries, ongoing dialogue between the auditors, council officers and the external valuer has taken place in the intervening period and this issue is anticipated to be resolved by the time the committee meet on 15 December.

14. In addition to the valuation issue, there have been a number of other changes to the 2020/21 statement of accounts as a result of the external audit. The key findings and adjustments made to the 2020/21 statements are detailed in the final audit findings report which is an agenda item at this meeting.

Auditor's Opinion

15. Grant Thornton UK LLP anticipate issuing an unqualified audit opinion which endorses that the accounts provide a true and fair view of the financial statements as at 31st March 2021.

16. Grant Thornton are also satisfied that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money conclusion and provides a positive endorsement that the Council has proper arrangements in all significant respects to ensure it delivered value for money.

17. During the audit some material mis-statements were identified. There has also been a number of misclassification and disclosure requirements which have had to be addressed. Details of the misclassification and disclosure changes are included in the audit findings report.

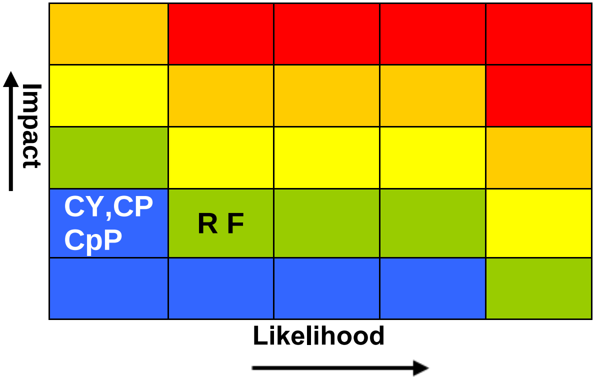
18. These errors and subsequent changes are regrettable but perhaps not surprising in the current conditions. We will, however, seek to ensure these are not replicated next year and continue to improve our reporting and checking processes.

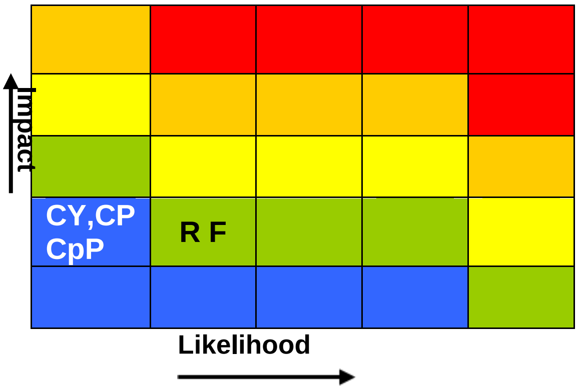
Financial Implications

19. There are no financial implications associated with these recommendations.

Risk Matrix

Risk Profile before officer recommendations **Risk Profile after officer recommendations**





Key

Categories	**Colours** *(for further detail please refer to Risk management strategy)*
R = Reputation CpP = Corporate Plan Priorities CP = Community Priorities CY = Capacity F = Financial	Red = High impact and high probability Orange = Major impact and major probability Yellow = Moderate impact and moderate probability Green = Minor impact and minor probability Blue = Insignificant impact and insignificant probability

Council Plan Implications

20. The Statement of Accounts are closely linked to the Council Plan, and maintaining financial resilience and effective resource planning is important to enable the council to continue to fund its priorities for the local community.

Carbon Emissions and Climate Change Implications

21. There are no carbon emissions or climate change implications in this report.

Equality and Diversity Implications

22. There are no equality or diversity implications

Privacy Impact Assessment

23. There is no personal information included in this report.

Background Papers

24. There are two background papers:
    - Revenue outturn 2019/20
    - Capital outturn 2019/20

South Somerset
District Council

Statement of Accounts 2020/2021

(Subject to final audit opinion)

Contents

Foreword

I am pleased to present South Somerset District Council's Statement of Accounts. These give an overview of the Council's finances for 2020/21, a financial year that was unprecedented because of the Covid-19 pandemic.

The Statement of Accounts provides information so that everyone, including electors and residents of South Somerset, Council Members, our partners, stakeholders and other interested parties can have:

- A full and understandable explanation of the overarching financial position of the Council.
- Confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner.
- Assurance that the financial position of the Council is sound and secure.

The Accounts and Audit (Amendment) Regulations 2021 changed the statutory audit deadlines for all Local Authorities. The deadline for issuing draft accounts is now 31st July and the publication deadline for audited accounts moved from 31st July to 30th September.

Draft Accounts for 2020/21 were submitted to our External Auditors, Grant Thornton, on 2nd August, missing the mutually agreed completion date by one month. Due to their other commitments, Grant Thornton could not however commence our audit until September, and these delays meant that the national publication date for final audited accounts was not achieved.

The Draft Statement of Accounts was published on our website on 30th July 2021 (i.e. within the statutory deadline) and the Statutory Inspection of Accounts Period was from 30th July to 10th September 2021.

Grant Thornton have raised some concerns and issues relating to our management of the production of the Statement of Accounts and our engagement in the 2020/21 external audit process.

Senior Management have responded to Audit Committee (17th May 2022) on those concerns and have set out the way they are proactively making improvements to the process and providing sufficient officer capacity to ensure that deadlines for the 2021/22 cycle are met.

It is obviously in everyone's interests that the Annual Statement of Accounts are produced on time, so that the information is still relevant. Completing audits on time increases transparency and demonstrates the ability of the Council to account effectively for its stewardship of public money.

We failed to achieve the deadline for audited accounts, for which we apologise, but to put our position into the national (England) perspective, the majority (91%) of local government and police bodies missed the statutory deadline of 30 September 2021 for publication of their audited 2020/21 accounts: by the end of December 2021 that figure had fallen to 60%. (Source: Local Government Association: Update on Local Audit, 2nd March 2022).

To conclude, I am very pleased that the overall outcome of the audit process is an unqualified set of accounts for the financial year 2020/21. This means that in all material respects the accounts are true and fair and that proper financial arrangements were in place for the year audited.

I wish to thank the Finance Team and all other officers involved in the production of these Statements and the achievement of an unqualified opinion. I am aware of the amount of work that the Finance Team has had to simultaneously deal with in the last few months to finalise the accounts and the audit, prepare the 2022/23 capital and revenue budgets, as well as undertake work in the Local Government Reorganisation programme.

Councillor Peter Seib
Portfolio Holder: Finance, Legal and Democratic Services

Narrative Report

1. Introduction

Effective planning, management and scrutiny of the use of public funds are a key part of a local authority's responsibilities. The financial statements are a vital part of the accountability framework, as they demonstrate how much money was spent and for what purpose, and how cash needs were met. They also record the assets used, and liabilities incurred, in delivering services.

However, local authority financial statements are complex and can be difficult to understand: they must comply with the Chartered Institute of Public Finance & Accountancy's (CIPFA) "Code of Practice on Local Authority Accounting in the United Kingdom 2020/21", which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government.

This narrative report will provide the reader with:

- An understanding of the Council and its strategic priorities.
- An outline of how the Council responded to Covid-19 and how it has impacted on our finances and priorities.
- A summary of the Council's financial performance for 2020/21 along with information on how well we delivered its key priorities during the year.
- An overview of the Council's medium term financial plans, future outlook, and key risks going forwards.
- A guide to the key features of the primary statements and notes that make up the financial statements.

The CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) requires local authorities to publish an Annual Governance Statement, alongside the Statement of accounts.

2. South Somerset District Council

South Somerset forms much of the eastern side of the County of Somerset. It comprises nearly a third of the County with a population of 167,000 and covers an area of 370 square miles (958 square kilometres). South Somerset consists of a mixture of both sparsely inhabited rural areas and a network of market towns. The rural nature of the area is emphasised by the low population density of 1.7 persons per hectare (the England average is 4.1). Yeovil and Chard are the 2nd and 6th biggest towns in Somerset. South Somerset has 121 parishes with 102 parish and town councils and 39 wards.

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 South Somerset District Council (SSDC) including (but not limited to):

- Housing policy, enabling, options & homelessness
- Planning
- Building regulation control and enforcement
- Waste collection and recycling
- Regulatory services
- Council tax and business rates administration
- Housing benefits
- Provision of off-street parking
- Electoral registration and elections
- Leisure and arts

South Somerset District Council is made up of 60 locally elected members - 40 Liberal Democrats, 14 Conservatives, 5 Independents and 1 Green (as at 6 May 2020).

The Council employs 381.2 full time equivalent (FTE) employees (as at 31 March 2021). The actual number of employees is 410 of whom 317 are full time and 93 are part-time employees.
The Council delivers some of its services in partnership with other organisations, the most significant of these being Somerset Waste Partnership and SWAP Internal Audit Services.

3. Strategic direction of the Council

South Somerset District Council is an ambitious and forward-thinking council that is committed to transforming, improving, and adapting to be ready for the future. We place our residents and businesses firmly at the centre of everything we do.

The Council Plan sets out the vision for the Council and how these are going to be delivered through key areas of focus and priority projects. The current Council Plan covers the period 2020 to 2024 and can be found at: ***Council Plan 2020-24***

Our Vision

A naturally beautiful and sustainable environment, which also allows business to flourish and good homes to be delivered. A place where our communities are safe, vibrant and healthy and have access to exceptional cultural and leisure activities.

Our Values

Customers' first - Designing plans and services around our customers

Community at heart - Enabling residents to support our communities and the environment we live in

Open and transparent - Actively communicating, engaging and listening to feedback

Innovative - Embracing innovation & technology to improve customer service and facilitate access to council services for all who need it

Getting things done - Empowering dedicated and flexible employees and elected members focussed on delivery

Working collaboratively - Working with partners to enhance outcomes for our communities

Our five Areas of Focus for 2020/21 were:

- **Protecting Core Services - to ensure a modern, efficient and effective council that delivers for its communities**
- **Economy - to make South Somerset a great place to do business, with clean inclusive growth and thriving urban and rural businesses**
- **Environment - to keep South Somerset clean, green and attractive and respond to the climate emergency**
- **Places where we live - to enable housing and communities to meet the existing and future needs of residents and employers**
- **Healthy, self-reliant Communities - to enable healthy communities which are cohesive, sustainable and enjoy a high quality of life**

Table One: Our priority projects for 2020/21

Fully realise the benefits of Transformation and further embed the Commercial Strategy
Progress implementation of the Chard regeneration project
Continue the refresh of Yeovil Town Centre
Progress project to aid the regeneration of Wincanton Town Centre
Develop proposals to accelerate the delivery of key housing sites and associated infrastructure
Assess options for improving community transport links
Develop proposals to support struggling families and help address child poverty and low rates of social mobility in the district
Accelerate action to adapt to and mitigate the effects of climate change and extreme weather

4. The impact of Covid-19

In our 2019/20 accounts we referred to the “emerging risks” that the pandemic may bring. We did not envisage at that time how significant the unfolding crisis would be on our day-to-day business. For our residents; businesses and staff the Covid-19 pandemic has been, and continues to be, a challenge.

Our Staff and Communities have stepped up to provide help and support where and when it was needed. We have continued to deliver our services despite resources being diverted to aid with the pandemic. We have met ongoing demands, even with the changes to services that were made in line with Government guidelines. We are incredibly proud of the work we have achieved alongside our communities in 2020/21.

Some of the way we responded to the pandemic include:

- **Enabled staff to work from home during Covid-19 -** Setup and deployed 90 new laptops. Re-provisioned 30 existing laptops Deployed over 50 headsets and monitors. Setup and deployed 10 mobile Wi-Fi hotspot devices for staff without broadband / internet at home.

- **SSDC staff redeployed** to work at the Wellbeing Hub, Street Scene, customer connect, grants, housing and more recently the testing and vaccine rollout.

- **Supported COVID-19 community resilience initiatives** via the Brokerage Cell including facilitating financial assistance to 9 Food Banks, project funding to support vulnerable young adults and covering costs of call outs to clinically and Extremely Vulnerable/ shielding.

- **More than 1,000 food parcels and essential supplies provided** to those who were shielded, facing financial hardship, or supporting children entitled to free school meals.

- **The Connect team established a new ongoing Covid support telephone line** that has, at times, required 7 days a week cover to support the needs for food, medicines, transport, finance, and general welfare amongst a multitude of other things.

- **Worked with partners to develop digital applications** for Test and Trace Isolation Payment, Local Restriction Support Grant, Additional Restrictions Grant & Restart Business Grants.

- **Distributed over £55m of grants** to support local businesses since the start of the pandemic with **4,000+** business support grant applications received by 26 March 2021.

- **Formed and lead a Multi-Agency Redundancy Task Force** with 28 support organisations and co-ordinated a programme of support from various support agencies including Yeovil College, Somerset Skills and Learning, Department for Work and Pensions, Citizens Advice South Somerset and Bridgwater and Taunton College.

- **Ensured the safe re-opening of high streets** in partnership with Town Councils, the County Council, Police, and other key stakeholders. Made **1,000+** visits to local businesses to help them stay Covid-safe in addition to the high visibility patrols carried out by Covid wardens.

- **30,000+ calls were made for Covid vaccinations** between SSDC colleagues, and other Somerset Councils. Actively involved in the Covid Vaccination centres both onsite and in making calls 7 days a week to book appointments.

- **Facilitated virtual council meetings during the Covid-19 pandemic,** resulting in better attendance to these meetings.

- **Produced a Recovery & Growth Plan** in partnership with other Somerset Councils.

Impact on Council Finances

The additional costs associated with this emergency, together with a reduction in budgeted income streams, have been considerable. If it were not for the additional funding from central Government the Council would have significantly exceeded its approved net revenue budget by £4.3m (see section 6 for more detail).

The Council received emergency funding during the year from the Government totalling £4.9m. As a result the Council has been able to successfully manage the Covid-19 cost pressures from within these additional funding allocations without any impact on the 2020/21 budget position.

5. 2020/21 achievements

Despite the impacts made by the pandemic, we continued with our regeneration projects, supporting three of our key towns – Yeovil, Chard and Wincanton. In particular we:

- Secured £9.75m grant for the Yeovil Refresh through the Future High Street Fund.
- Continued to build the new Leisure Centre in Chard despite Covid-19. The new facility opened in November 2021.
- Started work on the designs for the Public Realm in Wincanton.
- Secured £10m Government funding for the redevelopment of Yeovil’s Octagon Theatre to boost capacity to 900 and to make improvements to the cafe and studios.

Substantial progress was made towards our Environment Strategy, which aims to make the district carbon neutral by 2030. This progress included:

- **27** SSDC car parks were identified for EV charging points as part of the EV charging network project across Devon and South Somerset in partnership with DELETTI. The procurement process for delivery has been completed**.**
- The innovative Battery Energy Storage Site (BESS) investment project was expanded to 30MW to maximise the capability of the site.
- Awarded **£3,993,847** by the Public Sector Decarbonisation Scheme to retrofit energy efficiency and renewable energy technologies across Council owned buildings. We worked with Engie to conduct an energy audit on our top 10 highest use buildings and developed a net zero carbon roadmap setting out actions and goals for achieving optimum carbon savings in the most efficient and cost-effective ways.
- The SSDC annual tree planting scheme planted 670 trees across our parks, of which 570 were planted at Wyndham Hill in Yeovil.

The 10-year Economic Development Strategy has been embedded ensuring that we are well placed to attract new businesses, help start-ups, and encourage diversity and innovation. All our teams have worked hard to help businesses and individuals across the district in terms of employment support and the payment of business grants during the pandemic.

We continue to be a commercial organisation, investing £31m in projects that provide essential income to pay for our highly valued services.

Customer Service continues to be improved with innovative technology, supplying dedicated resource to support those who are most vulnerable and continuing our great work to alleviate homelessness.

The Digital Team have worked tirelessly to ensure all our staff have been able to continue working remotely whilst implementing fresh solutions to speed up customer interactions.

- We achieved a **33%** audience increase on our social media channels and our messages are reaching, on average, more than 100,000 people every day across Twitter and Facebook.
- **80%+** of our contact is now online due to channel shift.
- We successfully implemented a voice over internet protocol communication system and Connect 360 for various enquiries.

Although some of our services and venues have had to change the way they work, we are proud to continue to support residents including free school holiday Play days, a superb network of parks and open spaces, leisure, arts and entertainment services including swimming facilities at Wincanton and Yeovil, The Octagon Theatre and Westlands.

The performance described above is just a high level summary and more detail is contained within the End-of-year Achievements Report which can be found here.

Annual Achievements Report 2020-21

6. 2020/21 Financial Performance

Background Context

This part of the Narrative Report reviews the Council's performance against the approved 2020/21 revenue and capital budget (known as "year-end outturn") and the consequential impact on reserves, borrowing, and investments.

The figures shown here will not always coincide with the figures given in the Statement of Accounts. More information on this is given in section 7. The key difference is that the accounting costs shown in the Statements are determined in accordance with generally accepted accounting principles whilst the budget has to comply with local government legislation. This means that certain accounting costs shown in the Statements are not actual cash outflows and do not have a direct financial impact on the budget

Local government expenditure and income is recognised as being either capital or revenue in nature.

Capital expenditure is expenditure on assets such as land, property, ICT equipment, and the refurbishment of existing assets that will prolong the useful life of the asset (such as replacing a roof). Lending to third parties is also capital expenditure if the loan is to be used to finance expenditure on assets. Any investment by the Council in acquiring shares in third party companies is also capital expenditure. Capital income largely comprises of grants and sales of assets (known as capital receipts).

All other expenditure and income has to be classified as revenue unless central government gives a determination that it can be treated as capital expenditure. Revenue expenditure is incurred in delivering the Council's ongoing services and back-office support. Revenue income largely comprises of fees & charges, Council Tax, Business Rates and grants.

The Council has a statutory obligation to balance its revenue expenditure budget each year. Capital expenditure however can be funded over the medium to longer term through prudential borrowing. The costs of borrowing are charged annually to the Council's revenue budget.

Revenue Budget

Budget setting and monitoring: Full Council approves the revenue budget annually at is February meeting. The budget contains the financial plans that the District Executive manages under its delegated authority. All of the Council's income and expenditure has a responsible officer budget holder.

The 2020/21 revenue budget approved by Full Council in February 2020 can be found here. 2020/21 Revenue and Capital Budgets and Medium Term Financial Plan

District Executive receives regular budget monitoring reports throughout the year which highlight any forecast differences from the agreed budget (known as variances). The report includes comments from budget holders on the reasons for the variance. The budget monitoring reports are also reviewed by Scrutiny Committee.

The 2020/21 quarterly revenue budget monitoring reports can be read by clicking on the following hyperlinks:

Quarter 1 Revenue Budget Monitoring Report 2020-21

Quarter 2 Revenue Budget Monitoring Report 2020-21

Quarter 3 Revenue Budget Monitoring Report 2020-21

Quarter 4 Revenue Budget Monitoring Report 2020-21

It should be noted that it has been particularly challenging this year for officers to forecast the year-end outturn. There were many uncertainties, particularly at the beginning of the financial year, as to how the pandemic would affect the Council's costs and income budgets. In addition, central government's emergency funding was announced in separate tranches during the year and it was not certain what level of support local government would receive or whether, for service specific grants, the Council's application for funding would be successful. This has meant that the actual year-end outturn is significantly different from the estimates reported to District Executive during the year.

Net Revenue Outturn: total net expenditure for 2020/21 was **£15.554m**

resulting in a balanced outturn position against the approved net budget.

This Council received £4.902m in additional government grants during the year: comprising Covid Response (New Burdens) grants of £2.458m, which were general unallocated grants, together with a further £2.443m in specific ring-fenced grants.

Table 2: Government Grants received in 2020/21

Grant	£
Total Covid Response Grant	**2,458,304**
Income Compensation	1,038,230
Job Retention	509,826
Leisure Recovery Fund	341,542
Cultural Recovery Fund	348,787
Other grants	204,866
Total Ring-Fenced Grants	**2,443,251**
Total Additional Funding Received	**4,901,555**

We used £4.695m of the grants received to fund budget pressures arising from the pandemic (of £4.330m) and to fund budget carry forwards into the new financial year (of £0.365m). The carry forward amounts are largely to fund the completion of work that was disrupted or paused as priorities changed during the year in response to the pandemic. The total amount carried forward was capped to ensure a balanced budget position was achieved at year-end. All requests for budget carry forwards were reviewed by SLT with those not approved being funded from the 2021/22 budget.

Surplus grant balances of £0.207m, along with additional grant funding received from government in May 2021 (of £0.838m), will be utilised in funding Covid-related growth pressures in 2021/22 as required.

Table 3: Revenue Budget Net Outturn for 2020/21

Directorate	Approved Budget £	Actual Net Spend £	COVID Grant Allocation £	Budget Carry Forwards £	2020/21 Outturn £	Under/Over Spend £
Chief Executive	429,860	802,551	0	0	802,551	372,691
Strategy & Commissioning	3,353,300	3,872,216	-707,559	83,370	3,248,027	-105,273
Support Services	1,992,460	1,173,206	-310,940	0	862,266	-1,130,194
Service Delivery	3,272,940	4,896,664	-752,351	230,310	4,374,623	1,101,683
Commercial Services & Income Generaion	6,505,260	9,139,470	-2,924,302	51,180	6,266,348	-238,912
Total	**15,553,820**	**19,884,107**	**-4,695,152**	**364,860**	**15,553,815**	**-5**

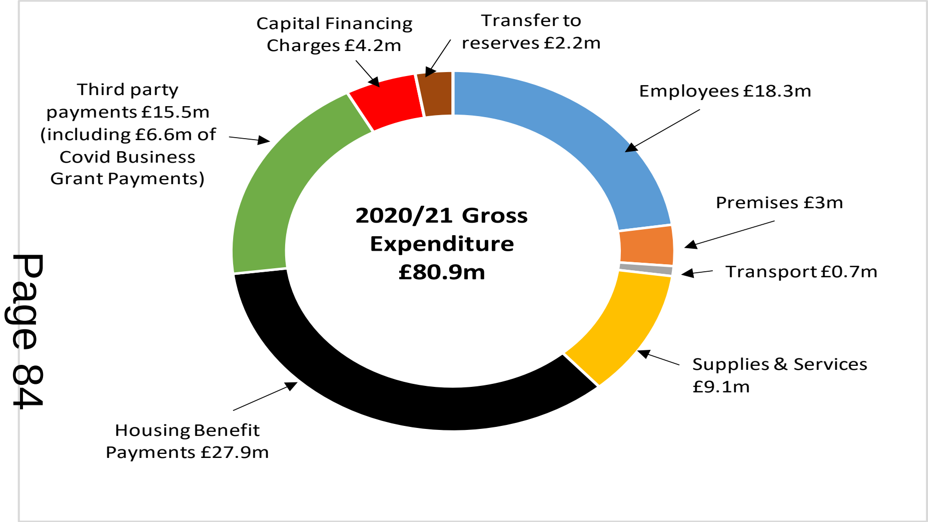
Covid 19 had a significant impact on the Council's finances during 2020/21 which would have resulted in the Council significantly exceeding its approved net revenue budget by £4.330m if the additional government funding had not been received. The key financial pressures experienced included:

- Lost income from the Octagon Theatre and Westlands Entertainment Venue as the venues had to be closed for the majority of the year.
- Reduced income from fees, charges and rental income in general but from car parking and Building Control in particular.
- Increase in the Bad Debts provision for Council Tax due to a decision to suspend recovery for most of the year.
- Providing financial support to the Council's Leisure Centres' operator during the Covid 19 lockdowns.
- Additional costs incurred by Somerset Waste Partnership in respect of kerbside collections and recycling sites.
- Additional payments made under the Discretionary Housing Payments Scheme and Council Tax Support Scheme (CTS).
- Underachievement of the 2020/21 additional income/savings target agreed in the budget.

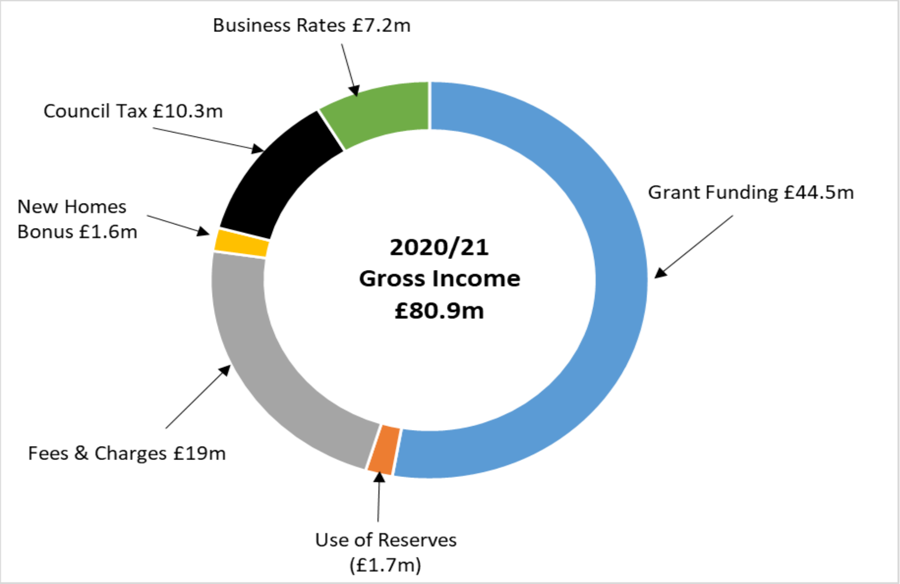
The Covid-19 pandemic has also significantly impacted Business Rates income collection. The 2020/21 outturn is a deficit position of £10.2m largely arising from central government's decision to grant reliefs to retail, leisure, and hospitality businesses during the year. The Council has received £11.8m of Section 31 grant to compensate for the loss of income arising from this decision. Owing to the complex accounting arrangement for Business Rates this income has to be accounted for in 2021/22 and therefore this amount has been transferred to an earmarked reserve.

Gross expenditure and income: Local Government conventionally shows the net expenditure budget position in committee reports. This is defined as the net expenditure that is financed by Council Tax, Business Rates, general government grants, and non-earmarked reserves. An analysis of the 2020/21 gross expenditure and how that is financed is illustrated below.

Pie Chart 1: Breakdown of 2020/21 Gross Expenditure of £80.9m



Pie Chart 2: Breakdown of 2020/21 Gross Income of £80.9m



Capital Budget

Budget setting and monitoring: Full Council approves the capital budget in February each year. Council also agrees a reserve programme comprising of projects that have been agreed in principle but are not included in the capital budget as their start date is uncertain or they require a robust Business Case to be produced.

The 2020/21 capital budget approved by Council in February 2020 can be found here.

2020-21 Capital Budget

Monitoring of the agreed programme has been delegated to District Executive and is undertaken on a quarterly basis. The reports also go to Scrutiny Committee for review. District Executive agrees each quarter whether the capital budget is amended to reflect any known changes to the project or its funding or whether reserve projects can be added to the capital budget.

The 2020/21 quarterly capital budget monitoring reports can be read by clicking on the following hyperlinks:

Quarter 1 Capital Monitoring Report 2020-21

Quarter 2 Capital Monitoring Report 2020-21

Quarter 3 Capital Monitoring Report 2020-21

Quarter 4 Capital Monitoring Report 2020-21

Capital Outturn: Total capital spending for 2020/21 was **£42.177m**; this was £22.628m (116%) more than the original £19.549m of planned expenditure agreed by Council in February 2020.

