

**SWT Audit, Governance and Standards Committee**

**Wednesday, 31st July, 2019,  
1.00 pm**

**Somerset West  
and Taunton**

**The John Meikle Room - The Deane House**

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**Members:** Sue Buller (Chair), Lee Baker (Vice-Chair), Simon Coles, Dixie Darch, Hugh Davies, Caroline Ellis, Janet Lloyd, Steven Pugsley, Vivienne Stock-Williams, Terry Venner, Sarah Wakefield, Mrs Anne Elder, Sally de Renzy-Martin and Bryn Wilson

### **Agenda**

**1. Apologies**

To receive any apologies for absence.

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

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

**3. Declarations of Interest**

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

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

**4. Public Participation**

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

For those members of the public who have submitted any questions or statements, please note, a three minute time

(Pages 5 - 12)

limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

- 5. Audit, Governance and Standards Committee Action Plan** (Pages 13 - 14)

To update the Audit, Governance and Standards Committee on the progress of resolutions and recommendations from previous meetings of the Committee.
- 6. Audit, Governance and Standards Committee Forward Plan** (Pages 15 - 16)

To receive items and review the Forward Plan.
- 7. Fire Risk Assessment** (Pages 17 - 26)

The purpose of this report is to address the committee's concerns from the meeting held on 26 June 2019, with regard to Fire Safety Management across domestic and commercial portfolios, and based on the follow-up review which identified a number of outstanding issues.
- 8. Annual Governance Statement 2018-19** (Pages 27 - 58)

The purpose of the report is to provide the Audit, Governance and Standards Committee with an update on the 2018/19 Annual Governance Statements since they were approved in March 2019.
- 9. Assessment of Going Concern Status** (Pages 59 - 68)

The purpose of the report is to inform the Audit, Governance and Standards Committee of the Strategic Finance Advisor and S151 Officer's assessment of Taunton Deane Borough Council (TDBC) and West Somerset Council (WSC) as a "going concern" for the purposes of producing their Statement of Accounts for 2018/19.
- 10. Grant Thornton External Audit - West Somerset Council Audit Findings Report 2018-19** (Pages 69 - 98)

The purpose of the report is to introduce the annual report of our external auditor Grant Thornton outlining their findings from their audit of the Statement of Accounts for West Somerset Council (WSC), and the arrangements to secure Value for Money.
- 11. Approval of West Somerset Council Statement of Accounts 2018-19** (Pages 99 - 196)

The Statement of Accounts for 2018/19 is required to be approved by the Audit Governance and Standards

Committee and signed by the S151 Officer and the Chair of the Audit Governance and Standards Committee.

**12. Grant Thornton External Audit - Taunton Deane Borough Council Audit Findings Report 2018-19**

(Pages 197 - 226)

The purpose of the report is to introduce the annual report of our external auditor Grant Thornton outlining their findings to date from their audit of the Statement of Accounts for Taunton Deane Borough Council (TDBC), and the arrangements to secure Value for Money.

**13. Approval of Taunton Deane Borough Council Statement of Accounts 2018-19**

(Pages 227 - 328)

The Statement of Accounts for 2018/19 is required to be approved by the Audit, Governance and Standards Committee and signed by the S151 Officer and the Chair of the Audit Governance and Standards Committee.



**JAMES HASSETT  
CHIEF EXECUTIVE**

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If an item on the agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group. These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room. Full Council, Executive, and Committee agendas, reports and minutes are available on our website: [www.somersetwestandtaunton.gov.uk](http://www.somersetwestandtaunton.gov.uk)

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**SWT Audit, Governance and Standards Committee - 26 June 2019**

Present: Councillors Lee Baker, Sue Buller, Simon Coles, Dixie Darch, Hugh Davies, Caroline Ellis, Janet Lloyd, Vivienne Stock-Williams, Terry Venner, Sarah Wakefield, Mrs Anne Elder and Bryn Wilson

Officers: Aditi Chandramouli, Geri Daly, Alastair Woodland, Paul Fitzgerald, Amy Tregellas and Clare Rendell

Also Present: Councillors Chris Booth, Peter Pilkington and Loretta Whetlor

(The meeting commenced at 6.15 pm)

1. **Appointment of Chair**

**Resolved** that Councillor S Buller be appointed Chair of the Audit, Governance and Standards Committee for the remainder of the Municipal Year.

2. **Appointment of Vice Chair**

**Resolved** that Councillor L Baker be appointed Vice-Chair of the Audit, Governance and Standards Committee for the remainder of the Municipal Year.

3. **Apologies**

Apologies were received from Councillor S Pugsley and Mrs S de Renzy-Martin.

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

(Minutes of the meetings of the West Somerset Audit Committee held on 19 March 2019 and the Shadow Corporate Governance and Standards Committee held on 18 March 2019 circulated with the agenda)

**Resolved** that the minutes be noted for information only.

5. **Declarations of Interest**

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

Name	Minute No.	Description	Reason	Action Taken
Cllr L Baker	All Items	Cheddon Fitzpaine & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr S Coles	All Items	SCC, Taunton Charter Trustee & Devon &	Personal	Spoke and Voted

		Somerset Fire Authority		
Cllr H Davies	All Items	SCC	Personal	Spoke and Voted
Cllr C Ellis	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr J Lloyd	All Items	Wellington & Sampford Arundel	Personal	Spoke and Voted
Cllr V Stock-Williams	All Items	Wellington	Personal	Spoke and Voted
Cllr T Venner	All Items	Minehead	Personal	Spoke and Voted

Councillor L Baker further declared an interest as he was an employee of the Lloyds Banking Group.

6. **Public Participation**

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

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

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

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

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

8. **Grant Thornton External Audit - Taunton Deane Borough Council Audit Progress Report and Sector Update 2018/19**

During the discussion, the following points were raised:-

- Councillors were pleased with the report, however, concern was raised on the five year cycle for revaluation of assets.  
*The Section 151 Officer confirmed that the authority followed a code of practice guidance for the revaluation and it stated that the minimum requirement was to revalue assets at least every five years, officers tried to complete the works on a rolling programme either with the use of an internal team or via external contractors. Good progress had been made and he understood that five years was a long cycle. Officers tried to keep up to date with any changes to the assets that would affect the valuation.*
- Councillors requested clarification on whether a large group of similar properties, such as the housing stock, would be valued in a group.  
*Yes they were.*
- Councillors queried when right to buy properties were sold, were they valued at point of sale or was the previous valuation used.

*Officers confirmed that the properties were valued at point of sale due to the defined discount that would be applied.*

- Councillors queried why the option for right to buy was still used within Somerset West and Taunton Council (SWT).

*It was a Government policy and tenants had the right to buy their property once they had lived in it for a certain amount of years, however, officers confirmed there were several conditions applied before the property could be bought.*

- Councillors queried whether SWT had the option to not offer the right to buy.

*A written answer would be distributed to the Committee.*

**Resolved** that the Audit, Governance and Standards Committee noted the Taunton Deane Borough Council Audit Progress Report and Sector Update.

9. **Grant Thornton External Audit - West Somerset Council Audit Progress Report and Sector Update 2018/19**

During the discussion, the following points were raised:-

- Concern was raised on how the auditors would engage with officers, especially now that several had left the authority.

*The External Auditor confirmed that majority of the officers were still in post and that they had engaged with others to ensure they gathered all the appropriate information before they left. They confirmed that they had been working with officers since late in 2018 and that SWT had the responsibility to sign off the accounts for Taunton Deane Borough Council (TDBC) and West Somerset Council (WSC).*

- Councillors hoped that robust procedures had now been put in place for SWT and queried whether procedures had been reviewed.

*Officers confirmed that procedures had been checked as part of the audit process.*

- Councillors requested clarification on what self-authorisation of journals meant.

*The Section 151 Officer confirmed that a journal was an action or transaction on the finance system and when an officer raised a journal, it required a colleague to authorise it, which meant officers were prevented from processing an invoice, credit note or payment run without being checked.*

- Concern was raised that there wasn't any procedures in place to prevent that from happening.

*A written answer would be distributed to the Committee, however, checks had been built into the process to prevent that from happening.*

- Councillors wanted assurance that self-authorisation would not happen.

*Officers gave assurance and confirmed that once it was highlighted that an officer could self-authorise, their transactions would be thoroughly checked.*

**Resolved** that the Audit, Governance and Standards Committee noted the West Somerset Council Audit Progress Report and Sector Update.

10. **Grant Thornton External Audit - Audit Fees 2019/20**

During the discussion, the following points were raised:-

- Councillors queried what the length of the auditor appointment was and when it was reviewed.  
*The External Auditor confirmed that they were appointed via a five year contract through the Public Sector Auditor Appointment (PSAA) and that the contract had started in 2018, so TDBC and WSC were in year one of five and that SWT had carried on from their contract and were in year two of five.*
- Councillors queried how many people and hours were involved in the audit work.  
*The External Auditor confirmed that an average Council had approximately 110-180 days of people time but that it varied based on the risk and that the National Audit Office could change the value for money calculation at any time.*
- Councillors queried whether there were any spare audit days included in the fee calculation.  
*No, the amount of days were allocated to work towards targets that had been set. Any additional days would be charged as an extra and the fee would be set by the PSAA.*

**Resolved** that the Audit, Governance and Standards Committee noted the 2019-20 planned audit fee.

11. **SWAP Internal Audit - Progress Report 2019/20**

During the discussion, the following points were raised:-

- Councillors thanked the Internal Auditor for the report.
- Concern was raised on the partial assurance given on the fire risk assessments and Councillors queried whether they were annual tests that needed to be completed.  
*The Internal Auditor would distribute the full report to the Committee but confirmed the tests were a legal requirement.*
- Councillors queried who would ensure that the fire risk assessments were carried out.  
*The Internal Auditor confirmed that there would be a department within the Council who would be responsible for completing the assessments, however, as a result of transformation, there had been changes within departments.*
- Councillors highlighted that fire safety was an area of concern now that the fire services provided in the district were being reduced.
- Councillors wanted to ensure that the fire risk assessments were carried out when required during August to October 2019 and that a schedule of works was compiled for the assessments.
- Councillors highlighted that private landlords were required to complete the assessments and that fire safety had been given a high profile since the Grenfell tragedy.



*Officers advised that a report could be brought to the next meeting of the Committee.*

- Councillors did not want to wait until the next meeting, they wanted assurance that the works would be carried out.

*Officers confirmed that properties were currently compliant but that the assessments would start to expire in August 2019 on some properties.*

- Councillors queried what works had not been carried out on the commercial property mentioned within the report that made it non-compliant.

*A written response would be circulated to the Committee. Officers could confirm that resource was in place to carry out the works but there were no checks in place to ensure the work was actually carried out.*

- Councillors requested that a report was brought to the meeting scheduled for July 2019.

**Resolved** that the Audit, Governance and Standards Committee:-

- a) Noted progress made in delivery of the 2019-20 internal audit plan and significant findings since the previous update in March 2019; and
- b) Requested that the Chair of the Committee wrote to the Head of Function for a written response on the partial assurance given on the fire risk assessments and that they were required to attend the meeting scheduled to be held on 31 July 2019 to give a full update report.

12.

### **Taunton Deane Borough Council Treasury Management Outturn Report 2018/19**

During the discussion, the following points were raised:-

- Councillors queried whether TDBC had finished paying off the loan on the Housing Revenue Account for coming out of the subsidy scheme.  
*Officers confirmed the loan had not been cleared, it was a long term scheme that matured in 2030.*
- Councillors queried whether officers had looked to refinance prior 2030 because they had noticed there were debts structured on fixed rate options available which could incur some rate costs if the Council wanted to clear the debt prior to 2030 and queried whether that had been built into the plans.  
*Both officers from SWT and Arlingclose had monitored the rates and confirmed that there would be a fee for an early exit of the scheme.*
- Councillors were pleased to see a rating of A-, which was a strong position to be in.
- Councillors queried which credit agencies were mentioned in the report.  
*Officers confirmed the three credit rating agencies were Standard and Poor's, Moody's and the Fitch Group. Officers explained why Standard and Poor's had been used.*
- Councillors queried whether the temporary borrowing of £10,000,000 to cover a short term cash flow issue was a common occurrence within the Council.  
*The Section 151 Officer confirmed that it did not happen every year, but could in the future. They had to strike a balance in the treasury*

*arrangements between borrowing and investment. It was very common in Local Authorities for their cash balances to be low at the end of the financial year and it normally peaked mid-year, so sometimes they had to borrow to get through until year end.*

- Councillors requested clarification that the Council could only borrow against what the revenue income figure.

*Clarification was given on the capital finance requirement.*

- Concern was raised that the borrowing had increased year on year and that investments had decreased year on year and that the Council would hit a 'brick wall'.

*The Section 151 Officer gave reassurance that he was confident because the Council had a balanced budget and that there were planned use of reserves. There were significant reserves on the balance sheet both in terms of revenues reserves and capital reserves.*

**Resolved** that the Audit, Governance and Standards Committee noted the Taunton Deane Borough Council Treasury Management activity for the 2018-19 financial year and compliance with the Prudential Indicators before recommendation to Full Council for information.

### 13. **West Somerset Council Treasury Management Outturn Report 2018/19**

During the discussion, the following points were raised:-

- Councillors queried when the Section 106 money needed to be spent. *Officers confirmed there were Government arrangements in place that had been agreed on what happened with the funds. There was a Planning Obligations Board that would meet and agree how the funds were allocated. The majority of the funding had been committed but not spent yet.*
- Councillors understood there were time constraints on the Section 106 money being spent. *A written response would be distributed to the Committee.*
- Councillors highlighted the pressures they faced in the Stogursey area from the local community. *Officers confirmed that in the former WSC, reports were taken to Full Council on the Community Impact Mitigation Funds, which could continue within the SWT governance arrangements.*
- Councillors requested clarification on the capital expenditure and queried did the grant from Government have to be paid back. *Clarification was given that it was a timing issue and that the funding had rolled into the next financial year.*

**Resolved** that the Audit, Governance and Standards Committee noted the West Somerset Council Treasury Management activity for the 2018-19 financial year and compliance with the Prudential Indicators before recommendation to Full Council for information.

### 14. **Code of Corporate Governance**

During the discussion, the following points were raised:-

- Councillors queried whether the whistle blowing policy was used by officers who had concerns about their colleagues.  
*The Governance Manager confirmed that it was for officer use and that it needed to be merged from two policies, which belonged to the former TDBC and WSC, into one document.*
- Councillors queried whether the Code needed to address climate change and the motion on scrutiny's approach to the policy.  
*The wording used in the Code was taken from guidance documents. The motion had not been fed back into policies yet and officers hoped that it would by the next update in March 2020.*
- Councillors advised that once a motion had been adopted by Full Council, it should automatically be included in policies.  
*Officers confirmed that the motion on climate change would gradually start to be fed in to reports and policy.*
- Councillors requested clarification that the Code was a work in progress and could be amended at any point.  
*The Governance Manager confirmed that the Code was constantly updated and was reported to the Committee on an annual basis.*
- Councillors queried whether officers knew how to use the whistle blowing policy or where to find the document.  
*The Governance Manager was not sure but knew it was highlighted in the inductions carried out for new joiners to the authority. The Governance and Democracy Case Manager confirmed that officers might not know the details of the policy but should know where to find the document.*

**Recommended** that the Audit, Governance and Standards Committee approved the Code of Corporate Governance.

## 15. **Constitution Report**

During the discussion, the following point was raised:-

- Councillors highlighted that the wording used in part 4.2 did not include the Chief Executive Officer in the list of who should be included in the panel.  
*The Governance Manager would add that to the report.*

**Recommended** that the Audit, Governance and Standards Committee recommended the following amendments:-

- a) The terms of reference for the Employment Committee were removed from the Constitution;
- b) The revised Officer Employment Procedure Rules were approved; and
- c) The Chief Executive Officer was added to the list of panel members in section 4.2 of the report.

(The Meeting ended at 8.10 pm)



Agenda Item 5

SWT Audit, Governance and Standards Committee Action Plan

Date/Minute Number	Action Required	Action Taken
<p><b>26 June 2019</b></p> <p>Grant Thornton External Audit - Taunton Deane Borough Council Audit Progress Report and Sector Update 2018/19</p>	<p>Councillors queried whether SWT had the option to not offer the right to buy.</p>	<p>A written answer would be distributed to the Committee.</p>
<p><b>26 June 2019</b></p> <p>Grant Thornton External Audit - West Somerset Council Audit Progress Report and Sector Update 2018/19</p>	<p>Concern was raised that there wasn't any procedures in place to prevent self-authorisation.</p>	<p>A written answer would be distributed to the Committee, however, checks had been built into the process to prevent that from happening.</p>
<p><b>26 June 2019</b></p> <p>SWAP Internal Audit - Progress Report 2019/20</p>	<p>Concern was raised on the partial assurance given on the fire risk assessments and Councillors queried whether they were annual tests that needed to be completed.</p>	<p>The Internal Auditor would distribute the full report to the Committee but confirmed the tests were a legal requirement. The Chair of the Committee wrote to the Head of Function for a written response on the partial assurance given on the fire risk assessments and that they were required to attend the meeting scheduled to be held on 31 July 2019 to give a full update report.</p>
<p><b>26 June 2019</b></p> <p>West Somerset Council Treasury Management Outturn Report 2018/19</p>	<p>Councillors understood there were time constraints on the Section 106 money being spent.</p>	<p>A written response would be distributed to the Committee.</p>



<b>Meeting Date</b>	<b>Report Deadline</b>	<b>Draft Agenda Items</b>	<b>Lead Officer</b>
26 June 2019	17 June 2019	Grant Thornton External Audit - Audit Fees Grant Thornton External Audit - Audit Update SWAP Internal Audit – Audit Plan 2018/19 Outturn 2018/19 Treasury Management Outturn Report	Grant Thornton Grant Thornton Alastair Woodland Steve Plenty
31 July 2019	22 July 2019	Annual Governance Statement 2018/19 Approval of the Statement of Accounts Grant Thornton External Audit – Audit Findings Report Assessment of Going Concern Status Fire Risk Assessment	Amy Tregellas Paul Fitzgerald Geri Daly/Aditi Chandramouli Paul Fitzgerald Simon Lewis/James Barrah
25 September 2019	16 September 2019	Grant Thornton External Audit – Annual Audit Letter 2018/19 Grant Thornton External Audit – Progress & Update Report SWAP Internal Audit – Progress Update 2018/19 Summary of Overdue Level 4/5 Actions Corporate Governance Action Plan Update Corporate Risk Management Update GDPR Action Plan Update	Geri Daly/Aditi Chandramouli Geri Daly/Aditi Chandramouli Alastair Woodland Amy Tregellas Amy Tregellas Amy Tregellas Amy Tregellas
11 December 2019	2 December 2019	SWAP Internal Audit – Progress Report 2017/18 2018/19 Grant Certification Report 6-Month Review of Treasury Management Activity	Alastair Woodland Alastair Woodland Paul Fitzgerald
11 March 2020	2 March 2020	SWAP Internal Audit – Progress Report 2018/19 Corporate Risk Management Update Review of Effectiveness of Internal Audit 2018/19 Annual Governance Statement 2018/19 Summary of Overdue Level 4/5 Actions	Alastair Woodland Amy Tregellas Amy Tregellas Amy Tregellas Amy Tregellas





# Somerset West and Taunton Council

## Audit, Governance and Standards Committee – 31<sup>st</sup> July, 2019

### Fire Safety Management

This matter is the responsibility of Executive Councillors Fran Smith and Marcus Kravis

Report Author: Derek Quick, Property Compliance Specialist

#### 1 Executive Summary

The purpose of this report is to address the committee’s concerns from meeting of 26 June, 2019, with regard to Fire Safety Management across domestic and commercial portfolios, and based on the follow-up review which identified a number of outstanding issues.

It is important to recognise that good progress has been made in matters of Fire Safety over the past three years, that the council was already working to address identified issues prior to the Grenfell Tower tragedy, and that all Fire Risk Assessments are in place, across all portfolios.

However, we accept there remains more to be done, and recognise there are further areas for improvement identified by way of the audit process. Post transformation, we have continued to refine our processes, and further developing action plans off the back of those process. We have a programme of Fire Risk Assessments and Reviews set to be launched in August, 2019 – further detail in para 3.3

We are also closely monitoring how the Grenfell Enquiry led by Dame Judith Hackitt will impact on the council, and in light of the government’s consultation paper on report, looking at further staffing arrangements to better monitor and enforce failings in matters of Fire Safety, as well as engaging with residents.

#### 2 Risk Assessment (if appropriate)

##### Risk Matrix

Description	Likelihood	Impact	Overall
Risk: Staff retention, disruption and training requirements	3	4	12

<i>Head of Function and people managers to ensure that qualified persons are retained / recruited to offset training and delays in programme</i>	2	3	6
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### Risk Scoring Matrix

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

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

### 3 Background and Full details of the Report

Through Cllr Buller, the Audit, Governance and Standards Committee raised four questions with regards to the audit report. These are addressed as follows through commentary in 3.1 to 3.4.

3.1 The audit report identified four Priority 1 actions, which we have been unable to complete, but have progressed as follows:

- **Audit Action 1.2: There was no database in place to record and manage the Fire Risk Assessments (FRA) at the point of testing.**

At the time of initial audit, the expectation was to utilise the asbestos management database (TEAMS), but this proved to be unworkable for a number of operational reasons,

leading to lost time and with the introduction of the new Asset Management Database (Open Assets), the decision was taken to defer until this became operational – see para 3.3 for timescale

- **Audit Action 1.4: The Council does not hold an overview of when all Extra Care Schemes, Domestic and Corporate Properties and Retail and Commercial Property Fire Risk Assessments (FRA) were last completed.**

The overview is provided by spreadsheets which have been developed to provide a comprehensive and complete interim register to log when surveys were carried out for corporate and domestic portfolios, and when next event (new Fire Risk Assessment or Review) are due, but we recognise that Open Assets will be more robust.

With regard to the commercially leased portfolio. There is no requirement for the council to carry out Fire Risk Assessments of these premises as the responsibility lies with the landlord.

- **Audit Action 1.5: There is no schedule in place to ensure that Fire Risk Assessments (FRA) are delivered within the required timescale.**

As above, this has been addressed through use of interim spreadsheet register, and will be a key feature of the new Asset Management Database going forward and will, in addition to scheduling, provide clear and demonstrable monitoring.

- **Audit Action 1.8: Repairs identified in FRAs are not carried out within a reasonable timeframe**

It is neither practicable nor cost efficient to carry out all remedial works within the timeframe set within the Fire Risk Assessment. The Fire Risk Assessment generates a prioritised action plan, where high risk items such as faulty smoke alarms or contamination of communal areas are addressed immediately, items such as creation of bin stores are mitigated against until such time as works can be carried out, and fire doors would form part of the council's capital works programme.

3.2 The audit report identified three Priority 2 actions, one not started and two incomplete, but which we have progressed as follows:

- **Audit Action 1.1: Fire Safety Policy and Procedure Plan does not include some key controls that could prevent a fire.**

These have been addressed in the latest version of the council's Fire Safety Policy and Procedures document, which has been forwarded to H&S Committee for review and approval. Details have also been published on the council's website

- **Audit Action 1.3: Lack of annual reconciliation between council systems to identify outstanding FRA**

This has been addressed through data cleansing of our different housing systems and consolidated within spreadsheet ahead of implementation of Open Assets

- **Audit Action 1.6: No quality checks of FRAs completed by Asset Surveyors**

We will invite Mr Edward Mullen of Lawton Fire, who has carried out the Fire Risk Assessment of Deane House, and provided assessor training to key council staff through the Fire Service College, to act as a 'Critical Friend' and with a remit to sample check Fire Risk Assessments for completeness, quality and accuracy.

- 3.3 Guidance states that Fire Risk Assessments are valid for three years, or until there is a significant change in use or design of premises, however they should be regularly reviewed on not less than an annual basis. We have developed a programme for reviews throughout 2019/20, which will ensure compliance with these guidelines, these start in August 2019.