Pie chart 3: Capital expenditure by Directorate

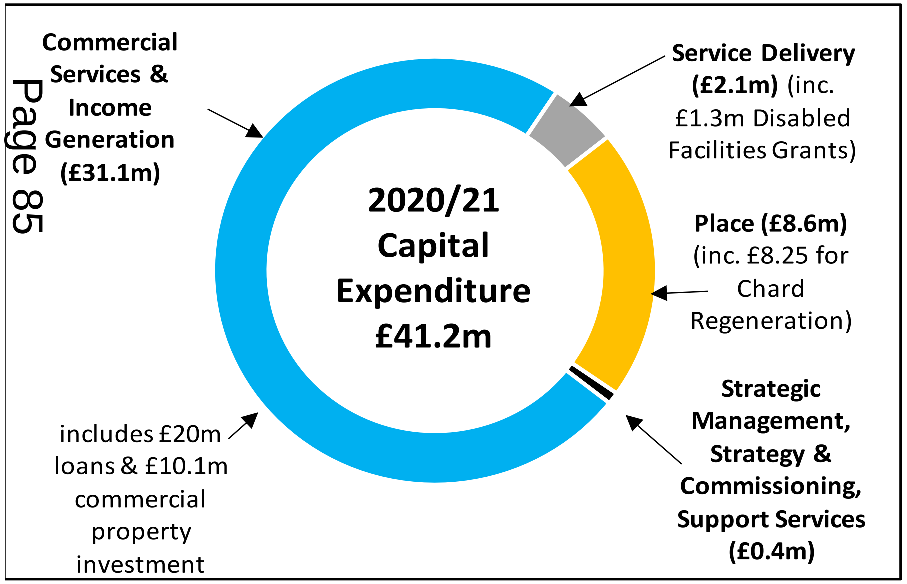
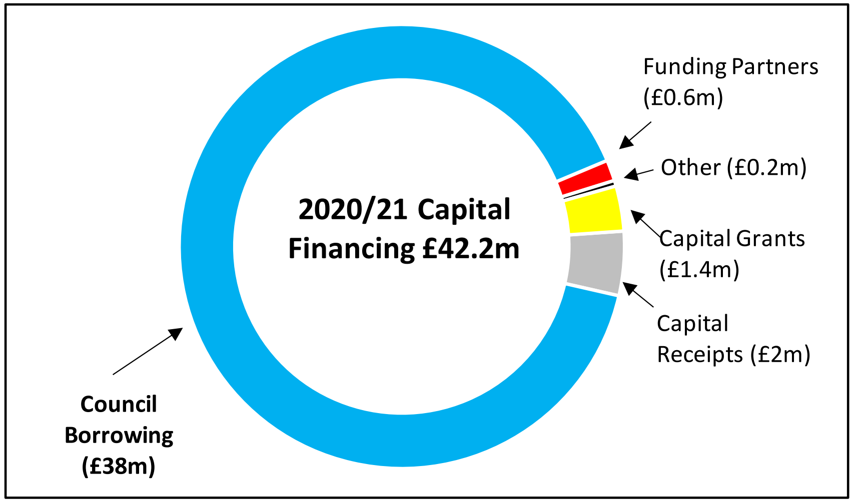


Table 4: showing details of capital expenditure (over £50k)

£20m Commercial Loans including £18.69m to SSDC Opium Power for the Battery Storage Scheme at Fareham – to be repaid in line with loan agreements.
£10.20m in acquiring 4 commercial Investment Properties (Trafalgar House in Taunton, 27-29 Sherwood Road in Bromsgrove, NHS Cook & Chill in Redruth, and Fitness First in Poole) – generating new income to fund services to our communities.
£8.64m on Town Centre Regeneration – the majority of this expenditure was for the Chard Regeneration Project - improving the town centre to stimulate economic growth.
£1.32m Disabled Facilities & Home Repair Grants – enabling aids and adapting private properties to support living at home.
£365k Affordable Housing Scheme contributions – enabling delivery of affordable housing in the District.
£328k Sports, Leisure and Play facilities – improving facilities to aid healthy living and enjoyment in the community.
£297k Yeovil Crematorium – updating and improving the Crematorium to deliver an improved service to the community.
£223k John O'Donnell Pavilion – upgrading and improving to provide better leisure and recreation services.
£165k ICT Services – enhancing facilities to enable home working during Covid and ensuring the ongoing security and efficiency of digital systems.
£108k Yeovil Innovation Centre – improving facilities for local businesses.
£95k Area Capital Grants – allocation of grants to small local parishes, initiatives and businesses.
£54k Streetscene Vehicles – keeping the district's streets and green spaces clean.

Capital financing: The financing of the 2020/21 capital programme is illustrated in pie chart 4. Prudential borrowing is funding 90% of the expenditure incurred.

Pie chart 4: Funding of 2020/21 capital expenditure



The borrowing amount of £38m is a combination of internal and external borrowing, with the split being 51% / 49% respectively.

Internal borrowing is when the Council uses its cash balances to temporarily fund its need to borrow. These cash balances need to be replenished either when overall Council cash reserves are low or when a strategic decision is made to obtain external long-term loan finance, so the borrowing is only temporary. The Council undertakes weekly monitoring and forecasting of its cash position in order to ascertain when any borrowing is required.

External borrowing is the action of obtaining loan finance from a third party. Currently SSDC meets its external borrowing needs though short-term loans taken out on a rolling basis with other local authorities.

The 2020/21 treasury management strategy agreed by Council in February 2020 estimated an increase in borrowing arising from capital expenditure during the year of £33m (excluding leasing arrangements that did not materialise). The outturn borrowing figure is £5m above this projection which has meant that the revenue budget for paying the interest charges on external borrowing was overspent by £0.930m. It should however be noted that the borrowing needed to fund the 2020/21 capital programme is easily accommodated within the authorised borrowing limit (£140m) agreed by Council for 2020/21.

Reserves Position

Revenue earmarked reserves total £38.464m as at end of March 2021 (they were £21.877m as at the end of March 2020).

The increase in earmarked reserves includes £11.84m carry forward of Section 31 grant income from central government to use in 2021/22 to fund losses in 2020/21 Business Rates income arising from reliefs given during the pandemic. The complex statutory accounting for Business Rates requires that any losses/gains in one year are accounted for in the next.

The most significant revenue earmarked reserves, excluding the reserve for Section 31 grant income mentioned above comprise:

- £6.6m in the Commercial Investment Risk Reserve
- £4.9m Medium Term Financial Plan Support Fund
- £4.6m NNDR (Business Rates) Volatility Reserve
- £3m Regeneration Fund

The General Fund Balance is £4.316m as at the end of the year (previous year's position was £5.1m). £1.86m was transferred out of the balance in 2020/21 to fund the overall revenue budget.

Capital reserves are £18.222m as at the end of the year (corresponding position last year was £18,422m).

7. Medium Term Financial Plan and Outlook

Introduction: This section of the Narrative Report set outs the council's revenue and capital budgets for 2022/23 along with how these budgets will be funded. The 2022/23 budget will be the last budget of SSDC prior to the creation of the new Somerset Council from 1st April 2023: therefore, there is no Medium Term Financial Plan nor a Capital Strategy. Council approved the budget at its meeting on 28th February 2022. The Budget Report can be found on the Council's website.

Local Government Reorganisation (LGR): In July 2021, the Secretary of State made a decision to replace the existing local government structure in

Somerset with a single unitary council. This means that the current structure of county plus four district councils will be replaced with a single Somerset Council from 1st April 2023.
The approved budget for 2022/23 recognises that LGR will require significant resources to ensure services remain stable with minimal disruption as well as additional capacity to fund the implementation costs associated with this major reorganisation programme.

2023/24 revenue estimates: The Budget Report sets out an indicative position for the 2023/24 revenue budget (the first year of Somerset Council) based on a continuation of the services and delivery methods SSDC currently provides along with estimates of the potential impact of the local government funding reforms, anticipated to be introduced in that financial year. These estimates must be treated with caution particularly as there is a lack of current information on the reforms and it is difficult therefore to forecast their impact with any degree of accuracy.

These 2023/24 estimates will be superseded and reviewed as part of the preparation needed to set Somerset Council's 2023/24 budget. Work is currently being undertaken as part of the LGR Programme to consolidate a base budget position across the five councils as a starting point for developing the 2023/24 budget and Medium Term Financial Plan for the new council.

Key budget proposals agreed by Council:

2022/23 Revenue Budget:

- Balanced revenue budget position for 2022/23 (with a small estimated surplus of £140k).
- Net revenue budget requirement in 2022/23 of £19.714m representing an increase on the 2021/22 original approved estimate of £2.971m (17.75%).
- Revenue budget growth proposals totalling £2.108m.

2021/22 to 2023/24 Capital Programme:

- Capital Programme of £116.469m an increase of £21.521m from the 2021/22 original approved estimate of £96.352m (an increase of 23%).
- The creation of a corporate capital contingency fund within the capital programme of £4m.
- Consequential increase in the revenue budget (financing costs) of £1.272m.

Reserves:

- Use of £6.658m of earmarked reserves during 2022/23 (2.101m to fund the revenue budget and 4.557m to fund the capital programme).
- Increase in the LGR (Local Government Reorganisation) Reserve by £1m to fund potential staffing capacity gaps during 2022/23.
- Creation of a reserve in 2023/24 of £4.8m for the Yeovil Refresh capital project should there be a requirement in that year to pay back the money-received to-date from the Future High Streets Fund (FHSF).
- Transfer of £2m from the Commercial Investments Risk Reserve to the MTFP Support Fund reserve to assist the 2023/24 position of the new Council to fund potentially adverse local government finance reforms.
- Increase tin he Treasury Management Reserve by £0.350m to fund an increase in interest rates in 2022/23 (up to 1%) should they rise above the rates assumed in this Budget Report.

Council Tax:

- An increase of 2.82% in Council Tax (SSDC's element excluding precepts) in 2022/23 to £182.11 (for Band D).

Revenue Budget

The Net Budget Requirement for 2022/23 is £19.714m, which once funded by government grants, Council Tax, and retained Business Rates produces an overall balanced budget with a small surplus of £140k estimated (0.7% of the Net Budget Requirement).

The preliminary forecast for 2023/24, based on SSDC continuing its services, shows a deficit of £4.535m, which is largely the result of assumptions made about the local government finance reforms, which may be introduced in that year and the likely adverse impact of the changes.

The overall 2022/23 gross revenue expenditure budget for SSDC is £74.28m. Charts 5 and 6 illustrate how this budget is planned to be spent and how it is financed.

Chart 5: 2022/23 Gross Revenue Budget Expenditure (£74.28m) by type of expense

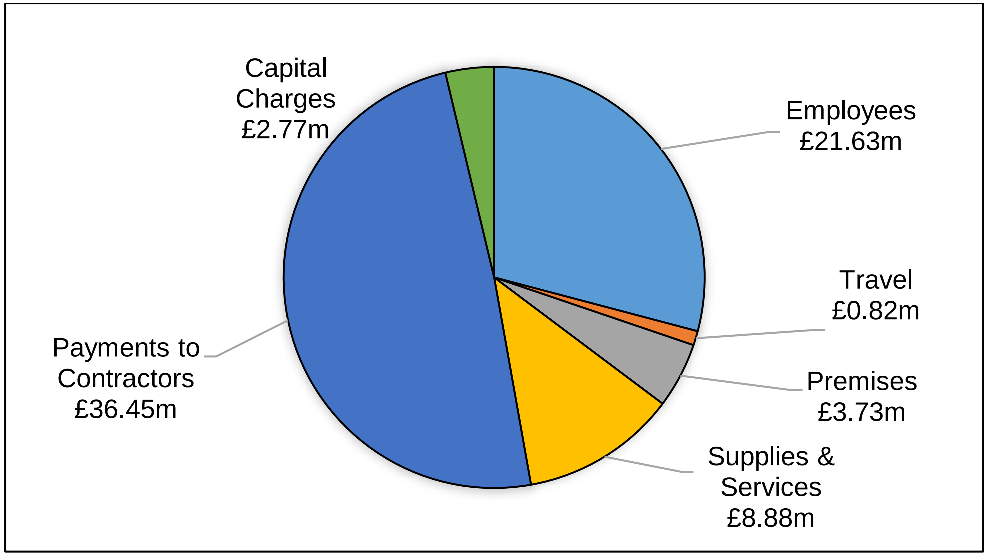
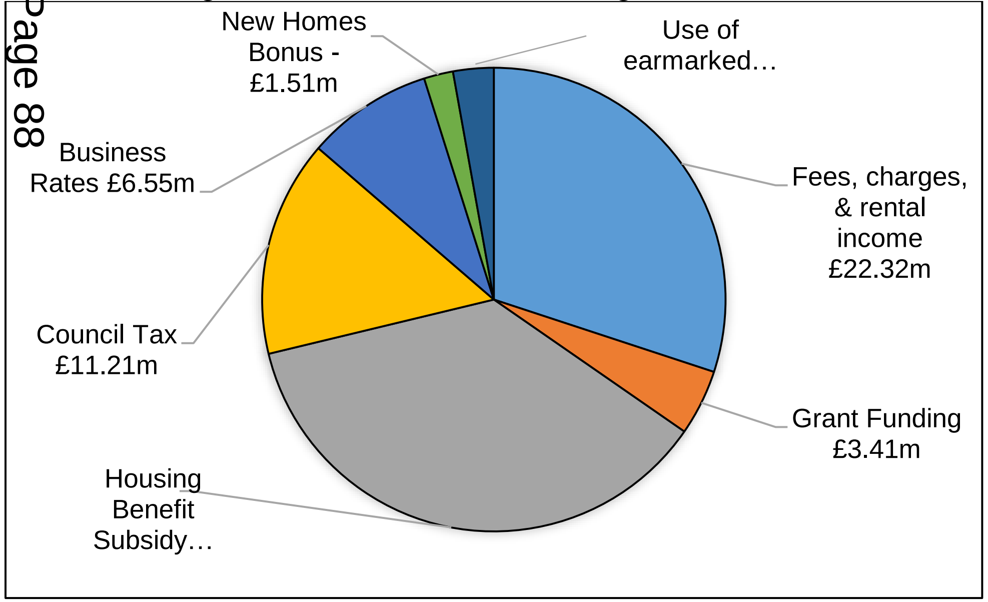


Chart 6: Funding of 2022/23 Gross Revenue Budget of £74.28m



Capital Programme

The total capital programme for the years 2021/22 to 2023/24 (and ongoing expenditure until 2025/26) is £116.469m. This is illustrated in pie chart 7 with pie chart 8 showing how this will be funded. Council agreed at its meeting an addition to the capital programme of £21.521m for the years 2022/23 and beyond.

Chart 7: Capital Programme by Service Area along with major projects

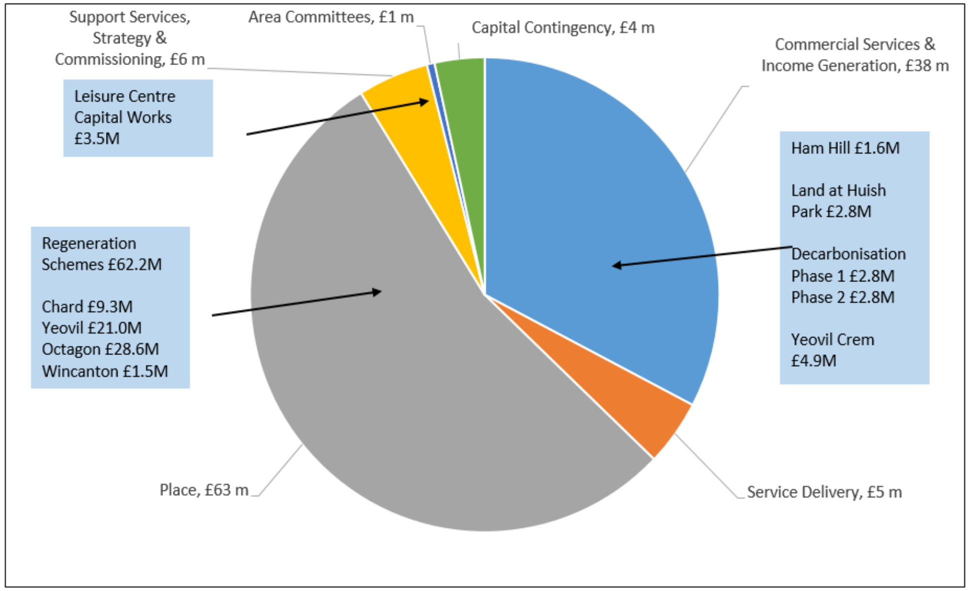
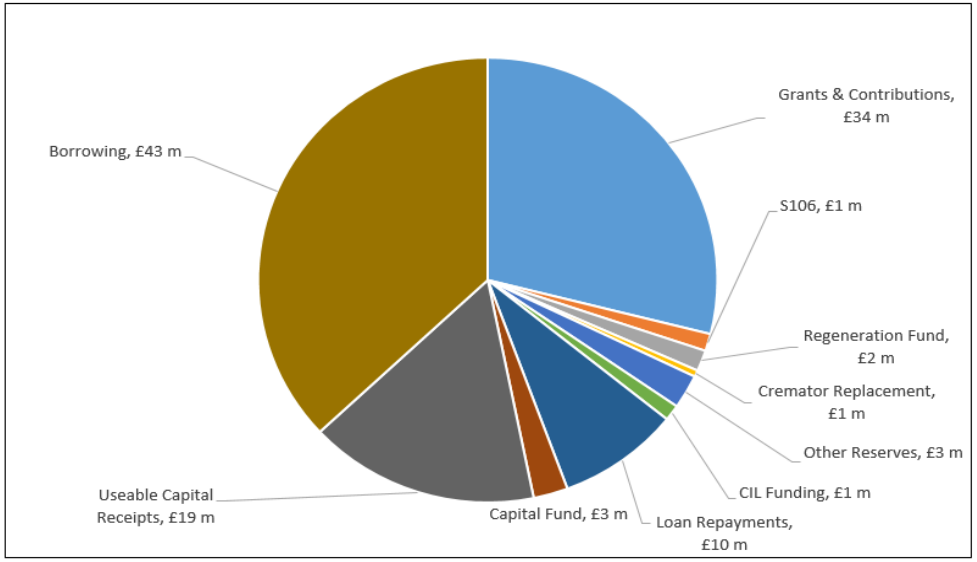


__Chart 8: Funding of the overall Capital Programme__



Reserves

The Council holds earmarked revenue reserves for a variety of good financial management reasons. Some reserves are for specific expenditure that will occur in the future, some reserves are held to mitigate possible risk, and others are reserves specifically built up over the past to help support the Medium Term Financial Plan. We also hold reserves for each Area Committee.

Earmarked reserves are either revenue reserves (which can be used to fund both revenue and capital expenditure) or capital reserves, which, unless the Sectary of State gives the council a specific dispensation, can only be used to fund capital expenditure. The capital reserves showing in the table below are primarily comprise of capital receipts.

Table 5: Estimated Reserves Position

Reserves Summary	Balance as at 01/04/2021 £’000	Movement £’000	Balance as at 01/04/2022 £’000		Movement £’000	Balance as at 01/04/2023 £’000		Movement £’000	Balance as at 31/03/2024 £’000
Corporate Reserves	(9,081)	(4,426)	(13,507)		619	(12,888)		4,784	(8,104)
Capital Reserves	(18,222)	16,162	(2,060)		1,981	(79)		0	(79)
Revenue Earmarked Reserves	(21,991)	8,918	(13,073)		3,544	(9,529)		1,209	(8,320)
Total Reserves	**(49,294)**	**20,654**	**(28,640)**		**6,144**	**(22,496)**		**5,993**	**(16,503)**

The Council held £49.294m in capital and revenue reserves as at the beginning of the financial year, 2021/22.

Assessment of Financial Risks

Table 6: Assessment of key financial risks

RISK		**DESCRIPTION AND ANY MITIGATION**
Staffing capacity		**Risk**: There is the possibility that SSDC may lose staff during 2022/23. There is also additional workload arising from LGR implementation. There is a risk therefore that there may not be sufficient capacity to maintain service delivery, deliver the corporate annual action plan, as well as LGR implementation. **Mitigation:** Council increased the LGR Reserve by £1m to fund any additional capacity requirements over those proposed in the budget proposals.

RISK		**DESCRIPTION AND ANY MITIGATION**
Interest Rates		**Risk**: Whilst interest rates remain low at 0.5% there is now an expectation that they will rise to at least 1% over the next two financial years to help curb rising inflation rates. SSDC has a high Capital Financing Requirement (indebtedness) and currently borrows on a short-term basis through peer-to-peer lending, which is cheap and does not fetter the flexibility of the new Somerset Council to manage its future borrowing needs. **Mitigation**: Regular meetings with our external Treasury Management advisers are held to inform us of the potential risks and any need for action. A 0.75% interest rate is assumed in the 2022/23 budget estimates. Council agreed an increase of £0.350m in the Treasury Management Reserve to fund any rise of interest rates to 1% in 2022/23. Discussions are being held with the S151 officers in the other Somerset councils on whether some long-term borrowing should be acquired in order to fix interest rates for some of the borrowing needed.

RISK		**DESCRIPTION AND ANY MITIGATION**
Pay Award		**Risk:** The 2021/22 pay award for local government services employees remains unresolved, as the unions have rejected the employer's offer. Negotiations on the pay award for 2022-23 do not form part of this year's dispute and will be considered separately once the pay award for 1 April 2021 has been finalised. There is a risk that the pay award maybe above the amounts estimated in the budget proposals. **Mitigation**: SSDC holds sufficient reserves to fund any increase for this year and next.

RISK		DESCRIPTION AND ANY MITIGATION
Price Inflation		**Risk**: General inflation is at its highest level for thirty years and some commentators expect it to peak at 10% later in 2022. Construction inflation is currently running at 20% to 40%. **Mitigation**: The risk is most acute for the delivery of the capital programme. Whilst agreed budgets for the council's major projects already have a contingency amount within the approved budget, the CFO proposed the creation of a corporate capital contingency of £4m in 2022/23 to help mitigate this risk. Council agreed this proposal at its budget meeting in February 2022.

RISK		DESCRIPTION AND ANY MITIGATION
Business Rates, Income		**Risk:** The funding from business rates is based on the accurate calculation of the NNDR1 form. There is volatility in the estimates due to various factors, such as anticipated discretionary and mandatory reliefs, growth in the rateable value, bad debts, and volume of appeals. All of these factors can affect the surplus or deficit position on the collection fund that will affect the next financial year's revenue budget. **Mitigation**: The Collection Fund estimates for 2022/23 have been produced using recommended guidance from CIPFA (Chartered Institute of Public Finance & Accountancy), and a review of the figures has been undertaken by LG Futures, an external consultancy firm.

RISK		DESCRIPTION AND ANY MITIGATION
Covid-19		**Risk**: The pandemic could continue in 2022/23 and in future years in a way, that requires further responses which impacts on the Councils service provision and/or financial standing. **Mitigation**: In this instance, as we have seen during the past two financial years, we would be expecting the Government to be stepping in to support the entire sector if the impacts were high.

8. 2020/21 Statement of Accounts

The Statement of Accounts sets out the financial performance of the Council for the year ended 31 March 2021 and its financial position at that date. It comprises core and supplementary statements together with disclosure notes.

The format and content of the financial statements are prescribed by the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The Code requires that the accounts give a true and fair view of the financial position of the Council and are prepared on the basis that the Council is a going concern. In line with the Code, suitable accounting policies have been applied, and where necessary, prudent judgements and estimates have been made.

The Statement also includes the financial performance and position of the Council's subsidiaries Elleston Services Ltd and SSDC Opium Power Limited.

The purpose of each of the key Statements are described below.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis essentially reconciles the figures given in the budget outturn position to those included in the Comprehensive Income and Expenditure Statement (CIES) which follows the Analysis.

The CIES shows the accounting cost for the year of providing the Council's services. This is not the same as the budget outturn information. The accounting cost is determined in accordance with generally accepted accounting principles (contained within the Code) whilst the budget, and the year-end outturn against the budget, has to comply with local government legislation.

The Code requires that councils make a number of adjustments to the budget outturn results to determine the accounting costs and income shown in the Statement of Accounts. For example, large adjustments are made for the accounting treatment of fixed assets (depreciation) and pension costs. These costs, whilst shown in the CIES because they are required under accounting standards, are not included in the Council's annual budget nor funded from Council Tax.

The inclusion of such costs in the CIES is to enable comparison of a council's Statement of Accounts with other organisations, both public and private sector.

The Expenditure Funding Analysis therefore allows a link to be made between year-end outturn against the budget to the financial position as set out in the financial statements.

Comprehensive Income and Expenditure Statement (CIES)

The CIES records all of the Council's income and expenditure for the year and has two parts:

- The first part reflects the accounting cost of providing the Council’s services with the results summarised at the Surplus or Deficit on the Cost of Services line. In the private sector this would be equivalent to the profit or loss of a company.
- The second part, showing other comprehensive income and expenditure, shows the gains or losses in the measurement of the council’s assets and liabilities. These gains and loses arise as a result of changes in market valuations, interest rates or changes in measurement assumptions in relation to pension liabilities.

Movement in Reserves Statement (MIRS)

The MIRS shows the movement from the start of the year to the end on the different reserves held by the council. It shows how the movements are broken down between gains and losses incurred in accordance with the Code and the statutory adjustments required to return to the amounts chargeable to the budget as required under local government legislation.

Reserves are important to local authorities as, unlike central government, they cannot borrow money over the medium term, unless given permission from central government, other than for investment in assets, and they are required to balance their budgets on an annual basis. They are therefore a vital part of prudential financial management and help reduce the financial risks mentioned earlier in this Narrative Report.

Reserves are analysed into two categories: usable and unusable.

Usable reserves

- Result from the Council’s activities
- Members are involved in deciding on the levels maintained and their use
- Can be spent in the future
- Include: general fund balance, earmarked reserves, capital receipts reserve, and capital grants unapplied

Unusable reserves

- Derive from accounting adjustments
- Cannot be spent
- Include: revaluation reserve and capital adjustment account

Balance Sheet

The Balance Sheet provides a “snapshot” of the Council’s position at a specific point in time showing what it owns and owes as at 31 March 2020. It is very similar to other public sector or private sector balance sheets.

The Balance Sheet is always divided into two halves that should, as the name suggests, balance:

- Net Assets (the top half), and
- Reserves (the bottom half).

Cash Flow Statement

This shows the reason for changes in the Council’s cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

The statement also includes “cash equivalents” which are short term investments that are readily convertible into cash and which are subject to only insignificant risks of changes in value.

Cash flows arerelated to the income and expenditure seen in the CIES but are not the same as them. The difference arises from the accruals concept, whereby income and expenditure are recognised in the CIES when the transactions occurred, and not when the cash was paid or received.

Collection Fund

The Collection Fund shows the total income received by the Council from Business Rates and Council Tax and how the redistribution of some of that money to Somerset County Council, the Police Authority, and central government.

Group Financial Statements

Group accounts need to be prepared if the council has a significant subsidiary such as a trading company. The Group Accounts report the full extent of the assets and liabilities of the Council and the companies and similar entities which the Council either controls or significantly influences.

The Council is presenting Group Accounts by consolidating the financial performance and position of Elleston Services Ltd and SSDC Opium Power Limited into the overall group.
South Somerset District Council wholly owns (100%) Elleston Services Ltd which was established in April 2019 to deliver Landscape Services. The company did not trade in 2020/21 and is currently revising its Business Plan to take account of changed circumstances arising from the Covid-19 pandemic.

The Council has 50% ownership in SSDC Opium Power Limited. The company is a subsidiary as, despite the ownership ratio, the Council has the right to exercise control with a deciding vote on the Board. The company was established in 2018 to deliver green energy schemes (battery energy storage). The company made a trading loss of £654k during 2020/21 as full capacity has only been reached in 2021/22.
The accounts for both of these companies can be reviewed at Companies House. The external auditors for both entities are Old Mill Accountants and Financial Planners.

Additional disclosures

The notes to the financial statements include important information and provide the context and detail for the figures in the primary financial statements.

Accounting Policies

These set out the accountancy rules the Council has followed in preparing the financial statements. They are largely specified by International Financial Reporting Standards and
CIPFA’s Code of Practice.

There have been no changes made to the accounting policies in the year.

Critical Judgements

Show the key areas where officers and third party experts have made judgements about the application of accounting policies. The aim is to highlight key areas of the accounts where others may have made different judgements about the accounting treatment.

These are set out in note 2 under “Notes to the Core Financial Statements”.

Property, plant & equipment

The notes gives a lot of detail about assets acquired and disposed of during the year, whether they have been revalued, the impact of any changes in value, and the amount of depreciation charged.