However, as part of our review of the *Building a Safer Future* report, we are seeking to recruit two additional staff who will be designated as Building Safety Managers, and who would be responsible for inspection of flat blocks, enforcement of any tenancy agreements, as well as taking ownership of actions and repairs. The Building Safety Managers will offer training, support and guidance to tenants so as they can truly benefit from participating in building safety, as well as ensuring they can raise any concerns.

- 3.4 The premises where the Fire Risk Assessment was out of date was the Auction House on the old market site. This was a shared site between the charitable organisation, RAFT, and also the location of the council's Print Room facility. Since April the site controlled by the council has been vacant, an FRA will be completed as required when decision is taken over its future use. The area controlled by RAFT is subject to their own FRA.
- 3.5 Based on the current project programme, the implementation of Open Assets has been deferred until mid-October, to allow the vital and necessary data cleansing work to take place. Phase 2, which will include the servicing module which would support FRAs, will be available by the end of November 2019.

#### **4 Finance / Resource Implications**

The provision of two Case Manager (F-Grade) posts to cover the role identified in the Building a Safer Future report, namely that of Building Safety Manager.

The committee should also be aware that there is still no clear guidance on the use of composite fire doors, which we have fitted to all of our tenanted flats, and a number of leaseholder premises. Once regulations are clarified, there may be a further cost exposure here.

#### **5 Legal Implications (if any)**

Those as set out in the Regulatory Reform Fire Safety Order 2005

#### **6 Safeguarding and/or Community Safety Implications (if any)**

Providing safe homes for all our residents

**7 Asset Management Implications** (if any)

Meeting statutory obligations in respect of Fire Safety and Insurance requirements.

**8 Scrutiny Comments / Recommendation(s)** (if any)

*(To be included usually in reports which are submitted for consideration by the Executive / Cabinet or Full Council.)*

**Democratic Path:**

- **Scrutiny / Corporate Governance or Audit Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

**Reporting Frequency:**     **Once only**                     **Ad-hoc**     **Quarterly**  
 **Twice-yearly**                     **Annually**

**List of Appendices (delete if not applicable)**

Appendix A	Building A Safer Future
Appendix B	
Appendix C	

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## **Building a Safer Future**

**Report by Derek Quick  
July 2019**

### **Background**

The Grenfell Tower fire was a tragedy and showed a need to make major changes and improvements to the building safety system. The Independent Review led by Dame Judith Hackitt, found that there are issues in the way some high-rise residential buildings are built, managed and looked after. Her review also found that sometimes residents are not confident that their buildings are safe and have been unable to get their concerns taken seriously.

To address these issues, the government have developed a set of policy proposals to improve the fire and structural safety of high-rise residential buildings. These proposals will include:

- clearer responsibilities for those building or managing these buildings;
- a stronger voice in the system and better information for residents;
- greater oversight by regulators; and
- tougher enforcement when things go wrong.

### **What are the implications for Somerset West & Taunton Council?**

Dame Judith Hackitt's Independent Review recommended applying new requirements for buildings over 10 storeys. However the government have looked again at the evidence and propose a wider scope because of the numbers of fires in these buildings and the risk to people's safety. They are now proposing that the new building safety regime will be for buildings that are:

- lived in by multiple households; and
- 18 metres high (6 storeys) or more.

Home Office research also shows that fire incidents in supported/sheltered housing can be high, so they want to design a system to include buildings where vulnerable people sleep, can be included. This is particularly relevant to SW&T with the Kilkenny Court and Lodge Close facilities.

Throughout the consultation document, there are continued references and indicators that this is just the first step, and that the scope will be adapted and expanded to cover more buildings over time.

For Somerset West and Taunton Council, the key implications will now centre around two key areas:

- The new dutyholder regime.
- Putting residents at the heart of the new regulatory system

### **The new dutyholder regime**

For the new building safety regime to work, the council will be required to clearly set out who is responsible for keeping the building safe, this will involve:

- Creating a new 'accountable person' role. This named person will be the dutyholder responsible for making sure that building fire and structural safety risks are reduced as much as reasonably practicable when people are living in the building.
- Dutyholders will create a 'safety case' which contains all the important information about a building that shows how the dutyholders are managing any fire or structural risks on an ongoing basis.
- The accountable person may also employ a 'Building Safety Manager' who has the right skills and expertise to look after the building(s). Their role would be to help the accountable person by doing the day-to-day work involved with keeping a building safe. e.g. the Building Safety Manager would be there to deal with any safety problems they find or are reported by residents in the block(s) they are responsible for.

The council will also be responsible for ensuring premises are safe throughout various stages of its life, through the creation of a Golden Thread of building information. This will be a key set of documents, held digitally on building information, and will include information on the structure of the building and any changes made to the building through refurbishment. It will also allow the dutyholder to demonstrate how they are managing risks at 'gateway points', including:

- Part A – duties when a building is being designed and built
- Part B – duties when people are living in the building
- Part C – duties that run throughout the building's life cycle

The new system will also make sure that all dutyholders employ people who are suitably qualified and competent, the consultation document classifies competence as an individual having the ability to apply the necessary skills, knowledge and behaviours to make informed decisions and carry out their job effectively.

### **Putting residents at the heart of a new regulatory system**

The views and concerns of residents should never be ignored by those responsible for managing the safety of their buildings. The accountable person will have specific duties to residents, which will include:

- Providing residents with the information they need so that they understand the protections in place to keep their building safe from structural or fire issues.
- Setting out how we engage with residents and how residents can get involved, and benefit from participating in building safety.
- To ensure residents can raise safety concerns, the accountable person will need to have a clear process for how they will respond to residents' concerns.



These proposals will give residents a stronger voice too, allowing them to hold us responsible for the safety of their buildings, and to account. Residents will be empowered by having better access to information about their building and have more of a say over decisions made about the fire and structural safety of their building, such as:

- Requesting detailed information about their building and fire safety.
- The ability to raise concerns where individuals may be putting themselves and their neighbours at risk. There will be a clear obligation on residents to co-operate with the work of the accountable person to keep the building safe.
- Residents will be able to take urgent safety concerns to the new regulator if the accountable person fails to deal with them properly.

### **Enforcement, compliance and sanctions**

Through strong oversight by the new regulator, those responsible for the safety of buildings must comply with their responsibilities and will be held to account if they do not. The Independent Review found that those responsible for the safety of buildings were not discouraged enough from failing to comply with their responsibilities as they are not often held to account by the current regulators.

The government will now take a tougher approach to those that do not comply with their responsibilities under the new regime, and are proposing to:

- Create new criminal offences to make sure that those responsible for the safety of residential buildings throughout their lifecycles, comply with their responsibilities;
- Give the new regulator the power to take quick and effective action, through monetary penalties such as fines, when the requirements of the new regime have not been met.

### **What we will do**

Somerset West and Taunton Council are in the fortunate position that we have no buildings that fall into the high-rise and high-risk category, but we do have extra-care facilities, with a number of tenants requiring sheltered accommodation within our general needs portfolio, and of course, a significant number of flat blocks, lived in by multiple households.

The accountable person will be the Chief Executive, although they will delegate day-to-day responsibility to the Property Compliance and Health and Safety Specialists. It is they who will be ultimately responsible for ensuring tenants are provided with the information they need to help them understand the protections that are in place to keep their building safe and, subject to approval, provide support and guidance to the proposed Building Safety Manager(s).

We are proposing the creation of two additional case manager posts who will be designated Building Safety Managers, in order to allow the council to comply with these latest regulations. The post holders will be responsible for:

- Undertaking (as a minimum), quarterly fire safety checks of all communal areas within flat blocks, or more frequently where there are serious safety concerns or breaches of policy and procedure.
- Understanding the Regulatory Reform (Fire Safety) Order 2005, and have the ability to work collaboratively with tenants to ensure that they, and the council, meet all their statutory obligations
- Acting as liaison between tenants and contracts team to ensure works identified within Fire Risk Assessments are carried effectively and in a timely manner.
- The issuing of enforcement notices where appropriate
- Delivering workshops, training and developing communication strategies to support tenants in understanding their responsibilities.
- Supporting the implementation of actions in the council's corporate and commercial (GF) portfolio.
- Providing a gateway for tenants to raise their own concerns through fire safety, allowing them a voice and ensuring it is heard.

Through implementation of the above, we will be better able to engage with our community, building on the good work that has already taken place through Tenant Board meetings and Newsletter communications, thereby allowing the council to demonstrably show it is doing the right thing by way of all its tenants, staff and customers.

# **Somerset West and Taunton Council**

## **Audit, Governance and Standards Committee – 31 July 2019**

### **Annual Governance Statements 2018/19**

**Responsibility: Leader of the Council, Cllr Federica Smith-Roberts**

**Report Author: Amy Tregellas, Governance Manager**

#### **1 Purpose of the Report**

- 1.1 To provide the Audit, Governance and Standards Committee with an update on the 2018/19 Annual Governance Statements since they were approved in March 2019.

#### **2 Recommendations**

- 2.1 The Committee notes the Annual Governance Statements for 2018/19

#### **3 Risk Assessment**

- 3.1 No significant risks have been identified in respect of this report.

#### **4 The Annual Governance Statement (AGS)**

- 4.1 Local authorities are required to prepare an Annual Government Statement (AGS) to be transparent about their compliance with good governance principles.
- 4.2 The Corporate Governance Officers Group led the 2018/19 review of the governance framework. The group included the Head of Performance and Governance, the Monitoring Officer, the Section 151 Officer, the Internal Audit Manager, and the Corporate Strategy & Performance Manager.
- 4.3 The conclusions from this review are that overall the Council's governance framework is reasonable and fit for purpose.
- 4.4 Normally the Annual Governance Statement is approved at the same time as the annual statement of accounts. However the legislation supporting the creation of the new Somerset West and Taunton Council required Taunton Deane Borough Council (TDBC) and West Somerset Council (WSC) to approve their AGS by 31 March 2019. The AGS for TDBC was approved by the Corporate Governance

Committee on 19<sup>th</sup> March 2019. The AGS for WSC was approved by the Audit Committee on 19<sup>th</sup> March 2019. Both Statements are attached as appendices to this report. Following Committee approval the Chief Executive Officer and Leader of the Council signed off the Statements, as per the legislative requirements.

4.5 At the meetings on the 19<sup>th</sup> March 2019 it was confirmed that the Audit, Governance and Standards Committee would be advised of any significant matters in the period between the approval of the AGS in March and the approval of the Statement of Accounts in July 2019.

4.6 There are no significant matters that have arisen since the approval of the statements in March 2019. Therefore it is recommended that the Committee note the Annual Governance Statements.

## **5 Links to Corporate Aims / Priorities**

None in respect of this report.

## **6 Finance / Resource Implications**

None in respect of this report.

## **7 Legal Implications**

7.1 The Accounts and Audit Regulations 2015 require councils to undertake an annual review of their governance. The Regulations require that an Annual Governance Statement prepared to fulfil this requirement should form part of the Council's Statement of Accounts. The report is therefore coming to the Committee to meet this purpose and that timescale. The Regulations also state that the Annual Governance Statement should be prepared in accordance with proper practices. Compliance with the CIPFA guidance *Delivering Good Governance in Local Government: Framework (2016)* fulfils this requirement.

## **8 Environmental Impact Implications**

8.1.1 None in respect of this report.

## **9 Safeguarding and/or Community Safety Implications**

9.1 None in respect of this report.

## **10 Equality and Diversity Implications**

10.1 There are no equality and diversity implications associated with this report.

## **11 Social Value Implications**

11.1 There are no Social Value implications associated with this report.

## 12 Partnership Implications

12.1 None associated with this report.

## 13 Health and Wellbeing Implications

13.1 None associated with this report.

## 14 Asset Management Implications

14.1 None associated with this report.

## 15 Consultation Implications

15.1 The Annual Governance Statement has been developed by the Corporate Governance Officers Group which includes the Head of Performance and Governance, the Monitoring Officer, the S151 officer, the Internal Audit Manager and the Corporate Strategy and Performance Officer.

### Democratic Path:

- **Audit Committee – Yes**
- **Scrutiny – No**
- **Cabinet – No**
- **Full Council – No**

Reporting Frequency: **Annually**

### List of Appendices

Appendix A	Annual Governance Statement 2018/19 for TDBC
Appendix B	Annual Governance Statement 2018/19 for WSC

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# **Taunton Deane Borough Council**

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**Annual Governance Statement  
2018/19**

## Annual Governance Statement 2018/19

### Introduction

This is Taunton Deane Borough Council's Annual Governance Statement (AGS) for 2018/19. 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 review for the 2018/19 statement was carried out in February 2019 by officers of the Corporate Officers Governance Group. This is made up of the Head of Performance and Governance, the Internal Audit Manager, Section 151 Officer, Monitoring Officer and the Corporate Strategy & Performance Officer.

The Statement will be published on the Council's website alongside the Council's Statement of Accounts.

This is a significant period of change. Following agreement of the Secretary of State in March 2018, Government has agreed that a new Council will be formed on 1 April 2019 that will replace both Taunton Deane Borough Council and West Somerset Council. As part of the transition, shadow governance arrangements have operated with responsibility for the preparation and implementation of the new Council and the dissolution of TDBC and WSC on 1 April 2019. These arrangements are summarised within this Statement.

In addition, TDBC and WSC have continued their joint transformation programme, which seeks to deliver improved services for customers through new, more modern and efficient ways of operating. This is also the planned approach to meeting the financial challenges and ensuring our services are sustainable and affordable for the foreseeable future.

Usually the Annual Governance Statement is approved around the same time as the annual statement of accounts, however the legislation supporting the creation of the new council requires both TDBC and WSC to approve their AGS by 31 March 2019. The S151 Officer will advise the relevant committee of the new Council, with responsibility for approving the legacy Councils Statements of Accounts, of any significant matters between the approval of the AGS in March and the approval of the Statement of Accounts (anticipated in July 2019).



## 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 way 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 and that public money is properly accounted for and is used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiency and innovation.

To meet these responsibilities, the Council acknowledges that it has a duty to have in place sound and proper arrangements for the governance of its affairs, including a reliable system of internal control, and for reviewing the effectiveness of those arrangements.

The Council is committed to the principles of good governance in line with the guidance produced by CIPFA and SOLACE, as follows:

- 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 optimize 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 Governance Framework**

The governance framework consists of the systems and processes, and culture and values, by which the Council is directed and controlled and through which it accounts to, engages with and leads the community.

It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost effective services.

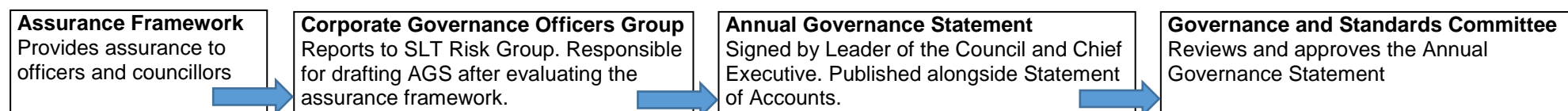
This framework is applicable both for the current Council – Taunton Deane Borough Council – and its successor from April 2019 – Somerset West and Taunton Council. As the Council improves the way it provides services, it is important that the governance arrangements are robust and flexible enough to manage this.

Page 34 In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Audit Committee, Scrutiny Committees, 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.

# Taunton Deane Borough Council – Governance Assurance Framework

Key Documents / Functions		
<ul style="list-style-type: none"> <li>• Constitution</li> <li>• Council Procedure Rules</li> <li>• Councillor Code of Conduct</li> <li>• Employee Code of Conduct</li> <li>• Officer and Councillor protocols</li> <li>• Schedule of Council Meetings</li> <li>• Record of Decisions</li> <li>• Local Code of Corporate Governance</li> <li>• Annual Governance Statement</li> <li>• Complaints and Compliments Procedures</li> <li>• Ombudsman Reports</li> </ul>	<ul style="list-style-type: none"> <li>• Information Strategy</li> <li>• Information Governance Framework</li> <li>• Information Commissioner’s Reports</li> <li>• Corporate Plan</li> <li>• Operational Plans</li> <li>• Risk Management Framework</li> <li>• Risk Registers</li> <li>• Performance Management Framework</li> <li>• People Strategy</li> <li>• HR Policies</li> <li>• Personal Development Plans</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Regulations</li> <li>• Contract Regulations</li> <li>• Financial Strategy</li> <li>• Capital Strategy</li> <li>• Treasury and Investment Strategies</li> <li>• Medium Term Financial Plan</li> <li>• Statement of Accounts</li> <li>• Internal and External Audit</li> <li>• Anti-Fraud, Bribery and Corruption Policies</li> <li>• Anti-Money Laundering Policy</li> <li>• Whistleblowing Policy</li> </ul>



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Performance Management	Risk Management	Legal/Regulatory Assurance	Councillor Assurance	Management Assurance	Other Sources of Assurance	Financial Management	Internal Audit	External Audit
Corporate Plan	Risk Management Strategy	Monitoring Officer and Solicitor	Governance and Standards Committee	Strategic Leadership Team	Ombudsman Reports	Financial, Capital, Treasury and Investment Strategies	Annual Audit Plan	Audit Plan
Operational Plans	Risk Registers	Data Protection Officer	Scrutiny Committee	Corporate and Operational Plans	Information Commissioner Decisions	Medium Term Financial Plan	Audit Findings reports	Statement of Accounts Opinion
Performance Indicators	Business Continuity Plans	Anti-Fraud, Bribery and Corruption Policies	Constitution	Performance Monitoring	Contract Monitoring	Revenue and Capital Budget and control	Annual Audit Opinion	Value Money Conclusion
Complaints / Compliments	Civil Contingencies Partnership	Anti-Money Laundering Policy	Code of Conduct	Financial Monitoring	Fraud Investigation Service	Statement of Accounts	Assessment of Audit Effectiveness	Audit Findings Report and Annual Audit Letter
Customer satisfaction rates	Insurance Policies	Whistleblowing Policy	Interests Register	Performance Reviews		Treasury performance and	Audit advice	Public Inspection of Accounts / Public Interest reports
	Robust Budget and Reserves			Review effectiveness of internal control systems				

		RIPA Policy				compliance monitoring		
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## The Corporate Strategy and Plan

In February 2016 the Council approved its Corporate Strategy. The Strategy provides a clear direction for the Council to follow, with four key priority areas where the Council will concentrate its efforts and resources between April 2016 and March 2020.

The key elements of the Strategy are:

- Refreshed high-level Corporate Priorities for the Council
- Design principles for our organisation
- Refreshed vision
- Clarity on the role and purpose of the Council

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

The Corporate Plan 2017-18 was approved by the Council in October 2017 and the Plan for 2018-19 was a continuation of this. It sets out our priorities and success measures we will use to monitor progress, organised into key themes of:

- Key Theme 1 – People
- Key Theme 2 – Business and Enterprise
- Key Theme 3 – Our Place
- Key Theme 4 – A Modern and Efficient Council

## Decision Making and Responsibilities

The Council consists of 56 elected Members, with an Executive Board of Lead Members who are supported and held to account by Scrutiny Committees. Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate. The Constitution sets out the functions of key governance officers, including the statutory posts of Chief Executive, 'Monitoring Officer' and 'Section 151 Officer' and explains the role of

these officers for ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

## **Equality**

The Council is committed to delivering equality and improving the quality of life for the people of Taunton Deane. 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.

## **Managing Risk**

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

Senior management meet to identify the principal risks to the Council. These risks are recorded in a Corporate Risk Register. Each Service Area also keeps a separate risk register for its area. These registers also record the controls necessary to manage the risks. The registers are regularly reviewed and challenged by senior management and by the Audit Committee. Specific assurance is sought concerning those risks associated with the key elements of the Governance Framework and that any necessary improvements to controls have been implemented. The Governance Framework cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

## **Financial Management**

The Council has a long establish record of effective financial management and managing within our means. We continue to face the challenge of designing a sustainable budget for the future in the face of further Government plans to cut public spending.

The Council has worked in partnership with West Somerset Council since 2013 to share management and staff across the two Councils. Together this partnership has resulted in efficiencies and produced annual savings of £1.8m.

In 2016 the two Councils agreed a High Level Transformation Business Case which puts the customer at its heart, and seeks to drive benefits through implementing new ways of delivering services, providing more services digitally and modernising our business

processes. The Councils have also obtained agreement from the Secretary of State to create a new Council from April 2019 that will create a new district and Council area currently covered by the two. The financial implications for the business case were refreshed in December 2018, with the new Council and transformed services producing further savings of £3.5m per year.

Taunton Deane has a balanced budget for 2018/19, and the new Council has in February 2019 set a balanced budget for 2019/20 with a broadly balanced position projected throughout the 5-year Medium Term Financial Plan.

The Strategic Finance Advisor and 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 2018/19.

## **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.

## **Managing Information**

The Council recognises that it has a responsibility to safeguard the information it holds and to manage it with care and accountability.

Over the past year the Council has been preparing to meet the requirements of the General Data Protection Regulation (GDPR), which came into force under the UK Data Protection Act 2018 on 25 May 2018. This changes how we can collect, use and transfer personal

data. A GDPR Action Plan has been established to ensure compliance 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.

## **Counter Fraud**

Our Counter Fraud Strategy clearly states that the Council will not tolerate any form of fraud, corruption or bribery. It provides for deterrent, promotes detection, identifies a clear pathway for investigation and encourages prevention.

In 2017 Taunton Deane entered into a Counter Fraud Partnership with Powys County Council who undertake counter fraud investigation work on behalf of the council. This has proven to be a very effective partnership with improvement in fraud prevention and detection being evident. The costs of the service are funded by the savings delivered through prevention and detection.

## **Transformation**

Both Taunton Deane Borough Council and West Somerset Council agreed a High Level Business Case for Transformation in the summer of 2016. Programme and project management arrangements have been in place with a SRO appointed from the Leadership Team and programme management roles required to lead the programme and various workstreams. There has been regular

engagement with Members at a Programme level through the Joint Partnership Advisory Group (JPAG), comprising Members from each Council, which has acted as a steering group and enabled Member consultation as the programme has progressed.

A series of “Making A Difference” events have been open to all Members, providing regular opportunities for raising awareness of progress and consultation at various stages.

In July 2018 the Councils agreed to new Governance arrangements which saw the dissolution of JPAG following the establishment of the Shadow Council arrangements (see below). At the same time it was agreed that progress in delivering the Transformation Programme would be reported to the Shadow Scrutiny Committee. This change provides openness and transparency to Members and the public.

The Transformation Programme provides a major whole-organisation change process with a new operating model (staffing structure), new technology, and extensive changes to business processes. The Programme management arrangements include regular review and updating of risks to ensure these are appropriately managed.

## **Page 40** **Creating a New Council and Shadow Governance Arrangements**

Taunton Deane and West Somerset councils submitted an application to Government in March 2017 request agreement to create a new single district Council to replace the two. Following a period of consultation the Secretary of State announced approval of this change in March 2018.

This was followed by the making of the Somerset West and Taunton (Modification of Boundary Change Enactments) Regulations 2018 and the Somerset West and Taunton (Local Government Changes) Order 2018 on 25 May, 2018, which resulted in the Somerset West and Taunton Somerset Council came into being on 26 May 2018.

The Order requires the Shadow Council to prepare and keep under review an Implementation Plan to ensure that the new council is properly established on 1 April 2019. The Shadow Council at its first meeting held on 7 June 2018 duly agreed a governance structure, including a Shadow Executive, a Shadow Scrutiny Committee and New Council Working Group to ensure that mechanisms are in place for member engagement and decision making in this process going forward. Four Sub-Groups of the New Council Working Group have subsequently been in operation covering Constitution and Governance, Electoral Review, Policy and Service Alignment, and Finance.