These are set out in notes 15 and 16 under “Notes to the Core Financial Statements”.

Independent auditor’s report to the members of South Somerset District Council

The independent auditor’s report will appear here following the conclusion of the Statement of Accounts audit and approval by the Audit Committee.

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Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The council is required to: -

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that responsibility rests with the S151 Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts

S151 Officer Responsibilities

The S151 Officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this statement of accounts, the S151 officer has:

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

The S151 officer has also:

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

Certification of the Accounts

This Statement of Accounts presents a true and fair view of the financial position of South Somerset District Council at the reporting date and of its income and expenditure for the year ended 31 March 2021.

Signed

K Watling CPFA
S151 Officer

30 July 2021

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the authority's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Authority 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 2020/21 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 Statement of Accounts has been prepared on a 'going concern' basis. However, it should be noted that as part of the restructuring of local government in Somerset, South Somerset District Council will cease to exist with effect from 31st March 2023 and the assets and liabilities of the Council will transfer to the newly created authority.

2. 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. With effect from 1st April 2018, IFRS15 *Revenue from Contracts with Customers* has been adopted, which resulted in no material impact to the council's recognition of revenues.

- 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.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of changes in value. The council will include deposits in Money Market Funds and Business Reserves in Cash Equivalents.

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

4. Changes in Accounting Policies and Estimates and Errors

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

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

5. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.

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

- Amortisation of intangible assets attributable to the service.

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

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

6. 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 (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 National Non-Domestic Rates

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority’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 Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the 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.

7. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority 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 authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-Employment Benefits

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

The Local Government Pension Scheme (LGPS)
The Local Government Pension Scheme is accounted for as a defined benefits scheme.

- The liabilities of the Somerset County Council Pension Fund attributable to the Authority 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 the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.

- The assets of the Somerset County Council Pension Fund attributable to the Authority 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 pensions 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 is allocated to the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past service costs – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years is 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 (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

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

- Contributions paid to the Somerset County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

8. Events after the Reporting Period

Events after the Reporting Period 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 Statements 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.

9. Financial Instruments

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

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the council. The majority of the council’s financial liabilities held during the year are measured at amortised cost and comprised:

- short-term loans from other local authorities,
- long-term loans from the Public Works Loan Board and commercial lenders
- lease payables
- 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,
    - fixed term deposits with banks and building societies,
    - loans to other local authorities,
    - certificates of deposit
    - treasury bills and gilts issued by the UK Government,
    - bonds issued by multilateral development banks and large companies,
    - loans made for service purposes,
    - lease receivables, and
    - trade receivables for goods and services provided.

- Fair value through profit and loss (all other financial assets) comprising:
    - money market funds
    - pooled bond, equity and property funds
    - equity investments,
    - covered bonds issued by banks and building societies
    - loans where the cash flows are not solely payments of principal and interest,
    - structured deposits with banks and building societies, and
    - forward contracts on fixed rate investments and loans where interest rates have moved in the council's favour since the contract was agreed.

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.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant fair value through other comprehensive income), 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 authority.

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 the basis of 12-month expected losses.

Fair Value Measurement

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2021.

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 2021, 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.
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.

- 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

10. 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 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.

11. Heritage Assets

A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. There is no requirement for valuations for heritage assets to be verified by external auditors, nor is there any prescribed minimum period between valuations. Where the cost of obtaining valuation information is not commensurate with the benefits, the council will not recognise these assets in the Balance Sheet.

The council’s heritage assets are predominantly the museum stock that is held at the Community Heritage Access Centre (CHAC).

The Authority recognises these collections on the Balance Sheet using its base as the detailed insurance valuations held by the Authority in respect of the collections. The collections are deemed to have indeterminate lives; hence the Authority does not consider it appropriate to charge depreciation.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority’s general policies on impairment. Disposals of any heritage assets are accounted for in accordance with the Authority’s general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

13. Interests in Companies and Other Entities

The authority has material interest in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the authority’s own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

14. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO (first in first out) costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

15. Investment Properties

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

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

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

16. Joint Operations

Joint operations are arrangements where the parties that have control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

17. Leases

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

The finance leases recorded in the Statement of Accounts are due to the fact that:

- The lease term is for the major part of the economic life of the asset
- The present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset

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

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

The Authority as Lessee

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

Lease payments are apportioned between:

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

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

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

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

The Authority as Lessor

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

Lease rentals are apportioned between:

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

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

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

Operating Leases

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

18. 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.

19. Property, Plant and Equipment

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

Recognition

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

- The expenditure incurred is below £10,000, except Capital Grants where the limit is £250. In such cases expenditure is charged direct to the revenue accounts.

- The asset is acquired through an operating lease when rental payments are charged to the revenue account.

Measurement
Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use (such as purchase price; any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management).

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

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

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

Assets included in the balance sheet at current value are re-valued 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 Surplus or Deficit on the Provision of Services 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 the balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

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

Assets which have been significantly enhanced are brought forward in the five-year rolling programme to ensure that the independent valuer can correctly assess their new carrying value, this ensures that any potential overstatement only reflects a short timing difference between the enhancement taking place and the valuer assessing its impact on the asset's carrying value.

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant and equipment - straight-line allocation over the life of the asset.
- Infrastructure – straight-line allocation over the life of the asset.

The following standard estimated lives are used for newly acquired assets:

	Years
Office Buildings	60
Public Conveniences	50
Sports and Leisure Centres	40
Vehicles	10
Cremators	10

Where an asset includes a number of components with significantly different asset lives, these components are then treated as separate assets and depreciated over their own useful economic lives. See Component Accounting policy.

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

Assets that are sold during the year are treated as if sold on 31 March and the service accounts receive a full year’s charge for depreciation as appropriate. Assets acquired during the year attract no charge.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously 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 in excess of £10,000 received from disposals are categorised as capital receipts and credited to the Capital Receipts Reserve, which can then only be used for new capital investment or set aside to reduce the Authority’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. If the proceeds are £10,000 or less, they are not treated as capital receipts but are instead credited to revenue.

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

A proportion of receipts relating to housing disposals is payable to the Government. In practice this relates only to mortgage repayments, 75% of which must be paid over to the Government.

Component Accounting

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

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

From 1st April 2010, components will be recognised when an asset is enhanced, acquired or re-valued. Where a component is replaced or restored, the carrying amount of the old component is derecognised.

- Land and individual buildings will be valued separately.

- Assets are deemed to be material and considered for componentisation when the cost or value in the Balance Sheet is at least £500,000 (approximately 1% of the authority's non-current assets).

- Each asset will be reviewed individually by the valuer to determine whether any part of a material asset has a differing useful life or method of depreciation. The assets will be reviewed by the following:
    - Sub Structure
    - Superstructure (frame, upper floors, roof, stairs, external walls, windows, external doors, internal walls, partitions, internal doors)
    - Internal finishes (walls, floors and ceilings)
    - Fixtures (sanitary, water, disposal equipment)
    - Engineering services (heating, air treatment, gas installations, lifts, protective, communications)
    - External works

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

20. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by 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 when the authority has an 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 payments required to settle a provision are expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settle 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 Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the 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 Sheets but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

21. Related Party Transactions

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

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

22. 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. 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 so that there is no net charge against council tax for the expenditure.

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

23. Revenue Expenditure Funded from Capital Under Statute

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

24. VAT

The council does not include VAT as part of income or expenditure, whether of a capital or revenue nature except where it is not able to recover VAT.

Comprehensive Income and Expenditure Statement (Brackets represent income)

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserve Statement.

Restated Gross Expenditure year ended 31-Mar-20 £'000	**Restated Gross Income year ended 31-Mar-20 £'000**	**Restated Net Cost of Services year ended 31-Mar-20 £'000**	**Service**	**Note Number**	**Gross Expenditure year ended 31-Mar-21 £'000**	**Gross Income year ended 31-Mar-21 £'000**	**Net Cost of Services year ended 31-Mar-21 £'000**
1,273	(81)	1,192	Chief Executive		2,091	(281)	1,810
20,621	(10,254)	10,367	Director of Commercial Services and Income Generation		18,947	(7,519)	11,428
41,132	(33,748)	7,384	Director of Service Delivery		51,303	(34,908)	16,395
5,676	(1,264)	4,412	Director of Strategy and Commissioning		4,778	(557)	4,221
6,657	(784)	5,873	Director of Support Services		14,020	(10,002)	4,018
75,359	**(46,131)**	**29,228**	**Cost of Services**		**91,139**	**(53,267)**	**37,872**
5,474	(851)	4,623	Other Operating expenditure	10	5,881	(700)	5,181
	(11)	(11)	Net Loss/(Gain) on Disposal of Property, Plant and Equipment	12	14	0	14
5,356	(2,880)	2,476	Financing and Investment Income and Expenditure	13	572	(2,149)	(1,577)
	(28,019)	(28,019)	Taxation and Non-Specific Grant Income	14	0	(31,617)	(31,617)
86,189	**(77,892)**	**8,297**	**(Surplus)/Deficit on Provision of Services**		**97,606**	**(87,733)**	**9,873**
		3,670	(Surplus)/Deficit on revaluation of Property, Plant and Equipment	32			(4,932)
		3,208	(Surplus)/Deficit on revaluation of Pooled Funds	32			(2,117)
		995	Re-measurement of the Net Defined Benefit Liability	46			17,034
		(30)	Share of Other Income and Expenditure of Joint Operations	20			(12)
		7,843	**Other Comprehensive Income and Expenditure**				**9,973**
		16,140	**Total Comprehensive Income and Expenditure**				**19,846**

Movement in Reserves Statement

Reserves represent the council's net worth and shows its spending power. 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 Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance	Earmarked Reserves	**Total General Fund Balance**	Capital Receipts Reserve	Capital Grants Unapplied	Joint Operations Reserves	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
	£'000	£'000	**£'000**	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Balance at 31 March 2019	**(4,594)**	**(17,506)**	**(22,100)**	**(22,798)**	**(1,694)**	**(608)**	**(47,200)**	**19,185**	**(28,015)**
Movement in reserves during 2019/20:									
Total Comprehensive Income and Expenditure	8,297	0	**8,297**	0	0	(30)	**8,267**	7,873	**16,140**
Adjustments between accounting basis and funding basis under regulations (note 9)	(13,174)	0	**(13,174)**	4,365	(807)	0	**(9,616)**	9,616	**0**
Net Increase/Decrease before transfers to Earmarked Reserves	**(4,877)**	**0**	**(4,877)**	**4,365**	**(807)**	**(30)**	**(1,349)**	**17,489**	**16,140**
Transfers (to)/from Earmarked Reserves (note 31)	(4,371)	4,371	**0**	0	0	0	**0**	0	**0**
(Increase)/Decrease in 2019/20	**(506)**	**(4,371)**	**(4,877)**	**4,365**	**(807)**	**(30)**	**(1,349)**	**17,489**	**16,140**
Balance at 31 March 2020	**(5,100)**	**(21,877)**	**(26,977)**	**(18,433)**	**(2,501)**	**(638)**	**(48,549)**	**36,674**	**(11,875)**
Movement in reserves during 2020/21:									
Total Comprehensive Income and Expenditure	9,873	0	**9,873**	0	0	(12)	**9,861**	9,985	**19,846**
Adjustments between accounting basis and funding basis under regulations (note 9)	(25,171)	0	**(25,171)**	211	(5,284)	0	**(30,244)**	30,244	**0**
Net Increase/Decrease before transfers to Earmarked Reserves	**(15,298)**	**0**	**(15,298)**	**211**	**(5,284)**	**(12)**	**(20,383)**	**40,229**	**19,846**
Transfers to/from Earmarked Reserves (note 31)	16,351	(16,351)	**0**	0	0	0	**0**	0	**0**
(Increase)/Decrease in 2020/21	**1,053**	**(16,351)**	**(15,298)**	**211**	**(5,284)**	**(12)**	**(20,383)**	**40,229**	**19,846**
Balance at 31 March 2021	**(4,047)**	**(38,228)**	**(42,275)**	**(18,222)**	**(7,785)**	**(650)**	**(68,932)**	**76,903**	**7,971**

Balance Sheet (Brackets represent liabilities)

The Balance Sheet is a ‘snapshot’ of the council’s financial position at a specific point in time, showing what it owns and owes at 31st March. 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 is ‘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 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 revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences in the Movement in Reserve Statement line ‘adjustments between accounting basis and funding basis under regulations’.

As at 31 March 2020		Note No.	As at 31 March 2021	
£’000			**£’000**	**£’000**
47,011	Property, Plant & Equipment	15	47,416	
71,973	Investment Properties	17	79,809	
1,083	Intangible Assets		710	
638	Investment in Joint Ventures	20	650	
0	Assets Held for Sale	18	490	
1,792	Heritage Assets	21	1,792	
2,106	Long Term Investments	33	0	
17,417	Long Term Debtors	22	33,827	
142,020	**TOTAL LONG TERM ASSETS**			**164,694**
28,471	Short Term Investments	33	24,899	
4,592	Inventories	23	4,923	
10,909	Short Term Debtors	25	33,288	
2,009	Cash & Cash Equivalents	26	490	
293	Bank Accounts	26	613	
46,274	**CURRENT ASSETS**			**64,213**
(79,500)	Short term Borrowing	27	(98,000)	
0	Bank Overdraft	26	0	
(1,048)	Third Party Cash	26	(1,091)	
(10,923)	Short term Creditors	28	(31,149)	
(91,471)	**CURRENT LIABILITIES**			**(130,240)**
(880)	Provisions	30	(740)	
(4,091)	Developers Contributions Deferred	31	(4,829)	
(23)	Long Term Liabilities – Creditors	29/34	(33)	
(20)	Long Term Liabilities – Finance Lease	45/34	(5)	
(79,934)	Liability related to defined benefit pension scheme	47	(101,031)	
(84,948)	**LONG TERM LIABILITIES**			**(106,638)**
11,875	**NET ASSETS**			**(7,971)**
47,911	Usable Reserves	32	68,282	
638	Usable Reserve – Share in Joint Operations	32/21	650	
(36,674)	Unusable Reserves	33	(76,903)	
11,875	**TOTAL RESERVES**		**(7,971)**	**(7,971)**

Cash Flow Statement (Brackets on this page represent income)

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

Year Ended 31 March 2020 £'000		**Year Ended 31 March 2021 £'000**
(8,297)	Net surplus/(deficit) on the provision of services	**(9,873)**
12,459	Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 34)	**10,151**
(1,106)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 34)	**(1,817)**
3,056	**Net cash flows from operating activities**	**(1,539)**
(61,562)	Investing Activities (note 35)	**(18,188)**
59,969	Financing Activities (note 36)	**18,485**
1,463	**Net increase or decrease in cash and cash equivalents**	**(1,242)**
(209)	Cash and Cash Equivalents (including bank overdraft) at 1 April (note 25)	**1,254**
1,254	**Cash and Cash Equivalents (including bank overdraft) at 31 March (note 25)**	**12**

The difference between the net figure for Cash and Cash Equivalents shown in the Cash Flow Statement to that in the Balance Sheet is due to £855k held on behalf of Third Parties. Specifically, this relates to funds held in respect the Dorcas House Trust (See note 48), Boden Mill and Chard Regeneration Scheme and the Yeovil Cemetery and Crematorium Burial Committee.

Notes to the Core Financial Statements

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

1. Accounting standards that have been issued but have not yet been adopted

Paragraph 3.3.4.3 of the Code of Practice requires that the Authority discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2020 for 2019/20).

In compiling the 2020/21 accounts there are no material effects in relation to these standards.

In response to the Covid 19 pandemic, CIPFA/LASAAC deferred the implementation of IFRS 16 Leases in the public sector until the 2022/23 financial year with an effective date of 1 April 2022. This will require lessees to recognise assets subject to leases as right-of-use assets on their balance sheet, along with corresponding lease liabilities (there are exceptions for low-value and short-term leases).

2. Critical Judgements in applying accounting policies

In applying the accounting policies, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. In line with the Code of Practice on Local Authority Accounting section 3.4.2.88 and IAS 1: 122-124 the critical judgements made in the Statement of Accounts are:

- Provision for appeals on business rates

  The council collects approximately net £23.7m in business rates. It is in a Pool for the local retention of business rates for 2020/21 and the council's share of the business rates income is 40%. The assumptions around the outcome of appeals against the NNDR valuations (either received to date or expected in future years) represent a material and critical judgement applied to the accounts. The appeals provision is based on experience with the 2010 list and data available to date for the 2017 list. Using this information an assessment is made on the likely success rate of appeals and their value, in particular the check, challenge, appeal process which appears to have resulted in most cases being resolved a check stage and very few challenges progressing to appeal. The council's current share of the appeals provision is £1.380m which has increased from £0.792m in 2019/20. A 1% variance in the determined appeals provision would alter the net locally retained income to the council by approximately £13.8k. Due to the technical adjustments relating to the collection fund adjustment accounts this will not impact the general reserves in that year and only hit the council's general fund account in future years. However, if the net rate income reduces below the levels set by central government the council will be compensated accordingly.

- SSDC Opium Power Limited is a joint venture or subsidiary

  Although there is joint control of decisions, SSDC has the right to exercise control with a deciding vote on the Board of SSDC Opium Power Limited. On this basis, using IFRS10 and paragraph 9.1.2.22 of the financial code, the relationship is that of a subsidiary due to the 50% ownership by SSDC. Therefore, full consolidation Group Accounts have been prepared.

3. Assumptions made about the future and other major sources of estimation uncertainty

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

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls, conversely if useful lives were increased the carrying amount of assets would increase. If estimated useful lives were reduced by 5 years, the depreciation charge would increase by £2.620m, if however useful lives were to increase by 5 years, the depreciation charge would reduce by £1.656m.
Pension Valuation	The Local Government Pension Scheme, that the council is a member of, holds assets in the form of a Property portfolio. The assets provide returns on the investment to offset the liabilities in the form of pension contributions to members. The council has 7% of its pension assets invested in Real Estate which accounts for £8.389m of the total assets held.	As with the valuation of the council's directly owned assets, there is a similar level of uncertainty of the Pension Scheme property asset value as at the balance sheet date.
Pensions Liability	Estimation 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 has engaged Barnett Waddingham as its consulting actuary to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. A sensitivity analysis is included in the Defined Benefit Pension Schemes (note 47).
Investment Properties	Investment properties are measured (valued) initially at cost and subsequently at fair value, being the price that would be received to sell an asset in the market. Properties are not depreciated but are revalued annually according to market conditions at year end. This takes the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date.	A variation in the annual estimated valuations could result in a movement being recorded inappropriately in the Comprehensive Income and Expenditure Statement. If the value of the council's investment properties were to reduce by 10%, this would result in a charge to the Comprehensive Income and Expenditure Statement of approximately £7.980m If the value of the council's investment properties were to increase by 10%, this would result in a gain to the Comprehensive Income and Expenditure Statement of

		approximately £7.980m.
Arrears	At 31 March 2021, the Authority had a balance for sundry debtors of £3.018m. A review of significant balances suggested that an impairment allowance of £1.005m was appropriate. However, in the current economic climate it is not certain that this will be sufficient.	An understanding of doubtful debts would lead to a future adjustment and impairment to be reflected. The impairment allowances held are based on policies adapted to the nature of the debt and service area, historic experience and success rates experienced in collection. If collection rates were to deteriorate by 5% or 10% then the council would need to review its policies on the calculation of its impairment allowance for doubtful debts.

4. Material items of income and expenditure

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

As part of the Authority's Commercial Strategy, a number of investments have been purchased in 2020/21. These transactions are detailed in the relevant notes.

5. Events after the reporting period

The Statement of Accounts was authorised for issue by the S151 Officer on 30th July 2021. Events taking place after this date are not reflected in the financial statements or notes.

Since the balance sheet date reorganisation of Local Government in Somerset has progressed with a decision taken that a Unitary Authority to replace the current two-tier structure. This will mean that with effect from 31 March 2023 South Somerset District Council will cease to exist as an organisation and the assets and liabilities of the Council will transfer to the newly created authority.

Part of this process means that the spending powers of the council have changed and have to comply with a Section 24 notice. Under section 24 of the Local Government and Public Involvement in Health Act 2007, the Secretary of State has power to make a direction to control disposals, contracts and reserves under which authorities that are to be dissolved (for example the Somerset councils). The notice includes details of what Council's that are to be dissolved can do from a financial perspective in the period before it is dissolved. This includes items such as entering into capital contract exceeding £1m and disposing of land which exceeds £100k.

The economic climate has changed significantly since the balance sheet date. This has resulted in changes in market conditions with interest rates increasing to their highest rate for a number of years. The impact has resulted in an increase in borrowing costs which will continue to be the case. This impact is a non-adjusting post balance sheet event as the impact will be seen in future financial years.

The change in market conditions will impact on the valuation of Property, Plant and Equipment which will affect all single entity and group PPE. The impact in the change in the economic climate will also affect the Pension liability which depends on a number of complex judgements including the rate at which salaries are projected to increase and expected returns on pension fund assets.

6. Expenditure & Funding Analysis

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

2019/20				2020/21		
Restated Net Expenditure Chargeable to the General Fund £'000	**Restated Adjustments between the Funding and Accounting Basis £'000**	**Restated Net Expenditure in the Comprehensive Income & Expenditure Statement £'000**	**Service**	**Net Expenditure Chargeable to the General Fund £'000**	**Adjustments between the Funding and Accounting Basis £'000**	**Net Expenditure in the Comprehensive Income & Expenditure Statement £'000**
560	632	1,192	Chief Executive	697	1,113	1,810
6,434	3,933	10,367	Director of Commercial Services and Income Generation	6,215	5,212	11,428
2,662	4,722	7,384	Director of Service Delivery	4,250	12,145	16,395
2,427	1,985	4,412	Director of Strategy and Commissioning	3,165	1,056	4,221
4,274	1,599	5,873	Director of Support Services	878	3,141	4,018
16,357	**12,871**	**29,228**	**Net Cost of Services**	**15,204**	**22,667**	**37,872**
(21,234)	**303**	**(20,931)**	Other Income and Expenditure	**(30,501)**	**2,504**	**(27,999)**
(4,877)	**13,174**	**8,297**	**Surplus or Deficit**	**(15,297)**	**25,171**	**9,873**
22,100			Opening General Fund Balance	**26,977**		
0			Less deficit on General Fund	**0**		
4,877			Add Surplus on General Fund	**15,297**		
26,977			**Closing General Fund Balance at 31 March**	**42,275**		

Notes to the expenditure and funding analysis

Adjustments between Funding and Accounting Basis 2020/21

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
	£'000	**£'000**	**£'000**	**£'000**
Chief Executive	600	2	511	**1,113**
Director of Commercial Services and Income Generation	4,940	1,958	(1,686)	**5,212**
Director of Service Delivery	11,249	22	874	**12,145**
Director of Strategy and Commissioning	696	109	251	**1,056**
Director of Support Services	(1,073)	60	4,154	**3,141**
Net Cost of Services	**16,412**	**2,151**	**4,104**	**22,667**
Other income and expenditure from the Expenditure and Funding Analysis	**(6,795)**	**1,911**	**7,388**	**2,504**
Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**9,617**	**4,062**	**11,492**	**25,171**

Adjustments between Funding and Accounting Basis 2019/20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
	£'000	**£'000**	**£'000**	**£'000**
Chief Executive	537	4	91	**632**
Director of Commercial Services and Income Generation	7,174	29	(3,270)	**3,933**
Director of Service Delivery	3,931	34	757	**4,722**
Director of Strategy and Commissioning	1,944	8	33	**1,985**
Director of Support Services	(715)	17	2,297	**1,599**
Net Cost of Services	**12,871**	**92**	**(92)**	**12,871**
Other income and expenditure from the Expenditure and Funding Analysis	**(1,647)**	**2,251**	**(301)**	**303**
Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**11,224**	**2,343**	**(393)**	**13,174**

Note 1: Adjustments for Capital Purposes

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 and expenditure –** 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 and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note 2: Net change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS19 *Employee Benefits* pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the 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.

Note 3: Other Differences

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

Segmental Income

2019/20			2020/21	
Revenues from external customers	Grants & Contributions		Revenues from external customers	Grants & Contributions
£'000	£'000		£'000	£'000
6	75	Chief Executive	281	0
14,336	340	Director of Commercial Services and Income Generation	11,487	2,064
3,374	32,503	Director of Service Delivery	3,035	34,773
1,073	193	Director of Strategy and Commissioning	172	385
2,689	893	Director of Support Services	1,921	14,145
21,478	**34,004**	**Total income analysed on a segmental basis**	**16,896**	**51,367**

7. Expenditure and Income analysed by nature

2019/20		2020/21
£'000	**Expenditure/Income**	£'000
	Expenditure	
17,780	Employee benefits expenses	20,580
61,973	Other services expenses	72,939
5,316	Depreciation, amortisation, impairment	5,257
367	Interest Payments	(844)
5,472	Precepts and levies	5,879
2	Payments to housing capital receipts pool	2
0	Loss on the disposal of assets	14
90,910	**Total Expenditure**	**103,827**
	Income	
(18,522)	Fees, charges and other service income	(18,146)
(11)	(Gain) on the disposal of assets	0
(2,880)	Interest and investment income	(2,149)
(23,873)	Income from council tax and NDR	4,370
(37,327)	Government grants and contributions	(78,030)
(82,613)	**Total Income**	**(93,955)**
8,297	**Surplus or Deficit on the Provision of Services**	**9,872**

8. Contracts with Service Recipients

Included with income from fees and charges of £17.9m (£18.5m 2019/20) are the following amounts derived from contracts with service recipients as defined by IFRS 15.

Previous year 2019/20 £'000	Service	Current year 2020/21 £'000
(397)	Building Control	(337)
(1,514)	Planning	(1,436)
(2,012)	Car Park Income	(940)
(4,134)	Commercial Rent & Licences	(5,278)
(424)	Other Rents & Wayleaves	(468)
(407)	Careline	(406)
(326)	Licences	(260)
(938)	Waste	(934)
(312)	Land Charges	(439)
(2,336)	Theatre Venues	(112)
(12,801)	**Total Income from Contracts with Service Recipients**	**(10,610)**

The performance obligations relating to the key lines of income above are all fulfilled when payment is made except where the charge is for a monthly, quarterly or annual fee or licence where the obligation is discharged within the period.

There are no performance obligations unsatisfied at the balance sheet date.

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

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

Capital Grants Unapplied
The Capital Grants Unapplied Account 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.

Table on following page

2020/21	**Movement in Usable Reserves**			
	General Fund Balance	**Capital Receipts Reserves**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£’000	**£’000**	**£’000**	**£’000**
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation, amortisation and impairment of non-current assets	(2,792)	0	0	**(2,792)**
Revaluation losses on Property, Plant and Equipment	(2,465)	0	0	**(2,465)**
Capital grants and contributions applied	1,836	0	192	**2,028**
Capital grants and contributions unapplied	5,477	0	(5,477)	**0**
Revenue expenditure funded from capital under statute	(10,795)	0	0	**(10,795)**
Movement in market value of Investment Property	(2,510)	0	0	**(2,510)**
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	(155)	0	0	**(155)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	828	0	0	**828**
Capital expenditure charged against the capital fund	120	0	0	**120**
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure	841	(841)	0	**0**
Use of Capital Receipts Reserve to finance capital expenditure		2,026	0	**2,026**
Transfer from the Deferred Capital Receipts reserve to the Capital Receipts Reserve upon receipt of cash	0	(976)	0	**(976)**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(2)	2	0	**0**
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 47)	(7,799)	0	0	**(7,799)**
Employer’s pensions contributions and direct payments to pensioners payable in the year	3,736	0	0	**3,736**
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income and non-domestic rates credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non-domestic rates calculated for the year in accordance with statutory requirements	(11,456)	0	0	**(11,456)**

Adjustment involving the Accumulating Compensated Absences Adjustment Accounts:				
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	(36)	0	0	**(36)**
TOTAL ADJUSTMENTS	**(25,171)**	**211**	**(5,284)**	**(30,244)**

10. Other operating income and expenditure

Previous year **2019/20** **£'000**		**Current year** **2020/21** **£'000**
5,472	Parish council precepts and levies	5,879
2	Payments to the Government housing Capital Receipts Pool	2
5,474	**Total Other Operating Expenditure**	**5,881**
(851)	Easements and other Capital Receipts (note 11)	(700)
4,623	**Total Other Operating Income and Expenditure**	**5,181**

11. Easements and other capital receipts

The council received £682k in Right to Buy receipts (compared to £819k in 2019/20) and a further £18k in other capital receipts (£32k in 2019/20).