The Shadow Council has established Shadow Governance arrangements including a Constitution for the Shadow Somerset West and Taunton Council. The new Council will formally come into being on 1 April 2019. The Shadow Executive will maintain responsibility for the management of the Council until the elections in May 2019 following which a new Full Council and its various committees will be created. In addition there is also a Shadow Scrutiny Committee and a Shadow Governance and Standards Committee.



The Central Implementation Team (CIT) comprising the Chief Executive, Interim Monitoring Officer and Interim S151 Officer, are responsible for ensuring the necessary preparations are completed to ensure the new Council is legal, safe and functioning from 1 April. The CIT has been supplemented with project management and legal capacity, and relied on many officers of the existing Council to progress all the work necessary.

A detailed implementation plan has been maintained, with weekly meetings to monitor and control progress. The Member Working Groups have provided extensive opportunity for consultation and Member engagement in the process for example with the development of a new Constitution and a wide range of policies. The first Full Constitution for the new Council has been presented to Shadow Full Council for approval on 26 March 2019.

## **Conclusion**

This is the last Annual Governance Statement for Taunton Deane Borough Council, with the Council being dissolved on 31 March 2019. The main priorities for the past year have been focussed on continuing to provide effective and resilient services, progressing the major changes through Transformation and preparing for the implementation of the new Somerset West and Taunton Council.

A key focus for the next 12 months will be to secure effective governance and controls arrangements for the new Council and to drive continuous improvement through ongoing programme, operational, and financial control. The new Council will need to establish its own approach to risk management and risk appetite, and refine its business controls to ensure the ambitions of the new operating model and improved services to customers can flourish.

## Improving Governance

### Action Plan 2018/19 – Progress Report

Actions that were planned for 2018/19	Progress	Status
To implement and develop our new Risk management culture.	<p>The implementation and development of our new Risk Management structure won't be achieved in the existing structure by the end of March.</p> <p>However good progress has been made during this transitional year. Implementation Teams are now meeting weekly and Project Managers in the new Commercial, Investment and Change (CIC) area are actively looking at risk. Internal Audit has also been adapted to reflect the new structure that comes into place from April.</p> <p>In addition a "Healthy Organisation" audit was conducted in December/January looking at 7 areas of the business including Corporate Governance and Risk Management resulting in a Medium Assurance rating.</p>	Ongoing
To implement the Corporate Governance process for the Shadow Council and the new transformed Council.	<p>Shadow Council, Executive, Scrutiny and Governance committees have been established throughout the existence of the Shadow Council and the constitution for the Shadow Council has been adopted and followed. Various policies and key decisions have been taken as necessary for the new council, for example, budget setting and tax setting and several policies have been approved.</p> <p>A Shadow Governance and Standards Committee has been set up. There is also a New Council Working Group providing councillors with the opportunity to informally discuss</p>	Ongoing

	<p>matters relating to the establishment of the new council. The Working Group have set up a number of Sub-Groups, including the Constitution Sub-Group. The drafting of a new constitution for the new council is well under way. The complete draft new Council Constitution Document will then be submitted for formal adoption at the meeting of the Shadow Council on 26<sup>th</sup> March, 2019 ready to come into effect on 1<sup>st</sup> April, 2019.</p>	
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### Action Plan for 2019/20

	Action now planned for 2019/20	Timescale for Completion	Monitoring Body
1	Establish an effective Audit Committee for the new council through Member and Senior Officer Development and to adopt the principles set out in the Local Code of Corporate Governance.	March 2020	Corporate Governance Officer Group
2	Develop and implement a risk management framework and meaningful culture within the new council structure	March 2020	Corporate Governance Officer Group
3	To ensure the appropriate controls are in place with regards the Council's new ways of working	March 2020	Corporate Governance Officer Group

This is an Action Plan of particular governance priorities that the Council will address during 2019/20.

## Statement of Opinion

The opinion of the Internal Auditor was that overall the control environment was reasonable in 2018/19 (the opinion was also "reasonable" in 2017/18).

The Council has assessed its overall governance arrangements remain adequate and fit for purpose.

Some areas where further improvements could be made have been identified and have been included within the 2019/20 Action Plan which is proposed to the new Somerset West and Taunton Council to address during the 2019/20 financial year.

It is our opinion that the Council's governance arrangements in 2018/19 were sound and give reasonable assurance in order to achieve the new Council's priorities and challenges in 2019/20.

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## SIGNATURES

Signed on behalf of Taunton Deane Borough Council

James Hassett  
Chief Executive

Cllr John Williams  
Leader of the Council

# **West Somerset Council**

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**Annual Governance Statement  
2018/19**

## Annual Governance Statement 2018/19

### Introduction

This is West Somerset Council's Annual Governance Statement (AGS) for 2018/19. 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 review for the 2018/19 statement was carried out in February 2019 by officers of the Corporate Officers Governance Group. This is made up of the Head of Performance and Governance, the Internal Audit Manager, Section 151 Officer, Monitoring Officer and the Corporate Strategy & Performance Officer.

The Statement will be published on the Council's website alongside the Council's Statement of Accounts.

This is a significant period of change. Following agreement of the Secretary of State in March 2018, Government has agreed that a new Council will be formed on 1 April 2019 that will replace both Taunton Deane Borough Council and West Somerset Council. As part of the transition, shadow governance arrangements have operated with responsibility for the preparation and implementation of the new Council and the dissolution of TDBC and WSC on 1 April 2019. These arrangements are summarised within this Statement.

In addition, TDBC and WSC have continued their joint transformation programme, which seeks to deliver improved services for customers through new, more modern and efficient ways of operating. This is also the planned approach to meeting the financial challenges and ensuring our services are sustainable and affordable for the foreseeable future.

Usually the Annual Governance Statement is approved around the same time as the annual statement of accounts, however the legislation supporting the creation of the new council requires both TDBC and WSC to approve their AGS by 31 March 2019. The S151 Officer will advise the relevant committee of the new Council, with responsibility for approving the legacy Councils Statements of Accounts, of any significant matters between the approval of the AGS in March and the approval of the Statement of Accounts (anticipated in July 2019).

## 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 way 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 and that public money is properly accounted for and is used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiency and innovation.

To meet these responsibilities, the Council acknowledges that it has a duty to have in place sound and proper arrangements for the governance of its affairs, including a reliable system of internal control, and for reviewing the effectiveness of those arrangements.

The Council is committed to the principles of good governance in line with the guidance produced by CIPFA and SOLACE, as follows:

- 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 optimize 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 Governance Framework**

The governance framework consists of the systems and processes, and culture and values, by which the Council is directed and controlled and through which it accounts to, engages with and leads the community.

It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost effective services.

This framework is applicable both for the current Council – West Somerset Council – and its successor from April 2019 – Somerset West and Taunton Council. As the Council improves the way it provides services, it is important that the governance arrangements are robust and flexible enough to manage this.

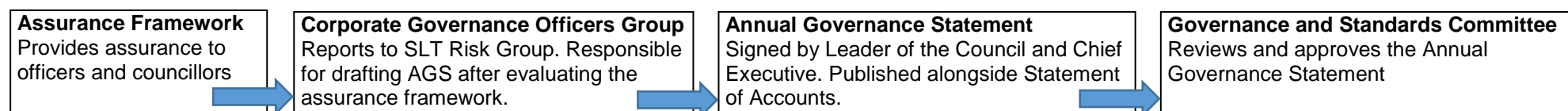
**P** In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Audit Committee, **Page 48** Scrutiny Committees, Executive or Council as appropriate.

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



## West Somerset Council – Governance Assurance Framework

Key Documents / Functions		
<ul style="list-style-type: none"> <li>Constitution</li> <li>Council Procedure Rules</li> <li>Councillor Code of Conduct</li> <li>Employee Code of Conduct</li> <li>Officer and Councillor protocols</li> <li>Schedule of Council Meetings</li> <li>Record of Decisions</li> <li>Local Code of Corporate Governance</li> <li>Annual Governance Statement</li> <li>Complaints and Compliments Procedures</li> <li>Ombudsman Reports</li> </ul>	<ul style="list-style-type: none"> <li>Information Strategy</li> <li>Information Governance Framework</li> <li>Information Commissioner’s Reports</li> <li>Corporate Plan</li> <li>Operational Plans</li> <li>Risk Management Framework</li> <li>Risk Registers</li> <li>Performance Management Framework</li> <li>People Strategy</li> <li>HR Policies</li> <li>Personal Development Plans</li> </ul>	<ul style="list-style-type: none"> <li>Financial Regulations</li> <li>Contract Regulations</li> <li>Financial Strategy</li> <li>Capital Strategy</li> <li>Treasury and Investment Strategies</li> <li>Medium Term Financial Plan</li> <li>Statement of Accounts</li> <li>Internal and External Audit</li> <li>Anti-Fraud, Bribery and Corruption Policies</li> <li>Anti-Money Laundering Policy</li> <li>Whistleblowing Policy</li> </ul>



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Performance Management	Risk Management	Legal/Regulatory Assurance	Councillor Assurance	Management Assurance	Other Sources of Assurance	Financial Management	Internal Audit	External Audit
Corporate Plan	Risk Management Strategy	Monitoring Officer and Solicitor	Governance and Standards Committee	Strategic Leadership Team	Ombudsman Reports	Financial, Capital, Treasury and Investment Strategies	Annual Audit Plan	Audit Plan
Operational Plans	Risk Registers	Data Protection Officer	Scrutiny Committee	Corporate and Operational Plans	Information Commissioner Decisions	Medium Term Financial Plan	Audit Findings reports	Statement of Accounts Opinion
Performance Indicators	Business Continuity Plans	Anti-Fraud, Bribery and Corruption Policies	Constitution	Performance Monitoring	Contract Monitoring	Revenue and Capital Budget and control	Annual Audit Opinion	Value Money Conclusion
Complaints / Compliments	Civil Contingencies Partnership	Anti-Money Laundering Policy	Code of Conduct	Financial Monitoring	Fraud Investigation Service	Statement of Accounts	Assessment of Audit Effectiveness	Audit Findings Report and Annual Audit Letter
Customer satisfaction rates	Insurance Policies	Whistleblowing Policy	Interests Register	Performance Reviews		Treasury performance and	Audit advice	Public Inspection of Accounts / Public Interest reports
	Robust Budget and Reserves			Review effectiveness of internal control systems				

		RIPA Policy				compliance monitoring		
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## The Corporate Strategy and Plan

In February 2016 the Council approved its Corporate Strategy. The Strategy provides a clear direction for the Council to follow, with four key priority areas where the Council will concentrate its efforts and resources between April 2016 and March 2020.

The key elements of the Strategy are:

- Refreshed high-level Corporate Priorities for the Council
- Design principles for our organisation
- Refreshed vision
- Clarity on the role and purpose of the Council

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

The Corporate Plan 2017-18 was approved by the Council in October 2017 and the Plan for 2018-19 was a continuation of this. It sets out our priorities and success measures we will use to monitor progress, organised into key themes of:

- Key Theme 1 – People
- Key Theme 2 – Business and Enterprise
- Key Theme 3 – Our Place
- Key Theme 4 – A Modern and Efficient Council

## Decision Making and Responsibilities

The Council consists of 28 elected Members, with an Executive Board of Lead Members who are supported and held to account by Scrutiny Committees. Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate. The Constitution sets out the functions of key governance officers, including the statutory posts of Chief Executive, 'Monitoring Officer' and 'Section 151 Officer' and explains the role of

these officers for ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

## **Equality**

The Council is committed to delivering equality and improving the quality of life for the people of West 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.

## **Managing Risk**

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

Senior management meet to identify the principal risks to the Council. These risks are recorded in a Corporate Risk Register. Each Service Area also keeps a separate risk register for its area. These registers also record the controls necessary to manage the risks. The registers are regularly reviewed and challenged by senior management and by the Audit Committee. Specific assurance is sought concerning those risks associated with the key elements of the Governance Framework and that any necessary improvements to controls have been implemented. The Governance Framework cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

## **Financial Management**

The Council has a long establish record of effective financial management and managing within our means. We continue to face the challenge of designing a sustainable budget for the future in the face of further Government plans to cut public spending.

The Council has worked in partnership with Taunton Deane Borough Council since 2013 to share management and staff across the two Councils. Together this partnership has resulted in efficiencies and produced annual savings of £1.8m.

In 2016 the two Councils agreed a High Level Transformation Business Case which puts the customer at its heart, and seeks to drive benefits through implementing new ways of delivering services, providing more services digitally and modernising our business

processes. The Councils have also obtained agreement from the Secretary of State to create a new Council from April 2019 that will create a new district and Council area currently covered by the two. The financial implications for the business case were refreshed in December 2018, with the new Council and transformed services producing further savings of £3.5m per year.

West Somerset has a balanced budget for 2018/19, and the new Council has in February 2019 set a balanced budget for 2019/20 with a broadly balanced position projected throughout the 5-year Medium Term Financial Plan.

The Strategic Finance Advisor and 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 2018/19.

## **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.

## **Managing Information**

The Council recognises that it has a responsibility to safeguard the information it holds and to manage it with care and accountability.

Over the past year the Council has been preparing to meet the requirements of the General Data Protection Regulation (GDPR), which came into force under the UK Data Protection Act 2018 on 25 May 2018. This changes how we can collect, use and transfer personal

data. A GDPR Action Plan has been established to ensure compliance 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.

## **Counter Fraud**

Our Counter Fraud Strategy clearly states that the Council will not tolerate any form of fraud, corruption or bribery. It provides for deterrent, promotes detection, identifies a clear pathway for investigation and encourages prevention.

In 2017 West Somerset entered into a Counter Fraud Partnership with Powys County Council who undertake counter fraud investigation work on behalf of the council. This has proven to be a very effective partnership with improvement in fraud prevention and detection being evident. The costs of the service are funded by the savings delivered through prevention and detection.

## **Transformation**

Both Taunton Deane Borough Council and West Somerset Council agreed a High Level Business Case for Transformation in the summer of 2016. Programme and project management arrangements have been in place with a SRO appointed from the Leadership Team and programme management roles required to lead the programme and various workstreams. There has been regular

engagement with Members at a Programme level through the Joint Partnership Advisory Group (JPAG), comprising Members from each Council, which has acted as a steering group and enabled Member consultation as the programme has progressed.

A series of “Making A Difference” events have been open to all Members, providing regular opportunities for raising awareness of progress and consultation at various stages.

In July 2018 the Councils agreed to new Governance arrangements which saw the dissolution of JPAG following the establishment of the Shadow Council arrangements (see below). At the same time it was agreed that progress in delivering the Transformation Programme would be reported to the Shadow Scrutiny Committee. This change provides openness and transparency to Members and the public.

The Transformation Programme provides a major whole-organisation change process with a new operating model (staffing structure), new technology, and extensive changes to business processes. The Programme management arrangements include regular review and updating of risks to ensure these are appropriately managed.

## **Page 54** **Creating a New Council and Shadow Governance Arrangements**

Taunton Deane and West Somerset councils submitted an application to Government in March 2017 request agreement to create a new single district Council to replace the two. Following a period of consultation the Secretary of State announced approval of this change in March 2018.

This was followed by the making of the Somerset West and Taunton (Modification of Boundary Change Enactments) Regulations 2018 and the Somerset West and Taunton (Local Government Changes) Order 2018 on 25 May, 2018, which resulted in the Somerset West and Taunton Somerset Council came into being on 26 May 2018.

The Order requires the Shadow Council to prepare and keep under review an Implementation Plan to ensure that the new council is properly established on 1 April 2019. The Shadow Council at its first meeting held on 7 June 2018 duly agreed a governance structure, including a Shadow Executive, a Shadow Scrutiny Committee and New Council Working Group to ensure that mechanisms are in place for member engagement and decision making in this process going forward. Four Sub-Groups of the New Council Working Group have subsequently been in operation covering Constitution and Governance, Electoral Review, Policy and Service Alignment, and Finance.

The Shadow Council has established Shadow Governance arrangements including a Constitution for the Shadow Somerset West and Taunton Council. The new Council will formally come into being on 1 April 2019. The Shadow Executive will maintain responsibility for the management of the Council until the elections in May 2019 following which a new Full Council and its various committees will be created. In addition there is also a Shadow Scrutiny Committee and a Shadow Governance and Standards Committee.

The Central Implementation Team (CIT) comprising the Chief Executive, Interim Monitoring Officer and Interim S151 Officer, are responsible for ensuring the necessary preparations are completed to ensure the new Council is legal, safe and functioning from 1 April. The CIT has been supplemented with project management and legal capacity, and relied on many officers of the existing Council to progress all the work necessary.

A detailed implementation plan has been maintained, with weekly meetings to monitor and control progress. The Member Working Groups have provided extensive opportunity for consultation and Member engagement in the process for example with the development of a new Constitution and a wide range of policies. The first Full Constitution for the new Council has been presented to Shadow Full Council for approval on 26 March 2019.

## **Conclusion**

This is the last Annual Governance Statement for West Somerset Council, with the Council being dissolved on 31 March 2019. The main priorities for the past year have been focussed on continuing to provide effective and resilient services, progressing the major changes through Transformation and preparing for the implementation of the new Somerset West and Taunton Council.

A key focus for the next 12 months will be to secure effective governance and controls arrangements for the new Council and to drive continuous improvement through ongoing programme, operational, and financial control. The new Council will need to establish its own approach to risk management and risk appetite, and refine its business controls to ensure the ambitions of the new operating model and improved services to customers can flourish.

## Improving Governance

### Action Plan 2018/19 – Progress Report

Actions that were planned for 2018/19	Progress	Status
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To implement the Corporate Governance process for the Shadow Council and the new transformed Council.	<p>Shadow Council, Executive, Scrutiny and Governance committees have been established throughout the existence of the Shadow Council and the constitution for the Shadow Council has been adopted and followed. Various policies and key decisions have been taken as necessary for the new council, for example, budget setting and tax setting and several policies have been approved.</p> <p>A Shadow Governance and Standards Committee has been set up. There is also a New Council Working Group providing councillors with the opportunity to informally discuss</p>	Ongoing



	<p>matters relating to the establishment of the new council. The Working Group have set up a number of Sub-Groups, including the Constitution Sub-Group. The drafting of a new constitution for the new council is well under way. The complete draft new Council Constitution Document will then be submitted for formal adoption at the meeting of the Shadow Council on 26<sup>th</sup> March, 2019 ready to come into effect on 1<sup>st</sup> April, 2019.</p>	
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### Action Plan for 2019/20

	Action now planned for 2019/20	Timescale for Completion	Monitoring Body
1	Establish an effective Audit Committee for the new council through Member and Senior Officer Development and to adopt the principles set out in the Local Code of Corporate Governance.	March 2020	Corporate Governance Officer Group
2	Develop and implement a risk management framework and meaningful culture within the new council structure	March 2020	Corporate Governance Officer Group
3	To ensure the appropriate controls are in place with regards the Council's new ways of working	March 2020	Corporate Governance Officer Group

This is an Action Plan of particular governance priorities that the Council will address during 2019/20.

## Statement of Opinion

The opinion of the Internal Auditor was that overall the control environment was reasonable in 2018/19 (the opinion was also "reasonable" in 2017/18).

The Council has assessed its overall governance arrangements remain adequate and fit for purpose.

Some areas where further improvements could be made have been identified and have been included within the 2019/20 Action Plan which is proposed to the new Somerset West and Taunton Council to address during the 2019/20 financial year.

It is our opinion that the Council's governance arrangements in 2018/19 were sound and give reasonable assurance in order to achieve the new Council's priorities and challenges in 2019/20.

## SIGNATURES

Signed on behalf of West Somerset Council

James Hassett  
Chief Executive

Cllr Anthony Trollope-Bellew  
Leader of the Council

# Somerset West and Taunton Council

## Audit, Governance and Standards Committee – 31 July 2019

### Assessment of Going Concern Status – Taunton Deane Borough Council and West Somerset Council

This matter is the responsibility of Councillor Henley, Corporate Resources

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

#### 1 Purpose of the Report

- 1.1 To inform the Audit, Governance and Standards Committee of the Strategic Finance Advisor and S151 Officer’s assessment of Taunton Deane Borough Council (TDBC) and West Somerset Council (WSC) as a “going concern” for the purposes of producing their Statement of Accounts for 2018/19.

#### 2 Recommendations

- 2.1 Members note the assessment made of the Councils’ status as a “going concern” as a basis for preparing their 2018/19 Statement of Accounts.

#### 3 Risk Assessment (if appropriate)

##### Risk Matrix

Description	Likelihood	Impact	Overall
The Council is no longer assessed as being a ‘going concern’, placing ongoing operating, and asset and liability valuations, at risk.	4	5	20
Mitigation: Through effective governance and financial control environment, management and Members continue to address the financial sustainability challenge.	2	5	10

##### Risk Scoring Matrix

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

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

## **4 Background to the Report**

- 4.1 The concept of a “going concern” assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice (the Code) and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
- 4.2 The Code also confirms that transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements are prepared on a going concern basis. This would therefore apply to both Taunton Deane and West Somerset Councils which although cease from 1 April 2019, will instead provide their services by the newly created Somerset West and Taunton Council.
- 4.3 If the assessment determined that the Council is not a “going concern”, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.
- 4.4 Given the significant reduction in funding for local government in recent years and the potential threat this poses nationally to the ongoing viability of one or more councils as a consequence, external auditors are placing a greater emphasis on local authorities undertaking an assessment of the “going concern” basis on which they prepare their financial statements. This report sets out the position for both councils.
- 4.5 As with all principal local authorities, both councils are required to compile the Statement of Accounts in accordance with the current Code of Practice on Local Authority Accounting (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance

with the Code the Statement of Accounts have been prepared assuming that both councils will continue to operate in the foreseeable future (albeit in the newly formed Somerset West and Taunton Council), and that they are able to do so within the current and anticipated resources available. By this, it is meant that the councils will realise its assets and settle its obligations in the normal course of business.

4.6 The main factors which underpin this assessment are:

- The Council's current financial position;
- The Council's projected financial position;
- The Council's governance arrangements;
- The regulatory and control environment applicable to the Council as a local authority.

## **5 Current Position – Taunton Deane and West Somerset**

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

5.2 Both councils have continued to manage their finances effectively in the climate of reducing grant funding from central Government. They have continued to deliver efficiencies from the One Team of officers across Taunton Deane and West Somerset Councils, and were both able to set their 2018/19 budget without making cuts to frontline services. The joint transformation programme remains pivotal in reducing operating costs whilst improving services to customers and communities.

5.3 Phase 1 of the Council's partnership with West Somerset Council has contributed to the delivery of savings through efficiency in the management and staff structures. Following the mandate from Councillors in January 2016, a business case was developed and the Council agreed in partnership with West Somerset to jointly transform the way services are delivered. This culminated in the creation of a single new council, Somerset West and Taunton to deliver services for both councils from 1 April 2019.

## **6 The Council's Year End Position – Taunton Deane Borough Council**

### **General Fund**

6.1 The financial performance in 2018/19 resulted in a net underspend of £240k (1.7% of Net Budget) for the year. As at 31 March 2019 the Council held a General Reserves Balance of £2.223m (minimum level is set at £1.7m) and held Earmarked Reserves totalling £14.194m. The Earmarked Reserves balance has decreased by £7.420m during the year due to utilisation of the New Homes Bonus Grant set

aside for growth and infrastructure investment and reserves in respect of transformation and the new council. The adequacy of reserves, and the ongoing requirement for specified earmarked reserves, is reviewed on a regular basis.

### **Housing Revenue Account**

- 6.2 The financial performance in 2018/19 resulted in a net underspend of £296k (1.1% of Gross Income Budget). As at 31 March 2019 the Council held an HRA Reserve Balance of £2.718m (minimum level is set at £1.8m). In addition there are HRA Earmarked Reserves totalling £2.718m to support specific issues. The level of adequate reserves, and the ongoing requirement for specified earmarked reserves, is reviewed on an annual basis.