12. Net gain/loss on disposal of plant, property and equipment

The net loss on disposal of plant, property and equipment amounts to £14k (compared to a net gain of £11k in 2019/20)

13. Financing and investment income and expenditure

Previous year **2019/20** **£'000**		**Current year** **2020/21** **£'000**
367	Interest Payable and similar charges	966
2,251	Net interest on the net defined benefit liability	1,911
(263)	(Surplus)/Deficit on Trading Undertaking (note 38)	(211)
3,001	(Surplus)/Deficit on Investment Properties (note 17)	(2,107)
5,356	**Total Financing and Investment Expenditure**	**559**
(2,880)	Interest receivable and similar income	(3,959)
2,476	**Total Financing and Investment Income and Expenditure**	**(3,400)**

14. Taxation and non-specific grant income

Previous year		**Current year**
2019/20 **£'000**		**2020/21** **£'000**
(15,498)	Council tax income	(16,217)
(8,375)	Non domestic rates	(6,554)
(4,146)	Non ring-fenced government grants	(9,082)
(28,019)	**Total Taxation and Non Specific Grant Income**	**(31,853)**

15. Property, plant and equipment

Movement in 2020/21:

	Total Land & Buildings	**Vehicles, Plant & Equipment**	**Infra-structure Assets**	**Com-munity Assets**	**Surplus Assets**	**Total Property Plant & Equipment**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost or Valuation As at 1 April 2020	44,945	5,189	1,097	726	0	51,957
Additions	601	159	0	86	0	846
Disposals	(170)	(0)	0	0	0	(170)
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	4,933	(0)	0	0	0	4,932
Revaluation Increases/(decreases) recognised in the surplus/deficit on the provision of Services	(4,095)	(802)	0	0	0	(4,897)
Impairment (losses)/reversals recognised in the surplus/deficit on the provision of services	(130)	17	0	0	0	(113)
Reclassification - Other	(576)	0	0	0	0	(576)
As at 31 March 2021	**45,508**	**4,562**	**1,097**	**812**	**0**	**51,979**
Accumulated Depreciation						

As at 1 April 2020	(2,793)	(2,000)	(152)	0	0	(4,945)
Depreciation charge	(1,338)	(877)	(16)	0	0	(2,232)
Depreciation written out to the surplus/deficit on the Provision of Services	2,094	500	0	0	0	2,593
Derecognition – Disposals	15	0	0	0	0	15
Derecognition – Reclassification	5	0	0	0	0	5
As at 31 March 2021	**(2,017)**	**(2,378)**	**(168)**	**0**	**0**	**(4,563)**
Net Book Value						
At 31 March 2021	**43,490**	**2,184**	**929**	**812**	**0**	**47,416**
At 31 March 2020	**42,152**	**3,189**	**945**	**726**	**0**	**47,012**

Comparative movements in 2019/20:

	Total Land & Buildings £'000	**Vehicles, Plant & Equipment £'000**	**Infra-structure Assets £'000**	**Com-munity Assets £'000**	**Total Property Plant & Equipment £'000**
Cost or Valuation	51,467	4,496	1,097	698	**57,758**
As at 1 April 2019					
Additions	865	856	0	28	**1,749**
Disposals	0	(30)	0	0	**(30)**
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	(3,660)	(13)	0	0	**(3,673)**
Revaluation Increases/(decreases) recognised in the surplus/deficit on the provision of Services	(3,944)	(97)	0	0	**(4,041)**
Impairment (losses)/reversals recognised in the surplus/deficit on the provision of services	217	0	0	0	**217**
As at 31 March 2020	**44,945**	**5,212**	**1,097**	**726**	**51,980**
Accumulated Depreciation					
As at 1 April 2019	(2,687)	(1,189)	(136)	0	**(4,012)**
Depreciation charge	(1,283)	(877)	(16)	0	**(2,176)**
Depreciation written out to the surplus/deficit on the Provision of Services	1,177	13	0	0	**1,190**
Derecognition – Disposals	0	30	0	0	**30**
Derecognition – Reclassification	0	0	0	0	**0**
As at 31 March 2020	**(2,793)**	**(2,023)**	**(152)**	**0**	**(4,968)**
Net Book Value					
At 31 March 2020	**42,152**	**3,189**	**945**	**726**	**47,012**
At 31 March 2019	**48,779**	**3,307**	**961**	**698**	**53,746**

16. Property, Plant and Equipment valuation

All property, plant and equipment owned by South Somerset District Council have been valued on a five year rolling programme by SSDC’s internal valuers. This year the internal valuers were Robert Orrett; BSc MRICS, RICS Registered Valuer and Brendan Fisher; BA(Hons) MSc MRICS, RICS Registered Valuer – in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institute of Chartered Surveyors. Not all assets are inspected each year, as this is neither practicable nor considered by the valuer to be necessary for the purposes of the valuation. The basis of valuation is as set out in the Statement of Accounting Policies. The effective date of revaluation is 31st December 2020.

The council has been given assurance by the internal valuers that the carrying value of assets not revalued within year is not materially different to the fair value of the assets.

Please refer to note 4 for disclosure on the material uncertainty.

The following table shows the progress of the rolling programme:

	Land & Buildings £’000	Vehicles, Plant & Equipment £’000	Infrastructure Assets £’000	Community Assets £’000	Total £’000
Valued at historical cost	0	57	793	694	**1,544**
Valued at current value at:					
31st December 2016	3,872	490	136	32	**4,530**
31st December 2017	4,975	232	0	0	**5,207**
31st December 2018	2,736	48	0	0	**2,784**
31st December 2019	4,958	726	0	0	**5,684**
31st December 2020	26,949	639	0	86	**27,674**
Total	**43,490**	**2,192**	**929**	**812**	**47,423**

17. Investment Property

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

Previous year 2019/20 £’000		Current year 2020/21 £’000
(4,275)	Rental Income from Investment Property	(5,744)
1,852	Operating Expenses and Financing costs arising from Investment Property	1,127
5,424	Net gains / Losses from fair value adjustments	2,510
3,001	**As at 31 March 2021**	**(2,107)**

The following table summarises the movement in the fair value of Investment Property over the year:

Previous year **2019/20** **£'000**		**Current year** **2020/21** **£'000**
26,109	Balance as at 1 April	71,973
51,295	Additions	10,313
(5,424)	Net gains / (losses) from fair value adjustments	(2,510)
(7)	Disposals	0
	Transfers:	
0	(To)/from Property, Plant & Equipment	33
71,973	**As at 31 March 2021**	**79,809**

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

Previous year **2019/20** **£'000**	**Significant Unobservable Inputs (Level 2)**	**Current year** **2020/21** **£'000**
6,070	Commercial Building	7,250
5,220	Small Business Unit	4,465
12,265	Retail	10,158
25,600	Offices	24,742
22,310	Industrial	23,250
0	Leisure	2,550
198	Other	364
310	Historic	330
0	Alternative	6,700
71,973	**Investment Property**	**79,809**

The valuation technique applied in respect of all the Fair Value figures was the market approach, which is described in paragraphs 85 to 87 of IFRS 13. It uses prices paid and other relevant information generated by market transactions involving directly comparable (i.e. similar) assets.

The inputs to this technique constitute Level 2 inputs in each instance. Level 2 inputs are inputs that are observable for the asset, either directly or indirectly. The inputs used took the form of analysed and weighted market evidence such as sales, rentals, yields and costs in respect of comparable properties in the same or similar locations at or around the valuation date.

18. Assets Held for Sale

Previous year 2019/20 £'000		Current year 2020/21 £'000
0	Balance at the start of the year	0
0	Transfers to/from Property Plant and Equipment	490
0	**Balance at the end of the year**	**490**

19. Capital commitments

At the 31 March 2021, the council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2021/22 and future years budgeted to cost £4.161m. Similar commitments as at 31 March 2020 were £14.388m. The major commitments are:

- Chard Leisure Centre - £3.000m
- Westminster Street (Yeovil Refresh) - £0.831m
- Decarbonisation of buildings - £0.330m

20. Joint Venture

The council is part of a joint venture called Lufton 2000, with Abbey Manor Developments Ltd, to purchase and develop 30 acres of industrial land at Lufton. The initial contribution was £351k in 1999/2000. The draft unaudited accounts of the joint operation for the year ended 31 March 2021 disclose net assets of £1.298m and a net profit of £24k. SSDC and Abbey Manor Developments Ltd hold the shares joint each with a 50% interest.

SSDC Opium Power Ltd is now treated as a subsidiary.

31 March 2020 £'000		**31 March 2021 £'000**
638	Lufton 2000	650
638	**Investment in Joint Operations/Ventures**	**650**

31 March 2020 £'000		**31 March 2021 £'000**
638	Lufton 2000	650
638	**Useable Reserves – Share in Joint Operations/Ventures**	**650**

31 March 2020 £'000		**31 March 2021 £'000**
(30)	Lufton 2000	(12)
(30)	**Share of Other Income and Expenditure in Joint Operations/Ventures**	**(12)**

21. Heritage Assets

31 March 2020 £'000		**31 March 2021 £'000**
1,789	Balance at start of year	1,792
0	Additions	0
3	Revaluations/(Impairments)	0
1,792	**Total Heritage Assets**	**1,792**

22. Long term debtors

Debtors which fall due after a period of at least one year, consist of:

31 March 2020 £'000		31 March 2021 £'000
17,122	Loans	33,551
3	Mortgages	1
276	Rights to receipts – long term lease	270
16	Car/bike/learning loans	5
17,417	**Total Long Term Debtors**	**33,827**

The loans figures relate mainly to the commercial loans made to SSDC Opium Power Limited. The loans are asset backed and a valuation report in respect of the sites has been provided. Further information relating to long-term debtors is contained within Note 34 on Financial Instruments.

23. Inventories

2019/20				**2020/21**		
SSDC Consumables	**Property Acquired or constructed for sale**	**Total**		**SSDC Consumables**	**Property Acquired or constructed for sale**	**Total**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
133	3,684	**3,817**	Balance 1 April	120	4,472	**4,592**
9	788	**797**	Purchases	96	255	**351**
(22)	0	**(22)**	Expenses in year	(20)	0	**(20)**
120	**4,472**	**4,592**	**Balance 31 March**	**196**	**4,727**	**4,923**

24. Short term debtors

31 March 2020 £'000		31 March 2021 £'000
497	Central Government Bodies	14,732
363	Other Local Authorities	8,232
2	NHS Bodies	35

10,047	Other Entities and Individuals	10,289
10,909	**Total Short Term Debtors**	**33,288**

25. Cash and cash equivalents

Cash and cash equivalents are investments which are readily convertible (within 24 hours) and are subject to an insignificant risk of changes in value. The balance of Cash and cash equivalents is made up of the following elements:

31 March 2020 **£'000**		**31 March 2021** **£'000**
11	Cash held by the Authority	10
1,998	Short-term deposits with Business Reserve accounts and Money Market Funds	480
2,009	**Total Cash and Cash Equivalents**	**490**
0	Bank overdrafts	0
293	Bank Accounts	613
(1,048)	Cash held on behalf of others	(1,091)
1,254	**Net Cash and Cash Equivalents as per cashflow statement**	**12**

The cash held on behalf of others relates to funds held in respect the Dorcas House Trust (See note 49), Boden Mill and Chard Regeneration Scheme and the Yeovil Cemetery and Crematorium Burial Committee.

26. Short-term Borrowings

31 March 2020 **£'000**		**31 March 2021** **£'000**
(79,500)	Other Local Authorities	(98,000)
0	Other Entities and Individuals	0
(79,500)	**Total Short Term Borrowing**	**(98,000)**

27. Short-term creditors

31 March 2020 £'000		31 March 2021 £'000
(3,296)	Central Government Bodies	(15,766)
(1,856)	Other Local Authorities	(2,232)
(1)	NHS Bodies	0
(5,770)	Other Entities and Individuals	(13,151)
(10,923)	**Total Short Term Creditors**	**(31,149)**

28. Long term liabilities – creditors

31 March 2020 £'000		31 March 2021 £'000
(23)	Other Entities and Individuals	(33)
(23)	**Total Long term Liabilities - Creditors**	**(33)**

The long term liabilities – creditors relate to garden waste income for 2020/21 which was paid in advance.

29. Provisions

31 March 2020 £'000		31 March 2021 £'000
(792)	Business Rates Provisions for Appeals	(650)
(88)	MMI Provision	(88)
(880)	**Total Provisions**	**(738)**

The Business Rates Provision is reviewed each year to ensure it is adequate. It is used to offset any loss on business rates appeals and is replenished to ensure it mitigates our risk appropriately. During the year we have reduced the provision by £142k.

30. Developers contribution deferred

31 March 2020 £'000		31 March 2021 £'000
(3,679)	Balance at start of year	(4,092)
(851)	Additional Deposits	(969)
438	Applied Deposits	232
(4,092)	**Total Developers Contribution Deferred**	**(4,829)**

Deposits received from developers will be spent over the next few years as the individual schemes progress.

31. Usable Reserves

31 March 2020 £'000		31 March 2021 £'000
(5,100)	General Fund Balance	(4,047)
(21,877)	Earmarked Reserves	(38,228)
(18,433)	Capital Receipts Reserve	(18,222)
(2,501)	Capital Grants Unapplied	(7,785)
(638)	Authority's share of Joint Operation	(650)
(48,549)	**Total Usable Reserves**	**(68,932)**

Capital Receipts Reserve

31 March 2020 £'000		31 March 2021 £'000
(22,798)	Balance of Usable Receipts at 1 April	(18,433)
(1,105)	Receipts from Sale of Assets	(1,817)
5,468	Receipts applied to finance Capital Expenditure	2,026
2	Amount payable to the housing capital receipt pool	2
(18,433)	**Total Capital Receipts Reserve**	**(18,222)**

The capital receipts reserve holds the proceeds from the sale of capital assets and is used for financing capital expenditure.

Capital Grants Unapplied

31 March 2020 £'000		31 March 2021 £'000
(1,694)	Balance at start of year	(2,501)
(988)	Additional Capital Grants recognised through the Comprehensive Income and Expenditure Statement	(5,477)
181	Applied Deposits	192
(2,501)	**Total Capital Grants Unapplied**	**(7,785)**

The capital grants unapplied reserve holds any capital grant received but not yet spent.

Transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2020/21. All earmarked reserves are revenue balances.

	Balance as at 31 March 2019 £'000	Trans-fers in 2019/20 £'000	Trans-fers out 2019/20 £'000	**Balance as at 31 March 2020 £'000**	Trans-fers in 2020/21 £'000	Trans-fers out 2010/21 £'000	**Balance as at 31 March 2021 £'000**
Capital Fund	**(1,277)**	(199)	550	**(926)**	(359)	356	**(929)**
Cremator Replacement Reserve	**(549)**	0	0	**(549)**	0	0	**(549)**
Internal Borrowing Repayments	**(118)**	(91)	0	**(209)**	(112)	0	**(321)**
Elections Reserve	**(230)**	(40)	96	**(174)**	(40)	0	**(214)**
Sports Facilities Reserve	**(31)**	(10)	0	**(41)**	(10)	0	**(51)**
Local Plan Inquiry Reserve	**0**	0	0	**0**	0	0	**0**
Yeovil Athletics Track Repairs	**(167)**	(19)	7	**(179)**	(19)	0	**(198)**
Planning Delivery Reserve	**(16)**	0	0	**(16)**	0	0	**(16)**
Bristol to Weymouth Rail Reserve	**(28)**	(48)	0	**(76)**	0	4	**(72)**
Local Authority Business Growth	**0**	0	0	**0**	0	0	**0**
Yeovil Refresh Reserve	**(112)**	0	0	**(112)**	0	0	**(112)**
IT Replacement Reserve	**(10)**	0	0	**(10)**	0	0	**(10)**
Insurance Fund	**(50)**	0	0	**(50)**	0	0	**(50)**
Transformation Fund	**(229)**	(179)	269	**(139)**	0	48	**(91)**
Treasury Management Reserve	**(150)**	(450)	0	**(600)**	(150)	0	**(750)**
Local Plan Implementation Fund	**0**	0	0	**0**	0	0	**0**
Revenue Grant Reserve	**(504)**	(35)	83	**(456)**	(76)	6	**(525)**
MTFP Support Fund	**(5,019)**	(1,000)	2,743	**(3,276)**	(1,603)	0	**(4,879)**
CTAX/Housing Benefits Reserve	**(822)**	(172)	290	**(704)**	(895)	308	**(1,291)**
Closed Churchyards Reserve	**(11)**	(12)	8	**(15)**	(4)	0	**(19)**
Health Inequalities	**(32)**	0	0	**(32)**	0	0	**(32)**
Deposit Guarantee Claims Reserve	**(4)**	0	1	**(3)**	(9)	0	**(12)**
Park Homes Replacement Reserve	**(226)**	(30)	0	**(256)**	(30)	0	**(286)**
Planning Obligations Admin Reserve	**(30)**	0	0	**(30)**	0	0	**(30)**
Local Strategic Partnership Reserve	**0**	0	0	**0**	0	0	**0**

Artificial Grass Pitch Reserve	**(128)**	(22)	4	**(146)**	(16)	0	**(162)**
Business Support Scheme (flooding)	**(122)**	0	11	**(111)**	0	10	**(101)**
Regeneration Fund	**(2,094)**	(1,482)	311	**(3,265)**	(64)	332	**(2,997)**
NNDR Volatility Reserve	**(3,955)**	(1,241)	2,500	**(2,696)**	(1,900)	4	**(4,592)**
Ticket Levy Income	**(64)**	(158)	136	**(86)**	(135)	101	**(120)**
Waste Reserve	**(294)**	0	194	**(100)**	0	0	**(100)**
Community Housing Fund	**(211)**	0	0	**(211)**	0	41	**(170)**
Community Safety Reserve	**(79)**	(20)	31	**(68)**	0	25	**(43)**
Housing and Homelessness Reserve	**(458)**	(321)	377	**(402)**	(434)	395	**(441)**
Commercial Investment Reserve	**(132)**	(6,168)	0	**(6,300)**	(306)	0	**(6,606)**
Spatial Policy Reserve	**(334)**	(63)	92	**(305)**	(48)	95	**(258)**
YIC Maintenance Reserve	**(20)**	(20)	0	**(40)**	0	0	**(40)**
Climate Change Fund	**0**	(350)	56	**(294)**	(2)	129	**(167)**
Community Initiatives Reserve	**0**	0	0	**0**	(524)	361	**(163)**
Local Government Change	**0**	0	0	**0**	(420)	420	**0**
Community Resilence Reserve	**0**	0	0	**0**	(126)	0	**(126)**
NNDR S31 Coll. Fund 2020/21	**0**	0	0	**0**	(11,704)	0	**(11,704)**
Total Reserves	**(17,506)**	**(12,130)**	**7,759**	**(21,877)**	**(18,986)**	**2,635**	**(38,228)**

32. Unusable reserves

31 March 2020 **£'000**		**31 March 2021** **£'000**
(17,832)	Revaluation Reserve	(22,119)
2,779	Pooled Fund Adjustment Account	662
(26,736)	Capital Adjustment Account	(12,696)
(281)	Deferred Capital Receipts	(276)
79,934	Pensions Reserve	101,031
(1,558)	Collection Fund Adjustment Account	9,898
367	Accumulating Compensated Absences Adjustment Account	403
36,673	**Total Unusable Reserves**	**76,903**

Revaluation Reserve

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

31 March 2020 £'000		31 March 2021 £'000
(21,981)	Balance at start of year	(17,832)
(2,153)	Revaluation gains on non-current assets	(6,122)
5,823	Downward revaluation on non-current assets	1,190
0	Disposals of non-current assets	0
479	Current value depreciation transferred to Capital Adjustment Account	646
(17,832)	**Total Revaluation Reserve**	**(22,119)**

Pooled Fund Adjustment Account

This is the adjustment account to manage the fair value process for Pooled Fund Financial Assets.

31 March 2020 £'000		31 March 2021 £'000
(429)	Balance at start of year	2,779
0	Reclassification of financial instruments	0
0	Loss on de-recognition /maturity	0
3,208	Revaluation losses on pooled fund adjustment account	(2,117)
2,779	**Total Pooled Fund Adjustment Account**	**662**

The change to IFRS9 means that pooled funds are accounted for at fair value through profit and loss with the changes in fair value being taken to the Comprehensive Income and Expenditure statement.

Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	31 March 2020			31 March 2021
£'000	£'000		£'000	£'000
	(33,915)	**Balance at start of year**		**(26,735)**
(5,468)		Capital Expenditure financed from Capital Receipts	(2,026)	
(479)		Current value depreciation transferred from Revaluation Reserve	(646)	
(520)		Minimum Revenue Provision	(828)	
(551)		Revenue Contribution to capital	(120)	
(1,331)		Capital Grants and Contributions Applied	(2,028)	
	(8,349)			**(5,649)**
		Less:		
4,553		Write down of Revenue Expenditure funded from Capital under Statute	10,795	
7		Carrying amount of assets disposed	155	
2,682		Depreciation	2,792	
2,633		Impairment	2,465	
5,424		Movement in market value of Investment Property	2,510	
230		Repayment of Capital Loans	971	
	15,529			**19,688**
	(26,735)	**Total Capital Adjustment Accounts**		**(12,696)**

Deferred Credits Account

31 March 2020 £'000		31 March 2021 £'000
(286)	Balance at start of year	(281)
2	Repayment of mortgages on sale of Council Houses	2
3	Right to Receipts – St Johns Ambulance	3
(281)	**Total Deferred Credits**	**(276)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2020 £'000		31 March 2021 £'000
76,596	Balance at start of year	79,934
995	Re-measurement of the net defined benefit liability	17,034
6,228	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provisions of Services in the Comprehensive Income and Expenditure Statement	7,799
(3,885)	Employer's pensions contributions and direct payments to pensioners payable in year	(3,736)
79,934	**Total Pensions Reserve**	**101,031**

Collection Fund Adjustment Account

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

31 March 2020 **£'000**		**31 March 2021** **£'000**
(1,043)	Balance at start of year	(1,558)
24	Collection Fund Adjustment in year for Council Tax	93
(539)	Collection Fund Adjustment in year for non-domestic rates	11,363
(1,558)	**Total Collection Fund Adjustment Account**	**9,898**

Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March 2021. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfer to or from the Account.

31 March 2020			**31 March 2021**	
£'000	**£'000**		**£'000**	**£'000**
	245	**Balance at start of year**		**367**
(245)		Settlement or cancellation of accrual made at the end of preceding year	(367)	
367		Amounts accrued at the end of the current year	403	
	122	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		36
	367	**Total Accumulating Compensated Absences Adjustment Account**		**403**

33. Financial Instruments

The Authority's accounting policies relating to financial instruments are in accordance with the 2020/21 Code of Practice on Local Authority Accounting.

Financial Instruments Balances

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

31 March 2020		Financial Liabilities	31 March 2021	
Long Term £'000	**Current £'000**		**Long Term £'000**	**Current £'000**
		Loans at amortised cost:		
	79,500	Principal sum borrowed		98,000
	134	Accrued interest		283
0	**79,634**	**Total Borrowing**	**0**	**98,283**
		Liabilities at amortised cost:		
23	2,449	Trade payables	33	4,198
20	31	Finance Lease	5	15
43	**2,480**	**Included in Creditors**	**38**	**4,213**
43	**82,114**	**Total Financial Liabilities at amortised cost**	**38**	**102,496**

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

31 March 2020			31 March 2021	
Long Term £’000	**Current £’000**	**Financial Assets**	**Long Term £’000**	**Current £’000**
		At amortised cost		
	8,000	Principal		0
	5	Accrued Interest		0
		Loss Allowance		
		At fair value through profit & loss		
2,105	20,471	Fair value	0	24,899
2,105	**28,476**	**Total Investments**	**0**	**24,899**
		At amortised cost		
	2,000	Principal		480
		Accrued Interest		
	(2)	Loss Allowance		0
		At fair value through profit & loss		
		Fair value		
0	**1,998**	**Total Cash and Cash Equivalents**	**0**	**480**
		At amortised cost		
	3,024	Trade receivables		3,018
17,417	1,250	Loans and Receivables	33,827	2,545
17,417	**4,274**	**Included in Debtors**	**33,827**	**5,562**
19,522	**34,748**	**Total Financial Assets**	**33,827**	**30,941**

Financial Instruments Gains/Losses

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

31 March 2020					31 March 2021			
Financial Liabilities Amortised Cost	Financial Assets				Financial Liabilities Amortised Cost	Financial Assets		
	Amortised Cost	Fair Value through Profit & Loss	Total	Financial Assets		Amortised Cost	Fair Value through Profit & Loss	Total
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
1,351			1,351	Interest expense	2,776			2,776
				Losses on derecognition				
				Losses from change in fair value			0	0
1,351		**0**	**1,351**	**Interest payable and similar charges**	**2,776**			**2,776**
	(1,687)	(1,195)	(2,882)	Interest income		(2,966)	(996)	(3,962)
				Gains on derecognition			0	0
		(25)	(25)	Gains from change in fair value			(5)	(5)
	(1,687)	**(1,220)**	**(2,907)**	**Interest & Investment Income**		**(2,966)**	**(1,001)**	**(3,966)**
1,351	**(1,687)**	**(1,220)**	**(1,556)**	**Net impact on (surplus)/deficit on provision of services**	**2,776**	**(2,966)**	**(1,001)**	**(1,190)**
		3,208	3,208	(Gain)/Losses on revaluation			2,117	2,117
1,351	**(1,687)**	**1,988**	**1,652**	**Net (Gain)/Loss for the year**	**2,776**	**(2,966)**	**1,116**	**926**

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.

The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31st March 2021 using the following methods and assumptions:

- Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial Liabilities

31 March 2020				31 March 2021	
Carrying Amount £’000	**Fair Value £’000**	**Financial Liabilities**	**Fair Value Level**	**Carrying Amount £’000**	**Fair Value £’000**
		Financial Liabilities held at Amortised Cost			
		Long Terms Loans from PWLB			
79,500	79,851	Other Long Term Loans	2	98,000	98,317
51	51	Finance Lease		20	20
	79,902	**Total**			**98,337**
2,472		Liabilities for which fair value is not disclosed	*	4,231	
82,023		**Total Financial Liabilities**		**102,251**	
		Recorded on Balance Sheet as:			
2,449		Short Term Creditors		4,198	
79,531		Short Term Borrowing		98,015	
23		Long Term Creditors		33	
20		Long Term Borrowing		5	
82,023				**102,251**	

* 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 loans includes loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

Financial Assets

31 March 2020		Financial Assets	Fair Value Level	31 March 2021	
Carrying Amount £’000	**Fair Value £’000**			**Carrying Amount £’000**	**Fair Value £’000**
		Financial Assets held at Fair Value			
		Money Market Funds	1		
22,577	22,577	Bond, Equity and Property Funds	1	24,899	24,899
		Covered Bonds & Floating Rate Notes	1		
		Financial Assets held at Amortised Cost			
1,254	1,254	Bank Accounts		12	12
8,005	8,005	Term Deposits		0	0
18,358	18,358	Loans made for Service Purposes	2	36,082	36,082
50,194	**50,194**	**Total**		**60,993**	**60,993**
2,097		Assets for which fair value is not disclosed		3,307	
52,291		**Total Financial Assets**		**64,299**	
		Recorded on Balance Sheet as:			
2,105		Long Term Investments		0	
17,417		Long Term Debtors		33,827	
8,005		Short Term Investments		0	
3,038		Short Term Debtors		5,562	
21,726		Cash & Cash Equivalents		24,910	
52,291				**64,299**	

Financial assets classified as loans and receivables 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 2021. 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.