## **7 The Council's Year End Position – West Somerset Council**

- 7.1 The financial performance in 2018/19 resulted in a net surplus of £82k for the year and an overall underspend of £256k. The General Reserves position for 2018/19 shows a closing balance of £981k, including the net surplus for the year. This is £281k above the minimum recommended balance of £700k.
- 7.2 Earmarked Reserves are amounts that have been set aside for specific purposes from existing resources, where the expenditure is expected to be incurred in future years. During 2018/19 Earmarked Reserve balances have reduced by £201k to a total of £4.048m at 31 March 2019. During the year, the Business Rates Smoothing Reserve has been increased by £610k in line with the budget strategy to protect the Council against the risk of future business rates volatility. Going forward, it remains prudent to commit funds to the Smoothing Reserve. During the year the Transformation Reserve has been reduced by £682k and this together with other withdrawals from other Earmarked Reserves has led to the overall reduction.

## **8 Combined General Fund Revenue Position**

- 8.1 The combined revenue reserves position for both councils is shown below:-

Table 1 – Revenue Reserves

	<b>Taunton Deane £m</b>	<b>West Somerset £m</b>	<b>Total £m</b>
<b>General Fund</b>			
Opening Balance	2.299	0.899	3.198
Movement in Year	-0.076	0.082	0.006
Closing Balance	2.223	0.981	3.204
<b>Earmarked Reserves</b>			
Opening Balance	21.614	4.259	25.873
Movement in Year	-7.420	-0.211	-7.631
Closing Balance	14.194	4.048	18.242

- 8.2 The closing balances from both Taunton Deane and West Somerset will be transferred and combined as part of the overall opening financial balances of Somerset West and Taunton. The new council will therefore commence with an opening General Fund Reserve balance of £3.204m and Earmarked Reserves of £18.242m. The recommended minimum balance of the General Fund Reserve has been set at £2.4m for the new council.

## **9 The New Council's Projected Financial Position**

- 9.1 Previously, both Taunton Deane and West Somerset Councils have maintained a medium-term financial plan (MTFP) that was updated annually to reflect a five-year assessment of the Council's spending plans and associated funding. It included the ongoing implications of approved budgets and service levels and the revenue costs of the Council's capital programme, as well as the management of debt and investments.
- 9.2 During 2018/19, both councils continued to work towards the creation of the new council Somerset West and Taunton from 1 April 2019. A balanced budget for the new council was approved in February 2019 and this indicated a sustainable financial position – no significant budget gap identified within the medium term financial plan. Nevertheless, 2019/20 is a critical period for the new Council with a significant change in staffing levels, business processes and ways of delivering services to its customers. This carries a degree of financial risk especially with the dependence on delivery of full transformation savings.

## **10 Creation of a New Council**

- 10.1 As indicated above, a new single council to replace both West Somerset and Taunton Deane from 1 April 2019 has occurred. This major organisational change however, does not in itself have any impact upon the “going concern” basis upon which the financial statements for 2018/19 have been produced as the current operational activities performed by Taunton Deane and West Somerset have been transferred to the new council.

## **11 The Current Financial Position (Balance Sheet)**

- 11.1 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by each Council. The net assets of each Council (assets less liabilities) are matched by the reserves held by each Council. For 2018/19, the final Balance Sheet position as at 31 March 2019, shows that Taunton Deane Council had net assets of £258.5m whilst West Somerset had net assets of £777k. The impact of the HRA including the valuation of council dwellings makes a significant contribution to the net asset position of Taunton Deane. One of the main components within long term liabilities are the pension scheme liabilities which currently stand at £16.248m for West Somerset and £89.484m for Taunton Deane. The other main component relates to external borrowing – West Somerset has no external borrowing whilst Taunton Deane has external borrowing of £79.105m. The table below shows a summary balance sheet position for each authority.

Table 2 – Summary Balance Sheet as at 31 March 2019

	<b>Taunton Deane</b>	<b>West Somerset</b>
	<b>£000</b>	<b>£000</b>
Non-current assets	425,150	12,214
Net current assets – debtors, stock and cash less short term creditors and liabilities	1,894	5,381
Long term liabilities and provisions	(168,589)	(16,818)
<b>Net Assets</b>	<b>258,455</b>	<b>777</b>
Usable reserves	42,262	8,176
Unusable reserves	216,193	(7,399)
<b>Total Reserves</b>	<b>258,455</b>	<b>777</b>

- 11.2 Included within the net current assets of each council are the cash and investments. West Somerset also hold cash and investments in respect of ring-fenced Hinkley S106 funds held and not yet spent at the end of the financial year. These amount to £411k in cash and £5m held as short term investments. The table below shows the amounts of cash and investments held in the balance sheet as at 31 March 2019:

Table 3 – Cash and Investments

	<b>Taunton Deane</b>	<b>West Somerset</b>
	<b>£000</b>	<b>£000</b>
Cash and other cash equivalents	20,343	1,685
Short term investments	5,013	12,042
<b>Net Assets</b>	<b>25,356</b>	<b>13,727</b>

## 12 Governance Arrangements

- 12.1 Both councils have a well-established and robust corporate governance framework. The Annual Governance Statements (AGS) for 2018/19 have been reviewed for both councils taking into account external and internal audit reviews, data from our risk assessments and knowledge of our control environment. The review of our governance arrangements has concluded that they are effective.

## 13 The External Regulatory and Control Environment

- 13.1 As a principal local authority councils have to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and Central Government



control there are other factors such as the role undertaken by the External Auditor as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

## **14 Emerging Risks**

### **NHS claims for Business Rates Discount**

- 14.1 A number of NHS trusts have made applications to their local councils for charitable status regarding business rates relief. The trusts want the relief backdated for up to six years. Although the Council has not yet received a claim, if received and upheld this could be significant if with the cost of a refund and ongoing reduction in business rates funding. We are therefore keeping a watching brief on developments and are utilising counsel support commissioned via the LGA; the legal opinions are currently divided.

### **Transformation and New Council Creation**

- 14.2 During the year both Taunton Deane and West Somerset Councils agreed to progress the establishment of a new single district authority and this subsequently received Parliamentary approval with a start date of 1 April 2019. We believe this will bring greater efficiency savings and provide greater resilience for services to our communities. The business case indicates this will have a positive impact on the costs of a new authority and our ability to close any potential budget gap, and at the same time provide the opportunity to continue our ambition to champion development and growth.

### **Multi Year Finance Settlement and Business Rates Retention**

- 14.3 It is also important to emphasise that there remains significant uncertainty in financial forecasts beyond 2019/20. The current four year settlement sets proposed government grant funding up to 2019/20. The outcome of the Fair Funding Review is expected to be implemented in April 2020. Business rates baseline and tariff are due to be reset in 2020, and the proposed move to 75% then 100% continues to be developed. Notwithstanding these factors which will influence future funding, a major proportion of our retained business rates funding relies on Hinkley. There is a significant risk of funding reduction if Hinkley B is decommissioned earlier than currently forecast or has unplanned outages. There is a high probability that there will be several years between Hinkley B being decommissioned and Hinkley C generating, which would lead to a significant 'trough' in our business rates income. This position may be altered by the reset of the baseline and tariff in April 2020, and will be reviewed in light of further information when it is available.

### **Commercial Approach and Income Generation**

- 14.4 As the new Council explores and implements new commercial opportunities this will bring with it a different set of risks with greater reliance on investments and

other income streams to support spending on services. We need to ensure our risk management approach, covering financial and other risks, reflect the environment within which we operate in future. This will include robust due diligence in considering opportunities, and reflecting new risks in our budgets and minimum reserve requirements.

## **15 S151 Officer Opinion**

- 15.2 It is considered that, having regard to the Councils' (Taunton Deane and West Somerset) arrangements and such factors as are highlighted in this report, both councils (and therefore the new Council) remain a "going concern".
- 15.3 I am also comfortable that the budget estimates for 2019/20 are sufficiently robust. The creation of the new Council from April 2019 provides confidence that the delivery of the committed transformation savings across both Taunton Deane and West Somerset will be delivered, and in due course will enable further governance and process efficiency savings to be delivered by the new Council in line with the joint Transformation Business Case. However, the Councils and new Council have agreed to fund additional transitional during the implementation period, and it is crucial that momentum is maintained to drive the benefits so that service delivery remains sustainable when the temporary capacity ends.
- 15.4 As with all local authorities the funding position beyond 2019/20 cannot be predicted with certainty but the creation of the new Council brings increased resilience and opportunity to withstand further funding pressures. A new Financial Strategy for Somerset West and Taunton will be developed during 2019, which will need to reflect the level of uncertainty whilst seeking to avoid unnecessary disruption to services.

## **16 Links to Corporate Aims / Priorities**

- 16.1 Securing an ongoing sustainable financial position is essential to underpin the delivery of council priorities and services to our communities – and links to Theme 4: An Efficient and Modern Council.

## **17 Finance / Resource Implications**

- 17.1 The financial implications are given in this report.

## **18 Partnership Implications**

- 18.1 There are implications in respect of this report.

## **19 Legal, Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Health and Wellbeing, Asset Management, and Consultation Implications**

- 19.1 There are no implications in respect of this report.

## Contact Officers

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# Somerset West and Taunton Council

## Audit Governance and Standards Committee – 31 July 2019

### West Somerset Council Audit Findings Report 2018/19

This matter is the responsibility of Executive Councillor Ross Henley

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

#### 1 Executive Summary

- 1.1 This short covering report introduces the annual report of our external auditor Grant Thornton outlining their findings from their audit of the Statement of Accounts for West Somerset Council (WSC), and the arrangements to secure Value for Money.
- 1.2 I am pleased to report that following the detailed review of financial statements and our governance and control arrangements, the Auditor has indicated their intention to provide an “unqualified” opinion on the accounts for 2018/19 for WSC, and an “unqualified VFM conclusion” in respect of arrangements to secure economy, efficiency and effectiveness, in the use of resources i.e. providing value for money. The opinion this year includes an “Emphasis of Matter” reflecting the transfer of services to the new Council.

#### 2 Recommendations

- 2.1 Members are requested to note the report from our external Auditor on WSC’s Statement of Accounts for 2018/19.
- 2.2 Members are requested to note the Auditor’s unqualified value for money conclusion.

#### 3 Risk Assessment

##### Risk Matrix

Description	Likelihood	Impact	Overall
The Statement of Accounts do not provide a true and fair view of the Council’s financial position and performance	2	4	8
<i>Arrangements for financial control, accounting and reporting are robust, and Statement of Accounts subject to external audit</i>	1	4	4

- 3.1 The scoring of the risks identified in the above table has been based on the scoring

matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

### Risk Scoring Matrix

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

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

## 4 Background and Full details of the Report

- 4.1 The 2018/19 Unaudited Statement of Accounts for WSC was signed off by the Council's S151 Officer before 31 May 2019 – within the statutory deadline for 2018/19, and before the start of the external audit review.
- 4.2 Most of the external audit review has been completed and subject to work outstanding being completed and queries being resolved the auditor has indicated their intention to issue an “unqualified opinion” for the Statement of Accounts for WSC, as showing a true and fair view of the Council's financial position and performance.
- 4.3 The auditor has also reviewed the arrangements to secure economy, efficiency and effectiveness in our use of resources, and provides an opinion in the form of a value for money conclusion. Their report states that ‘the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

## **5 Links to Corporate Aims / Priorities**

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

## **6 Finance / Resource Implications**

6.1 The auditor's report has not identified any non-trivial misstatements to date, and two disclosure changes which have been updated in the draft accounts. Management have not adjusted for two reported misstatements which are not material to the financial position or performance of the Council.

6.2 This is the final (draft) Statement of Accounts for West Somerset District Council, with all assets, liabilities and balances transferring to Somerset West and Taunton Council on 1 April.

6.3 The S151 Officer acknowledges that the completion of the financial statements have been undertaken at a time of significant change to the organisation with transformation and the implementation of the new Council, directly impacting on the finance function as well as other teams. The S151 Officer places on record his thanks to the team who have worked extremely hard to complete the accounts and support the completion of the audit during this period of disruption.

## **7 Legal Implications**

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

## **8 Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Consultation Implications**

8.1 None.

### **Democratic Path:**

- **Audit, Governance and Standards Committee – 31 July 2019**

**Reporting Frequency: Annually**

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# The Audit Findings for West Somerset District Council

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## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

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

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Somerset District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>• 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.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work has been completed on site during June and July. Our findings are summarised on pages 6 to 11. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is in progress and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters highlighted on Page 4, subject to the completion of all outstanding items</p> <p>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.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph to highlight the demise of the Council from 1 April 2019</p>
<p><b>Value for Money arrangements</b></p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that West Somerset District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 18 to 19</p>
<p><b>Statutory duties</b></p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion but we are unable to issue our completion certificate until we complete the work outlined on page 4 below.</p>

## Acknowledgements

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

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you in December 2018

## 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 following the Audit, Governance and Standards Committee. The outstanding items include:

The outstanding items include:

- Sample testing of Revenue Expenditure funded by Capital Under Statute, investments entered into between 25<sup>th</sup> March 2019 and 7<sup>th</sup> April 2019, and welfare benefits and receipts in April and May 2019
- Review of movement in reserves statement and EFA note for internal consistency
- Review of Financial Instruments note
- Review of and testing of the Collection Fund
- Testing of grant income
- Review of provisions
- Testing of a sample of PPE and Investment Property revaluations
- Review of pensions data sent to the actuary, and receipt and review of IAS 19 pension fund assurances from the pension fund auditor
- Review of assumptions around the McCloud/Sargeant judgment
- Quality checks and review of work performed

# Materiality

## Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan except for the materiality calculations in relation to redundancies. As part of our planning discussions, we identified that given the nature and value of redundancy costs, it would be appropriate to apply the financial statements materiality to this item of expenditure, rather than reduce it to 2% of the total redundancy costs. We detail in the table below our determination of materiality for West Somerset District Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£370k	<ul style="list-style-type: none"> <li>This equates to 1.7% of your 2018/19 gross expenditure for the year. This was determined as the appropriate benchmark for determining materiality. Our knowledge of the environment at West Somerset District Council, and the transformation programme have factored into our decision to set materiality at 1.7% as this is deemed an appropriate percentage to apply to the benchmark. Per our statement above, this materiality will also apply to redundancy costs.</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>
Performance materiality	£260k	<ul style="list-style-type: none"> <li>This equates to 75% of materiality. We have not identified any factors which would lead to us reducing the level of performance materiality</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>
Trivial matters	£19k	<ul style="list-style-type: none"> <li>ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. We have set triviality at 5% of materiality</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>
Materiality for senior officers remuneration	£26k	<ul style="list-style-type: none"> <li>Senior Officers' Remuneration is a balance which require a lower materiality due to its sensitive nature, hence materiality is set at 2% of the total senior officers remuneration note</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

**The revenue cycle includes fraudulent transactions (rebutted)**

### Auditor commentary

We have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

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

Therefore we do not consider this to be a significant risk for the Council.

**There have been no changes to our assessment as reported in our Audit Plan.**

2

**Management override of controls**

### Auditor commentary

As identified in our audit plan dated 17 December 2018, management override of controls is a significant risk at West Somerset District Council. We have:

- Evaluated the business processes and design effectiveness of management controls over journals
- Analysed the journals listing and determined the criteria for selecting high risk unusual journals
- Undertaken an exercise to ensure the completeness of the journals listing
- Undertaken risk based scoring, and 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 judgments made by management and considering their reasonableness
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions

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

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of land and buildings

#### Auditor commentary

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

- 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;
- written to the valuer to confirm the basis on which the valuations were carried out;

Our audit work in this area is still ongoing. Areas yet to be completed include:

- Challenge of the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- Testing of a sample of revaluations made during the year to see if they have been input correctly into the Authority's asset register
- Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to the current value at year end

We identified that land and buildings classified as specialist assets have been valued using the depreciated replacement cost (DRC) method, and other assets have been valued using the existing use value method. Investment properties are valued at fair value. A detailed review of estimation processes is included within the key judgement and estimates section on Page 8.




**We will provide you with an update on these areas once we have concluded our audit**

# Significant findings – audit risks





	Risks identified in our Audit Plan	Commentary
<p><b>4</b></p>	<p><b>Valuation of the pension fund net liability</b></p>	<p><b>Auditor commentary</b></p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>• 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 evaluated the design of the associated controls;</li> <li>• Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• 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</li> </ul> <p>Our audit work in this area is still ongoing. Areas yet to be completed include:</p> <ul style="list-style-type: none"> <li>• Assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• Undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report; and</li> <li>• Obtaining assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of the 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.</li> </ul> <p><b>We will provide you with an update on these areas once we have concluded our audit</b></p>
<p><b>5</b></p>	<p><b>Accounting for Redundancies</b></p>	<p><b>Auditor commentary</b></p> <p>We have</p> <ul style="list-style-type: none"> <li>• Reviewed the processes and evaluated the controls around accounting for redundancy payments</li> <li>• Review of a sample of redundancy costs and pension strain payments to check the calculation of and accounting for the redundancy costs, to ensure that amounts are accurate, and the basis for re-charging these between Councils is appropriate</li> <li>• Review of the disclosures of redundancy costs in the financial statements to ensure that they have been correctly included</li> </ul> <p><b>Our audit work has not identified any issues in respect of redundancy payments</b></p>



# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals - £1.467m</b>	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision has increased by a net £625k for potential refunds related to 2018/19	<ul style="list-style-type: none"> <li>Estimate is based on historical data and on success rates in prior appeals.</li> <li>There has been no change to the valuation method</li> <li>The method of calculation is consistent with that used by other authorities.</li> <li>The value of the estimate will fluctuate dependent on a number of factors.</li> <li>The increase of £625k is considered to be reasonable based on the amount of outstanding appeals</li> <li>disclosure of estimate in the financial statements is considered to be appropriate and in line with the Code</li> </ul>	
<b>Bad Debt provision £440k</b>	The Council has a Council tax bad debt provision of £68k, an NNDR bad debt provision of £106k, a sundry debtors bad debt provision of £42k, and Housing Benefits provision of £224k.	<p><b>We are still to complete our work in this area.</b></p> <p>We identified that the calculation of the provision for Council Tax and NNDR bad debt were not based on specific factors. Specifically, a 30% provision was provided for debts between 2 and 6 years old. Using specific factors as used by Taunton Deane Council, our re-calculated provision for Council Tax is £142k and for NNDR is £151k</p>	
<b>Land and Buildings – Other - £5.682m</b>	Other land and buildings comprises £251k of specialised assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£5.431m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2019. 100% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £198k.	<ul style="list-style-type: none"> <li>We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used.</li> </ul> <p>Our audit work in this area is still ongoing. Areas due to be completed include:</p> <ul style="list-style-type: none"> <li>Review and challenge of the the information used by the valuer to ensure its robustness and consistency with our understanding</li> <li>Challenge of key assumptions where appropriate.</li> <li>Testing of a sample of revaluations made during the year to ensure they are input correctly into the asset register and subsequently recorded in the financial statements.</li> </ul> <p><b>We are still to complete our work in this area</b></p>	

## Assessment

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


# Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment																							
Page 82	<p><b>Net pension liability – £16.248m</b></p> <p>The Council’s net pension liability at 31 March 2019 is £16.248m (PY £17.342m) comprising the Somerset Pension Fund Local Government Scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £929k net actuarial gain during 2018/19.</p>	<ul style="list-style-type: none"> <li>We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. This includes gaining assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. <b>Our work on this last item is currently outstanding</b></li> <li>We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> </ul>	●																							
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assesment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35 - 2.45%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.45%</td> <td>2.45 - 2.40%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Salary growth</td> <td>3.95%</td> <td>Scheme and employer specific</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.6 / 22.9</td> <td>22.2 – 25.0 / 20.6 – 23.4</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.8 / 24.0</td> <td>25.0 - 26.6 / 23.2 – 24.8</td> <td style="text-align: center;">●</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assesment	Discount rate	2.35%	2.35 - 2.45%	●	Pension increase rate	2.45%	2.45 - 2.40%	●	Salary growth	3.95%	Scheme and employer specific	●	Life expectancy – Males currently aged 45 / 65	24.6 / 22.9	22.2 – 25.0 / 20.6 – 23.4	●	Life expectancy – Females currently aged 45 / 65	25.8 / 24.0	25.0 - 26.6 / 23.2 – 24.8	●
Assumption	Actuary Value	PwC range	Assesment																							
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**Assessment**

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

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Level 3 investments</b>	<p>The Council have investments in a number of investment properties that are valued on the balance sheet as at 31 March 2019 at £2.988m. The investments are not traded on an open market and the valuation of the investment is subjective. In order to determine the value, management have employed Wilks Head and Eve as management experts. The commercial land and buildings located in the Council's area are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. The value of the investment has increased by £1.28m in 2018/19 due to reclassifications from property, plant and equipment of £1.2m, disposals of £208k and net gains from fair value adjustments of £278k</p>	<ul style="list-style-type: none"> <li>We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used.</li> </ul> <p>Our audit work in this area is still ongoing. Areas yet to be completed include:</p> <ul style="list-style-type: none"> <li>Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding and challenge of key assumptions.</li> <li>Testing of a sample of revaluations made during the year to ensure they are input correctly into the asset register and in the financial statements.</li> <li>Detailed work around the categorisation and valuation techniques of investment properties</li> </ul> <p><b>We will provide you with an update on these areas once we have concluded our audit</b></p>	

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

# Going concern

## Our responsibility

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

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## Going concern commentary

### Management’s assessment process

Management has considered CIPFA’s guidance on going concern for local government and has reviewed the financial position and reserves of the Council. Due to the transformation programme between Taunton Deane and West Somerset, the Council ceased on 31 March 2019.

### Auditor commentary

- Management has undertaken an assessment of the use of the going concern assumption and demonstrated that no material uncertainties exist.
- We concur with management’s assessment of the use of going concern basis of accounting.
- It should be noted that although the Council ceased on 31 March 2019, going concern in the context of local government should be considered in the context of the CIPFA code ‘an Authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern’.
- Preparation of the accounts on a going concern basis is therefore appropriate and our opinion will be modified to reflect this.

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### Work performed

We reviewed management’s assessment of the use of the going concern basis of accounting and consideration of any material uncertainties.

### Auditor commentary

- No issues were identified.

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### Concluding comments

### Auditor commentary

- No issues were identified from our consideration of management’s assessment of going concern or through our audit procedures. An unmodified opinion in respect of going concern will be given.
- We have however included an emphasis of matter paragraph reflecting the transfer of services to the new authority.

# Other communication requirements

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

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit 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</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>Our work in relation to testing of related party transactions is not yet complete</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is included in the Committee papers</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, apart from a confirmation from Lloyds bank, which we are still awaiting</li> <li>We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified some disclosure changes within the draft financial statements. See pages 22 for further details.</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management were provided.</li> <li>We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.</li> </ul>

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# Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>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.</li> </ul> <p><b>No inconsistencies have been identified</b></p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p><b>We have nothing to report on these matters.</b></p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of West Somerset District Council in the audit opinion.</p>

# Value for Money

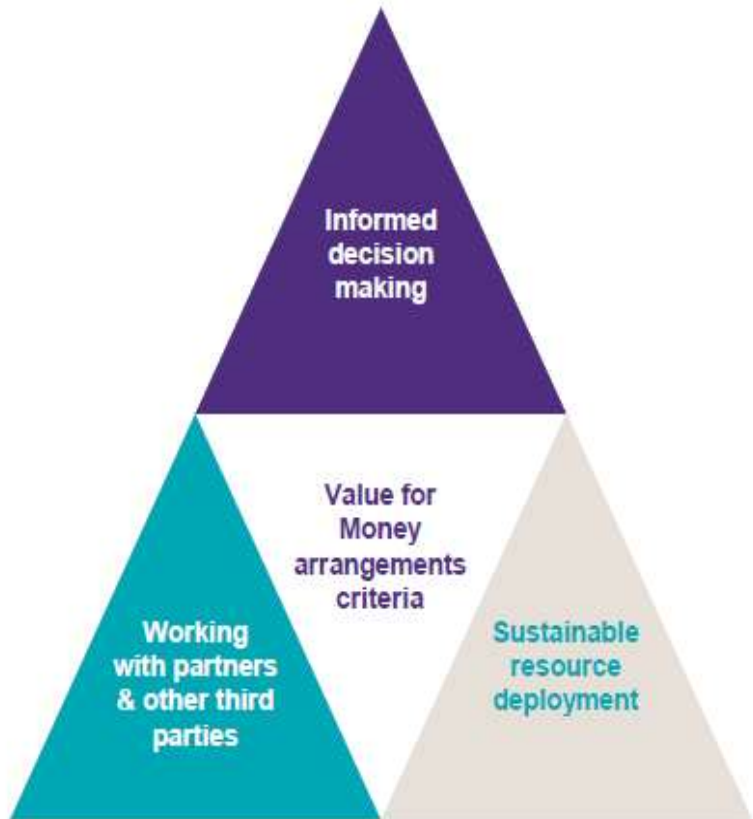
## Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



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## Risk assessment

We carried out an initial risk assessment in December 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 17 December 2018.