Financial Instruments – Risk

The council has adopted CIPFA’s code of practice on Treasury Management and complies with the Prudential Code for Capital Finance in Local Authorities.

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 on Local Government Investments. This guidance emphasizes that priority is to be given to security and liquidity rather than yield. The council’s

Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The council’s activities expose it to a variety of financial risks:

- Credit risk – the possibility that one party to a financial asset will fail to meet its contractual obligations causing a loss to the council.
- Liquidity risk – the possibility that the council might not have the cash available to make contracted payments on time.
- Market risk – the possibility that an unplanned financial loss will materialize because of changes in market variables such as interest rates or equity prices.

Credit Risk: Investments

The council manages credit risk by ensuring that investments are only 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-, the UK government, other local authorities, and organisations without credit ratings upon which the council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the council has regard to other measures including credit default swaps and equity prices when selecting commercial entities for investment.

The council’s maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council’s deposits, but there was no evidence as the 31 March 2021 that this was likely to crystallise.

The Table below summarises the credit risk exposures of the council’s investment portfolio by credit rating.

Credit Rating	Long Term		Short Term	
	31/03/2021	31/03/2020	31/03/2021	31/03/2020
	£’000	£’000	£,000	£,000
AAA	0	2,000	2,000	0
AA-	0	0	480	2,000
Unrated Local Authorities	0	0	0	8,000
Unrated Pooled Funds	0	0	23,500	23,250
Total Investments (nominal amount)	**0**	**2,000**	**25,980**	**33,250**

Liquidity Risk

South Somerset District Council ensures it has adequate, though not excessive, cash resources and borrowing arrangements to ensure it has the level of funds available to enable the achievement of its business/service objectives.

The council has ready access to the money markets for short-term debt to cover revenue expenditure and to the money markets and PWLB for longer-term borrowing. 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 council’s current borrowing matures throughout 2021/22 there will be a need to replace this borrowing. There will be an additional borrowing requirement going forward, the council ensure that borrowing costs are kept to a minimum and seek advice from its Treasury Management advisors to ensure this is achieved.

Market risk – 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 authority. For instance, a rise in interest rate would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise
- Investments at fixed rates – the fair value of the liabilities borrowings will fall

Investments classed at “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 and Deficit on the Provision of Services. Movement in 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.

According to this assessment strategy, at 31 March 2021, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

31 March 2020 £’000		31 March 2021 £’000
497	Increase in interest payable on variable rate borrowings	769
(254)	Increase in interest receivable on variable rate investments	(33)
243	**Impact on Surplus or Deficit on the Provision of Services**	**736**
0	Decrease in fair value of fixed rate borrowings	0
0	Decrease in fair value of fixed rate investments	0

Market Risk – Price risk

The market prices of the council’s fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The council’s investment in a pooled property fund and pooled equity funds are subject to the risk of falling commercial property prices or falling share prices. This risk is limited by the council’s maximum exposure to pooled funds of £10m nominal value per fund. A 5% fall in commercial property prices or share prices would result in a £640k charge to Other Comprehensive Income and Expenditure – this would have no impact on the General Fund until the investments were sold.

Market risk – Foreign exchange risk

The council has not financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates. The Eurobonds held by the council are denominated in Pound Sterling.

34. Cash Flow Statement – Operating activities

The cash flows for operating activities include the following items:

Previous Year 2019/20 £'000		Current Year 2020/21 £'000
2,258	Interest received	1,289
(243)	Interest paid	(811)
2,015	**Net Cash Flows from Operating Activities relating to interest**	**478**

Previous Year 2019/20 £'000		Current Year 2020/21 £'000
2,683	Depreciation and amortisation	2,792
2,633	Impairment and downward valuations	2,465
5,431	Movement in market value of investment property	2,510
1,653	Increase/(decrease) in creditors	20,236
(1,401)	(Increase)/decrease in debtors	(22,334)
(774)	(Increase)/decrease in inventories	(331)
413	Increase/(decrease) in developer contributions	7
(522)	Increase/(decrease) in provisions	589
2,343	Movement in pension liability	4,063
0	Carrying amounts of non-current assets and non-current assets held for sale, sold or derecognized	155
12,459	**Total Adjustments for Non-Cash Movements**	**10,151**

Previous Year 2019/20 £'000		Current Year 2020/21 £'000
(1,106)	Proceeds from the sale of property, plant and equipment and intangible assets	(1,817)
(1,106)	**Total Adjustments for Investing and Financing Activities**	**(1,817)**

35. Cash Flow Statement – Investing activities

Previous Year 2019/20 £'000		Current Year 2020/21 £'000
(53,360)	Purchase of property, plant and equipment, investment property and intangible assets	(11,346)
(175,234)	Purchase of short-term and long-term investments	(1,750)
(7,594)	Other payments for investing activities	(16,495)
1,106	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,817
172,265	Proceeds from sale of short-term and long-term investments	9,500
1,255	Other receipts from investing activities	85
(61,562)	**Net Cash Flows from Investing Activities**	**(18,188)**

36. Cash Flow Statement – Financing activities

Previous Year 2019/20 £'000		Current Year 2020/21 £'000
60,000	Cash receipts of short-term borrowing	18,500
(31)	Cash payments for the reduction of the outstanding liabilities relating to finance leases	(15)
59,969	**Net Cash Flows from Financing Activities**	**18,485**

37. Trading operations

Careline South Somerset remains a trading operation. It is an emergency response system for people who need reassurance that help is at hand at the push of a button 24 hours a day, 365 days a year.

The MOT Station is operated by the Streetscene service.

Previous Year		Current Year		
2019/20 (Surplus)/Deficit £'000		2020/21 Expenditure £'000	2020/21 Income £'000	2020/21 (Surplus) /Deficit £'000
(296)	Careline	181	(408)	(227)
33	MOT Station	86	(70)	16
(263)	**Total Trading Accounts**	**267**	**(478)**	**(211)**

38. Members' Allowances

Previous Year 2019/20 £'000		Current Year 2020/21 £'000
404	Basic Allowance	416
111	Special Responsibility Allowance	124
16	Expenses	1
531	**Total Members Allowance**	**541**

Further information on Members' allowances is available on our website and may also be obtained from the People Management Team.

39. Officers’ Remuneration

During the 2020/21 financial year the number of officers who received remuneration, which includes salary, leased car and termination payments, in excess of £50k were as follows:

2019/20		Remuneration Band	2020/21		
Total	Left during year		Total	Left during year	Compensation for Loss of Office
8		£50,000 - £54,999	11	1	1
14		£55,000 - £59,999	14	2	2
6	1	£60,000 - £64,999	9	1	1
4		£65,000 - £69,999	4	1	1
		£70,000 - £74,999	4	2	1
3		£75,000 - £79,999	2		
		£80,000 - £84,999	2	1	1
		£85,000 - £89,999	2		
		£100,000 - £104,999	1		
		£105,000 - £109,999	1		1
3		£110,000 - £114,999	2	1	
1		£150,000 - £154,999	1		

The total column includes those Officer’s that have left during the financial year, left during year column shows the number within that total who ceased their employment with the Council during 2020/21 with those receiving compensation upon leaving indicated in the column to the right.

Senior Officers

A senior officer is an employee whose salary is more than £150k per year, or one whose salary is at least £50k (to be calculated pro rata for a part-time employee) and who are either the designated Head of Paid Services, a statutory officer and any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body.

Senior employees are typically an authority’s Chief Executive (or equivalent), officers that report direct to them (other than administration staff), and statutory chief officers. For South Somerset District Council, the senior employees are the Directors Officers with statutory roles.

Senior Officers' Emoluments

Current year 2020/21	Name of officer	Post Term	Salary (including Fees & Allowances)	Benefits in kind	Compen-sation for loss of office	Total Remuneration (excl. pension contribution)	Pension Contribution	Total Remuneration (incl. pension contribution)
Post Title			**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Chief Finance Officer	K Watling	15 March 20' - 31 March '21	9	0	0	**9**	0	**9**

Previous year 2019/20	Name of officer	Post Term	Salary (including Fees & Allowances)	Benefits in kind	Compen-sation for loss of office	Total Remuneration (excl. pension contribution)	Pension Contribution	Total Remuneration (incl. pension contribution)
Post Title			**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
			0	0	0	**0**	0	**0**

Current year 2020/21	Post Term	Salary (including Fees & Allowances)	Benefits in kind	Compen-sation for loss of office	Total Remuneration (excl. pension contribution)	Pension Contribution	Total Remuneration (incl. pension contribution)
Post Title		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Chief Executive Officer	April '20 - March '21	119	0	0	**119**	21	**140**
Director - Place	April '20 - March '21	84	0	0	**84**	15	**99**
Director - Service Delivery	April '20 - March '21	86	0	0	**86**	15	**101**
Director - Service Delivery	Feb '21 - March '21	9	0	0	**9**	2	**10**
Director - Strategy & Commissioning	April '20 - Feb '21	37	0	0	**37**	6	**43**
Director - Commercial Services & Income Generation	April '20 - March '21	88	0	0	**88**	16	**104**
Director - Strategy & Support Services	Feb '21 - March '21	8	0	0	**8**	1	**10**
Director - Support Services	April '20 - Feb '21	35	0	0	**35**	6	**41**
Lead Specialist Legal/Monitoring Officer	April '20 - Nov '20	31	0	0	**31**	5	**36**
Lead Specialist Legal/Monitoring Officer	Feb '21 - March '21	11	0	0	**11**	2	**14**
S151 Officer	April '20 - March '21	55	0	0	**55**	10	**65**

On the 15th March a new Interim S151 Officer, K Watling CPFA started at the council, on a 6 Month contract, the total cost for 2020/21 being £9k.

During 2020/21, the council's Monitoring Officer was employed by Eastleigh Borough Council (EBC) and SSDC paid EBC for their services, the total cost being £39,415.

Previous year 2019/20 Post Title	**Post Term**	**Salary (including Fees & Allowances) £'000**	**Benefits in kind £'000**	**Compen-sation for loss of office £'000**	**Total Remuneration (excl. pension contribution) £'000**	**Pension Contribution £'000**	**Total Remuneration (incl. pension contribution) £'000**
Chief Executive Officer	April '19 - March '20	115	2	0	**117**	18	**135**
Director (Strategy and Support Services)	April '19 - March '20	86	0	0	**86**	14	**100**
Director (Service Delivery)	April '19 - March '20	87	0	0	**87**	14	**101**
Director (Commercial Services & Income Generation	April '19 - March '20	86	0	0	**86**	14	**100**
Lead Specialist Legal/Monitoring Officer	April '19 - March '20	47	0	0	**47**	8	**55**
Lead Specialist Finance/S151 Officer	April '19 - March '20	52	0	0	**52**	8	**60**

Exit Packages

The total cost of £462k for 2020/21 (£9.83k for 2019/20) has been charged to the authority's Comprehensive Income and Expenditure Statement in the current year.

Exit Package Costs Band (including special payments)	Number of Compulsory Redundancies		Number of Voluntary/Efficiency of service		Total Number of Exit Packages		Total Cost of Exit Packages	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20 £'000	2020/21 £'000
£0 - £20,000	0	1	2	0	2	1	10	3
£20,001 - £40,000	0	6	0	0	0	6	0	189
£40,001 - £60,000	0	1	0	0	0	1	0	44
£60,001 - £80,000	0	2	0	0	0	2	0	123
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	1	0	1	0	103
TOTAL	**0**	**10**	**2**	**1**	**2**	**11**	**10**	**462**

40. Audit Costs

In 2020/21 the council incurred the following fees relating to external audit and inspection:

Previous Year 2019/20 £’000		**Current Year 2020/21 £’000**
45	Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor	67
14	Fees payable to Grant Thornton UK LLP for the certification of grant claims and returns	23
59	**Total Audit Costs**	**90**

41. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive income and Expenditure Statement in 2020/201

Previous Year 2019/20 £’000		**Current Year 2020/21 £’000**
2,138	Capital Grants	7,313
2,008	New Homes Bonus	1,603
0	Revenue Support Grant (UK Government)	0
0	Other non-specific Government Grant	166.284
4,146	**Total Grants credited to taxation and Non-Specific Grant income and Expenditure**	**9,082**
2,752	Business Rates Tax loss reimbursement	27,383
224	Cost of Collection – Business Rates	224
29,602	Housing Benefits	28,676
0	COVID related grants	8,153
388	Homelessness Grants	644
215	Miscellaneous Grants	4,720
33,181	**Total Grants credited to services**	**69,801**
37,327	**Total Grants**	**78,883**

Several additional grants were received from Government as part of their response to the Covid-19 Pandemic. Where the Council was deemed to be acting in the capacity of an agent and so passing these funds on to the eventual beneficiaries, these transactions do not have an impact on the Statement of Accounts. The value of these grants was £8,153m.

42. Related Party Transactions

The council is required to disclose any significant transactions with related parties.

Precepts from Other Local Authorities are detailed in Note 1 to the Collection Fund and receipts received from the UK Central Government (which exerts significant influence through legislation and grant funding) are detailed above in Note 42 to the Core Financial Statements.

Transactions to and from the Pension Fund are detailed in Note 47 to the Core Financial Statements.

The council makes significant contributions to the organisations listed below. Councillors have either been nominated to represent SSDC on their management boards or have declared a position of general control or influence in the organisation.

Organisation	**SSDC Contribution in 2020/21**		**SSDC Councillor**
Ham Hill Community Land Trust	41	Community led housing fund	Cllr G Tucker
Parrett Drainage Board	68	As a special levy	Cllr M Stanton Cllr G Tucker
Dorset Healthcare	23	Civil injunction preparatory work	Cllr A Soughton
Eagle Plant	14	Hire of equipment	Cllr T O'Brien
Preston Grove Medical Centre	28	Medical References	Cllr O Patrick
South West Councils	12	Subscriptions & Training	Cllr V Keitch
Crewkerne Leisure Management Ltd	14	National Leisure Recovery Fund	Cllr M Best
UNISON	16	Employee subscriptions	Cllr D Bulmer
Westfield Community Association	19	Park grant	Cllr J Clark

South Somerset District Council is a member of the South West Audit Partnership which is a company limited by guarantee and is wholly owned and controlled, as an in-house company, by the members and is a Local Authority Controlled Company for the purposed of Part V of the Local Government and Housing Act 1989. The liability of each member is limited to £1, being the amount that each member undertakes to contribute to the assets of the Company in the event of it being wound up while the Authority is a member or within one year after the Authority ceases to be a member. South West Audit Partnership provides internal audit services.

The council has made loans to SSDC Opium Power Limited, which is a partly owned subsidiary. The value of the loans to SSDC Opium Power Limited as at 31st March 2021 is £31.552m

43. Capital expenditure and financing

	Previous Year 2019/20			Current Year 2020/21
£’000	£’000		£’000	£’000
	39,361	**Opening Capital financing Requirement**		**96,973**
		Capital Expenditure		
310		Intangible Non-Current Assets	187	
52,260		Non-Current Assets	10,701	
785		Assets under Construction	458	
7,574		Long Term Debtors	20,036	
4,553		Revenue Expenditure funded from Capital under Statute	10,795	
	65,482			**42,177**
		Sources of Finance		
(5,468)		Use of Capital Receipts	(2,026)	
(1,331)		Government Grants & Other Contributions	(1,792)	
(551)		Capital expenditure charged against the capital fund	(356)	
(520)		Minimum Revenue Provisions	(828)	
	(7,870)			**(5,003)**
	96,973	**Closing Capital Financing Requirement**		**134,148**

44. Leases

Authority as Lessee

Finance Leases

The council has acquired a number of vehicles and printers under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2020 £’000		31 March 2021 £’000
48	Vehicles, Plant, Furniture and Equipment	19
48	**Total Carrying Amount of Leases**	**19**

The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the council and finance costs that will be payable by the council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2020 £’000		31 March 2021 £’000
51	Finance lease liabilities (net present value of minimum lease payments)	20
2	Finance Cost Payable in future years	1
53		**21**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		**Finance Lease Liabilities**	
	31 March 2020	**31 March 2021**	**31 March 2020**	**31 March 2021**
	£’000	**£’000**	**£’000**	**£’000**
Not later than one year	32	16	31	15
Later than one year and not later than five years	21	5	20	5
Total Finance Lease Payments	**53**	**21**	**51**	**20**

Operating Leases

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2020		**£’000**		**31 March 2021**		**£’000**
Vehicles, Plant & Equipment	Property	**Total**		Vehicles, Plant & Equipment	Property	**Total**
75	24	**99**	Not later than one year	54	23	**77**
75	93	**168**	Later than one year and not later than five years	21	91	**112**
0	849	**849**	Later than five years		825	**825**
150	**966**	**1,116**	**Total Operating Lease Payments**	**75**	**939**	**1,014**

The expenditure charged to services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

Previous Year **2019/20** **£’000**		**Current Year** **2020/21** **£’000**
	Minimum lease payments	
75	• Vehicles, Plant and Equipment	54
34	• Property	23
109	**Total Operating Lease Payments Charge to the Comprehensive Income and Expenditure Statement**	**77**

<u>Authority as Lessor</u>

Operating Leases

The council leases out property and equipment under operating leases for economic development purposes to provide suitable affordable accommodation for local businesses. The council has granted leases in respect of a number of properties (principally commercial premises and business units) which are treated as operating leases.

The future minimum lease payments receivable under non-cancellable leases in future years can be broken down as follows:

31 March 2020 £'000		31 March 2021 £'000
5,506	No later than one year	6,355
15,324	Later than one year and not later than five years	17,205
15,385	Later than five years	22,284
36,215	**Total future lease payments receivable**	**45,844**

45. Impairment Losses

During 2020/21, the Authority recognised a net impairment loss of £7.770m (£14.456m in 2019/20). This was made up of £8.069m reduction in value and £0.299m of reversing previous impairment losses.

The impairment losses of £7.188m have been charged to various service lines on the Comprehensive Income and Expenditure Statement and downward revaluations of £0.582m have been charged to the Revaluation Reserve.

46. Defined benefit pension schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments at the time that employees earn their future entitlement.

South Somerset District Council participates in the Local Government Pension Scheme (LGPS) for employees, administered by Somerset County Council – this is a funded defined benefit scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The benefits accrued up to 31 March 2021 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014 and any benefit accrued from this date will be based on career average revalued salary.

Transactions Relating to Post-Employment Benefits

The council recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund Balance via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Previous Year 2019/20			**Current Year 2020/21**	
£'000	**£'000**		**£'000**	**£'000**
		Comprehensive Income and Expenditure Statement		
		Cost of Services:		
3,902		• Current service costs	5,337	
		• Service costs	500	
454		• Past service and curtailment costs	47	
75		• Administration Expenses	51	
	4,431			5,935
		Financing and Investment Income and Expenditure		
4,275		• Interest Cost	3,489	
(2,478)		• Return on Assets	(1,625)	
	1,797			1,864
	6,228	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**		**7,799**
£'000	**£'000**		**£'000**	**£'000**
		Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement		
		Remeasurement of the net defined benefit liability comprising:		
9,997		Return on plan fund assets in excess of interest	(24,806)	
(16,402)		Change in financial assumptions	46,152	
1,070		Change in demographic assumptions	(1,936)	
6,330		Experience (gain)/losses on defined benefit obligation	(2,376)	
		Other actuarial (gains)/losses on assets		
	995	**Total remeasurement of net defined benefit liability**		**17,034**
	7,223	**Total post employment benefit charged to the Comprehensive Income and Expenditure Statement**		**24,833**
		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		
		Actual amount charged against the General Fund Balance for pensions in the year:		

(3,677) (208)		- Employer's contributions payable to scheme - Retirement benefits payable to pensioners	(3,536) (200)	
	(3,885)			**(3,736)**

The change in financial assumptions reflects a decrease in the discount rate from 2.35% to 2.00%. The discount rate is based on corporate bond yields that match the duration of the employer's liabilities. Although the yields have been volatile they have decreased overall which indicates an increase in liabilities.

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March 2021 are as follows:

Reconciliation of the Present Value of Scheme Liabilities and Fair Value of Scheme Assets to the Liabilities and Assets on the Balance Sheet

Previous Year 2019/20 £'000		**Current Year 2020/21 £'000**
172,060	Present Value of Funded Obligation	219,863
(94,688)	Fair Value of Assets in Scheme	(121,411)
77,372	**Net Liability**	**98,452**
2,562	Present Value of Unfunded Obligation	2,579
79,934	**Closing Balance at 31 March**	**101,031**

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £101.031m has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in an overall balance of £8.195m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Reconciliation of Present Value of the scheme liabilities

Previous Year 2019/20 £'000		Current Year 2020/21 £'000
180,823	Opening Balance at 1 April	174,622
3,902	Current service cost	5,337
4,275	Interest cost	3,489
	Remeasurement (gains) and losses:	
(16,402)	Actuarial gains/losses from change in financial assumptions	46,152
1,070	Actuarial gains/losses from change in demographic assumptions	(1,936)
6,330	Experience loss/(gain) on defined benefit obligation	(2,376)
0	Liabilities assumed/(extinguished) on settlements	1,933
(6,331)	Estimated benefits paid net of transfers in	(5,359)
454	Past service costs, including curtailments	47
709	Contributions by scheme participants	733
(208)	Unfunded Pension Payments	(200)
174,622	**Closing balance at 31 March**	**222,442**

Reconciliation of Fair Value of Scheme Assets

Previous Year 2019/20 £'000		Current Year 2020/21 £'000
104,227	Opening Balance at 1 April	94,688
2,478	Interest on Assets	1,625
(8,584)	Return on Assets less interests	24,806
(1,413)	Other actuarial gains/(losses)	0
(75)	Administration expenses	(51)
3,885	Contribution by the employers	3,736
709	Contributions by scheme participants	733
(6,539)	Benefits paid	(5,559)
0	Settlement prices received/(paid)	1,433
94,688	**Closing balance at 31 March**	**121,411**

The expected return on assets is based on the long-term future expected investment return for each asset class at the beginning of the period. The return on gilts and other bonds are assumed to the gilt yield and corporate bond yield respectively (with an adjustment to reflect default risk) at the relevant date.
The return on equities and property is then assumed to be a margin above gilt yields.

Sensitivity Analysis

	£’000	**£’000**	**£’000**
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	218,158	222,442	226,815
Projected service cost	5,528	5,722	5,923
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	222,863	222,442	222,025
Projected service costs	5,725	5,722	5,719
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	226,355	222,442	218,604
Projected service costs	5,921	5,722	5,529
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	233,105	222,442	212,292
Projected service costs	5,964	5,722	5,489

Projected Pension Expense for the year to 31 March 2021

	Year to 31 March 2022
	£’000
Service Cost	5,722
Net Interest on the defined liability	1,986
Administration expenses	65
Total Loss/(Profit)	**7,773**
Employer Contributions	**3,345**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years’ dependent on assumption about mortality rates, salary levels etc. The Peninsula Pension Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Peninsula Pension Fund being based on the latest full valuation of the scheme as at 31 March 2021.

The principal assumptions used by the actuary have been:

31 March 2020		31 March 2021
1.90%	Rate of inflation (CPI)	3.20%
2.90%	Rate of general long-term increase in salaries	3.80%
1.90%	Rate of increase to pensions in payment	2.80%
1.90%	Rate of increase to deferred pensions	2.80%
2.35%	Discount Rate	2.00%

Assumed life expectations from aged 65 (years) are:

	Male	Female
Current Pensioners	23.1	24.6
Future Pensioners (20 years from now)	24.4	26

The fair value of the total scheme assets comprises the following categories, by proportion of the total assets held:

% of total Scheme as at 31 March 2020	Value of total Scheme as at 31 March 2020 £’000		% of total Scheme as at 31 March 2021	Value of total Scheme as at 31 March 2021 £’000
67	63,865	Equity Investments	71	87,309
7	6,206	Government Bonds	6	6,975
10	9,489	Corporate Bonds	10	11,762
9	8,978	Property	7	8,389
7	6,150	Cash	6	6,976
100	**94,688**		**100**	**121,411**

47. Contingent liabilities

There is a potential environmental risk in the Birchfield Park area as part of the land is an old landfill site. The site continues to be monitored and there is a bond in place with the developer to meet any liabilities resulting from the development of the road. There remains liability of £311k that may fall on the council.

However, it continues to remain unlikely that it will be payable. Therefore, it is being treated as a contingent liability. Should the possibility of payment become more likely, we will consider making a specific provision to cover the cost. A specific working group manages any risk within existing revenue and capital budgets.

48. Dorcas House

Dorcas House (otherwise known as Portreeves or Corporation Almshouses) is a registered charity, No. 235337, whose trusteeship is vested in the council. The Charity is restricted to being permitted to assist ‘poor women residents in the Borough of Yeovil’.

A summary of the financial activities for Dorcas House Trust is shown in the table below:

Previous Year 2019/20 £’000		**Current Year 2020/21 £’000**
(3)	Total Income for the Year	(3)
0	Total Expenditure of the Year	0
(3)	**Deficit/(Surplus) for the Year**	**(3)**

(Brackets represent income)

Previous Year 2019/20 £’000		**Current Year 2020/21 £’000**
452	Capital & Unrestricted Funds	454
452	**Total Reserves**	**454**

The Statement of Accounts for Dorcas House Trust may be obtained by contacting The Council Offices, Brympton Way, Yeovil, Somerset, BA20 2HT.

Collection Fund Account

Income and Expenditure Account for the year ended 31 March 2021

This account reflects the statutory requirement contained in section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and National Non Domestic Rates (NNDR).

Previous Year 2019/20		**Year Ended 31 March 2021**		
Collection Fund £’000		**Business Rates £’000**	**Council Tax £’000**	**Collection Fund £’000**
	Income			
(109,296)	Council Tax Receivable		(114,695)	(114,695)
(46,075)	Business Rates Receivable	(23,756)		(23,756)
	Apportionment of Previous Year Deficit			
0	Central Government	0	0	0
(170)	Somerset County Council	0	(168)	(168)
(28)	Police and Crime Commissioner for Avon & Somerset	0	(30)	(30)
(12)	Devon & Somerset Fire & Rescue	0	(12)	(12)
(35)	South Somerset District Council (including Parishes)	0	(35)	(35)
(155,616)	**Total Income**	**(23,756)**	**(114,940)**	**(138,696)**
	Expenditure			
	Precepts and Demands			
10,801	Central Government	22,855	0	22,855
87,675	Somerset County Council	4,114	78,268	82,382
13,127	Police and Crime Commissioner for Avon & Somerset	0	13,831	13,831
5,646	Devon & Somerset Fire & Rescue	457	5,357	5,814
34,963	South Somerset District Council (including Parishes)	18,564	16,359	34,923
	Apportionment of Previous Year Surplus			
742	Central Government	1177	0	1,177
134	Somerset County Council	1030	0	1,030
0	Police and Crime Commissioner for Avon & Somerset	0	0	0
15	Devon & Somerset Fire & Rescue	40	0	40
594	South Somerset District Council (including Parishes)	1712	0	1,712
	Charges to Collection Fund			
344	Write offs of uncollectable amounts	379	172	551
1,079	Increase/(Decrease) in bad debt	923	1,592	2,515
(1,484)	Increase/(Decrease) in Provision for Appeals	(173)	0	(173)
224	Cost of Collection	224	0	224
1	Legal Fees	0	0	0
147	Transitional Protection Payments	209	0	209
154,008	**Total Expenditure**	**51,511**	**115,579**	**167,090**

(1,608)	**(Surplus)/Deficit for Year**	27,755	639	28,394
(1,802)	**(Surplus)/Deficit Balances at Start of Year**	(4,015)	605	(3,410)
(3,410)	**(Surplus)/Deficit Balances at End of Year**	**23,740**	**1,244**	**24,984**

Previous Year 2019/20	**Attributable to:**	**Year Ended 31 March 2021**		
Collection Fund £'000		**Business Rates £'000**	**Council Tax £'000**	**Collection Fund £'000**
(1,191)	Central Government	11,884		11,884
(631)	Somerset County Council	2,125	855	2,980
73	Police and Crime Commissioner for Avon & Somerset	0	150	150
0	Devon & Somerset Fire & Rescue	237	59	296
(11)	South Somerset District Council (including Parishes for Council Tax)	9,494	180	9,674
(1,650)				0
(3,410)		**23,740**	**1,244**	**24,984**

(Brackets represent income or liabilities)

Notes to the Collection Fund

The Collection Fund is a statutory fund set up to deal with the collection and distribution of amounts due in respect of council tax and Business Rates. The Collection Fund is managed and administered by South Somerset District Council as the Billing Authority on behalf of the council taxpayers and business ratepayers within its area. All sums raised from council tax and business rates are paid into the fund together with relevant Government grants. Payments out of the fund include contributions to the national Non-Domestic Rate pool and precept payments to Somerset County Council, Police and Crime Commissioner for Avon & Somerset, Devon & Somerset Fire & Rescue Authority, South Somerset District Council and Town/Parish Councils to fund their net service requirements.

1. Income from Council Tax

Council tax income is calculated by estimating the amount of income or precept required from the Collection Fund for Somerset County Council, Police and Crime Commissioner for Avon & Somerset, Devon & Somerset Fire & Rescue Authority and South Somerset District Council.

The estimate is made by calculating a tax base and dividing the precepts by the tax base to establish the tax payable for a Band D property (properties in other bands pay a proportion of the Band D charge). The first step in calculating the tax base is to adjust the total number of properties in each band to the effective number of properties by reducing the number to allow for the number of discounts and exemptions. The effective number of dwellings is then converted to the number of Band D equivalents by applying the weighting for each band. The following table illustrates how the tax base has increased from 2020/21.

Tax Base						
Previous Year 2019/20					**Current Year 2020/21**	
Effective No of dwellings	Band D Equivalent	Weighting	Tax Band	Property Value (at April 1991)	Effective No of dwellings	Band D Equivalent
11	6	5/9ths	A-	Disabled band	13	7
8,560	5,707	6/9ths	A	Up to £40,000	8,644	5,763
20,052	15,596	7/9ths	B	Between £40,001 & £52,000	20,054	15,598
14,792	13,148	8/9ths	C	Between £52,001 & £68,000	14,945	13,284
11,068	11,068	1	D	Between £68,001 & £88,000	11,072	11,072
8,810	10,768	11/9ths	E	Between £88,001 & £120,000	8,944	10,932
4,539	6,557	13/9ths	F	Between £120,001 & £160,000	4,570	6,601
1,763	2,938	15/9ths	G	Between £160,001 & £320,000	1,767	2,945
145	290	18/9ths	H	Over £320,000	141	282
69,740	**66,078**				**70,150**	**66,484**
	(609)			Less adjustment for non-collection and banding reductions		(613)
	(5,203)			Less adjustment for Council Tax Reduction Scheme		(5,160)
	60,266			**Council Tax Base**		**60,711**

Details of the precepts are shown below:

Previous Year 2019/20 £	**Precepting Authorities**	**Current Year 2020/21 £**
74,713,671	Somerset County Council	78,268,338
13,126,553	Police and Crime Commissioner for Avon & Somerset	13,830,523
5,214,220	Devon & Somerset Fire & Rescue Authority	5,357,119
10,071,063	District Council’s own requirement	10,448,932
5,487,326	Total of Parish Precepts & Levies	5,894,503

The council tax for Band D, calculated by dividing the precepts by the tax base, is shown below:

Previous Year 2019/20 £	**Council Tax Levy at Band D**	**Current Year 2020/21 £**
1,239.73	Somerset County Council	1,289.20
217.81	Police and Crime Commissioner for Avon & Somerset	227.81
86.51	Devon & Somerset Fire & Rescue Authority	88.24
167.11	South Somerset District Council	172.11

1,711.16		1,777.36
91.05	Add Town & Parish Councils (average)	97.09
1,802.21	**Average Council Tax Levy at Band D**	**1,874.45**

2. Council Tax Surplus/Deficit on collection fund

An estimate is made each January of the surplus or deficit on the Collection Fund in order for the County, Police Authority, Fire & Rescue Authority and the District Council to take into account when setting their precept for the following year.

3. Income collectable from business rate payers

The council collects the Business Rates on behalf of the Government. HM Revenue & Customs assesses the Rateable Values and the Government sets the rate in the £ (or multiplier). Comparative details are shown below:

Previous Year 2019/20		**Current Year 2020/21**
£120,356,757	**National Non-Domestic Rates (NNDR)** Rateable value at 31st March	£120,283,409
	NNDR rate poundage	
50.4p	- National Multiplier	51.2p
49.1p	- Small Business Multiplier	49.9p

4. Debtors for Local Taxation

The debtors for Local Taxation represent the council's share only and not for the whole of the collection fund. The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

Previous Year 2019/20 £'000	Period	Business Rates £'000	Council Tax £'000	Total 2020/21 £'000
708	Less than 2 months	242	174	416
435	2 to 4 months	146	117	263
461	4 to 6 months	314	108	422
239	6 to 12 months	711	326	1,037
1,165	More than 12 months	848	1,618	2,466
3,008	**Total**	**2,261**	**2,343**	**4,604**

Group Accounts

These Group Accounts, which consist of Primary Statements and notes, are provided in addition to the notes to the Accounting Statements within the single entity Statement of Accounts.

Notes have been omitted if there are no material differences to the disclosure already made.

The council has three joint arrangements: SSDC Business Solutions Ltd, Elleston Services Ltd and SSDC Opium Power Ltd.

SSDC Business Solutions Ltd is a wholly owned subsidiary and the parent company of Elleston Services Ltd. SSDC Business Solutions Ltd has not been consolidated in the group accounts due to the low level of materiality of the figures.

Elleston Services Ltd

South Somerset District Council wholly owns (100%) Elleston Services Ltd which was established in April 2019 to deliver Landscape Services.

The Board consists of six directors appointed by South Somerset District Council. The Board of Directors approved draft accounts in July 2021.

Elleston Services Ltd has not been consolidated into the Group accounts for 2020/21 due to the values involved not being material.

SSDC Opium Power Limited

South Somerset District Council has 50% ownership in SSDC Opium Power Limited. SSDC Opium Power Limited is a subsidiary as despite the ownership ratio, South Somerset District Council has the right to exercise control with a deciding vote on the Board. The company was established in 2018.

The Board consists of five directors, J H Dobson; D Owen; C Pestell, P W Ashton and J Divall (appointed 22 April 2021. The Board of Directors approved draft accounts in July 2021.

Group Accounting Policies

South Somerset District Council's accounts are prepared under IFRS reporting standards. SSDC Opium Power Ltd prepare their accounts under FRS102, which is usual practice and compatible with Local Authority Accounts. The accounting policies are therefore the same as those applied to the single entity financial statements.

Subsidiaries

A subsidiary is an entity that the council controls through the power to govern their financial and operating polices so as to obtain benefits from the entities' activities. Control is usually presumed where the council owns more than half the voting power of an entity however, it may also occur where a council has an over-riding voting right.

Basis of the Preparation of the Group Financial Statements

The Group accounts have been prepared using the Group accounts requirements of the 2020/21 Code. Companies or other reporting entities that are under the ultimate control of the council have been included in the council's Group accounts, to the extent that they are material to the users of the financial statements in relation to their ability to see the complete economic activities of the council and its exposure to risk through interests in other entities and participation in their activities. The subsidiaries have been consolidated by:

- adding like items of assets, liabilities, reserves, income and expenses together on a line by line basis to those of other group members in the financial statements; and
- eliminating intra-group balances and transactions in full.

Group Comprehensive Income and Expenditure Statement

(Brackets represent income)

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserve Statement.

Restated Gross Expenditure year ended 31 March £'000	Restated Gross Income year ended 31 March £'000	Restated Net Cost of Services year ended 31 £'000	Service	Note Number	Gross Expenditure year ended 31 March 2021 £'000	Gross Income year ended 31 March 2021 £'000	Net Cost of Services year ended 31 March £'000
1,273	(81)	1,192	Chief Executive		2,092	(281)	1,810
20,621	(10,252)	10,369	Director of Commercial Services and Income Generation		18,947	(7,519)	11,428
41,132	(33,748)	7,384	Director of Service Delivery		51,303	(34,908)	16,408
5,676	(1,264)	4,412	Director of Strategy and Commissioning		4,778	(557)	4,221
6,657	(784)	5,873	Director of Support Services		14,020	(10,002)	4,010
76	(2)	74	Subsidiary Companies		1,498	(1,535)	(37)
75,435	**(46,131)**	**29,304**	**Cost of Services**		**93,038**	**(55,203)**	**37,835**
5,474	(851)	4,623	Other Operating expenditure	2	5,881	(700)	5,181
0	(11)	(11)	Net Loss/(Gain) on Disposal of Property, Plant and Equipment		14	0	14
5,356	(2,252)	3,104	Financing and Investment Income and Expenditure		572	(1,032)	(460)
0	(28,019)	(28,019)	Taxation and Non-Specific Grant Income		0	(31,617)	(31,617)
86,265	**(77,264)**	**9,001**	**(Surplus)/Deficit on Provision of Services**		**99,505**	**(88,552)**	**10,953**
		5,190	(Surplus)/Deficit on revaluation of Property, Plant and Equipment				(11,701)
		3,208	(Surplus)/Deficit on revaluation of Pooled Funds				(2,117)
		995	Remeasurement of the Net Defined Benefit Liability				17,034
		(30)	Share of Other Income and Expenditure of Joint Operations				(12)
		9,363	**Other Comprehensive Income and Expenditure**				**3,204**
		18,363	**Total Comprehensive Income and Expenditure**				**14,157**

The Deficit on the Provision of Services of £10.953m includes a Deficit of £0.18m attributable to the Minority Interest (19/20: Deficit £0.35m).The Minority Interest represents 50% of the Income and Expenditure of SSDC Opium Power Limited, the subsidiary undertaking.

Group Movement in Reserves Statement

Reserves represent the council’s net worth and shows its spending power. 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 Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	Total General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Joint Operations Reserves	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**	Authorities share of subsidiary (Usable)	Authorities share of subsidiary (Unusable)	**Total Authorities share of subsidiary**	Minority Interest	**Total Group Reserves**
	£’000	£’000	£’000	£’000	**£’000**	£’000	**£’000**	£’000	£’000	£’000	£’000	**£’000**
Balance at 31 March 2019	**-22,100**	**-22,798**	**-1,694**	**-608**	**-47,200**	**19,185**	**-28,015**	**111**	**0**	**111**	**111**	**-27,793**
Movement in reserves during 2019/20:												
Total Comprehensive Income and Expenditure	**8,297**	0	0	-30	**8,267**	7,873	**16,140**	352	760	**1,112**	**1,112**	**18,364**
Adjustments between accounting basis and funding basis under regulations (note 9)	**-13,174**	4,365	-807	0	**-9,616**	9,616	**0**	**0**		**0**		**0**
Net Increase/Decrease before transfers to Earmarked Reserves	**-4,877**	**4,365**	**-807**	**-30**	**-1,349**	**17,489**	**16,140**	**352**	**760**	**1,112**	**1,112**	**18,364**
Transfers to/from Earmarked Reserves (note 32)	**0**	0	0	0	**0**	0	**0**	**0**	**0**	**0**		**0**
(Increase)/Decrease in 2019/20	**-4,877**	**4,365**	**-807**	**-30**	**-1,349**	**17,489**	**16,140**	**352**	**760**	**1,112**	**1,112**	**18,364**
Balance at 31 March 2020	**-26,977**	**-18,433**	**-2,501**	**-638**	**-48,549**	**36,674**	**-11,875**	**463**	**760**	**1,223**	**1,223**	**-9,430**
Movement in reserves during 2020/21:												

Total Comprehensive Income and Expenditure	**9,873**			-12	**9,861**	9,985	**19,846**	540	-3,385	**-2,845**	-2,845	**14,157**
Adjustments between accounting basis and funding basis under regulations (note 9)	**-25,171**	211	-5,284		**-30,244**	30,244	**0**			**0**		**0**
Net Increase/Decrease before transfers to Earmarked Reserves	**-15,298**	**211**	**-5,284**	**-12**	**-20,383**	**40,229**	**19,846**	**540**	**-3,385**	**-2,845**	**-2,845**	**14,157**
Transfers to/from Earmarked Reserves (note 32)	**0**	0	0	0	**0**	0	**0**	0				**0**
(Increase)/Decrease in 2020/21	**-15,298**	**211**	**-5,284**	**-12**	**-20,383**	**40,229**	**19,846**	**540**	**-3,385**	**-2,845**	**-2,845**	**14,157**
Balance at 31 March 2021	**-42,275**	**-18,222**	**-7,785**	**-650**	**-68,932**	**76,903**	**7,971**	**1,003**	**-2,625**	**-1,622**	**1,622**	**4,727**

Group Balance Sheet (Brackets represent liabilities)

The Balance Sheet is a ‘snapshot’ of the council’s financial position at a specific point in time, showing what it owns and owes at 31st March. 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 is ‘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 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 revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences in the Movement in Reserve Statement line ‘adjustments between accounting basis and funding basis under regulations’.

As at 31 March 2020		Note No.	As at 31 March 2021	
£’000			**£’000**	**£’000**
58,583	Property, Plant & Equipment	2	79,552	
71,973	Investment Properties		79,809	
1,083	Intangible Assets		710	
638	Investment in Joint Operations		650	
	Assets Held for Sale		490	
1,792	Heritage Assets		1,792	
0	Fixed Asset Invesments		980	
2,106	Long Term Investments		0	
4,582	Long Term Debtors	3	2,943	
140,757	**TOTAL LONG TERM ASSETS**			**166,926**
28,471	Short Term Investments		24,899	
4,592	Inventories		4,923	
0	Trade Debtors		220	
9,973	Short Term Debtors		32,546	
2,146	Cash & Cash Equivalents	4	2,011	
293	Bank Accounts		613	
45,475	**CURRENT ASSETS**			**65,212**
(79,500)	Short term Borrowing		(98,000)	
	Bank Overdraft		0	
(1,048)	Third Party Cash		(1,091)	
(383)	Trade Creditors		(31,164)	
(10,923)	Short term Creditors	5	0	
(91,854)	**CURRENT LIABILITIES**			**(130,255)**
(880)	Provisions	6	(712)	
(4,091)	Developers Contributions Deferred		(4,829)	
(23)	Long Term Liabilities – Creditors		(33)	
(20)	Long Term Liabilities – Finance Lease		(5)	
(79,934)	Liability related to defined benefit pension scheme		(101,031)	
(84,948)	**LONG TERM LIABILITIES**			**(106,610)**
9,430	**NET ASSETS**			**(4,727)**
47,449	Usable Reserves		66,331	

638	Usable Reserve – Share in Joint Operations		650	
(37,434)	Unusable Reserves		(73,044)	
(1,223)	Unusable Reserves – Minority Interest		1,336	
9,430	**TOTAL RESERVES**			**(4,727)**

Group Cash Flow Statement (Brackets on this page represent income)

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

Year Ended 31 March 2020 £'000		**Year Ended 31 March 2021 £'000**
(9,001)	Net surplus/(deficit) on the provision of services	**(10,954)**
16,594	Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 7)	**27,962**
(1,106)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 7)	**(1,817)**
6,487	**Net cash flows from operating activities**	**15,191**
(64,887)	Investing Activities (note 8)	**(33,535)**
59,969	Financing Activities	**18,485**
1,569	**Net increase or decrease in cash and cash equivalents**	**141**
(179)	Cash and Cash Equivalents (including bank overdraft) at 1 April	**1,390**
1,390	**Cash and Cash Equivalents (including bank overdraft) at 31 March**	**1,531**

Notes to the Group Financial Statements

1. Financing and investment income and expenditure

Previous year 2019/20 £'000		Current year 2020/21 £'000
997	Interest Payable and similar charges	273
2,251	Net interest on the net defined benefit liability	1,911
(263)	(Surplus)/Deficit on Trading Undertaking (note 39)	(211)
3,001	(Surplus)/Deficit on Investment Properties (note 18)	(2,107)
5,986	**Total Financing and Investment Expenditure**	**(135)**
(2,882)	Interest receivable and similar income	(2,149)
3,104	**Total Financing and Investment Income and Expenditure**	**(2,284)**

2. Property, Plant and Equipment

Movement in 2020/21:

	Total Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Assets Under Construction £0'00	Infrastructure Assets £'000	Community Assets £'000	Total Property Plant & Equipment £'000
Cost or Valuation						
As at 1 April 2020	45,188	5,189	11,329	1,097	726	63,529
Additions	601	246	14,278	0	86	15,211
Disposals	(170)	(0)	0	0	0	(170)
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	4,933	(0)	0	0	0	4,932
Revaluation Increases/(decreases) recognised in the surplus/deficit on the provision of Services	(4,065)	5,366	0	0	0	1,301
Impairment (losses)/reversals recognised in the surplus/deficit on the provision of services	(130)	17	0	0	0	(113)
Reclassification - Other	(576)	11,329	(11,329)	0	0	(576)
As at 31 March 2021	**45,781**	**22,146**	**14,278**	**1,097**	**812**	**84,114**
Accumulated Depreciation						

As at 1 April 2020	(2,793)	(2,000)	0	(152)	0	(4,945)
Depreciation charge	(1,338)	(1,448)	0	(16)	0	(2,803)
Depreciation written out to the surplus/deficit on the Provision of Services	2,094	1,071	0	0	0	3,165
Derecognition – Disposals	15	0	0	0	0	15
Derecognition – Reclassification	5	0	0	0	0	5
As at 31 March 2021	**(2,017)**	**(2,377)**	**0**	**(168)**	**0**	**(4,563)**
Net Book Value						
At 31 March 2021	**43,764**	**19,769**	**14,278**	**929**	**812**	**79,552**
At 31 March 2020	**42,395**	**3,189**	**11,329**	**945**	**726**	**58,583**

Comparative movement in 2019/20:

	Total Land & Buildings £'000	**Vehicles, Plant & Equipment £'000**	**Assets Under Construction £0'00**	**Infra-structure Assets £'000**	**Community Assets £'000**	**Surplus Assets £'000**	**Total Property Plant & Equipment £'000**
Cost or Valuation							
As at 1 April 2019	53,195	4,496	8,039	1,097	698	0	67,525
Additions	900	856	3,290	0	28	0	5,074
Disposals	0	(30)	0	0	0	0	(30)
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	(5,180)	(13)	0	0	0	0	(5,193)
Revaluation Increases/(decreases) recognised in the surplus/deficit on the provision of Services	(3,944)	(97)	0	0	0	0	(4,041)
Impairment (losses)/reversals recognised in the surplus/deficit on the provision of services	217	0	0	0	0	0	217
As at 31 March 2020	**45,188**	**5,212**	**11,329**	**1,097**	**726**	**0**	**63,552**
Accumulated Depreciation							
As at 1 April 2019	(2,687)	(1,189)	0	(136)	0	0	(4,012)
Depreciation charge	(1,283)	(877)	0	(16)	0	0	(2,176)
Depreciation written out to the surplus/deficit on the Provision of Services	1,177	13		0	0	0	1,190
Derecognition – Disposals	0	30	0	0	0	0	30
Derecognition – Reclassification	0	0	0	0	0	0	0
As at 31 March 2020	**(2,793)**	**(2,023)**	**0**	**(152)**	**0**	**0**	**(4,968)**
Net Book Value							
At 31 March 2020	**42,395**	**3,189**	**11,329**	**945**	**726**	**0**	**58,584**
At 31 March 2019	**50,508**	**3,307**	**8,039**	**961**	**698**	**0**	**63,513**

3. Long term debtors

Debtors which fall due after a period of at least one year, consist of:

31 March 2020 £'000		31 March 2021 £'000
4,154	Loans	2,667
3	Mortgages	1
276	Rights to receipts – long term lease	270
16	Car/bike/learning loans	5
4,449	**Total Long Term Debtors**	**2,944**

4. Short term debtors

31 March 2020 £'000		31 March 2021 £'000
497	Central Government Bodies	14,734
363	Other Local Authorities	8,232
2	NHS Bodies	35
9,111	Other Entities and Individuals	9,767
9,973	**Total Short Term Debtors**	**32,767**

5. Trade Creditors

Trade Creditors are found on the Balance Sheet of SSDC Opium Ltd.

6. Provisions

31 March 2020 £'000		31 March 2021 £'000
(792)	Business Rates Provisions for Appeals	(1,380)
(88)	MMI Provision	(88)
0	Provision for Group Liabilities	28
(880)	**Total Provisions**	**(1,440)**

7. Cash Flow Statement – Operating activities

The cash flows for operating activities include the following items:

Previous year 2019/20 £'000		Current Year 2020/21 £'000
1,631	Interest received	1,289
(243)	Interest paid	(1,928)
1,388	**Net Cash Flows from Operating Activities relating to interest**	**(639)**

Previous year 2019/20 £'000		Current Year 2020/21 £'000
2,683	Depreciation and amortisation	3,362
2,633	Impairment and downward valuations	2,465
5,431	Movement in market value of investment property	2,510
4,806	Increase/(decrease) in creditors	40,421
(419)	(Increase)/decrease in debtors	(25,245)
(774)	(Increase)/decrease in inventories	(331)
413	Increase/(decrease) in developer contributions	7
(522)	Increase/(decrease) in provisions	4,063
2,343	Movement in pension liability	555
0	Carrying amounts of non-current assets and non-current assets held for sale, sold or derecognized	155
16,594	**Total Adjustments for Non-Cash Movements**	**27,962**

Previous year 2019/20 £'000		Current Year 2020/21 £'000
(1,106)	Proceeds from the sale of property, plant and equipment and intangible assets	(1,817)
(1,106)	**Total Adjustments for Investing and Financing Activities**	**(1,817)**

8. Cash Flow Statement – Investing activities

Previous year 2019/20 £'000		Current Year 2020/21 £'000
(56,685)	Purchase of property, plant and equipment, investment property and intangible assets	(25,711)
(175,234)	Purchase of short-term and long-term investments	(2,730)
(7,594)	Other payments for investing activities	(16,497)
1,106	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,817
172,265	Proceeds from sale of short-term and long-term investments	9,500
1,255	Other receipts from investing activities	85
(64,887)	**Net Cash Flows from Investing Activities**	**(33,535)**

These are the only notes to the accounts which have material differences between the single entity (SSDC) and the Group Accounts.

Glossary of Terms

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

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

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

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

Agency Work
is the provision of services by an authority on behalf of, and reimbursed by, the responsible authority/body.

Amortised Cost
is a mechanism that sees through the contractual terms of a financial instrument to measure the real cost or return to the authority by using the effective interest rate method which incorporates the impact of premiums or discounts.

Annual Governance Statement (AGS)
sets out the arrangements the authority has put in place to manage and mitigate the risks it faces when meeting its responsibilities.

Apportionments
are a mechanism for allocating the cost of support services to front line and other services using appropriate bases (e.g. floor space for accommodation related support services to spread the cost fairly).

Appropriation
is the transfer of an asset (e.g. land, buildings) from one service to another.

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

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

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

Available-for-Sale Assets
are financial assets which are not classed as loans and receivables. These include gilt-edged stocks and bonds which are quoted in an active market. They are carried in the balance sheet at fair value.

Available-for-Sale Financial Instruments Reserve
is a revaluation reserve introduced to manage the fair value process for Available-for-Sale Financial Assets. It is permitted to have a negative value provided that the losses posted to it are not impairment losses.

Balances
is the accumulated surplus of revenue income over expenditure.

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

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

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

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

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

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

Capital Discharged
is the extent to which capital expenditure has been met over a period by charging instalments to the revenue account, including the direct financing of expenditure in the year of acquisition.

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

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

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

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

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

Cash Limited Budgets
are fixed sums of money, including allowances for pay and price increases, allocated to services, and within which all spending should be met; this also involves flexibility in the carrying forward of under and over- spendings.

Central Government Grants
comprise three types:

- Grants paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.
- Specific service grants – grants in aid of services in which central government have a more direct involvement.
- Supplementary grants – grants in aid of both capital and revenue

CIPFA
is the Chartered Institute of Public Finance and Accountancy.

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

Collection Funds
are separate funds recording the expenditure and income relating to council tax and non-domestic rates.

Collection Fund Adjustment Account
The Collection Fund Adjustment Account represents the council’s share of the Collection Fund Surplus or Deficit.

Community Assets
are those assets held in perpetuity and which have no determinable useful life and there are often restrictions regarding their sale. Examples of South Somerset’s community assets are Ninesprings and land at Ham Hill.

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

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

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

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

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

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

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

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

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

Easement
is a charge made for access rights over land owned by the council.

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

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

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

Eurobonds
are debt contracts which records the borrowers’ obligation to pay interest at a given rate and the principal amount of the bond specific dates.

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

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

Fair Value through Profit and Loss (FVPL)
is an accounting method for financial assets, all gains and losses including changes in fair value are taken to the Comprehensive Income and Expenditure Statement. Assets are “marked to market” and shown at fair value on the balance sheet, but the impairment model does not apply.

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

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

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

Financial Instruments Adjustment Account
is the account which holds the differences between the amounts credited to the Comprehensive Income and Expenditure Statement in accordance with the Code and the interest income required to be credited to the General Fund in accordance with statutory regulations relating to amortization on the discount of the early redemption of PWLB loans.

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

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

Gilt
is a bond issued by the government which offers the investor a fixed interest rate for a predetermined set time.

Housing Benefits

is the national system for giving financial assistance to individuals towards certain housing costs. The council administers the scheme for South Somerset residents. The Government subsidizes the cost of the service.

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

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

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

Intangible Assets
are assets that do not have physical substance but are controlled by the council as a result of a past event.

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

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

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

Liability
must be included in the financial statements when the council owes money to others. There are different types of liability: -

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

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

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

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

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

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

Money Market Funds

are short term deposits that are deposited into a mutual fund that buys securities.

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

National Non-Domestic Rate (NNDR) Income (also known as Business Rates)
Business Rates are collected locally, some of which is retained, and some is paid to Somerset County Council, Devon & Somerset Fire and Rescue, Central Government and Mendip District Council as lead authority of the Somerset Pool

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

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

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

New Homes Bonus
is a grant paid by central government to local councils for increasing the number of homes and their use. The New Homes Bonus is paid each year for four years. It is based on the amount of extra council tax revenue raised for new build homes, conversions and long-term empty homes brought back into us. There is also an extra payment for providing affordable homes.

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

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

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

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

Operating Leases
are all leases which are not finance leases.

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

Pooled Fund Adjustment Account
is the adjustment account introduced to manage the fair value process for Pooled Fund Financial Assets. It is permitted to have a negative value provided that the losses posted to it are not impairment losses.

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

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

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

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

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

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

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

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

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

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

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

Revaluation Reserve
is a reserve which records the unrealised revaluation gains arising since 1 April 2007 from holding non- current assets.

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

Revenue Expenditure Funded Capital under Statute
are capital grants made by the council to another organization or person. This counts as capital expenditure but it does not create an asset that belongs to the council. The expenditure is charged to the balance sheet, but it is then reversed out through the Capital Adjustment Account to the revenue account.

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

Slippage
is the term used mainly to describe capital payments occurring in later financial years than originally planned.

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

Contact Details for Further Information

For more information, please contact us at:

The Council Offices
Brympton Way
Yeovil
Somerset
BA20 2HT

Telephone: 01935 462462

Website: www.southsomerset.gov.uk or
Email: accountancy@southsomerset.gov.uk

South Somerset
District Council

Certification of Claims Report

Portfolio Holder:	Cllr Peter Seib, Finance and Legal Services
Director:	Nicola Hix, Strategy and Support Services
S151 Officer:	Karen Watling, Chief Finance Officer
Lead Officer:	Martin Hone, Senior Project Accountant
Contact Details	martin.hone@southsomerset.gov.uk

Purpose of the report

1. This report introduces the annual report from our external auditors Grant Thornton on their findings from the signing off of the Housing Benefit Subsidy Claim for 2020/21.