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

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

# Value for Money

## Our work

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

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

- Medium Term Financial Planning and the need to identify further savings in the medium term to balance the budget; and
- The transformation programme, and monitoring and reporting of service delivery when the transformation programme reaches its peak in the final quarter of 2018-19

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 19

## Overall conclusion

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

## Recommendations for improvement

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

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

## Significant difficulties in undertaking our work

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

## Significant matters discussed with management

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



## Key findings

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

	Significant risk	Findings	Conclusion
<p>1</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 89</p>	<p><b>Medium Term Financial position including Transformation</b></p> <p>We reported in our audit plan that the Council continues to face financial pressures with the 4 year settlement for 2016/17 to 2019/20 resulting in a significant grant cut . The new Somerset West and Taunton Council has set a balanced budget for the 2019/20 financial year, with an indicative cumulative surplus of £787k due to be achieved by the end of 2023/24. However the Councils' annual budget report highlights that future funding is uncertain. The MTFP position includes the projected savings arising through the implementation of the Transformation Business Case and formation of the new Council. Without these savings, the forecasted budget gap would be a deficit of £2.057m per year by 2023/24.</p>	<ul style="list-style-type: none"> <li>We reviewed the Council's Medium Term Financial Plan, including the assumptions and savings included within the modelling. We also considered the work being done by the Council to identify the additional savings that it needs to make over this period. The Council's outturn for 2018/19 was £251k below budget, which was transferred to general reserves. At 31 March 2019 the Council has reserves of £5.029m, with £4.048m being in earmarked reserves and £981k in the general reserve.</li> <li>The Council set a balanced budget for the 2019/20 financial year, with a harmonised Council tax rate. This results in a Band D increase of £5 on the Taunton Deane rate, and a £2.32 increase on the West Somerset rate. Budgeted savings within this were £3.5m as a result of the transformation programme. It was identified in December 2018 that the overall costs for transformation are now estimated to exceed the original High Level Business Case estimates by £2,387,000, for which West Somerset's share is £1,880,000, however the revised Business Case increases the savings from £3,100,000 to £3,500,000 per annum. The Council should continue to monitor the transformation programme finances as any further increases could impact the medium term financial planning</li> <li>The additional costs mostly come from the average cost of redundancy not from higher numbers of redundancy. In 2016, the Council predicted the former to be £25,000 when in reality it has proven to be £34,000. This can be for a range of reasons the most likely being the age profile and length of service of the people involved. On reflection The Council states that they should have included a range for the redundancy estimate stress testing the Business Case to the pay back of three years which they remain within.</li> <li>The current Somerset West and Taunton MTFP runs to 2023/24 and is based on detailed modelling assumptions. These include inflation, pay and contract increases as well as anticipated reductions in grant funding, including the four year funding settlement accepted by the Council. These assumptions have been reviewed and appear to be reasonable based on the evidence and information currently available. The MTFP is updated regularly as information on grant settlements becomes available, outcomes from savings strategy are identified and any new cost pressures identified.</li> </ul>	<p><b>Auditor view</b></p> <p>Whilst significant pressures remain we conclude that, overall, the Council has demonstrated it has appropriate arrangements in place for sustainable resource deployment. The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning</p> <p><b>Management response</b></p> <p>The Council has robust budgeting arrangements in place and recognises a number of financial planning risks. Management views the realisation of benefits from transformation as critical to its sustainable financial position.</p>

## Key findings (Continued)

	Significant risk	Findings	Conclusion
2	<p><b>Transformation programme and service delivery</b></p> <p>We reported in our audit plan that we would undertake procedures to understand the Council's mechanisms for identifying, monitoring and reporting any operational service delivery issues arising from the transformation programme, especially when the programme reaches its peak in the last quarter of 2018-19.</p> <p>As part of our value for money risk assessment, we have considered the high level business case, and identified that given the level of redundancies and other service disruption, we will consider the detail behind the monitoring of the transformation programme, and identify whether appropriate governance policies and procedures have been followed throughout.</p>	<ul style="list-style-type: none"> <li>In line with agreed reporting arrangements for programme governance, an update report was taken to the Shadow Council's Scrutiny Committee on the 26th of November, and then to Full Council for both Councils on 11th and 12th December 2018. The report showed that cost is off target, and resource is at risk. The Councils requested an update to the budget for the transformation programme of £2.387m, of which Taunton Deane's share is £1.88m, and West Somerset's share is £507k. The updated Business Case provided a payback period, at 2.7 years, which is below the three year good practice benchmark the Council has used for this programme. The additional budget was approved by members.</li> <li>A second progress report on the transformation programme was taken to Shadow Scrutiny Committee on 14th January 2019. This agenda item highlighted several queries and concerns from members. Members suggested that officers needed to manage the customer's expectations and distribute communications properly and in a timely manner, and the Programme Sponsor agreed and they had already started work on communications. Concern was raised in the 'dip' in service levels during the delivery of the Transformation Project. The Programme Director confirmed that was to be expected and that Members had been advised that service levels might be reduced as a result of the recruitment process. These points, included within the public minutes show a reasonable level of scrutiny with regards to the transformation programme, and also reflects the level of engagement and discussion around salient points of the programme.</li> <li>We have held discussions with officers at the Council responsible for managing service delivery, and it was identified that whilst overall the main operational elements of the transformation had been delivered in accordance with the timeline, there were some lessons learnt for both Councils as part of the programme, the main lesson of which involves staggering implementation.</li> <li>Overall, we have identified that update reports have been taken to Scrutiny meetings providing members a chance to participate and add value to the transformation programme as a whole. Informal internal monitoring also shows that detailed logs were kept of the issues and blockers with regards to operational service delivery, and these were monitored and updated regularly. It was also identified that an external body was hired to provide experienced consultancy services to aid the transformation programme, which shows the Council's approach to the transformation programme took into account measures to ensure a smooth transition from two Councils to one.</li> </ul>	<p><b>Auditor view</b></p> <p>Overall we are satisfied that the Council governance procedures with regards to the transformation programme are robust. Some issues with service delivery were identified, as communicated to members, and the Council have identified lessons to be learnt from this going forward.</p> <p><b>Management response</b></p> <p>The Council has managed a lengthy period of significant and rapid change, and will learn from successes and challenges faced</p>

# Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

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

Page 169	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits claim	11,091	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 is £11,091 in comparison to the total fee for the audit of £32,744 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

# Action plan

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 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
1	●	The Council's Medium Term Financial Plan is dependent on savings to be realised from the transformation programme. The programme has incurred higher costs than originally anticipated. The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning, and reserves.	<p>The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning</p> <p><b>Management response</b></p> <p>The council will continue to monitor both costs and realisation of benefits related to transformation.</p>
2	●	We identified that the calculation of the provision for Council Tax and NNDR bad debt were not based on specific factors. Specifically, a 30% provision was provided for debts between 2 and 6 years old, which we do not consider to be prudent. Using specific factors as used by Taunton Deane Council, our re-calculated provision for Council Tax is £142k and for NNDR is £151k. The overall difference between the provisions made by the Council and our assessment is £119k, which is below performance materiality.	<p>The Council should review its bad debt provision calculations going forward.</p> <p><b>Management response</b></p> <p>The Council plans to review its bad debt risk and calculation for provisions for the 2019/20 accounts.</p>

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## Controls

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

# Follow up of prior year recommendations

We identified the following issues in the audit of West Somerset District Council's 2017/18 financial statements, which resulted in 1 recommendations being reported in our 2017/18 Audit Findings report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	During the course of the audit, it was identified that the Principal Accountant – Corporate can self-authorise their own journals. This is a control issue and should be reviewed by the Council to ensure that there is some review of their work.	System controls were updated to mitigate this risk. There is a two stage process within the WSC Finance system so that the authoriser of journals cannot be the same person that input.

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**Assessment**  
 ✓ Action completed  
 X Not yet addressed

# Audit Adjustments

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

## Impact of adjusted misstatements

We have not identified any adjusted misstatements in the financial statements at present. Our audit work is still ongoing and we will update those charged with governance once we complete our audit procedures

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Financial Instruments	The Council has categorised money market funds as being held at amortised cost, however our audit testing has identified that these should be categorised as fair value through profit and loss. The Council holds £1.3 million of money market funds which need to be reclassified.	We recommend the Council update their financial instruments note to categorise money market funds as fair value through profit and loss rather than amortised cost	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit, Governance and Standards 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
1 Our internal actuary has reviewed the impact of GMP equalisation judgement. For councils using Barnett Waddingham the impact is a potential overstatement of the net pension liability of 0.15% equating to £24k for West Somerset District Council. The Authority has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.	£0	£24	£0	Not material individually or in total
<b>Overall impact</b>	<b>£0</b>	<b>£24</b>	<b>£0</b>	

# Fees

## Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we anticipate necessary in order to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment

### Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert	1,500
Pensions – IAS 19	June – July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS19 this year.	1,500
PPE Valuations – work of experts	June – July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500

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Total Audit Fees	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
<b>Audit related services:</b>			
Council Audit	42,525	32,744	32,744
Additional Audit Fee (see above)			4,500
<b>Total audit fees (excl VAT)</b>	<b>42,525</b>	<b>32,744</b>	<b>37,244</b>

### Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	
Certification of Housing Benefit (estimate)	11,091
<b>Total fees for other services</b>	<b>11,091</b>





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# **Somerset West and Taunton Council**

## **Audit, Governance and Standards Committee – 31 July 2019**

### **West Somerset District Council Statement of Accounts 2018/19**

**This matter is the responsibility of Cllr Ross Henley, Portfolio Holder for Corporate Resources**

**Report Author: Emily Collacott, Finance Business Partner**

#### **1 Executive Summary / Purpose of the Report**

- 1.1 The Statement of Accounts for 2018/19 is required to be approved by the Audit Governance and Standards Committee and signed by the S151 Officer and the Chair of the Audit Governance and Standards Committee. The Statement of Accounts document is attached to this report.
- 1.2 This report also links to and reflects the Audit Findings Report which was prepared by and will be presented by the Council's external auditors – Grant Thornton UK LLP.
- 1.3 As part of the overall process for approving the Statement of Accounts, a Management Letter of Representation has to be signed by the Council. A draft letter of representation is attached.

#### **2 Recommendations**

- 2.1 The Committee is recommended to:
  - a. Note the Auditor's unqualified opinion on the Statement of Accounts.
  - b. Approve the 2018/19 Statement of Accounts as attached to this report.
  - c. Endorse the Chairman of the Committee signs the Statement of Accounts.
  - d. Endorse the Chairman of the Committee signs the management letter of representation in respect of the financial statements for the year ended 31 March 2019.

#### **3 Background and Full details of the Report**

- 3.1 The Accounts and Audit Regulations 2015 require the audited Statement of Accounts to be approved by a resolution of a nominated committee. The current

constitutional arrangements devolve this responsibility to the Audit Governance and Standards Committee.

- 3.2 The S151 officer is required to sign off the unaudited Draft Accounts as true and fair by 31 May. The audited Statement of Accounts must be approved by Committee by 31 July. Once approved the Statement must be signed by the S151 Officer and the Chair of the Audit Governance and Standards Committee, and published on the Council's website. As the successor local authority with effect from 1 April 2019, Somerset West and Taunton Council is required to approve 2018/19 the Statement of Accounts for West Somerset Council.
- 3.3 The Council's Statement of Accounts has been audited this year by Grant Thornton UK LLP and is attached to this report. At the time of writing this report, Grant Thornton intend to issue an unqualified opinion, as reported in the Audit Findings Report.
- 3.4 The Management Letter of Representation is a formal letter to the external auditors, Grant Thornton LLP, which is signed by the Council's senior management. The letter attests to the accuracy of the financial statements that the Council has submitted to the auditors for their analysis.
- 3.5 The Management Letter of Representation enables the Council to declare in writing that the statement of accounts and other presentations to the auditor are sufficient and appropriate and without omission of material facts to the best of the management's knowledge. The auditors will use this letter as part of their audit evidence.

#### **4 Statement of Accounts**

- 4.1 The Statement of Accounts for 2018/19 has been prepared on an IFRS (International Financial Reporting Standards) basis in line with the CIPFA (Chartered Institute of Public Finance Accountancy) Code of Practice on Local Authority Accounting in the UK 2018/19.
- 4.2 The Statement of Accounts contain four main statements reflecting the position of the Council at 31 March 2019:
  - Comprehensive Income and Expenditure Statement
  - Movement in Reserves Statement
  - Balance Sheet
  - Cash Flow Statement
- 4.3 There are also supplementary statements related to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

## **Comprehensive Income and Expenditure Statement**

- 4.4 The Comprehensive Income and Expenditure Statement (CIES) shows the day to day revenue spending and income on the Council's services. It also shows the council tax and Government grants received to help pay for those services. The Comprehensive Income and Expenditure Statement shows the net cost on an "accounting basis" which includes accounting adjustments such as depreciation, impairment and revaluation losses, and other types of accounting adjustments. These adjustments are then reversed out in the Movement in Reserves Statement to show the "funding" position of the Council.
- 4.5 The Net Cost of Services has increased by £2.937m compared to the previous year's accounts. This relates primarily to an increase in costs in the Operations service area as a result of the Council's share of redundancy payments being incurred through the joint Transformation with Taunton Deane (now one Council) and an increase in Growth and Development service area spending in respect of Hinkley Point expenditure from the Community Impact Mitigation Fund.
- 4.6 This has meant there has also been a movement on the Provision of Services which has moved from a £273k surplus in 2017/18 to a deficit of £218k in 2018/19.
- 4.7 The movement on the revaluation of Property, Plant and Equipment from a deficit of £411k in 2017/18 to a surplus of £153k in 2018/19 has contributed to an increase to the surplus on the CIES from £831k in 2017/18 to £864k in 2018/19.
- 4.8 The Financial Outturn position for 2018/19 has recently been reported to Executive Committee in July. This included information relating to the Council's financial performance for the 2018/19 financial year. The reports highlighted key variances to the budget and provided explanations for these.

## **Movement in Reserves Statement**

- 4.9 This account shows the changes in the Council's financial resources over the year by showing the movement on the reserves held. These are analysed into Usable Reserves (these can be used to fund spending) and Unusable Reserves (reserves that cannot be spent as they contain technical accounting adjustments that do not represent available funding).
- 4.10 The total of the Council's Usable Reserves (capital and revenue combined) has increased by £60k in year to £8.176m.
- 4.11 The Statement shows that the General Fund Reserve balance is above the minimum level required in the Council's financial strategy, with General Fund Reserves increasing from £899k to £981k. The recommended minimum reserve level for WSC is £700k.

## **Balance Sheet**

- 4.12 The Balance Sheet provides a snapshot of the Council's financial position as at 31 March 2019 (with comparatives for 31 March 2018).
- 4.13 The Balance Sheet shows that net assets have moved from a negative £85k to a positive balance of £777k. The most significant liability on the balance sheet remains in respect of the Pensions Reserve although in overall terms the Pensions liability has been reduced by £1.094m.

## **Cash Flow Statement**

- 4.14 The cash flow statement summarises the flows of cash and cash equivalents into and out of the Council during the year.
- 4.15 Cash and cash equivalents are represented by the following: cash in hand; deposits with financial institutions repayable without penalty on notice of not more than 24 hours; and investments that mature in one month or less from the date of the balance sheet and are readily convertible into cash.
- 4.16 During the year the Council's cash and cash equivalents reduced by approximately £1.777m.

## **Collection Fund**

- 4.17 The Collection Fund Statement shows the total amount the Council has collected from tax payers on behalf of, and distributed to, all of the precepting authorities and Central Government. The major precepting authorities are Somerset County Council, Avon and Somerset Police, Devon and Somerset Fire and Rescue Authority and Central Government. The Council has a statutory obligation to maintain a separate Collection Fund Account.
- 4.18 The presentation of the statement clearly separates the Council Tax and Business Rates movements and balances. The statement shows that the Council has collected £42.298m on behalf of ourselves, the precepting authorities and Central Government. This comprises council tax income of £24.169m and business rates income of £18.129m.
- 4.19 The statement currently shows a surplus of £194k (WSC share = £26k) in respect of Council Tax and a surplus of £855k (WSC share = £342k) in respect of business rates.

## **5 Result of the Audit of the Statement of Accounts**

- 5.1 Most of the external audit review has been completed and subject to work outstanding being completed and queries being resolved, the auditor has indicated their intention to issue an "unqualified opinion" for the Statement of Accounts, as

showing a true and fair view of the Council's financial position and performance.

- 5.2 The auditor has also reviewed our arrangements to secure economy, efficiency and effectiveness in our use of resources, and provides an opinion in the form of a value for money conclusion. Their report states that "the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources".
- 5.3 During the audit a small number of misstatement and disclosure changes were identified which have been made in the final set of financial statements. These have been identified in Appendix C of the Audit Findings Report included within this Agenda.

## **6 Links to Corporate Aims / Priorities**

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

## **7 Finance / Resource Implications**

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

## **8 Legal Implications**

- 8.1 There is a Statement of Responsibilities within the Statement of Accounts, which summarises responsibilities for the Council and its S151 officer. The Accounts are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, which specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council.
- 8.2 The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003. These proper practices apply to:
- Statements of Accounts prepared in accordance with the statutory framework by the Accounts and Audit (England) Regulations 2015
  - The audit of those accounts undertaken in accordance with the statutory framework established by section 5 of the Local Audit and Accountability Act 2014

## **9 Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Consultation Implications**

- 9.1 None in respect of this report.

**Democratic Path:**

- **Audit Governance and Standards Committee – 31 July 2019**

**Reporting Frequency: Annually****List of Additional Documents:**

West Somerset Council Statement of Accounts  
Letter of Representation

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**West Somerset District Council  
Audited  
Statement of Accounts  
2018/19**

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# Narrative Statement

## STATEMENT BY THE STRATEGIC FINANCE ADVISOR AND S151 OFFICER

### INTRODUCTION

Local authorities in England are required by the Accounts and Audit Regulations 2015 to publish a narrative report with the Statement of Accounts. The purpose of the Narrative Report is to provide information on the authority, its main objectives and strategies and the principal risks that it faces.

This report highlights some of the most important matters reported in the accounts and provides a management commentary on the financial performance and standing of the Council. The commentary is focussed both on the performance in the past year and on issues affecting the Council going forward particularly with regard to the formation of the new Somerset West and Taunton Council from 1 April 2019.

### WEST SOMERSET COUNCIL – KEY INFORMATION

West Somerset is a local government district within the county of Somerset. The council covers a largely rural area, with a population of 34,900 in an area of 740 square kilometres (290 sq. mi). It is the least populous non-unitary district in England with the largest centres of population being the coastal towns of Minehead (population 10,000) and Watchet (4,400). The council's administrative headquarters are located in the village of Williton, with an additional office in Minehead.

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 West Somerset Council. The Council is responsible for a range of services including (but not limited to):

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

### THE GOVERNANCE FRAMEWORK

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

This framework is applicable both for the current Council – West Somerset Council – and its successor from April 2019 – Somerset West and Taunton Council. 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 Committee, Cabinet or Council as appropriate.

Further information is included in the Annual Governance Statement.

## **CORPORATE STRATEGY AND PLAN**

In February 2016 the Council approved its Corporate Strategy. The Strategy provides a clear direction for the Council to follow, with four key priority areas where the Council will concentrate its efforts and resources between April 2016 and March 2020.

The key elements of the Strategy are:

- Refreshed high-level Corporate Priorities for the Council
- Design principles for our organisation
- Refreshed vision
- Clarity on the role and purpose of the Council

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

The Corporate Plan 2017-18 was approved by the Council in October 2017 and the Plan for 2018-19 was a continuation of this. It sets out our priorities and success measures we will use to monitor progress, organised into key themes of:

- Key Theme 1 – People
- Key Theme 2 – Business and Enterprise
- Key Theme 3 – Our Place
- Key Theme 4 – A Modern and Efficient Council

## **DECISION MAKING AND RESPONSIBILITIES**

The Council consists of 28 elected Members, with a Cabinet of Lead Members who are supported and held to account by Scrutiny Committee. Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate. The Constitution sets out the functions of key governance officers, including the statutory posts of Chief Executive, 'Monitoring Officer' and 'Section 151 Officer' and explains the role of these officers for ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

## **MANAGING RISK**

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

Senior management meet to identify the principal risks to the Council. These risks are recorded in a Corporate Risk Register. Each Service Area also keeps a separate risk register for its area. These registers also record the controls necessary to manage the risks. The registers are regularly reviewed and challenged by senior management and by the Audit Committee. Specific assurance is sought concerning those risks associated with the key elements of the Governance Framework and that any necessary improvements to controls have been implemented. The Governance Framework cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

## **FINANCIAL MANAGEMENT**

The Council has a long established record of effective financial management and managing within our means. We continue to face the challenge of designing a sustainable budget for the future in the face of further Government plans to cut public spending. The Council has worked in partnership with Taunton Deane Borough Council since 2013 to share management and staff across the two Councils. Together this partnership has resulted in efficiencies and produced annual savings of £1.8m.

In 2016 the two Councils agreed a High Level Transformation Business Case which puts the customer at its heart, and seeks to drive benefits through implementing new ways of delivering services, providing more services digitally and modernising our business processes. The Councils have also obtained agreement from both the Secretary of State and Parliament to create a new Council from April 2019 that will create a new district and Council area currently covered by the two. The financial implications for the business case were refreshed in December 2018, with the new Council and transformed services producing further savings of £3.5m per year.

West Somerset set a balanced budget for 2018/19, and the new Council has in February 2019 set a balanced budget for 2019/20 with a broadly balanced position projected throughout the 5-year Medium Term Financial Plan. The Strategic Finance Advisor and 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 2018/19.

## **CREATING A NEW COUNCIL**

Taunton Deane and West Somerset councils submitted an application to Government in March 2017 requesting agreement to create a new single district Council to replace the two. Following a period of consultation, the Secretary of State announced approval of this change in March 2018. This was subsequently followed by the making of the Somerset West and Taunton (Modification of Boundary Change Enactments) Regulations 2018 and the Somerset West and Taunton (Local Government Changes) Order 2018 on 25 May 2018. The new Somerset West and Taunton Council will formally come into being on 1 April 2019.

## **COUNCIL'S PERFORMANCE**

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

The Council has made good progress over recent years in meeting the challenge of 'balancing the books'. Phase 1 of the Council's partnership with Taunton Deane Borough Council has contributed to the delivery of savings through efficiency in the management and staff structures since 2014. Following an earlier mandate from Councillors in January 2016, a business case was developed and the Council agreed in partnership with Taunton Deane to jointly transform the way services are

delivered. This has culminated in the creation of a single new council, Somerset West and Taunton, to deliver services for both councils from 1 April 2019.