Recommendation

2. That Audit Committee notes the contents of the Certification of Claim Report for 2020/21.

Introduction

3. The Certification of Claims Report is included within the remit of the Audit Committee under its terms of reference as follows:

   "To consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action has been taken"

   "To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken"

Subsidy Claim

4. The external auditors certify the subsidy claim for the Housing Benefit Scheme. The report from Grant Thornton is attached at Appendix A. The total claim was £28,038,385 and as a result of the findings through the audit process, an amendment to the claim is required to the value of £10,963. This sum is due to be paid to the Department for Works and Pensions (DWP).

5. In accordance with the Housing Benefit Assurance Process (HBAP) modules an initial sample of cases was completed for all general expenditure on the subsidy claim. Given the nature of the population and the errors found in the previous claim, additional samples of 40 cases were tested.

6. The areas where errors were found were, where the additional testing was required was: -
   a. Earned income
   b. Self-employed income
   c. Tax credits
   d. Pension credit savings
   e. Classification of overpayment
   f. State Retirement Pension

7. Where errors were found and it was possible to identify and check all the claims which may be affected by the same error, all claims were checked and the claim was amended to take into the result of the checking.

8. Where 100% checking was not possible due to the number of claims that needed to checked, extrapolation then takes effect. Extrapolation is where a % error rate found, when testing a sample of 40 claims for that error, is applied to the total amount which may be affected by the error.

9. The errors found, where 100% checking couldn't be carried out, totalled £10,963 and the total sample value was £7,008,275. As explained above the % error rate for each category has to be extrapolated, resulting in an overall impact on SSDC of £10,963.

10. An example of how extrapolation works is shown in the table below:

Sample	**Movement / brief note of error**	**Sub population total (CT)**	**Sample error (SE)**	**Sample value (SV)**	**Percentage error rate (SE/SV)**	**Cell adjustment (SE/SV) x CT**
Combined sample – 60 cases	Incorrect application of tax credits	£7,250,259	£173	£148,933	0.12%	£8,700

11. So, in the example above, when testing tax credits, errors totalling £173 were found, which is 0.12% of the total value of benefits in the sample. The error rate i.e. the 0.12% has then been extrapolated against the sub population value of £7.25 million and the resulting £8,700 is the amount the claim has to be adjusted for in respect of the error.

Financial Implications

12. The final outcome of the claim is an additional payment of £10,963 due to the Department of Works and Pensions (DWP).

13. Whilst we owe the DWP £10,963, we have sufficient funds in the Council Tax and Housing Benefit Reserve to cover. The DWP provide an incentive to Local Authorities (LA) whereby depending on the amount of the LA overpayments on the final subsidy claim when compared to the 100% expenditure on the final claim form we receive either nil, 40% or a 100% of the LA overpayments. This sum is put into a reserve account pending the outcome of the audit.

14. The agreed fee for certifying the Housing Benefit return in 2020/21 audit is £8,000 plus £2,500 per 40+ samples, subject to PSAA (Public Sector Audit Appointments) approval. Work undertaken is subject to a fee variation due to extra work being carried out. With additional work and sample testing, the total fee for certifying the Housing Benefit return in 2020/21 audit is £23,000.

Background Papers

Housing Benefit Subsidy Claim

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0EL

T +44 (0)117 305 7600

Our ref: SSDC/HBAP Report/2020-21
Your ref:

Housing Benefit Unit
Housing Delivery Division
DWP Business Finance & Housing Delivery Directorate
Room B120D
Warbreck House
Blackpool
Lancashire
FY2 0UZ

27 September 2022

cc. Section 151 Officer of South Somerset District Council

Housing Benefit (Subsidy) Assurance Process 2020/21

Module 6 DWP Reporting Framework Instruction (Applicable to England only) Reporting accountants' report for the Housing Benefit Subsidy claim form MPF720A, year ended 31 March 2021.

To: Housing Benefit Unit, Housing Delivery Division, DWP Business Finance & Housing Delivery Directorate, Room B120D, Warbreck House, Blackpool, Lancashire FY2 0UZ.

And: The Section 151 Officer of South Somerset District Council

This report is produced in accordance with the terms of our engagement letter with South Somerset District Council dated 22 March 2022 and the standardised engagement terms in Appendix 2 of HBAP Module 1 2020/21 issued by the Department for Work and Pensions (DWP) for the purpose of reporting to the Section 151 Officer of South Somerset District Council and the DWP.

Our report is prepared solely for the confidential use of the Local Authority and the DWP and solely for the purpose of facilitating the claim for Housing Benefit Subsidy on form MPF720A dated 28 April 2021.

This report should not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by the standardised engagement terms), without our prior written consent. Without assuming or accepting any responsibility or liability in respect of this report to any party other than the Local Authority and the DWP, we acknowledge that the Local Authority and/or the DWP may be required to disclose this report to parties demonstrating a statutory right to see it.

This report is designed to meet the agreed requirements of the Local Authority and the DWP as described in the DWP HBAP reporting framework instruction 2020/21.

This report should not therefore be regarded as suitable to be used or relied upon by any other party for any purpose or in any context. Any party other than the Local Authority and the DWP which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so entirely at its own risk. To the fullest extent permitted by law, we accept no responsibility or liability in respect of our work or this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by the reliance of anyone other than the addressees on our work or this report.

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Respective responsibilities of the Local Authority and the reporting accountant

We conducted our engagement in accordance with HBAP Modules 1 and 6 2020/21 issued by the DWP, which highlight the terms under which the DWP has agreed to engage with reporting accountants.

The Section 151 Officer of the Local Authority has responsibilities under the Income-related Benefits (Subsidy to Authorities) Order 1998. The section 151 Officer is also responsible for ensuring that the Local Authority maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Local Authority. It is also the Section 151 Officer's responsibility to extract relevant financial information from the Local Authority's accounting records, obtain relevant information held by any officer of the Local Authority and complete the attached form MPF720A in accordance with the relevant framework set out by the DWP.

Our approach

For the purpose of the HBAP engagement we have been provided with a copy of form MPF720A 2020/21 received from the Deputy Section 151 Officer's verifiable email address and dated 28 April 2021 by the Deputy Section 151 Officer. The Section 151 Officer remains solely responsible for the completion of the MPF720A.

Our engagement was carried out in accordance with the DWP reporting framework instruction which has been prepared in accordance with the *International Standard on Related (ISRS) 4400, Engagement to perform agreed-upon-procedures regarding financial information.* The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis as set out in HBAP Modules of the HBAP reporting framework instruction on the Local Authority's form MPF720A dated 28 April 2021, and to report the results of those procedures to the Local Authority and the DWP.

The results of these are reported on in appendices A, B, C and D.

Inherent limitations

The procedures specified in the DWP's HBAP Reporting framework instruction does not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the Local Authority's claim for Housing Benefit subsidy on form MPF720A. Accordingly, we do not express such assurance. Had we performed additional procedures or had we performed an audit or review of the Local Authority's claim for Housing Benefit subsidy on form MPF720A in accordance with generally accepted auditing or review standards, other matters might have come to our attention that would have been reported to you. This report relates only to the Local Authority's form MPF720A and does not extend to any financial statements of the Local Authority, taken as a whole.

This engagement will not be treated as having any effect on our separate duties and responsibilities as the external auditor of the Local Authority's financial statements. Our audit work on the financial statements of the Local Authority is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. Our audit report on the Local Authority's financial statements is made solely to the Local Authority's members, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work was undertaken so that we might state to the Local 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 Local Authority and the Local Authority's members, as a body, for our audit work, for our audit reports, or for the opinions we have formed in respect of that audit.

Summary of HBAP report

Summary of Initial Testing

In accordance with HBAP modules an initial sample of cases was completed for all general expenditure cells. We have re-performed a sample of the Local Authority's testing and confirm the tests we have carried out concur with the Local Authority's results:

Cell 011 Non HRA Rent Rebate

There were no entries relating to Non HRA Rent Rebates during 2020/21

Cell 055 HRA Rent Rebate

South Somerset District Council does not have any HRA properties, therefore there are no entries in the HRA Rent Rebate cells on form MPF720A.

Cell 094 Rent Allowance

No claims were found to be in error.

Completion of Modules

The Specific Test Requirements set out in Module 1 Appendix 3 have been completed, including testing required by Modules 2 and 5 as detailed below.

Completion of Module 2

We have completed testing of Module 2 and no issues were identified.

Completion of Module 5

We have completed the questionnaire for the appropriate software supplier and no issues were identified.

Summary of testing arising from Cumulative Assurance Knowledge and Experience (CAKE)

In line with the requirements of HBAP Modules we have undertaken CAKE testing based upon the preceding HBAP report. Where appropriate the Local Authority has completed testing of the sub-populations for:

Cell 094	Rent Allowance – State Retirement Pension
Cell 094	Rent Allowance – Earned income
Cell 094	Rent Allowance – Self-employed earned income
Cell 094	Rent Allowance – Tax Credits
Cell 094	Rent Allowance – Pension Credit Savings Credit
Cell 114	Rent Allowance – Misclassification of eligible overpayments

We have re-performed a sample of the Local Authority's testing and confirm the tests we have carried out concur with the Local Authority's results. These results are outlined in the appropriate appendix.

The following CAKE tests have returned no errors and are considered as closed:

Cell 094	Rent Allowance – Self-employed earned income
Cell 094	Rent Allowance – Tax Credits
Cell 094	Rent Allowance – Pension Credit Savings Credit

Summary paragraph

For the form MPF720A dated 28 April 2021 for the year ended 31 March 2021 we have completed the specific test requirements detailed in the DWP reporting framework instruction HBAP and have identified the following results set out in Appendix A, B, C and D.

Firm of accountants - Grant Thornton UK LLP

Office – 2 Glass Wharf, Temple Quay, Bristol. BS2 0EL

Contact details – Barrie Morris, 0117 305 7708. email: barrie.morris@uk.gt.com

Signature: *Grant Thornton UK LLP*

Date: 27 September 2022

Appendix A: Exceptions / errors found

Error type 3 benefit overpaid.

Cell 094 Overpaid benefit – Earned income

Cell 094 Rent Allowance - Total expenditure (Benefit Granted)

Cell Total: £28,038,385

Cell Total £2,430,118 – sub population: earned income

Cell Population: 6,328 cases

Cell Population: 689 cases – sub population: earned income

In prior year testing it was identified that the Local Authority had recorded incorrect amounts for earned income resulting in errors in the amount of benefit paid. During initial testing for 2020/21, no cases where the benefit assessment was based on earned income were identified.

However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases for which earned income had been used in the assessment of benefit were selected for testing. This additional testing identified:

1 case (value: £978) which resulted in an overpayment of housing benefit totalling £279 due to miscalculating earned income. The error amount has been used to calculate an extrapolated error of £4,679 as detailed in the table below with a corresponding understatement of LA error and administrative delay overpayments cell 113.

This is the eighth year that this error has been identified and reported.

Sample	**Movement / brief note of error:**	**Original cell 094 total: sub population (claims with earned income)**	**Sample error:**	**Sample value:**	**Percentage error rate (to two decimal places)**	**Cell adjustment:**
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV X CT]
Initial sample – no cases	Incorrect earned income	£28,038,385	£0	£0		
CAKE sample – 40 cases	Incorrect earned income	£2,430,118	£279	£144,894		
Combined sample - 40 cases	Incorrect earned income	£2,430,118	£279	£144,894	0.19%	£4,679
Corresponding adjustment:	Cell 102 is overstated	£2,430,118	£279	£144,894	0.19%	-£4,679
Total corresponding adjustment	Total understatement of cell 113					£4,679

Error Type 4 – expenditure misclassification. Where benefit expenditure has been misclassified.

Cell 114 Expenditure misclassification – Incorrect classification of eligible overpayments

Cell Total: £269,239

Cell Population: 848 cases

Headline Cell Total: £28,038,385

In prior year testing it was identified that the Local Authority had misclassified overpayments in eligible overpayments cell 114 resulting in an overclaim of subsidy. During initial testing for 2020/21, two cases (value £100) which had entries in cell 114 were identified. No errors were identified in this testing.

However, given the nature of the population and the error found in the previous claim, an additional sample of 40 cases were selected for further testing. This additional testing identified:

1 case (value: £393) to be in error which resulted in misclassification of overpayment amounts being recorded in both current year and prior year cells which have resulted in an overclaim of subsidy. Current year eligible overpayments cell 114 is overstated by £393 and LA error and administrative delay overpayments cell 113 is correspondingly understated by the same amount. Prior year eligible overpayments cell 121 is overstated by £2,761 and prior year LA error and administrative delay overpayments cell 120 is correspondingly understated by the same amount. There is no effect on the headline cell 094. The value of the current year cell error amount noted above has been used to calculate that the value in cell 114 is overstated by £6,284 with a corresponding understatement of cell 113 by the same amount. This value is derived from the extrapolation table noted below.

1 case (value: £52) to be in error in which payments were misclassified which has resulted in an overclaim of subsidy. It has been identified that eligible overpayments cell 114 is understated by £70 and that cell 102 is correspondingly overstated by the same amount.

This is the sixth year that this error has been identified and reported.

Sample	**Movement / brief note of error:**	**Original cell 114 total:**	**Sample error:**	**Sample value:**	**Percentage error rate (to two decimal places)**	**Cell adjustment:**
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV X CT]
Initial sample – 2 cases	Misclassification of eligible overpayments	£269,239	£0	£100		
CAKE sample – 40 cases	Misclassification of eligible overpayments	£269,239	£393	£16,737		
Combined sample - 42 cases	Misclassification of eligible overpayments	£269,239	£393	£16,837	2.33%	£6,284
Corresponding adjustment:	Cell 114 is overstated					-£6,284
Corresponding adjustment	Total understatement of cell 113					£6,284

Appendix B: Observations

Error type 1 Underpaid benefit.

Cell 094 Underpaid benefit – State Retirement Pension.

Cell 094 Rent Allowance - Total expenditure (Benefit Granted)

Cell Total: £28,038,385

Cell Total £7,008,275 – sub population: State Retirement Pension.

Cell Population: 6,328 cases

Cell Population: 1,802 cases – sub population: State Retirement Pension.

In prior year testing it was identified that the Local Authority had incorrectly applied State Retirement Pension resulting in an overpayment of benefit paid. During initial testing for 2020/21, four cases (value: £15,700) where the benefit assessment was based on State Retirement Pension were identified. No errors were identified in this testing.

However, given the nature of the population and the error found in the previous claim, an additional sample of 40 cases for which State Retirement Pension had been used in the assessment of benefit were selected for testing. This additional testing identified:

3 cases (total value: £7,811) which resulted in an underpayment of housing benefit of £3,083 and 2 cases (total value: £9,800) which had no effect on benefit paid. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment cases and the nil impact cases identified do not affect and have not, therefore, been classified as errors for subsidy purposes.

Appendix C: Amendments to the claim form MPF720A

There are no amendments to report.

Appendix D: Additional issues

There are no additional issues to report.

South Somerset
District Council

2022/23 Treasury Management Mid-Year Performance Report and Strategy Update

Executive Portfolio Holder:	Peter Seib, Finance and Legal Services
SLT Lead:	Karen Watling, Chief Finance Officer
Lead Officers:	Paul Matravers, Lead Specialist – Finance Andy Turner, Specialist - Finance

Purpose of the Report

1. To present the Council's 2022/23 mid-year treasury performance report as required by CIPFA's Treasury Management Code.

Recommendations

2. The Audit Committee is asked to note the actual and forecast treasury performance and recommend the updated Treasury Management Strategy Statement and Investment Strategy to Council.

Introduction and Background

3. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice requires the Council to approve an annual Treasury Management Strategy and, report treasury performance mid-year and at the year end.

4. 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 is therefore central to the Treasury Management Strategy.

5. This report provides information on the performance of the Council's Treasury Investments for the first six months of the 2022/23 financial year. The performance of the Council's Commercial Investments, which are part of the Commercial Strategy, are reported separately through 6-monthly update reports therefore that detail is not included in this report. On this basis, it is worth noting that whilst the treasury income and cost implications of commercial investment acquisitions are included within this report, the investment property income is not.

6. CIPFA has defined Treasury Management as "the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

7. The Council has delegated responsibility for the oversight and monitoring of its treasury management policies and practices to Audit Committee, and for the execution and administration of treasury management decisions to the S151 Officer who will act in accordance with the organisation's policy statement and Treasury Management Practices (TMPs), and CIPFA's standard of Professional Practice on Treasury Management.

8. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Specific risks are identified in the Council's approved Treasury Management Practices. The risks include:

- Liquidity Risk (Adequate cash resources)
- Interest Rate Risk (Fluctuations in the value of investments and borrowing).
- Inflation Risks (Exposure to inflation)
- Fraud, Error and Corruption, and Contingency Management (Exposure to loss through fraud, error or other eventualities)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).

9. The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Treasury Management Strategy Statement and Investment Strategy

10. The updated 2022/23 Treasury Management Strategy is attached at Appendix A. There are no amendments to the borrowing strategy, treasury investment strategy, approved counterparties or investment limits.

11. The updated strategy includes a revision to the capital financing requirement figures, with amendments made to reflect the actual capital financing requirement at 31/3/2022 and the revised estimates for the subsequent three years. Please refer to table 2: Balance Sheet Summary and Forecast within Appendix A.

12. The remainder the report provides information on:

- Treasury Management Position
- Current Borrowing
- Interest Rates and Inflation
- Treasury Investment Activity
- Pooled Fund Investments
- Non Treasury Investments

Treasury Management Position - Summary

13. The treasury management position as at 30 September 2022 and the change during the year is shown in the Table 1.

Table 1: Treasury Management Position – Summary

	31/03/2022 Balance £000's	Net Movement £000's	30/09/2022 Balance £000's
Long-term borrowing	-	0	-
short-term borrowing	(128,500)	14,500	(114,000)
Total Borrowing	**(128,500)**	**14,500**	**(114,000)**
Long-term Investments	0	0	0
Short-term Investments	16,550	(13,550)	3,000
Cash and Cash Equivalents	23,500	740	24,240
Total Investment	**40,050**	**(12,810)**	**27,240**
Net Position	**(88,450)**	**1,690**	**(86,760)**

External Borrowing

14. External borrowing has decreased during the first six months of the year due to a significant element of the loan portfolio maturing and improved cash flow has meant that not all the matured borrowing needed replacing.

15. It should be noted that the actual external borrowing held at 30 September 2022 was £114m, in addition, and in line with the treasury management strategy and the principle of minimising borrowing costs forward deals to the value of £27m have been placed.

16. Including the forward deals means the actual and committed borrowing figure rises to £141m as at the end of September 2022. The £27m of forward deals have been secured at rates between 1.25% and 1.95% with the loan periods being between three and four months. If this borrowing were to have been

17. secured today, the rate for the same loan period would be in the region of 3% (based on PWLB rates at 7 November).

18. The external borrowing requirement in respect of the capital programme for 2022/23 was anticipated to be in the region of £20m. As at 30 September 2022 only a small amount of external borrowing has been required to fund the capital expenditure. It is anticipated that expenditure will increase in the second half of the financial year and that external borrowing will be a source of funding in respect of this spend. Therefore, the expectation is that the projected borrowing of £20m will be utilised by the end of the financial year. However, this does not take account of any slippage in capital spend which might be identified as part of the quarter 2 capital programme monitoring.

19. Taking into account the projected borrowing to fund capital spend and the borrowing required for cashflow purposes means the projected value of long term borrowing as at 31 March 2023 is estimated to be in the region of £149m.

20. The external borrowing requirement at the end of the 2022/23 financial year was anticipated to be £146m. There is a small anticipated increase, however this is a projection, and the year end figure for external borrowing is partially dependant on the delivery of the capital programme and the associated borrowing costs.

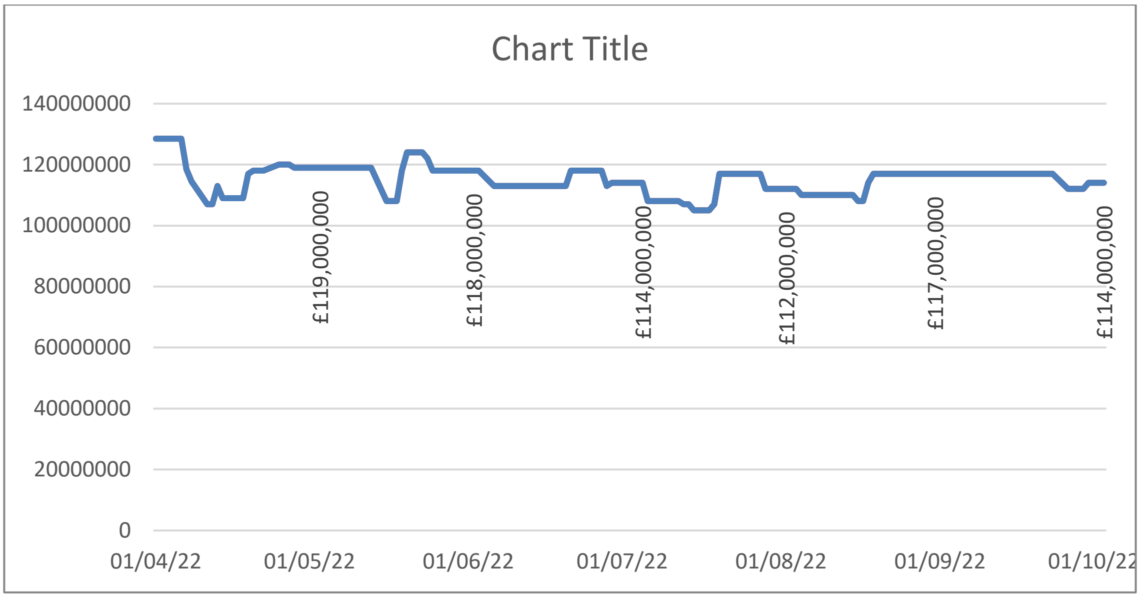
21. As mentioned above, the amount of external borrowing is partially dependent on spend on the projects included in the capital programme progressing as planned, particularly those projects in the Regeneration Programme, and the Council's cash flow position. If project timescales slip the external borrowing amount will be significantly lower than the figure anticipated in the 2022/23 Annual Treasury Management Strategy.

22. The Council's finance team continually review the council's cash flow position and borrowing options in order to keep the cost of borrowing to a minimum. With interest rates rising significantly in recent months and with a rise in rates expected to continue for the foreseeable future continual monitoring of the cashflow position and the available borrowing options is a high priority for the finance team. The securing of forward deals at a significantly lower rate has helped to protect the Council revenue budget from the impact of the recent rate rises.

23. Work is also ongoing with the Council's treasury advisors to further ensure that all borrowing options are considered. It is anticipated that short term rather than long term borrowing will be utilised for the remaining part of the financial year. However, this is kept under review to strike the appropriate balance between costs and cost certainty. If long term borrowing were to become the better option, which is a change of strategy, any decision which may affect the successor council and its future year revenue budget will be taken in line with the Section 24 notice.

24. Graph 1 shows the movement in the external borrowing position for 2022/23. It provides the amount of external borrowing on the first day of each month for the April to September period and the value of borrowing at 30 September 2022 (£114m).

Graph 1: External Borrowing 2022/23



25. Table 2 summarises the external borrowing position as at 30 September 2022. It includes the opening position in respect of external loans, loans repaid, new loans and the average interest rate.

Table 2: External Borrowing Summary

	Amount £'000	Average Interest Rate %
External Loans as at 1 April 2022	**128,500**	**0.20**
New Loans	108,000	1.07
Loans Repaid	(122,500)	0.34
Total External Loans as at 30 September 2022	**114,000**	**1.21**

26. The £114m of external borrowing as at 30 September 2022 is detailed in Table 3. The table shows that we have prioritised the inter-authority lending market, with the short-term loan interest rates ranging from 0.15% to 1.88%.

Table 3: External borrowing as at 30 September 2022

Lender	**Date Borrowed**	**Repayment Date**	**No of Days**	**Interest Rate**	**Amount**
West Yorkshire Police Authority	19/01/2022	18/01/2023	364	0.15%	10,000,000
Guildford Borough Council	19/04/2022	31/03/2023	346	1.00%	2,000,000
Wealden District Council	19/04/2022	31/03/2023	346	1.00%	6,000,000
West Midlands Combined Authority	20/04/2022	21/10/2022	184	0.75%	11,000,000
Rushcliffe Borough Council	27/04/2022	25/11/2022	212	0.85%	3,000,000
West of England Combined Authority	16/05/2022	15/05/2023	364	1.00%	3,000,000
Tendring District Council	19/05/2022	20/02/2023	277	0.85%	5,000,000
West of England Combined Authority	19/05/2022	18/05/2023	364	1.00%	5,000,000
London Borough of Newham	20/05/2022	20/10/2022	153	0.95%	8,000,000
Northumberland County Council	24/05/2022	24/10/2022	153	0.98%	5,000,000
Ards and North Down Borough Council	15/07/2022	17/10/2022	94	1.20%	3,000,000
West Yorkshire Combined Authority	19/07/2022	19/04/2023	274	1.25%	2,000,000
London Borough of Hackney	20/07/2022	20/04/2023	274	1.25%	5,000,000
Spelthorne Borough Council	20/07/2022	20/10/2022	92	1.20%	5,000,000
West Yorkshire Combined Authority	20/07/2022	03/04/2023	257	1.25%	10,000,000
Chichester District Council	21/07/2022	21/10/2022	92	1.20%	5,000,000
The Nottinghamshire Office of the Police & Crime Commissioner	18/08/2022	18/04/2023	243	1.70%	8,000,000
Barnsley Metropolitan Borough Council	19/08/2022	20/02/2023	185	1.65%	3,000,000
West Yorkshire Combined Authority	19/09/2022	20/03/2023	182	1.88%	3,000,000
Barnsley Metropolitan Borough Council	20/09/2022	20/03/2023	181	1.67%	5,000,000
Basildon Borough Council	20/09/2022	20/03/2023	181	1.88%	5,000,000
Brentwood Borough Council	30/09/2022	31/03/2023	182	1.88%	2,000,000
				Total	**114,000,000**

Table 4: Forward deals as at 30 September 2022

Lender	**Date Borrowed**	**Maturity Date**	**No. of Days**	**Interest Rate**	**Amount £**
Warwickshire County Council	20/10/2022	20/02/2023	123	1.9500	5,000,000
Warwickshire County Council	21/10/2022	21/02/2023	123	1.9500	5,000,000
Bolton Metropolitan Borough Council	21/10/2022	21/02/2023	123	1.9800	10,000,000
Crawley Borough Council	25/11/2022	06/03/2023	101	1.2500	5,000,000
Maldon District Council	19/01/2023	19/04/2023	90	1.3300	2,000,000
				Total	**27,000,000**

27. The above information shows that the current strategy of utilising short-term inter-authority lending for the Council's treasury borrowing requirement means interest rates and interest costs are relatively low to date.

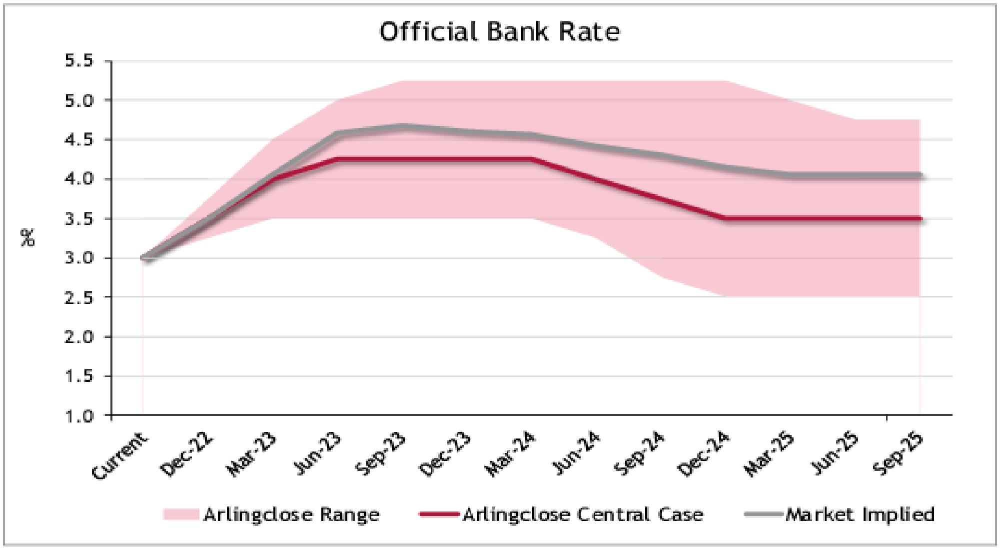
28. The tables also demonstrates that rates have continued to increase in the April to September period and short-term borrowing for a 6 month period can now be sourced in the region of 3.20%. It is anticipated that interest rates will continue to increase, and the assumption is that interest rates for 6 months will be in the region of 4% to 5% by the end of the financial year. The previous advantage of borrowing for short periods to take advantage of the low rates on offer is diminishing and will need to be monitored closely given current and anticipated future rate increases and the risk this creates at the point of re-financing.

Interest Rates

29. The November 2022 economic and interest forecast data provided by the Council's treasury advisors anticipates that interest rates are likely to rise further during 2022/23 to reach 4% by the end of the year.

30. The graph below details the Arlingclose interest rate projection for the period to September 2025.

Graph 2: Interest Rate Projection



31. It is expected that the Bank Rate will continue to be high in 2023 and 2024 in order to dampen aggregate demand and reduce the risk of sustained higher inflation. This action by the Monetary Policy Committee will slow the economy, necessitating cuts in the Bank Rate later in 2024.

32. Further commentary from Arlingclose in respect of the economy and financial markets in provided in appendix B.

Treasury Investment Activity

33. The Council holds significant invested funds, representing income received in advance of expenditure plus cash balances and reserves held. In the first six months of the financial year, the Council's investment balance has ranged between £25.74 million and £40.05 million.

Table 4: Breakdown of Investments as at 30 September 2022

	Date Invested	Maturity Date	Interest Rate %	Nominal Amount £
Treasury Bills				
UK Government T-Bill 0%	30/09/22	10/10/22	2.10	1,000,000
UK Government T-Bill 0%	30/09/22	17/10/22	2.10	2,000,000
Money Market Funds				
Invesco Aim	Various	Not fixed	1.30	740,000
Property & Pooled Funds				
Schroders Income Maximiser (UK Equity)	Various	Not fixed	4.15	6,250,000
CCLA Property Fund	Various	Not fixed	2.48	6,000,000
Fidelity Global enhanced income (Global Equity)	Various	Not fixed	3.86	250,000
Ninety One Diversified Income	Various	Not fixed	3.99	5,000,000
Columbia Threadneedle Strategic Bond	Various	Not fixed	2.99	5,000,000
Royal London Enhanced Cash Plus Fund	Various	Not fixed	1.07	1,000,000
			Total	27,240,000

34. The Council has maintained its strategic fund investments in Property & Pooled Funds at £23.5m and it is estimated that the level of strategic investments as at 31 March 2023 will remain in the region of £23.5m.

Pooled Fund Investment - Values

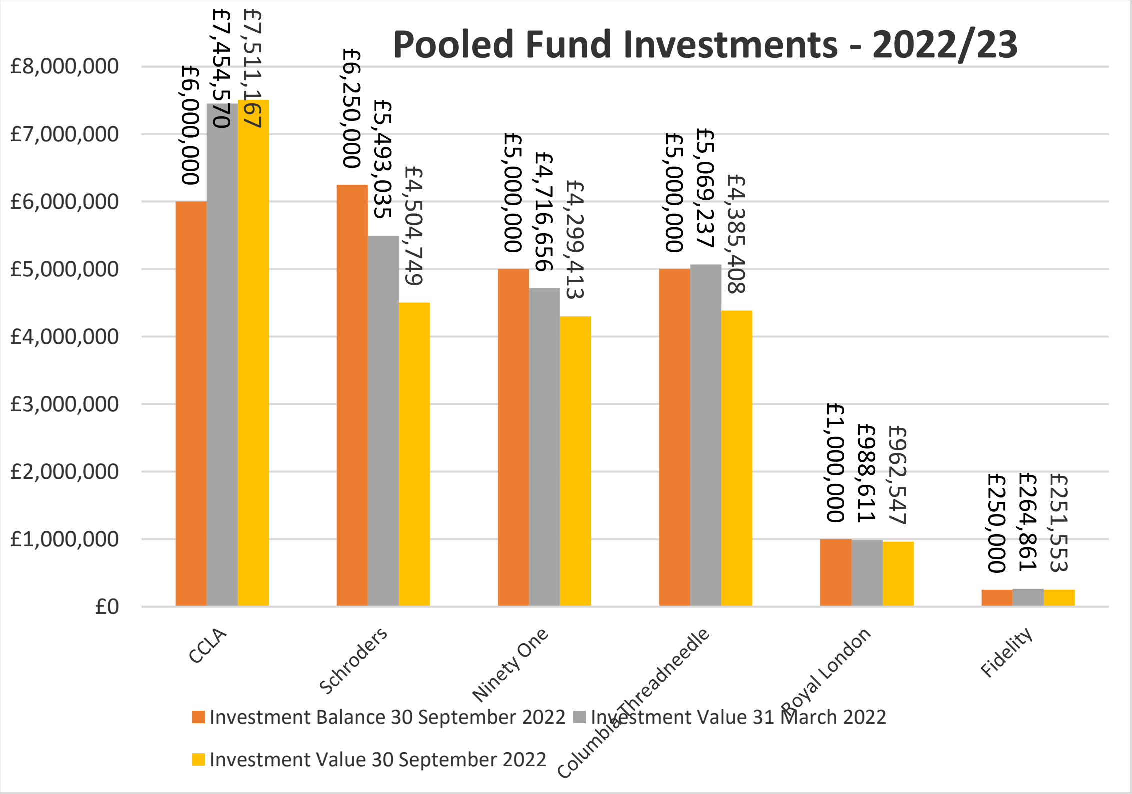
35. The Council’s pooled fund investments are held in externally managed funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. This fits with the objectives of the Council’s overall Financial Strategy.

36. The Council has investments in bond, equity, multi-asset and property funds. The April to September period was a very difficult environment for bonds engendered by global central banks’ determination to bring high and persistent inflation under control through increases in policy rates. The sell-off in gilts, other sovereign bonds and corporate bonds with a rise in gilt/bond yields (i.e. a fall in price) was reflected in the Authority’s bond and multi-asset income funds. The fall in equity valuations is reflected in the equity and multi-asset income funds.

37. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council’s medium to long term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

38. The investment balance as at 30 September 2022 and the value of each investment as at 1 April and 30 September are detailed in the following chart.

Graph 3: Pooled Fund Investments 2022/23



Note: Pooled fund investments are revalued to reflect the fair value of the investment, the second and third bars in the graph signifies this value at 31 March 2022 and 30 September 2022. The first bar represents the nominal investment balance in each fund at 30 September 2022.

39. Table 5 below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year-end and mid-year valuation. The table shows that the 'fair value' of the portfolio has decreased by £2.072m, which is a decrease of 8.64% between 1 April and 30 September, reflecting volatility in market value. The strategy works on the basis that investment values will go up and down, but annual income return remains positive, and the Council would not plan to redeem the investment when its value is below the nominal balance unless this would be a prudent course of action.

Table 5: Pooled Fund Investments as at 30 September 2022

Investment	**Investment Balance 30/09/2022 £**	**Investment Value 01/04/2022 £**	**Investment Fair Value 30/09/2022 £**
CCLA	6,000,000	7,454,570	7,511,167
Schroders	6,250,000	5,493,035	4,504,749
Ninety One	5,000,000	4,716,656	4,299,413
Columbia Threadneedle	5,000,000	5,069,237	4,385,408
Royal London	1,000,000	988,611	962,547
Fidelity	250,000	264,861	251,553
Total	**23,500,000**	**23,986,970**	**21,914,837**

Pooled Fund Investment – Income Return

40. The income generated from pooled fund investments for the first six months of 2022/23 and the rate of return is detailed in the following Graph 4 and Table 6. This demonstrates that the investment in the Schroder Income Maximiser, Ninety One and Columbia Threadneedle have performed well in terms of income and rate of return on investment.

41. Overall, the return on pooled funds has positively averaged 5% during the first six months of the financial year.

Graph 4: Interest Received and Rate of Return 1 April to 30 September

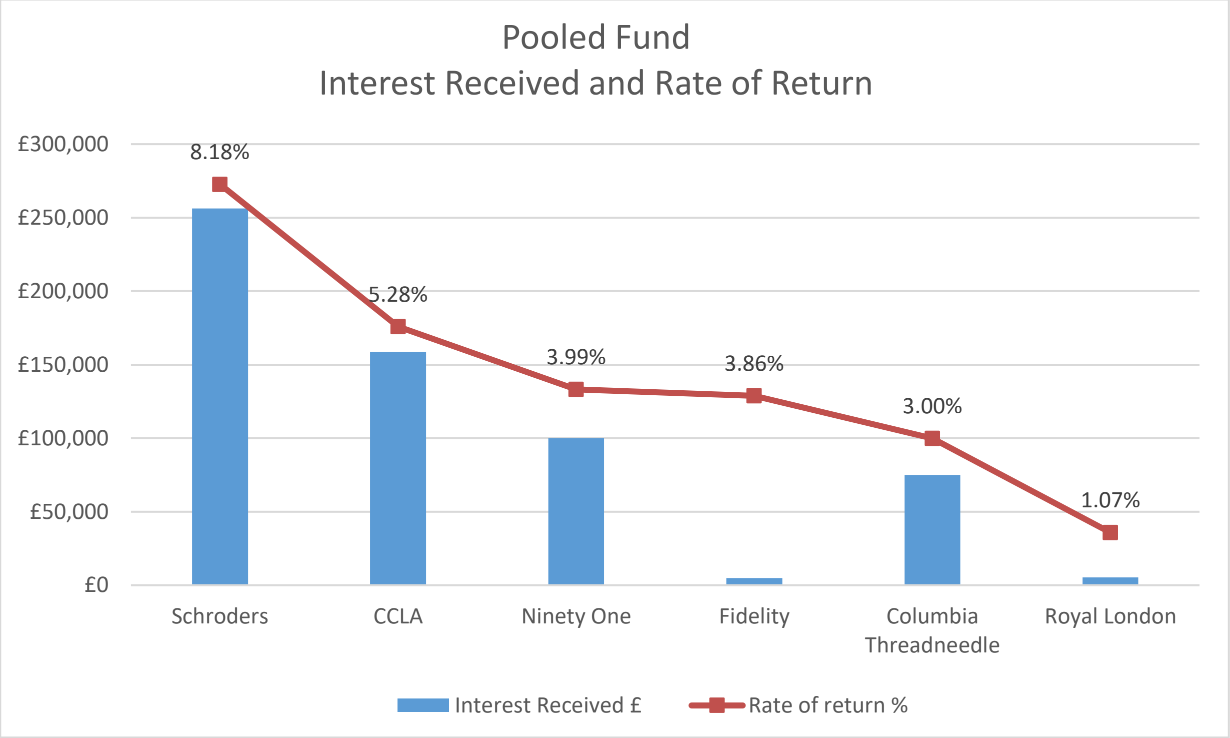


Table 6: Pooled Fund Investment Interest at 30 September 2022

Fund	Interest Received £	Rate of return %
Schroders	£256,329	8.18%
CCLA	£158,739	5.28%
Ninety One	£100,130	3.99%
Fidelity	£4,842	3.86%
Columbia Threadneedle	£75,121	3.00%
Royal London	£5,388	1.07%
Total	**£600,548**	**5.11%**

Non-Treasury Investments

42. The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

43. In addition to its treasury investments, the Council also holds £43.58m in other investments in the form of loans to third parties. The loans values are detailed below (as at 30 September 2022):

- Loan to Community Organisation - £0.13m
- Loan to Trading Company - £0.05m
- Loan to Local Authority Partnership - £3.43m
- Loan for Commercial Activities - £39.97m

44. The detail of the Council's total investment in commercial investment property is reported separately. As part of its Commercial Strategy, investment in property has increased significantly in the past three years. The value of investment properties held on the balance sheet as at 31 March 2022 (including some properties held for a substantial period of time) was £89.97m. This is unchanged as at 30 September 2022 due to the Council decision to cease making acquisitions of this nature in order to comply with the revised Prudential Code.

Financial Implications

45. There are no additional financial implications in reviewing the attached treasury management strategy.

Background Papers:	*Treasury Management Strategy 2022/23 (Full Council February 2022)*

South Somerset
District Council

Investment and Treasury Strategies

2022/23 to 2024/25

Introduction

1. Treasury management is the management of the Council's cash flows, borrowing and investments and the associated risks. The Council 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 finical risk are, therefore, central to the Council's prudent financial management.

2. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. All the indicators required to be published under CIPFA's (Chartered Institute of Public Finance & Accountancy) and DLUHC (Department for Levelling Up, Housing & Communities) Investment Code are found in Appendix C.

Overall Position to-date and medium term forecast

4. On 30th September 2022, the Council had external borrowing of £114m and 27m of treasury investments. These balances are summarised below.

Table 1: Existing Debt and Investment Position

	01/04/2022 Balance £'000	**30/09/2022 Balance £'000**
External Borrowing:		
Local Authorities	(128,500)	(114,000)
Total External Borrowing	(128,500)	(114,000)
Treasury Investments:		
Treasury Bills	0	3,000
Term Deposits (Other LA's and Banks)	16,550	0
Money Market Funds & Business Reserve	0	740
Property and Pooled funds	23,500	23,500
Total Treasury Investments	40,050	27,240
Net Debt(-)/Investment	(88,450)	(86,760)

5. Forecast changes in these sums are shown in the balance sheet analysis in the table below.

Table 2: Balance Sheet Summary and Forecast

	2021/22 Actual £'000	2022/23 Projection £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Financing Requirement	143,901	156,756	156,249	155,323
Less: External Borrowing	(128,500)	(149,116)	(151,921)	(154,362)
Less: Other Debt Liabilities (Leases)	(5)	0	0	0
Internal Borrowing	**15,396**	**7,640**	**4,328**	**961**
Less: Usable Reserves	(54,362)	(27,213)	(21,555)	(17,146)
Less: Working Capital Surplus (-) / Deficit	(2,800)	(2,800)	(2,800)	(2,800)
Treasury Investments / New Borrowing (-)	**(41,766)**	**(22,373)**	**(20,027)**	**(18,985)**

Note: The 2023/24 and 2024/25 figures in table 2 are the projected balance sheet figures if the council were to continue to exist and are not the balance sheet figures of the new unitary authority.

Borrowing Strategy

6. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

7. The Council had an increasing CFR due to the spend within the capital programme including significant expenditure on regeneration schemes. The trend of expenditure indicates it will be required to borrow up to £154m over the forecast period.

8. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table above demonstrates that the projected level of outstanding debt is lower than the CFR for the period.

9. The Council currently holds £114m of loans (as at 30 September 2022), compared to £128m on 1 April 2022, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 2 shows that the Council expects to borrow up to £149m in 2022/23. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the proposed authorised limit for borrowing of £195m.

10. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and

achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective. In addition, given that a new unitary authority will come into being on 1st April 2023 there is need to not undertake longer term loan agreements, unless required, in order to give maximum flexibility to the new council to best manage the consolidated Capital Financing Requirement of the five councils.

11. With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short term to either use internal resources, or to borrow short term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

12. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

13. Discussions will continue be held with the other S151 Officers within Somerset to assess on a combined basis whether it is beneficial that the council/s borrow additional sums in 2022/23 at long-term fixed rates.

14. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period (although forward loan interest rates will usually factor in an allowance for interest rate risk during the intervening period).

15. Additionally, the Council may borrow further short term loans to cover unplanned cash flow shortages.

16. The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private pension funds (except Somerset County Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

17. Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private finance initiative
- Sale and leaseback

18. Debt rescheduling: The HM Treasury's PWLB lending facility allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

20. The Council invests funds that it holds for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),

- to support local public services by lending to or buying shares in other organisations (service investments), and

- to earn investment income (known as commercial investments where this is the main purpose).

21. This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018.

Treasury Management Investments

22. The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £30m and £60m during the 2022/23 financial year.

23. The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

24. The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest

rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

25. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council has diversified into more secure and/or higher yielding asset classes. The Council has maintained its strategic (long-term) investments at £23.50m and it is estimated to remain at this level as at the end of 2022/23. We do not plan to make any new strategic investments but will continue to review the portfolio with Arlingclose and will make any necessary investments based on risk and return.

26. The Council will continue to monitor the risk and returns on its strategic (long-term) investments and will work closely with its treasury advisors ensuring that strategic investments continue to be an appropriate option for the Council.

27. A proportion of the Council's surplus cash is currently invested in short-term unsecured bank deposits, money market funds and other local authorities.

28. Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's 'business model' for managing them. The Council aims to achieve value for money from its internally managed treasury investments by a business model of collecting the contractual cash flows and, therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

29. **Approved Counterparties:** The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3 m 5 years	£6 m 20 years	£6 m 50 years	£3 m 20 years	£3 m 20 years
AA+	£3 m 5 years	£6 m 10 years	£6 m 25 years	£3 m 10 years	£3 m 10 years
AA	£3 m 4 years	£6 m 5 years	£6 m 15 years	£3 m 5 years	£3 m 10 years
AA-	£3 m 3 years	£6 m 4 years	£6 m 10 years	£3 m 4 years	£3 m 10 years
A+	£3 m 2 years	£6 m 3 years	£3 m 5 years	£3 m 3 years	£3 m 5 years
A	£3 m 13 months	£6 m 2 years	£3 m 5 years	£3m 2 years	£3 m 5 years
A-	£3 m 6 months	£6 m 13 months	£3 m 5 years	£3 m 13 months	£3 m 5 years
None	n/a	n/a	£6 m 25 years*	n/a	£3 m 5 years
Money market funds, Strategic pooled funds and real estate investment trusts		£10m (nominal value) per fund or trust			

30. **Credit rating**: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

31. **Banks unsecured**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

32. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

33. **Corporates**: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £2m per company as part of a diversified pool in order to spread the risk widely.

34. **Registered providers (unsecured)**: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

35. **Money market funds**: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

36. **Strategic pooled funds**: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

37. **Real estate investment trusts**: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

38. **Operational bank accounts**: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £200,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

39. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

40. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

41. **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

42. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

43. **Investment Limits:** The Council's revenue reserves available to cover investment losses are forecast to be £3m on 31 March 2023. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and

multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£12m per country
Registered providers and registered social landlords	£8m in total
Unsecured investments with building societies	£8m in total
Loans to unrated corporates	£4m in total
Money market funds	£20m in total
Real estate investment trusts	£10m in total

44. **Liquidity management**: The Council uses an in-house spreadsheet based cash flow forecasting model to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

45. The Council will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Service Investments – Loans

46. The Council lends money to local businesses, local charities, other local authority partnerships, and local residents to support local public services and priorities, and stimulate local economic growth. Currently the Council has loans invested with:

- Hinton St George Shop
- Somerset Waste Partnership – for waste vehicles, with added benefit of keeping waste contract costs down

47. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to minimise this risk and ensure that total exposure to service loans remains proportionate to the

size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 5: Loans for Service Purposes

Category of Borrower	Actual as at 30/09/2022			2022/23 Approved Limit £k
	Balance Owing £k	Loss Allowance £k	Net Figure in Accounts £k	
Local Businesses	127	0	127	200
Local Authorities	3,428	0	3,428	7,500
Community (small) Loans	0	0	0	1,000
Employees	13	0	13	100
Total	3,568	0	3,568	8,800

48. Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Councils statement of accounts will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

49. No loss allowance is set aside for the current loans made for service purposes. In the case of the loan to the local business and the loan to the joint operation, the Council has a charge over the asset. The asset values are currently higher than the value of the balance owing on the respective loans, therefore no loss allowance is currently required. Assets are revalued in line with the accounting policies and the loss allowance will be revised if asset value reduces to a level below the balance outstanding on the loan.

50. The Council assesses the risk of loss before entering into and whilst holding service loans by working up a robust business case and applying due diligence to all requests for service loans, and proportionate monitoring of credit risk of borrowers. For example, with loans to key businesses the Council's finance specialist team (qualified accountants) will review financial statements and service officers will maintain communication with the borrower in order that emerging risks are identified promptly. The Council will use credit rating information where available, and will use external specialist advisors if appropriate.

Service Investments – Shares

51. The Council does not currently hold any direct investment in the shares of subsidiaries, its suppliers or local businesses.

Commercial Investments – Property

52. The Council has invested in a diverse investment property portfolio both locally and nationally with the intention of generating surplus income that will be spent on local public services delivered within the district. This was in response to

significant reductions in government funding over recent years and in order to meet service delivery objectives and the place making role of the Council.

53. The Council agreed at its meeting on 16th December 2021 to no longer make such investments due to changes in the revised Prudential Code that no longer allowed such investments to be undertaken.

55. In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. The Council also recognises that asset values may increase and decrease over time due to market volatility, and takes a long term perspective with the assumption that capital values are likely to hold or grow over the life of the asset.

56. Where value in accounts is at or above purchase cost: A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2021/22 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Or

57. Where value in accounts is below purchase cost: The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss, and the Council is therefore taking mitigating actions to protect the capital invested. These actions include: planning to hold the assets for the long term; maintaining assets to appropriate quality; mitigating risk of realised losses through maintaining adequate funds in an Investment Risk Reserve, and reducing capital borrowing through its MRP policy.

58. The Council assesses the risk of loss whilst holding property investments by undertaking appropriate due diligence including full valuation surveys and operating an asset management plan. The Council also considers strength of local market conditions to give confidence on future re-letting and also considers possible alternative uses if appropriate, and actively monitors the portfolio to ensure tenant obligations for maintaining assets are fulfilled.

59. Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council actively manages cash flow through its treasury management arrangements and plans to under-borrow against its CFR so that it can temporarily borrow at short notice if required.

60. The Council's asset disposal policy includes the approved process for asset disposal and performance indicators (property management indicators) which provide the information on the performance of each property. The performance

indicators provide information on assets which are not yielding the level of return required.

61. The Council uses industry standard software, to track the performance of its investment portfolio. The software is capable of monitoring running yields asset by asset and across the portfolio, and adopting multiple scenarios. By continually reviewing the market, the tenant covenant and unexpired lease term of each property, the Council is able to find the optimum time to dispose of assets.

Other Categories of Investment

Table 6: Other Categories of Investment

Category of Borrower	Actual as at 30/09/2022			2022/23 Approved Limit £k
	Balance Owing £k	Loss Allowance £k	Net Figure in Accounts £k	
Joint Operations	39,972	0	39,972	40,000
Total	39,972	0	39,972	40,000

62. **Special Purpose Vehicles -** The Council has setup a special purpose vehicle (SSDC Opium Power Ltd) which has successfully delivered a renewable energy project, a second project is nearing completion and a third project is in the early stages of development. The Council's is continuing its journey into ownership and development of renewable energy which will provide essential support to the National Grid for balancing power demand and storing renewable energy. The company is 50:50 owned between the Council and Opium Power Limited, with the Council providing a secured term loan facility to the SPV. A repayment schedule for both projects has been agreed with the SPV as part of the loan conditions.

Proportionality

63. The table below shows the extent to which the expenditure planned to meet the service delivery objectives and place making role of the Council is dependent on achieving the expected net income from investments over the lifecycle of the Medium Term Financial Plan.

64. Should it fail to achieve the expected net income, the Council's contingency plans for continuing to provide these services including holding adequate funds in an earmarked Investment Risk Reserve as well as carrying adequate General Reserves. Budget estimates are also set using prudent assumptions about net income from the portfolio

Table 7: Proportionality of Investments

	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Gross Service Expenditure	72,256	72,280	69,807	72,618
Investment Income:				
Treasury Investments	1,950	2,486	2,906	2,587
Commercial Investments	6,468	6,982	5,732	5,385
Total Investment Income	8,418	9,468	8,638	7,972
Proportion %	**11.65%**	**12.75%**	**12.37%**	**10.98%**

65. Investment income shown in the above table is the gross income included in the budget estimates, disregarding asset management and capital financing costs.

Borrowing In Advance of Need

66. Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Up to December 2021, the Council has chosen not to follow this guidance and borrowed for this purpose to generate income to lessen the impact of reductions in grant funding from Government.

67. On the 16 December 2021, Council agreed not to undertake any new commercial investments in order to be compliant with the revised prudential code.

Related Matters

68. **Financial Derivatives**: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

69. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

70. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

71. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

72. **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the S151 Officer believes this to be the most appropriate status.

Financial Implications

73. The budget for investment income and debt interest in 2022/23 is summarised as follows:

Table 8: Interest Income and Costs Budget Estimates

	2022/23 Investment Income £'000	2022/23 Average Interest Rate %	2022/23 Interest Costs £'000	2022/23 Average Interest Rate %	2022/23 Net Income or Costs £'000
Total	(2,486)	2.00%	1,197	1.00%	(1,289)

74. If actual levels of investments and borrowing, or actual interest rates differ from those forecast, performance against budget will be correspondingly different. Significant variances will be identified in budget monitoring reports to the Senior Leadership Team and the District Executive.

Other Options Considered

75. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer, having consulted the Portfolio Holder for Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

APPENDIX B – Additional commentary from Arlingclose

External Context

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the

UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Credit review:

In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

South Somerset
District Council

Audit Committee Forward Plan

SLT Lead:	Karen Watling, Chief Finance Officer
Lead Officer:	Becky Sanders, Case Officer (Strategy & Commissioning)
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Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendations

Members are asked to note and comment upon the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked *in italics* are not yet confirmed.

Background Papers

None.

Audit Committee Forward Plan

Meeting Date	**Item**	**Responsible Officer**
15th Dec 2022	2020/21 External Audit Findings Report	Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)
	2020/21 Audited Statement of Accounts	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
	2020/21 Annual Governance Statement	Chief Executive and Monitoring Officer
	2022/23 Treasury Management Mid-Year Treasury Performance and Strategy Update	Lead Specialist Finance (Deputy S151 Officer)
	2020/21 Housing Benefits Certificate of Claims Report	Lead Specialist Finance (Deputy S151 Officer)
	Training on Treasury Management – arranged – all members invited (evening)	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
26th January 2023	2021/22 External Audit Findings Report	Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)
	2021/22 External Auditors' Annual Report (to go to full Council)	Barrie Morris, Director, and Beth Garner, Manager (Grant Thornton)
	Approval of 2021/22 audited Statement of Accounts	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
	Approval of 2021/22 Annual Governance Statement	Chief Executive, Monitoring Officer and Chief Finance Officer
	2021/22 Housing Benefits Certificate of Claims Report *(tbc)*	Lead Specialist Finance (Deputy S151 Officer)
	2022/23 Q3: Internal Audit Progress Report	Alistair Woodland, Assistant Director (SWAP)
	Risk Management Update Q3 2022/23	Lead Specialist, PPC
	Update on Improving Environmental Services and Corporate Governance	Chief Executive, Director Strategy Support and Environmental Services

23rd March 2023	2022/23 Annual Health & Safety Update	Lead Specialist – Strategic Planning
	2022/23 Annual Civil Contingencies	Lead Specialist – Strategic Planning
	2022/23 Annual Whistleblowing Update	Monitoring Officer
	2022/23 Internal Audit Outturn Report	Alistair Woodland, Assistant Director (SWAP)
	2022/23 Q4 Risk Management Update	Lead Specialist, PPC
	2022/23 Internal Audit Annual Opinion Report	Alistair Woodland, Assistant Director (SWAP)
	2022/23 Draft Annual Governance Statement Note: expect supplementary change order provisions will require the dissolving councils to prepare and approve their final Annual Governance Statement by 31 March 2023	Chief Executive, Monitoring Officer and Chief Finance Officer