Some of the key highlights of how the Council has performed during 2018/19 are shown below:-

### **Energy Infrastructure Programme**

- Community Impact Mitigation (CIM) Fund – West Somerset Council administer and make decisions on the release of the CIM Fund which was secured to help mitigate the impact of the Hinkley Point C development. The CIM Fund was launched in May 2014. In meeting its corporate objective to support and fund projects within the District £1,037,467 has been committed to West Somerset based projects in 2018/19, with a total of £3,565,688 having been committed in the District since the fund was launched.
- Economic Development and Tourism – in delivering approved initiatives in the areas of Economic Development, Land Management, Employment and Skills, and Tourism to meet its corporate objective of maximising the benefits of the Hinkley Point C project for local people and local businesses. In 2018/19 the Council has spent £145,573 leaving £1,256,281 to be spent for future years.
- Leisure – in meeting its corporate objective and after having worked with the community, the Council has approved funding for a wide variety of projects within the District to support organisations who deliver services and facilities where sports and leisure activity takes place. £665,600 has been committed to projects to date with a further £134,848 to be committed in future years.
- Housing – using contributions from EDF Energy to meet its corporate objective the Council has worked with partners to deliver additional bed spaces within the existing housing stock (empty properties, flats over shops etc) using housing initiatives, a total of £539,354 has been spent on these. The Council has also worked with a range of housing partners and developers to contribute towards the delivery of new bed spaces within new dwellings that are being built (both standard market and affordable), a total of £468,357 has been spent to deliver these initiatives. A further £277,651 is available to spend in the coming years.

### **ENVIRONMENTAL**

Somerset Waste Partnership (SWP) has had another successful year, with a recycling rate of around 53% in Quarter 3 of 2018/2019 and continuing to recycle over 95% in the UK (over half staying in Somerset). SWP have increased the scope of their recycling centre contract with Viridor, enabling residents to use every recycling centre to recycle cartons/tetrapaks and plastic pots, tubs and trays. SWP remain on track to move away from landfill by 2020, with the construction of an Energy from Waste plant at Avonmouth.

SWP's key programme of work has been to procure a new collection contractor who will roll out the Recycle More service. The Somerset Waste Board has announced SUEZ recycling and recovery UK as the preferred bidder for its new collections contract. SWP, which is responsible for waste and recycling services on behalf of four district councils and the wider county council in Somerset, has been gearing up for the service change since 2017, when it agreed to end its previous contract with Keir 18 months early.

The Keir contract will come to an end on 27 March 2020, and the new contract will focus on implementing SWP's 'Recycle More' strategy, which will see residual waste collections reduced to three-weekly while extra materials (like plastic pots, tubs and trays) will be collected at the kerbside, along with pre-existing weekly dry recycling and food waste collections. It is hoped that this strategy will result in annual savings of around £1.7 million before rollout costs. Coinciding with the start of the new contract, an energy-from-waste (EfW) plant is set to open in nearby Avonmouth in 2020, with capacity to process all waste currently landfilled in Somerset.

## FINANCIAL PERFORMANCE

### Economic Environment

It has been well documented that Local Government has seen major cuts to funding over several years and 2018/19 once again presented us with a challenging budget to close. We know that Revenue Support Grant (RSG) will have almost disappeared completely by 2019/20. Overall this will mean our Settlement Funding baseline (including RSG, Rural Services Grant and Business Rates Baseline) will have reduced from £2.63m in 2013/14 to a projected £1.361m by 2019/20 – a reduction of virtually 50%. Under the business rates retention system we are currently projecting that our actual funding will exceed the baseline as we share in growth in rateable values, most notably in respect of Hinkley nuclear power station. The rateable values are determined by the Valuation Office Agency, and have proven to be volatile since the introduction of the retention system in 2013. This had made financial planning precarious and, prior to the increase of the Hinkley rateable value through the 2017 Revaluation, it was clear that the Council's financial position was unviable. Whilst the valuation increase has provided a short term boost and enabled the Council to set a balanced budget for 2018/19, this funding is not guaranteed in the medium to long term.

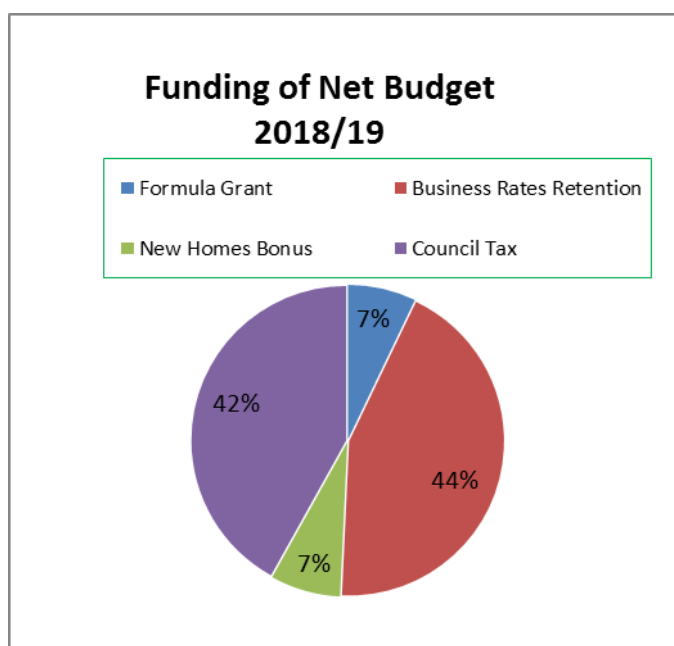
The overall funding position and trend has not come as a surprise to us and we have acted prudently to try to protect ourselves from having to make cuts that will impact adversely on the public. We know in some cases this has been unavoidable and have therefore taken steps to look at the longer-term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

### General Fund Revenue Budget and Reserves

The Council's Net Budget for 2018/19 (excluding parish precepts) was £5.407m, representing the net cost of General Fund services funded by grants, business rates and council tax as shown in the following table and graph.

In setting the budget for 2018/19 the Council increased Council Tax by £5. This meant the annual Band D Council Tax charge for services provided by the Council rose to £155.56.

	£000's
Revenue support grant	170
Retained business rates	1,964
Rural Services Delivery Grant	214
Business rates Collection Fund surplus	396
New Homes Bonus	396
Council tax Collection Fund surplus	51
Council Tax income	2,216
Original Net Budget	5,407



The Council's actual net expenditure in 2018/19 was £5.102m which combined with the final business rates funding, results in a reported net underspend on the final budget of £82k (1.5% of Net Budget).



The net underspend arose due to variances in several budget areas. The most significant underspends have been reported against Homelessness, Estates, Housing Benefits, and Street Cleansing. The following table provides a summary of the financial results for the year compared to budget.

General Fund Outturn 2018/19	Budget £'000	Outturn £'000	Variance	
			£'000	%
Corporate	552	561	9	0.2%
Operations	3,755	4,523	768	13.8%
Housing and Communities	1,017	748	(269)	(4.8%)
Growth and Development	1,925	1,911	(14)	(0.3%)
Capital Financing	(1,852)	(1,852)	0	
Interest and Investment Income	120	74	(46)	(0.8%)
Transfers to/(from) Earmarked Reserves	39	(888)	(927)	(16.6%)
Somerset Rivers Authority	25	25	0	
<b>Net Budget Funding</b>	<b>5,581</b>	<b>5,102</b>	<b>(479)</b>	<b>(8.6%)</b>
<b>(Surplus)/Deficit for Year</b>	<b>174</b>	<b>(82)</b>	<b>(256)</b>	<b>(4.6%)</b>
Transfer from (/)to General Reserve	(174)	82		

The analysis provided by the table above shows an increased cost of Operations (£768k) as compared to the original budget. This is mainly due to redundancy costs arising from the Transformation Programme and which has been met from a transfer from Earmarked Reserves. Further information on spending on services, and other operating costs and income, is shown within the Comprehensive Income and Expenditure Statement and Notes to the Accounts.

The General Fund Reserves have increased from £898,876 at the start of the year to £981,178 at 31 March 2019. This is £281,178 above the recommended minimum balance. Later in this statement I explain the financial challenges and risks faced by the Council. Having reserves at this level provides some resilience as the Council continues to strive for a robust and sustainable financial position.

The Council also carries Earmarked Reserve balances, which represent funds that have been set aside to support specific spending in future years. The General Fund Earmarked Reserves balance at 31 March 2019 stands at £4.048m. This balance covers a wide variety of known planned spending commitments and contingencies, including: Business Rates Smoothing Reserve to mitigate funding volatility; Strategic Housing Market Area Assessment; planned investment in Transformation and Creating a New Council, and Homelessness provision with some other smaller commitments which we have prudently put aside. Although this figure appears high in relation to the Council's spending position, the majority of these Earmarked Reserves will be utilised in the medium term.

### Capital Spending and Reserves

In addition to our spending on day-to-day service provision, the Council spends money on assets such as buildings, asset disposal costs, IT equipment and systems, and the provision of capital grants to others such as disabled facilities and decent homes grants. Capital expenditure in the year totalled £2.311m (£1.129m in 2017/18). This included spending of £1.048m on General Schemes and £1.263m on Hinkley impact mitigation schemes.



<b>Summary Capital Spend</b>	<b>£'000</b>	<b>Sources of Capital Funding</b>	<b>£'000</b>
Disabled Facilities Grants	229	Capital Receipts	403
Steam Coast Trail	258	Capital Grants	603
Seaward Way Mixed Proposal	57	S106 General	28
Transformation	242	Hinkley S106	1,263
Enterprising Minehead	116	Earmarked Reserves	14
S106 General	28		
Hinkley impact mitigation projects	1,263		
Other schemes	118		
<b>Total</b>	<b>2,311</b>	<b>Total</b>	<b>2,311</b>

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

The Capital Programme has committed approved capital spending in future years of £11.556m. Overall the Council has sufficient resources available to meet its current approved capital programme but recognises that significant further funds will be required to meet any future aspirations.

Capital reserves reflect funds set aside to fund investment in capital items in future years, and largely comprise grants, contributions and capital receipts that are committed on projects to be completed in the current approved capital programme. The Council currently holds £3.147m of capital reserves (capital receipts and capital grants), providing funding for the approved capital spending referred to above. We have also had approval to borrow £3.5m in relation to Somerset Waste Partnership, which would finance a loan to them and bring us additional interest income. Under current legislation we also have the option to use our capital receipts flexibly for Transformation purposes for both capital and revenue expenditure.

## Balance Sheet

Below is an extract from our Balance Sheet showing the position at year end and the comparison with the position last year:-

	<b>31 March 2018</b>	<b>31 March 2019</b>
	<b>£000</b>	<b>£000</b>
Non-current assets	12,129	12,214
Net current assets – debtors, stock and cash less short term creditors and liabilities	5,495	5,381
Long term liabilities and provisions	(17,709)	(16,818)
<b>Net Assets</b>	<b>(85)</b>	<b>777</b>
Represented by: Usable reserves	8,115	8,176
Represented by: Unusable reserves	(8,200)	(7,399)
<b>Total Reserves</b>	<b>(85)</b>	<b>777</b>

## Treasury Management

Total cash and cash equivalents and short term investments at 31 March 2019 were £13.727m. The tables on the next page show how that balance is split between West Somerset general funds and funds provided under planning obligations by EDF for Hinkley impact mitigation.

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

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

## West Somerset Council Funds:

	31 March 2018	31 March 2019
	£000	£000
Cash and other cash equivalents	3,462	1,274
Short term investments	3,501	5,000
<b>Total</b>	<b>6,963</b>	<b>6,274</b>

## Hinkley Investments:

	31 March 2018	31 March 2019
	£000	£000
Cash and other cash equivalents	0	411
Short term investments	9,437	7,042
<b>Total</b>	<b>9,437</b>	<b>7,453</b>

## Pensions

The Council's share of the overall Pension Fund deficit has decreased from £17.342m at 31 March 2018 to £16.248m at 31 March 2019. The deficit has reduced by 6.0%, which is largely due to a change in the demographic assumptions used by the actuaries.

With the staff moving under the employment of Taunton Deane Borough Council through our working in partnership, the accounts of West Somerset Council focus on the deficit which had to be retained on the balance sheet and which is addressed by an agreed lump sum payment from the Council each year. In 2018/19 this lump sum for West Somerset is £516k and is due to rise to £528k in 2019/20 as part of the overall pension contribution of the new council.

## PRINCIPAL RISKS AND UNCERTAINTIES

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. We also use our risk register as a tool to help demonstrate and calculate our minimum acceptable level of reserves.

Risks are managed at all levels within the Council. The most serious and/or cross-cutting strategic risks are escalated to the Corporate Risk Register. The Corporate Risk Register is subject to regular review by the Joint Management Team and the risks regularly reported to the Council's Corporate Governance Committee. Each risk has an owner and is supported by actions designed to reduce uncertainty and the Council's exposure to risk.

The key areas of corporate risk at March 2019, centred on:

- Financial uncertainty / budgetary pressures
- Asset Management – regulatory compliance
- Impact of welfare reform – impact on our residents and our rental income
- Business continuity – preparedness for disaster / major incident
- Non-compliance with national law or policy
- Delivering services with a reduced staffing capacity
- Hinkley Point C – impact on local accommodation and highways, and/or Economic and Social opportunities may not be realised.

## FUTURE DEVELOPMENTS AND OUTLOOK

During 2018/19, the Council continued to work towards the creation of the new council Somerset West and Taunton from 1 April 2019. A balanced budget for the new council was approved in February 2019 and this indicated a sustainable financial position – no significant budget gap was identified within the medium term financial plan. Nevertheless, 2019/20 is a critical period for the new Council with a significant change in staffing levels, business processes and ways of delivering services to its

customers. This carries a degree of financial risk especially with the dependence on delivery of full transformation savings.

The Government continue to develop their policy on local government finance. In the 2019/20 local government finance settlement, the Secretary of State again indicated the plans for local government (as a whole) to retain 75% of business rates by 2020, and the move to 100% retention of business rates continues to be explored. There is therefore significant uncertainty regarding the funding position for 2020/21 onwards, with the funding system due to be updated following the Spending Review, Fair Funding Review and Business Rates Retention reform – all due to be implemented from April 2020.

## EXPLANATION OF ACCOUNTING STATEMENTS

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2019. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which in turn is underpinned by International Financial Reporting Standards.

The Statement of Accounts has been prepared on a going concern basis. The Council's Section 151 Officer has completed a detailed assessment of a range of factors to determine the financial health of the organisation and assess key risks to the affordability of service position for the foreseeable future. This assessment also takes into account the fact that West Somerset Council ceases from 1 April 2019 and that instead its services will be provided by the newly created Somerset West and Taunton Council from this date.

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

- The **Comprehensive Income and Expenditure Statement** (page 16) brings together details of the Council's day-to-day revenue spending and income on its services, and other gains and losses in the year;
- The **Movement in Reserves Statement** (page 17) shows the changes in the Council's financial resources over the year, by showing the movement on the different reserves held, analysed into 'usable reserves' (that can be used to fund spending) or other reserves;
- The **Balance Sheet** (page 18) provides a snapshot of the Council's financial position at 31 March and sets out what is owned and what is owed;
- The **Cash Flow Statement** (page 19) summarises the flows of cash into and out of the Council during the year;
- The **Notes to the Financial Statements** (pages 20-77) provide supplementary information on some of the figures contained within the primary statements. They also include accounting policies, which guide the treatment of income and expenditure, and disclosures relating to the assets and liabilities of the Council.

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

## FURTHER INFORMATION

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

P Fitzgerald ACMA CGMA, Section 151 Officer, Deane House, Belvedere Road, Taunton, TA1 1HE  
Telephone: (01823) 217557  
E-mail to: [p.fitzgerald@somersetwestandtaunton.gov.uk](mailto:p.fitzgerald@somersetwestandtaunton.gov.uk)

# Independent Auditor's Report

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

These draft statements are unaudited and therefore following the completion of the audit process the independent auditor's report will be included within the audited statements presented in July 2019.







# The Statement of Responsibilities for the Statement of Accounts

## Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In West Somerset that officer is the Strategic Finance Advisor and Section 151 Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

## The Strategic Finance Advisor and Section 151 Officer:

The Strategic Finance Advisor and Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Strategic Finance Advisor and Section 151 Officer has:

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

The Strategic Finance Advisor and Section 151 Officer has also:

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

## Declaration by the Strategic Finance Advisor and Section 151 Officer

I certify that this Statement of Accounts gives a true and fair view of the financial position of West Somerset District Council at 31 March 2019 and of its expenditure and income for the year ended 31 March 2019.

P Fitzgerald ACMA, CGMA  
Strategic Finance Advisor and Section 151 Officer

Date:

## Approval of the Accounts

This Statement of Accounts will be approved by resolution of the Audit, Governance and Standards Committee under powers allocated by the constitutional arrangements of the Council.

Chair of Audit, Governance and Standards Committee



## Comprehensive Income and Expenditure Statement

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

	2017/18			Notes	2018/19			
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
	15,574	(12,874)	2,700		16,167	(11,771)	4,396	
	1,310	(321)	989		1,235	(332)	903	
	2,290	(1,606)	684		3,776	(1,824)	1,952	
	518	(16)	502		576	(15)	561	
	<b>19,692</b>	<b>(14,817)</b>	<b>4,875</b>		<b>21,754</b>	<b>(13,942)</b>	<b>7,812</b>	
			1,395	Other Operating Expenditure	10	1,514	0	1,192
			394	Financing and Investment Income and Expenditure	11	437	(463)	(25)
			(6,937)	Taxation and Non-Specific Grant Income and Expenditure	12			(8,761)
			<b>(273)</b>	<b>(Surplus) or Deficit on Provision of Services</b>				<b>218</b>
				(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	24			(153)
			15	Surplus or deficit on revaluation of available for sale financial assets				0
			(984)	Remeasurement of the net defined benefit liability/(asset)	26			(929)
			<b>(558)</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>(1,082)</b>
			<b>(831)</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>(864)</b>

## Movement In Reserves Statement

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

	Notes	General Fund Balance Including Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<b>Current Year</b>							
<b>Balance at 31 March 2018</b>		<b>5,148</b>	<b>2,012</b>	<b>955</b>	<b>8,115</b>	<b>(8,200)</b>	<b>(85)</b>
Remeasurement of Financial Instruments following adoption of IFRS9 (Note 16)		1			1	(3)	(2)
<b>Remeasured Balance At 31 March 2018</b>		<b>5,149</b>	<b>2,012</b>	<b>955</b>	<b>8,116</b>	<b>(8,203)</b>	<b>(87)</b>
<b><u>Movement in Reserves during 2018/19</u></b>							
Total Comprehensive Income and Expenditure		(218)	0	0	(218)	1,082	864
Adjustments between accounting basis and funding basis under regulations	8	98	(53)	233	278	(278)	0
<b>Increase / (Decrease) in 2018/19</b>		<b>(120)</b>	<b>(53)</b>	<b>233</b>	<b>60</b>	<b>804</b>	<b>864</b>
<b>Balance at 31 March 2019 Carried forward</b>		<b>5,029</b>	<b>1,959</b>	<b>1,188</b>	<b>8,176</b>	<b>(7,399)</b>	<b>777</b>
<b>Comparative Year</b>							
<b>Balance at 31 March 2017</b>		<b>3,742</b>	<b>2,220</b>	<b>879</b>	<b>6,841</b>	<b>(7,757)</b>	<b>(916)</b>
<b><u>Movement in Reserves during 2017/18</u></b>							
Total Comprehensive Income and Expenditure		273	0	0	273	558	831
Adjustments between accounting basis and funding basis under regulations	8	1,133	(208)	76	1,001	(1,001)	0
<b>Increase / (Decrease) in 2017/18</b>		<b>1,406</b>	<b>(208)</b>	<b>76</b>	<b>1,274</b>	<b>(443)</b>	<b>831</b>
<b>Balance at 31 March 2018 Carried forward</b>		<b>5,148</b>	<b>2,012</b>	<b>955</b>	<b>8,115</b>	<b>(8,200)</b>	<b>(85)</b>

## Balance Sheet

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

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

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

31 March 2018 £000	Notes	31 March 2019 £000
10,387	Property, Plant and Equipment <b>14</b>	9,183
1,708	Investment Properties <b>15</b>	2,988
33	Intangible Assets	42
1	Long-term Debtors	1
<b>12,129</b>	<b>Long Term Assets</b>	<b>12,214</b>
1,736	Assets Held for Sale <b>17</b>	1,316
3,298	Short Term Debtors <b>18</b>	3,571
3,462	Cash and Cash Equivalents <b>19</b>	1,685
12,940	Short Term Investments <b>16</b>	12,042
<b>21,436</b>	<b>Current Assets</b>	<b>18,614</b>
(15,084)	Short Term Creditors <b>20</b>	(11,652)
(855)	Provisions <b>21</b>	(1,581)
<b>(15,939)</b>	<b>Current Liabilities</b>	<b>(13,233)</b>
(17,342)	Other Long Term Liabilities <b>26</b>	(16,248)
(367)	Long Term Creditors <b>20</b>	(570)
<b>(17,709)</b>	<b>Long Term Liabilities</b>	<b>(16,818)</b>
<b>(83)</b>	<b>Net Assets</b>	<b>777</b>
8,115	Usable Reserves <b>22</b>	8,176
(8,200)	Unusable reserves <b>23</b>	(7,399)
<b>(85)</b>	<b>Total Reserves</b>	<b>777</b>

## Cash Flow Statement

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

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

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

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

2017/18		2018/19
£000	Notes	£000
<b>273</b>	<b>Net surplus or (deficit) on the provision of services</b>	<b>(218)</b>
(508)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(2,364)
(252)	Adjustments for items included in the net surplus on the provision of services that are investing and financing activities	(350)
<b>(487)</b>	<b>Net cash flows from Operating Activities</b>	<b>(2,932)</b>
(148)	Investing Activities	1,155
<b>(635)</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>(1,777)</b>
4,097	Cash and cash equivalents at the beginning of the reporting period	3,462
<b>3,462</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>1,685</b>

# Notes to the Accounts

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

## 1 Accounting Policies

### i) General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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.

This will be the final set of Accounts for West Somerset Council (WSC) following local government structural change which takes effect on 1 April 2019. Both WSC and its neighbour Taunton Deane Borough Council (TDBC) will be dissolved to be replaced by a single successor Council – Somerset West and Taunton Council (SWT) – with effect from 1 April 2019. These accounts have been prepared on a going concern basis as all responsibilities, rights, obligations, assets and liabilities of WSC (and TDBC) will transfer to the new Council with effect from 1 April 2019.

### ii) Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. With effect from 1 April 2018, IFRS15 *Revenues 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 is written down and a charge made for the income that might not be collected.

### iii) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in one month or less from the date of the balance sheet and that are readily convertible to known amounts of cash with insignificant risk of change in value. The Council includes deposits in Business Reserve Accounts in cash equivalents.

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

#### **iv) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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

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

#### **v) Charges to Revenue for Non-Current Assets**

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible assets attributable to the service.

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

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

#### **vi) Employee Benefits**

##### Benefits Payable during Employment

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

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

As all West Somerset staff are now employed by Taunton Deane Borough Council (TDBC), the accrual for accumulated absences is shown in the TDBC Statement of Accounts and no longer reported by this Council.

### Termination Benefits

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

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

### Post-Employment Benefits

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

The Local Government Scheme provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

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

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

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

Service cost comprising:

- **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- **Past service cost** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.



- **Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council** - the change during the period in the defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

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

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

#### Discretionary Benefits

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

#### **vii) Events after the Reporting Period**

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

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

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



## **viii) Financial Instruments**

### Financial Liabilities

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

### Financial Assets

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

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

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

### Financial Assets Measured at Amortised Cost

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

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

### Expected Credit Loss Model

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

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

## Financial Assets Measured at Fair Value through Profit or Loss

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

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

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

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

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

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

### **ix) Government Grants and Contributions**

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

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

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

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

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

### **x) Business Improvement District**

A Business Improvement District (BID) scheme applies to the town of Minehead within the West

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

#### **xi) Intangible Assets**

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

#### **xii) Investment Property**

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

#### **xiii) Leases**

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

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

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

### **The Council as Lessee**

#### Operating Leases

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

### **The Council as Lessor**

#### Operating Leases

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

#### **xiv) Overheads and Support Services**

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

#### **xv) Property, Plant and Equipment**

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

#### **Recognition**

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

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

#### **Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

### Impairment

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

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

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original

loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. Freehold Land and certain Community Assets) and assets that are not yet available (Assets under Construction).

Depreciation is calculated on the following bases:

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

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

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

### Disposals and Non-Current Assets Held for Sale

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

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

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

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

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



## **xvi) Provisions, Contingent Liabilities and Contingent Assets**

### Provisions

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

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

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

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

### Contingent Liabilities

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

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

### Contingent Assets

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

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

## **xvii) Reserves**

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

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

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

### **xviii) Revenue Expenditure Funded from Capital under Statute**

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

### **xix) VAT**

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

### **xx) Related Party Transactions**

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

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

### **xxi) Council Tax and Non-Domestic Rates**

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

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

#### Accounting for Council Tax and NDR

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

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

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.



## **xxi) Fair Value Measurement**

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

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

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

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

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

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

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

## **2 Accounting Standards That Have Been Issued but Have Not Yet Been Adopted**

Accounting standards that may be relevant for additional disclosures in the 2019/20 financial statements in respect of accounting changes that will be introduced in the 2019/20 Code are as follows:-

- Amendments to IAS40 Investment Property: Transfer of Investment Property
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS9 Financial Instruments: Prepayment Features with Negative Compensation

The Council has yet to adopt these accounting standards as they are not expected to have a material impact on information in the 2018/19 financial statements. These standards will be adopted for the 2019/20 financial statements where they are relevant.

## **3 Critical Judgments in Applying Accounting Policies**

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

The critical judgements made in the Statement of Accounts are:

- There continues to be a high degree of uncertainty about future levels of funding for local government. The Council has therefore put significant senior management and transactional

resources into identifying opportunities for both reducing costs and improving performance. While it is possible that funding uncertainty might impair the Council's assets, for example by requiring the closure of specialist facilities currently valued in the Balance Sheet as operational assets, at this stage the Council has determined that this uncertainty is not yet sufficient to indicate any impairment may become necessary;

- A Business Rates provision has been made in the accounts for £3.669m (the Council's share of this is £1.467m). The Council has put in its best estimate of the expenditure required to settle the present obligation based on the appeals put in by ratepayers.

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

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

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect If Actual Results Differ From Assumptions
Pensions Liability	Estimation of the net liability to pay pension depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	As at 31 March 2019 the pension liability for West Somerset Council amounted to £16.248m. The effects on the net pension liability of many changes in individual assumptions can be measured. For example, if the discount rate were to change by plus or minus 0.1% then the projected service cost would change by £0.843m. Similarly a change of plus or minus 1 year in life expectancy assumptions would change the projected service cost by £2.492m.
Arrears	As at 31 March 2019, the Council had a balance of corporate debtors of £0.160m. A review of balances suggested that an impairment allowance of £0.042m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.042m to be set aside as an allowance.
Business Rates Appeals Provision	Estimates has been made for the provision for refunding ratepayers who have successfully appealed against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed.	There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation.
Fair Value Measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted process in active markets (i.e. Level 1 inputs) the fair value is measured using similar assets or liabilities in active markets or the discounted cash flow (DCF) model. Where possible, the inputs to these valuation techniques are based on observable data but were this is not possible	The Council uses the discounted cash flow (DCF) model to measure the fair value of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels, (for investment properties) and

	<p>judgment is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties the Council's external valuer and for financial assets and liabilities the Council uses external treasury management advisors).</p>	<p>discount rates – adjusted for regional factors (for both investment properties and some financial assets).</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.</p>
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## 5 Material Items of Income and Expense

The year has seen the implementation of the plan to transform the way the two Councils work in preparation for the launch of the new Council on 1 April 2019. This transformation programme has given rise to termination costs (comprising of redundancies, pension enhancements etc.) relating to 191 employees and totaling £5.661 million, of which £0.931 million is charged to West Somerset.

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

### Housing Benefit Payments and Subsidy

The Council incurs a significant proportion of spend on benefit payments, which is funded predominantly by Government grant. Housing Benefit and subsidy payments are included within Operations on the face of the Comprehensive Income and Expenditure Statement and payments amounted to £9.952m 2018/19 compared with £10.816m in 2017/18. Housing Benefit subsidy amounted to (£9.885m) in 2018/19 compared with (£10.743m) in 2017/18.

## 6 Events after the Balance Sheet Date

On 1 April 2019 West Somerset Council combined with Taunton Deane Borough Council to form Somerset West and Taunton Council. Under the terms of the Structural Change Order all property, rights and liabilities held by the two former authorities transferred to the new Council on 1 April 2019. These financial statements have been prepared on a going concern basis.

There have been no events after the balance sheet date of 31 March 2019 that require the financial statements or notes to be adjusted for 2018/19.

## 7 Expenditure and Funding Analysis

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

2018/19	As Reported For Resource Management	Adjustment To Arrive At The Net Amount Chargeable To The General Fund	Net Expenditure Chargeable To The General Fund Balance	Adjustments Between Funding and Accounting Basis (Note 7a)	Net Expenditure In The Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Operations	4,500	(77)	4,423	(27)	4,396
Housing and Communities	468	104	572	331	903
Growth and Development	315	0	315	1,637	1,952
Strategic Leadership	561	0	561	0	561
<b>Net Cost of Services</b>	<b>5,844</b>	<b>27</b>	<b>5,871</b>	<b>1,941</b>	<b>7,812</b>
Other Income and Expenditure	(5,926)	(27)	<b>(5,953)</b>	(1,642)	(7,595)
<b>Surplus or Deficit</b>	<b>(82)</b>	<b>0</b>	<b>(82)</b>	<b>299</b>	<b>217</b>
<b>Opening General Fund Balance</b>			<b>(899)</b>		
<b>Plus Surplus/Less Deficit on General Fund Balance in Year</b>			<b>(82)</b>		
<b>Closing General Fund Balance at 31 March</b>			<b>(981)</b>		

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

## 7a Note to the Expenditure and Funding Analysis

2018/19	Adjustment For Capital Purposes (Note 1)	Net Change For The Pensions Adjustment (Note 2)	Other Statutory Differences (Note 3)	Total Statutory Adjustments
	£000	£000	£000	£000
Operations	564	(591)	0	(27)
Housing and Communities	331	0	0	331
Growth and Development	1,638	0	0	1,638
Strategic Leadership	0	0	0	0
<b>Net Cost of Services</b>	<b>2,533</b>	<b>(591)</b>	<b>0</b>	<b>1,942</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(1,449)</b>	<b>426</b>	<b>620</b>	<b>(403)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>1,084</b>	<b>(165)</b>	<b>620</b>	<b>1,539</b>

2017/18	Adjustment For Capital Purposes (Note 1)	Net Change For The Pensions Adjustment (Note 2)	Other Statutory Differences (Note 3)	Total Statutory Adjustments
	£000	£000	£000	£000
Operations	564	(591)	0	(27)
Housing and Communities	331	0	0	331
Growth and Development	1,637	0	0	1,637
Strategic Leadership	0	0	0	0
<b>Net Cost of Services</b>	<b>2,532</b>	<b>(591)</b>	<b>0</b>	<b>1,941</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(1,448)</b>	<b>426</b>	<b>(620)</b>	<b>(1,642)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>1,084</b>	<b>(165)</b>	<b>(620)</b>	<b>299</b>

### Note 1 – Adjustments for Capital Purposes

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

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

### Note 2 – Net Change for the Pension Adjustments

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

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

### Note 3 – Other Statutory Adjustments

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

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

## 7b Segmental Income

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

Services	2017/18	2018/19
	Income from Services	Income from Services
	£000	£000
Operations	(1,609)	(449)
Housing and Communities	(227)	(1)
Growth and Development	(310)	(221)
Strategic Leadership	(1)	(1,400)
<b>Total Income analysed on a Segmental Basis</b>	<b>(2,147)</b>	<b>(2,071)</b>

## 8 Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

### General Fund Balance

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

### Capital Receipts Reserve

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

### Capital Grants Unapplied

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



2018/19

General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
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**Adjustments to the Revenue Resources**

Amounts by which income and expenditure included in the Comprehensive Income and Expenditure

Statement are different from revenue for the year calculated in accordance with statutory requirements

Pension costs (transferred to or from the Pensions Reserve)	(165)	0	0
Council Tax and NNDR (transfers to or from the Collection Fund)	101	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	904	0	0
<b>Total Adjustment to Revenue Resources</b>	<b>840</b>	<b>0</b>	<b>0</b>

**Adjustment between Revenue and Capital Resources**

Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(350)	350	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	(143)	0	0
Capital expenditure financed from revenue balances	(12)	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(505)</b>	<b>350</b>	<b>0</b>

**Adjustments to Capital Resources**

Use of the Capital Receipts reserve to finance capital expenditure	0	(403)	0
Application of capital grants to finance capital expenditure	(237)	0	233
<b>Total Adjustments to Capital Resources</b>	<b>(237)</b>	<b>(403)</b>	<b>233</b>

<b>Total Adjustments</b>	<b>98</b>	<b>(53)</b>	<b>233</b>
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2017/18 Comparative Year

General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
£000	£000	£000

**Adjustments to the Revenue Resources**

Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements

Pension costs (transferred to or from the Pensions Reserve)	(124)	0	0
Council Tax and NNDR (transfers to or from the Collection Fund)	383	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	1,237	0	0
<b>Total Adjustment to Revenue Resources</b>	<b>1,496</b>	<b>0</b>	<b>0</b>

**Adjustment between Revenue and Capital Resources**

Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(252)	252	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	0	(144)	0
Capital expenditure financed from revenue balances	(20)	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(272)</b>	<b>108</b>	<b>0</b>

**Adjustments to Capital Resources**

Use of the Capital Receipts reserve to finance capital expenditure	0	(316)	0
Application of capital grants to finance capital expenditure	(91)	0	76
<b>Total Adjustments to Capital Resources</b>	<b>(91)</b>	<b>(316)</b>	<b>76</b>

**Total Adjustments**

<b>1,133</b>	<b>(208)</b>	<b>76</b>
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## 9 Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

Earmarked Reserves	Balance as at 31/03/2017 £000	Transfers Out £000	Transfers In £000	Balance as at 31/03/2018 £000	Transfers Out £000	Transfers In £000	Balance as at 31/03/2019 £000
Business Rates Smoothing	305	(265)	1,292	1,332	(386)	996	1,942
Strategic Housing Market Area Assessment	576	0	0	576	0	0	576
Transformation & Business Resilience	0	0	0	0	0	262	262
Asset Maintenance and Compliance	213	(41)	121	293	(60)	0	233
Minehead Esplanade	0	0	59	59	0	0	59
Steam Coast Trail	31	(24)	0	7	0	85	92
Sustainability Reserve	41	(33)	150	158	(290)	210	78
Planning Policy Reserve	195	(50)	27	172	(98)	0	74
Enterprising Minehead	0	0	0	0	0	63	63
Homelessness Prevention	58	0	0	58	0	0	58
Transformation	757	(89)	70	738	(1,189)	507	56
SWP Recycle More	0	0	55	55	0	0	55
Planning Reserve	20	0	50	70	(20)	0	50
Elections Reserve	9	0	30	39	0	9	48
Revenues and Benefits Reserve	73	(38)	33	68	(68)	0	0
Carry Forwards	247	(247)	295	295	(295)	207	207
Other Earmarked Reserves	319	(61)	71	329	(322)	188	195
<b>Total</b>	<b>2,844</b>	<b>(848)</b>	<b>2,253</b>	<b>4,249</b>	<b>(2,728)</b>	<b>2,527</b>	<b>4,048</b>

**Business Rates Smoothing Reserve:** The business rates funding system results in volatility in the Collection Fund balance, which the Council will need to fund in subsequent years. The Council sets aside funds in this smoothing reserve to avoid large spikes in the Revenue Budget as a result of successful Business Rates appeals.

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

**Minehead Esplanade:** Monies received from the Coastal Community Fund set aside for the improvement of the esplanade in Minehead.

**Planning Policy Reserve:** Monies have been set aside to be drawn down in 2018/19 to cover additional costs arising and relating to the West Somerset Local Plan preparation through to examination and beyond to adoption.

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

**Homelessness Prevention:** Homelessness prevention grant received as part of Revenue Support Grant in 2015/16 was earmarked along with the remainder of the Mortgage Rescue Grant.

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

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

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

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

## 10 Other Operating Expenditure

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

2017/18 £000	2018/19 £000
953 Parish Council precepts	1,009
3 Levies	3
<u>439</u> (Gains)/Losses on the disposal of non current assets	<u>180</u>
<b><u>1,395</u> Total</b>	<b><u>1,192</u></b>

## 11 Financing and Investment Income and Expenditure

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

2017/18 £000	2018/19 £000
455 Net interest on the defined liability (asset)	426
(33) Interest receivable and similar income	(68)
Income and Expenditure in relation to investment properties and changes in 59 their fair value	(279)
<u>(87)</u> Other investment income	<u>(104)</u>
<b><u>394</u> Total</b>	<b><u>(25)</u></b>

## 12 Taxation and Non Specific Grant Income

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

2017/18 £000	2018/19 £000
(3,087) Council tax income	(3,235)
(1,238) Non domestic rates	(1,876)
(1,750) Non-ringfenced government grants	(1,522)
<u>(862)</u> Capital grants and contributions	<u>(2,128)</u>
<b><u>(6,937)</u> Total</b>	<b><u>(8,761)</u></b>

More details of grants the Council has received can be found in Note 35 Grant Income.

### 13 Expenditure and Income Analysed By Nature

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

Expenditure/Income	2017/18 £000	2018/19 £000
<b>Expenditure</b>		
Other Service Expenses	19,738	21,615
Depreciation, Amortisation, Impairment	480	325
Precepts and Levies	956	1,012
Loss on the Disposal of Assets	439	180
<b>Total Expenditure</b>	21,613	23,132
<b>Income</b>		
Fees, Charges and Other Service Income	(2,147)	(2,071)
Interest and Investment Income	(110)	(172)
Income from Council Tax, Non-Domestic Rates	(4,325)	(5,111)
Government Grants and Contributions	(15,304)	(15,560)
<b>Total Income</b>	(21,886)	(22,914)
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>(273)</b>	<b>218</b>

## 14 Property, Plant and Equipment

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

Movement in 2018/19	Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
<b>Cost or Valuation</b>						
<b>At 1 April 2018</b>	<b>7,172</b>	<b>3,156</b>	<b>5,038</b>	<b>55</b>	<b>486</b>	<b>15,907</b>
Additions	0	8	0	0	0	8
Revaluation increases / (decreases) recognised in the Revaluation reserve	217	0	0	0	(49)	168
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(19)	0	0	0	(25)	(44)
Reclassifications	(1,367)	0	0	0	576	(791)
Derecognition - Disposals	(321)	0	0	0	0	(321)
<b>At 31 March 2019</b>	<b>5,682</b>	<b>3,164</b>	<b>5,038</b>	<b>55</b>	<b>988</b>	<b>14,927</b>
<b>Accumulated Depreciation and Impairment</b>						
<b>At 1 April 2018</b>	<b>0</b>	<b>(3,095)</b>	<b>(2,425)</b>	<b>0</b>	<b>0</b>	<b>(5,520)</b>
Depreciation charge	(41)	(37)	(187)	0	0	(265)
Depreciation written out to the Revaluation Reserve	41	0	0	0	0	41
Derecognition - Disposals	0	0	0	0	0	0
<b>At 31 March 2019</b>	<b>0</b>	<b>(3,132)</b>	<b>(2,612)</b>	<b>0</b>	<b>0</b>	<b>(5,744)</b>
<b>Net Book Value</b>						
<b>As at 31 March 2019</b>	<b>5,682</b>	<b>32</b>	<b>2,426</b>	<b>55</b>	<b>988</b>	<b>9,183</b>
<b>As at 31 March 2018</b>	<b>7,172</b>	<b>61</b>	<b>2,613</b>	<b>55</b>	<b>486</b>	<b>10,387</b>

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



## Depreciation

Depreciation is calculated on the following bases:

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

## Capital Commitments

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

## Revaluations

The Council carries out a programme that ensures that all Property, Plant and Equipment is measured at fair value with the latest revaluation exercise being carried out as at 31 March 2019. All valuations have been carried out by Wilks, Head and Eve, chartered surveyors. Valuations of land and buildings were carried out in accordance with methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

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

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

- Hazardous or Deleterious Materials
  - We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this report we have assumed that such investigation would not disclose the presence of any such material in any adverse condition.
- Contaminated Land
  - We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or possibility of any such contamination. In undertaking our work we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out on the property. We have not carried out any investigation into past or present uses either of the properties or of any neighbouring land to establish whether there is any potential for contamination from these sites to the subject property and have therefore assumed that none exists.
  - Should it however be established subsequently that contamination exists at any of the properties or any neighbouring land or that the properties have been or are being put to a contaminative use this might reduce the values now reported.
- Plant and Machinery
  - Any plant and machinery that has been considered to form part of the property or service installations is included in the valuation. Where there is doubt as to the correct classification, assets installed primarily to provide services to the properties have been valued with the land and buildings and assets primarily serving the commercial or industrial process have been excluded. Any departure from this is stated on the relevant Valuation Statement.
- Lotting
  - Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if a number of properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.
- Taxation
  - No allowance has been made for liability for taxation which may arise on disposal, whether actual or notional. Where possible VAT and Capital Gains Tax are specifically excluded and the valuation does not reflect costs of realisation unless specifically requested by the client. No additions have been made for Stamp Duty Land Tax (SDLT).
- Acquisition and Disposal Costs
  - No notional directly attributable acquisition costs or selling costs have been applied to or deducted from the Current Value and Fair Value figures provided within this report.
  - For indicative purposes only, the Valuer would expect purchaser's cost to be in the region of 0.5% and 5.0% (plus or minus) dependant on the overall value of the asset and property type on an acquisition or disposal respectively.

- The Valuer has made no allowance for any vendor's costs or taxation (actual or notional) nor has any allowances been made for any capital or annual grants or incentives to which a purchaser may be entitled.
  - The Valuer has not been asked by the client to specifically reflect these costs separately.
  - Guidance on this matter is provided within UKVS 1 Paragraph 1.7 - Costs to be excluded of the Red Book:
  - The valuer must not include directly attributable acquisition or disposal costs in the valuation. When asked by the client to reflect costs, these must be stated separately.
  - In determining the figure to enter into the balance sheet (the 'carrying amount'), FRS 15 requires the addition of notional, directly attributable acquisition costs, where material, to the EUV. Likewise, where property is surplus to the entity's requirements and valued on the basis of market value, there should be a deduction for expected, directly attributable selling costs, where material. If requested to advise on these costs, the Valuer should report them separately and not amalgamate them with either the EUV or market value. The valuation should reflect the Valuer's opinion of the consideration that would appear in the hypothetical sale and purchase contract.
  - FRS 15 states that directly attributable costs can include stamp duty, import duties and non-refundable purchase taxes, as well as professional fees, the Valuer is alerted to a potential problem with a property that would, or would potentially, be subject to VAT in any transaction but the entity may not be able to reclaim the VAT. The decision whether or not to treat this as a directly attributable acquisition cost should be determined by the entity, together with its auditors. Even if this is the case the Valuer should state clearly in the report what assumptions have been made and the likely impact of VAT in any transaction.
  - In the case of surplus properties, directly attributable selling costs that are material may need to be itemised separately. If this is the case they will include not only the transaction costs but also any marketing costs that can be reasonable anticipated.
- Deminimis Levels of Value
    - Only those properties the value of which is considered likely to exceed the "deminimis" level of value determined by The Authority are included separately in this valuation. In all cases, we have included the valuation within the main body of the report as well as summarising them in letter format even if the Authority chooses not to include these within their financial statements.

	Land and Buildings £000	Vehicles Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Valued at Historic Cost		3,164	5,038	55	988	<b>9,245</b>
Valued at:						
2018/19	5,682	0	0	0	0	<b>5,682</b>
2017/18	0	0	0	0	0	<b>0</b>
<b>Total</b>	<b>5,682</b>	<b>3,164</b>	<b>5,038</b>	<b>55</b>	<b>988</b>	<b>14,927</b>

## 15 Investment Properties

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

2017/18 £000		2018/19 £000
98	Rental income from investment property	233
<b>98</b>	<b>Net gain / (loss)</b>	<b>233</b>

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

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

2017/18 £000	Movement in fair value of investment properties	2018/19 £000
1,767	Balance at start of the year	1,708
	<u>Additions:</u>	
0	Reclassifications	1,210
	<u>Disposals:</u>	
0	Disposals	(208)
(59)	Net gains/losses from fair value adjustments	278
<b>1,708</b>	<b>Balance at end of the year</b>	<b>2,988</b>

### Fair Value Measurement of Investment Property

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

2017/18 £000	Significant Unobservable Inputs (Level 3)	2018/19 £000
956	Commercial Buildings	2,420
752	Commercial Land	568
<b>1,708</b>	<b>Investment Property</b>	<b>2,988</b>

### Significant Unobservable Inputs – Level 3

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

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

## Highest and Best Use of Investment Properties

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

## Valuation Techniques

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

## 16 Financial Instruments

### Classifications

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

### Financial Liabilities

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

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

- trade payables for goods and services received.

### Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following classifications:

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash and cash equivalents;
- bank current account with National Westminster Bank;
- trade receivables for goods and services delivered.

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

- money market funds;
- covered bonds issued by banks and building societies.

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

## Financial Instruments – Balances

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

31 March 2018		Financial Liabilities	31 March 2019	
Long Term £000	Short Term £000		Long Term £000	Short Term £000
		<b>Liabilities at Amortised Cost</b>		
0	1,172	Trade Payables	0	0
0	1,172	<b>Included in Creditors</b>	0	0
<b>0</b>	<b>1,172</b>	<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>

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

31 March 2018		Financial Assets	31 March 2019	
Long Term £000	Short Term £000		Long Term £000	Short Term £000
		<b>At Amortised Cost</b>		
0	12,438	Principal	0	12,042
0	0	Expected Credit Loss	0	0
		<b>At Fair Value Through Profit and Loss</b>		
0	501	Fair Value	0	0
<b>0</b>	<b>12,939</b>	<b>Total Investments</b>	<b>0</b>	<b>12,042</b>
		<b>At Amortised Cost</b>		
0	3,461	Principal	0	375
		<b>At Fair Value Through Profit and Loss</b>		
0	0	Fair Value	0	1,310
<b>0</b>	<b>3,461</b>	<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>1,685</b>
		<b>At Amortised Cost</b>		
0	62	Trade Receivables	0	89
<b>0</b>	<b>62</b>	<b>Included in Debtors</b>	<b>0</b>	<b>89</b>
<b>0</b>	<b>16,462</b>	<b>Total Financial Assets</b>	<b>0</b>	<b>13,816</b>

## Financial Instruments – Gains and Losses

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

31 March 2018			Financial Liabilities	31 March 2019		
Financial Assets	Total			Financial Assets	Total	
Fair Value				Fair Value		
Amortised Cost	Through Profit & Loss			Amortised Cost	Through Profit & Loss	
£000	£000	£000		£000	£000	£000
(33)	0	(33)	Interest Income	(68)	0	(68)
<b>(33)</b>	<b>0</b>	<b>(33)</b>	<b>Interest and investment income</b>	<b>(68)</b>	<b>0</b>	<b>(68)</b>
<b>(33)</b>	<b>0</b>	<b>(33)</b>	<b>Net impact on surplus/deficit on provision of services</b>	<b>(68)</b>	<b>0</b>	<b>(68)</b>
0	(3)	(3)	Surplus on revaluation	0	0	0
		<b>(3)</b>	<b>Impact on other comprehensive income</b>			0
<b>(33)</b>	<b>(3)</b>	<b>(36)</b>	<b>Net Gain/(Loss) for the year</b>	<b>(68)</b>	<b>0</b>	<b>(68)</b>

## Financial Instruments – Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For these assets the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019, using the following methods and assumptions:

- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

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

31 March 2018		Financial Liabilities	Fair Value Level	31 March 2019	
Carrying Amount £000	Fair Value £000			Carrying Amount £000	Fair Value £000
1,172	0	Liabilities for which fair value is not disclosed	*	0	0
<b>1,172</b>	<b>0</b>	<b>Total Financial Liabilities</b>		<b>0</b>	<b>0</b>
<b>Recorded on Balance Sheet as:</b>					
1,172	0	Short Term Creditors		0	0
<b>1,172</b>	<b>0</b>			<b>0</b>	<b>0</b>

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

31 March 2018		Financial Assets	Fair Value Level	31 March 2019	
Carrying Amount £000	Fair Value £000			Carrying Amount £000	Fair Value £000
<b>Financial Assets held at Fair Value</b>					
501	501	Covered Bonds	1	0	0
0	0	Money Market Funds	1	1,310	1,310
<b>Financial Assets held at Amortised Cost</b>					
111	111	Bank Accounts	*	375	375
15,788	15,788	Term Deposits	*	12,042	12,042
<b>16,400</b>	<b>16,400</b>	<b>Total</b>		<b>13,727</b>	<b>13,727</b>
<b>Assets for which fair value is not disclosed</b>					
62			*	89	
<b>16,462</b>		<b>Total Financial Assets</b>		<b>13,816</b>	
<b>Recorded on Balance Sheet as:</b>					
12,938		Short Term Investments		12,042	
62		Short Term Debtors		89	
3,462		Cash & Cash Equivalents		1,685	
<b>16,462</b>		<b>Total Financial Liabilities</b>		<b>13,816</b>	

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



## Transition to IFRS9 – Financial Instruments

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018. The main changes include the reclassification and remeasurement of financial assets and the earlier recognition of the impairment of financial assets.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the remeasurement is instead shown as an additional line in the Movement in Reserves Statement. The changes made on transition to the balance sheet are summarised below:

	IAS 39 31 March 2018 £000	Reclassification £000	Impairment £000	IFRS 9 01 April 2018 £000
<b>FINANCIAL ASSETS</b>				
<b>Investments</b>				
Loans & Receivables/Amortised Cost	15,899	(3,350)	0	12,549
Available for Sale/FVOCI	501	(501)	0	0
FVPL	0	3,851	0	3,851
Expected Credit Loss	0	0	(2)	(2)
<b>Total Investments</b>	<b>16,400</b>	<b>0</b>	<b>(2)</b>	<b>16,398</b>
<b>Debtors</b>				
Loans & Receivables/Amortised Cost	62	0	0	62
<b>TOTAL FINANCIAL ASSETS</b>	<b>16,462</b>	<b>0</b>	<b>(2)</b>	<b>16,460</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Creditors</b>				
Amortised Cost	(1,172)	0	0	(1,172)
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>(1,172)</b>	<b>0</b>	<b>0</b>	<b>(1,172)</b>
<b>RESERVES</b>				
<b>Usable Reserves</b>				
General Fund Balance	(899)	(3)	2	(900)
Earmarked Reserves	(4,249)	0	0	(4,249)
Capital Receipts Reserve	(2,012)	0	0	(2,012)
Capital Grants Unapplied	(955)	0	0	(955)
<b>Total Usable Reserves</b>	<b>(8,115)</b>	<b>(3)</b>	<b>2</b>	<b>(8,116)</b>
<b>Unusable Reserves</b>				
Revaluation Reserve	(5,795)	0	0	(5,795)
Available for Sale Financial Instruments Reserve	(3)	3	0	0
Capital Adjustment Account	(2,875)	0	0	(2,875)
Pensions Reserve	17,342	0	0	17,342
Collection Fund Adjustment Account	(469)	0	0	(469)
<b>Total Usable Reserves</b>	<b>8,200</b>	<b>3</b>	<b>0</b>	<b>8,203</b>
<b>TOTAL RESERVES</b>	<b>85</b>	<b>0</b>	<b>2</b>	<b>87</b>

## 17 Assets Held for Sale

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

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

	Current	
	2017/18 £000	2018/19 £000
<b>Balance outstanding at start of the year</b>	<b>1,622</b>	<b>1,736</b>
Assets newly classified as held for sale:		
- Property, Plant and Equipment	216	56
Revaluation losses	0	0
Revaluation gains	137	0
Impairment losses	0	(56)
Assets declassified as held for sale:		
- Surplus assets not held for sale	0	(420)
Assets sold	(239)	0
<b>Balance outstanding at year end</b>	<b>1,736</b>	<b>1,316</b>

## 18 Short Term Debtors

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

31 March 2018 £000		31 March 2019 £000
118	Trade receivables	75
201	Prepayments	87
2,979	Other receivable amounts	3,409
<b>3,298</b>	<b>Total</b>	<b>3,571</b>

## Debtors for Local Taxation:

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed as follows and represent the Council's share of debtors and not those applicable to the whole of the Collection Fund:

31 March 2018 £000		31 March 2019 £000
131	Less than one year	229
93	One to two years	172
64	Two to three years	139
131	More than three years	152
<b>419</b>	<b>Total</b>	<b>692</b>

## 19 Cash and Cash Equivalents

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

31 March 2018 £000		31 March 2019 £000
87	Cash held by the Council	274
203	Bank current accounts	121
3,350	Short-term deposits (call accounts)	1,310
(178)	Unpresented Cheques/BACS	(20)
<b>3,462</b>	<b>Total</b>	<b>1,685</b>

## 20 Short Term Creditors

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

31 March 2018 £000		31 March 2019 £000
729	Trade payables	336
14,355	Other payables	11,316
<b>15,084</b>	<b>Total</b>	<b>11,652</b>

### Long Term Creditors

31 March 2018 £000		31 March 2019 £000
(367)	Capital Grants Receipts In Advance	(570)
<b>(367)</b>	<b>Total</b>	<b>(570)</b>

## 21 Provisions

	NDR Appeals £000	Land Charges £000	Planning £000	Redundancies £000	Total £000
<b>Balance as at 1 April 2017</b>	<b>(651)</b>	<b>(24)</b>	<b>(20)</b>	<b>0</b>	<b>(695)</b>
Additional provisions made in 2017/18	(256)	0	0	0	(256)
Amounts used in 2017/18	52	0	20	0	72
Unused amounts reversed in 2017/18	0	24	0	0	24
<b>Balance as at 1 April 2018</b>	<b>(855)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(855)</b>
Additional provisions made in 2018/19	(625)	0	0	(114)	(739)
Amounts used in 2018/19	13	0	0	0	13
Unused amounts reversed in 2018/19	0	0	0	0	0
<b>Balance as at 31 March 2019</b>	<b>(1,467)</b>	<b>0</b>	<b>0</b>	<b>(114)</b>	<b>(1,581)</b>

### Provision for Business Rates Appeals

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

### Provision for Redundancies

The additional provision of £0.114m relates to termination costs arising from the Transformation Project. This represents the Council's best estimate of the costs arising from decisions taken before 31 March 2019 where there is uncertainty as to the termination date of the relevant employees.

## 22 Usable Reserves

31 March 2018 £000		31 March 2019 £000
899	General Fund Balance	981
4,249	Earmarked Reserves	4,048
2,012	Capital Receipts Reserve	1,959
955	Capital Grants Unapplied	1,188
<b>8,115</b>	<b>Total Usable Reserves</b>	<b>8,176</b>

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

## 23 Unusable Reserves

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

31 March 2018 £000		Notes	31 March 2019 £000
5,795	Revaluation Reserve	24	4,715
2,875	Capital Adjustment Account	25	3,766
(17,342)	Pensions Reserve	26	(16,248)
469	Collection Fund Adjustment Account	27	368
3	Available-for-sale Financial Instruments Reserve	28	0
<b>(8,200)</b>	<b>Total Unusable Reserves</b>		<b>(7,399)</b>

## 24 Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

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

2017/18 £000		2018/19 £000
<b>6,275</b>	<b>Balance as at 1 April</b>	<b>5,795</b>
1,381	Upward revaluation of assets	402
(1,792)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(249)
(411)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	153
184	Difference between fair value depreciation and historical cost depreciation	97
(253)	Accumulated gains on assets sold or scrapped	(1,330)
(69)	Amount written off to the Capital Adjustment Account	(1,233)
<b>5,795</b>	<b>Balance as at 31 March</b>	<b>4,715</b>

## 25 Capital Adjustment Account

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

The Account also contains revaluation gains accumulated and losses on Investment Properties that have yet to be consumed by the Council and revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

2017/18 £000	2018/19 £000
<b>3,549</b> Balance as at 1 April	<b>2,875</b>
0 Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	0
(454) Charges for Depreciation and impairment of non current assets	(309)
0 Revaluation losses on Property, Plant and Equipment	0
(26) Amortisation of intangible assets	(16)
(790) Revenue expenditure funded from capital under statute	(2,220)
(692) 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	(529)
<b>(1,962)</b>	<b>(3,074)</b>
69 Adjusting amounts written out of the Revaluation Reserve	1,233
<b>(1,893)</b> Net written out amount of the cost of non current assets consumed in the year	<b>(1,841)</b>
<u>Capital financing applied in the year:</u>	
316 Use of the Capital Receipts Reserve to finance new capital expenditure	414
784 Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,894
20 Direct Revenue Financing	2
15 Capital Grant Applied	0
143 Statutory provision for the financing of capital investment charged against the General Fund balances	143
<b>1,278</b> Capital expenditure charged against the General Fund	<b>2,453</b>
(59) Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	279
<b>2,875</b> Balance as at 31 March	<b>3,766</b>

## 26 Pensions Reserve

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

2017/18 £000		2018/19 £000
(18,450)	<b>Balance as at 1 April</b>	(17,342)
984	Remeasurement of the net defined benefit liability/(assets)	929
(463)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(434)
587	Employer's pension contributions and direct payments to pensioners payable in the year	599
<u>(17,342)</u>	<b>Balance as at 31 March</b>	<u>(16,248)</u>

## 27 Collection Fund Adjustment Account

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

2017/18 £000		2018/19 £000
852	<b>Balance as at 1 April</b>	469
(383)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(101)
<u>469</u>	<b>Balance as at 31 March</b>	<u>368</u>

## 28 Available-for-sale Financial Instruments Reserve

The Available-for-Sale Financial Instruments Reserve is no longer required following the reclassification of Financial Instruments in accordance with IFRS 9.

2017/18 £000		2018/19 £000
	<b>18 Balance as at 1 April</b>	<b>3</b>
	0 Balance transferred to the General Fund on adoption of IFRS 9	(3)
	Downward revaluation of investments not charged to the	
	(15) Surplus/Deficit on the Provision of Services	0
	<b>3 Balance as at 31 March</b>	<b>0</b>

## 29 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2017/18 £000		2018/19 £000
	(33) Interest Received	(68)
	<b>(33)</b>	<b>(68)</b>

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

2017/18 £000		2018/19 £000
	297 Depreciation	265
	26 Amortisation	16
	157 Impairment and downward valuations	44
	59 Revaluation of Investment Properties	(279)
	(168) (Decrease)/Increase in creditors	(3,432)
	(1,455) (Increase)/Decrease in debtors	(273)
	692 Carrying Value of Non Current Assets Disposed	529
	463 Movement in Pension Liability	434
	(587) Pension Payable for year	(599)
	160 (Decrease)/Increase in Provisions	726
	(152) (Decrease)/Increase in Capital RIA	203
	0 Other Adjustments	2
	<b>(508)</b>	<b>(2,364)</b>

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

2017/18 £000		2018/19 £000
	(252) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(350)
	<b>(252)</b>	<b>(350)</b>



### 30 Cash Flow Statement – Investing Activities

The cash flow for investing activities includes the following items:

2017/18 £000		2018/19 £000
(338)	Purchase of Property, Plant and Equipment, Investment Property and intangible assets	(90)
(62)	Purchase of Short Term & Long Term Investments	895
252	Proceeds from the sale of property, plant and equipment	350
<b>(148)</b>	<b>Net cash flows from investing activities</b>	<b>1,155</b>

### 31 Officers Remuneration

West Somerset District Council and Taunton Deane Borough Council operate a shared management and staff structure and the figures below represent the full cost of remuneration paid to employees working jointly for both councils.

Through the joint Transformation Programme and the creation of the new Somerset West and Taunton Council, a new senior management structure was established with effect from October 2018 and a new Chief Executive appointed from 1 January 2019. New 'Head of Function' posts were introduced with all Assistant Director posts, the Assistant Chief Executive post and two Director posts deleted. Officers in the deleted posts left a different times during the year according to agreed transition arrangements for the major changes being implemented.

The former joint Chief Executive of Taunton Deane Borough and West Somerset councils left on 28 February 2019. The following table includes part year costs in 2018/19 for the Chief Executive, Former Chief Executive, Head of Commercial Investment, Head of Localities, Head of Customer, Head of Strategy, Head of Communications and Engagement, Head of Performance and Governance, Director of Growth and Development, Director of Housing and Communities, and all Assistant Directors apart from Planning and Environment who left on 31 March 2019.

Post holder information (Post Title)		Salary, Fees and Allowances £	Compensation for Loss of Office £	Expenses Allowances £	Total Remuneration excluding pension contributions £	Pension Contributions £	Total Remuneration £	Annualised Salary £
Chief Executive	<b>2018/19</b>	28,750	0	0	<b>28,750</b>	4,427	<b>33,177</b>	115,000
	2017/18	0	0	0	0	0	0	0
Former Chief Executive	<b>2018/19</b>	115,453	88,899	1,546	<b>205,898</b>	16,157	<b>222,055</b>	114,455
	2017/18	119,126	0	0	119,126	14,311	133,437	112,211
Director for Operations & Deputy Chief Executive	<b>2018/19</b>	90,212	0	573	<b>90,785</b>	14,203	<b>104,988</b>	90,212
	2017/18	88,443	0	0	88,443	10,115	98,558	88,443
Head of Funcion Commercial Investment	<b>2018/19</b>	42,453	0	298	<b>42,751</b>	6,538	<b>49,289</b>	84,905
	2017/18	0	0	0	0	0	0	0
Head of Localities	<b>2018/19</b>	42,453	0	0	<b>42,453</b>	6,538	<b>48,991</b>	84,905
	2017/18	0	0	0	0	0	0	0
Head of Customer	<b>2018/19</b>	38,250	0	298	<b>38,548</b>	8,422	<b>46,970</b>	76,500
	2017/18	0	0	0	0	0	0	0
Head of Strategy	<b>2018/19</b>	33,608	0	466	<b>34,074</b>	5,891	<b>39,965</b>	76,500
	2017/18	0	0	0	0	0	0	0
Head of Communications & Engagement	<b>2018/19</b>	38,495	0	3,264	41,759	0	41,759	80,000
	2017/18	0	0	0	0	0	0	0
Head of Performance & Governance	<b>2018/19</b>	38,495	0	143	<b>38,638</b>	5,928	<b>44,566</b>	80,000
	2017/18	0	0	0	0	0	0	0
Strategic Finance Advisor & S151 Officer	<b>2018/19</b>	68,779	0	2,132	<b>70,911</b>	10,592	<b>81,503</b>	63,679
	2017/18	67,013	0	0	67,013	8,122	75,135	62,430
Director for Growth & Development	<b>2018/19</b>	42,453	0	0	<b>42,453</b>	6,538	<b>48,991</b>	83,240
	2017/18	83,247	0	0	83,247	10,318	93,565	83,247
Director for Housing & Communities	<b>2018/19</b>	42,453	0	0	<b>42,453</b>	6,429	<b>48,882</b>	93,240
	2017/18	83,240	0	0	83,240	10,361	93,601	83,240
Assistant Chief Executive & Monitoring Officer	<b>2018/19</b>	67,394	0	0	<b>67,394</b>	10,379	<b>77,773</b>	67,394
	2017/18	67,427	0	0	67,427	7,992	75,419	66,072
Assistant Director - Housing & Community Development	<b>2018/19</b>	35,738	0	0	<b>35,738</b>	5,504	<b>41,242</b>	62,466
	2017/18	62,430	0	0	62,430	7,419	69,849	62,430
Assistant Director - Planning & Environment	<b>2018/19</b>	64,950	32,327	309	<b>97,586</b>	9,807	<b>107,393</b>	63,679
	2017/18	62,430	0	0	62,430	7,489	69,919	62,430
Assistant Director - Corporate Services	<b>2018/19</b>	31,839	0	0	<b>31,839</b>	4,903	<b>36,742</b>	63,679
	2017/18	62,430	0	0	62,430	7,489	69,919	62,430
Assistant Director - Operational Delivery	<b>2018/19</b>	42,855	0	322	<b>43,177</b>	4,903	<b>48,080</b>	63,679
	2017/18	62,490	0	0	62,490	7,479	69,969	62,430
Assistant Director - Business Development	<b>2018/19</b>	31,839	42,133	0	<b>73,972</b>	4,903	<b>78,875</b>	63,679
	2017/18	62,430	0	0	62,430	7,489	69,919	62,430
Assistant Director - Energy & Infrastructure	<b>2018/19</b>	12,008	0	282	<b>12,290</b>	1,826	<b>14,116</b>	62,430
	2017/18	66,748	0	0	66,748	8,066	74,814	62,430
Assistant Director - Resources & Support	<b>2018/19</b>	36,902	49,112	0	<b>86,014</b>	5,473	<b>91,487</b>	69,683
	2017/18	69,683	0	0	69,683	8,490	78,173	69,683

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2017/18	2018/19
	Number of employees Total	Number of employees Total
£50,000 - £54,999	5	14
£55,000 - £59,999	0	5
£60,000 - £64,999	0	2
£75,000 - £79,999	0	2

### 32 Termination Benefits and Exit Packages

As part of the Transformation Project with Taunton Deane Borough Council the Councils jointly terminated the contracts of 191 employees in 2018/19, compared to nil in 2017/18.

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

Exit Package Cost Band (including special payments)	Number Of Other Departures Agreed		Number Of Compulsory Redundancies		Total Number Of Exit Packages By Cost Band		Total Cost Of Exit Packages In Each Band (£)	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
							£000	£000
£0 - £20,000	0	112	0	0	0	112	0	1,360
£20,001 - £40,000	0	39	0	0	0	39	0	1,129
£40,001 - £60,000	0	16	0	0	0	16	0	761
£60,001 - £80,000	0	12	0	0	0	12	0	834
£80,001 - £100,000	0	6	0	0	0	6	0	535
£100,001 - £120,000	0	2	0	0	0	2	0	213
£120,001 - £140,000	0	1	0	0	0	1	0	138
£140,001 - £160,000	0	1	0	0	0	1	0	152
£180,001 - £200,000	0	1	0	0	0	1	0	196
£340,001 - £360,000	0	1	0	0	0	1	0	343
<b>Total included in the CIES</b>	<b>0</b>	<b>191</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>191</b>	<b>0</b>	<b>5,661</b>

The figures are split between West Somerset Council and Taunton Deane Borough Council in the proportion 16.45 : 83.55.

### 33 Members Allowances

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

2017/18 £000	2018/19 £000
76 Basic Allowance	76
60 Special Responsibility Allowance	60
13 Expenses	16
<b>149 Allowances paid in the year</b>	<b>152</b>

### 34 External Audit Costs

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

2017/18 £000		2018/19 £000
	43 Fees payable to external auditors with regards to external audit services carried out by the appointed auditor for the year	33
	7 Fees paid to external auditors for the certification of grant claims and returns for the year	11
<b>50 Total</b>		<b>44</b>

### 35 Grant Income

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

Contributions and donations to the Comprehensive Income and Expenditure Statement	2017/18 £000	2018/19 £000
<b><u>Credited to Taxation and Non Specific Grant Income</u></b>		
EDF - Hinkley C S106 Contribution - Capital Grant	(225)	(1,263)
New Homes Bonus	(545)	(396)
Revenue Support Grant	(317)	(170)
Section 106 Agreements	(168)	(46)
Disabled Facilities Grant	(416)	(446)
Section 31 Grant - Business Rates	(711)	(736)
Enterprising Minehead	0	(116)
Steam Coast Trail	(53)	(258)
Rural Services Delivery Grant	(172)	(214)
Council Tax Family Annexe Grant	(5)	(5)
<b>Total Credited to Taxation and Non Specific Grant Income</b>	<b>(2,612)</b>	<b>(3,650)</b>
<b><u>Credited to Services - Operations</u></b>		
MHCLG Land Charge Grant	(9)	0
MHCLG Grant - Street Cleansing	0	(6)
MHCLG Park Improvement Fund	0	(10)
Rent Rebate Grant	(13)	(10)
DWP - Benefit Administration Grant	(120)	0
MHCLG Benefit Admin Grant	(49)	(157)
MHCLG - Admin Recharge	0	(2)
NNDR Cost of Collection - Charged to Collection Fund	(78)	(77)
DWP - Universal Credit	(23)	(11)
DHP Grant	(153)	(143)
DWP - Housing Benefit Subsidy	(10,743)	(9,885)
MHCLG - Data Sharing	(50)	(69)
Transformation Grant	(10)	0
European Union Exit	0	(17)
New Burdens Funding	(28)	0
<b><u>Credited to Services - Housing &amp; Communities</u></b>		
Cuckoo Meadow	(22)	(22)
MHCLG - Temporary Accommodation	(1)	(1)
MHCLG - Flexible Homelessness Support Grant	(84)	(83)
<b><u>Credited to Services - Growth &amp; Development</u></b>		
EDF - Hinkley C S106 Contribution	(1,098)	(1,179)
Steam Coast Trail	0	(24)
MHCLG Self Build & Custom Building Register	(36)	(34)
MHCLG Neighbourhood Planning	(20)	0
Porlock CCT Grant	(10)	0
West Somerset Opportunity Area	0	(66)
Minehead Esplanade	(49)	(82)
DEFRA LEADER - Minehead at the Helm	(47)	(16)
National Grid PPA	(35)	(2)
<b><u>Credited to Services - Strategic Leadership</u></b>		
MHCLG - Transparency Code Set Up	(8)	(8)
Individual Electoral Registration	(6)	(5)
<b>Total Credited To Services</b>	<b>(12,692)</b>	<b>(11,909)</b>
<b>Total Grant Income</b>	<b>(15,304)</b>	<b>(15,559)</b>

## **36 Related Parties**

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

### **UK Central Government**

Central Government has significant influence over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills and housing benefits).

### **Members**

Members of the Council have direct control over the Council's financial and operating policies. Members are required to observe the Code of Conduct for Councillors, register financial interests in the Council's Register maintained under S81(1) of the Local Government Act 2000.

There are no material related party transactions with members to disclose for 2018/19.

### **Officers**

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The Council had no material related party transactions with officers during 2018/19.

During 2018/19 no senior officers of the Council declared any material pecuniary interest in any works, services or grants commissioned or awarded by the Council.

The Council is a member of the South West Audit Partnership Limited, a company limited by guarantee which provides internal audit services to its thirteen local authority members (including this Council). During the year the Head of Function Performance and Governance replaced the Assistant Director – Resources and Support and the Assistant Director - Corporate Services as a Director of South West Audit Partnership Limited.

Grant payments, other than precepts were also made to parish councils where district council members are also parish council members. In all instances, the grants were made with proper consideration of declarations of interest. The total paid to Parish Councils during 2018/19 other than precept payments amounted to £0.038m.

Related party transactions with the precepting bodies are disclosed on page 76 within the Collection Fund Statement and with the pension fund which is on pages 67-71, note 40 respectively within the Statement of Accounts. The Council had no significant interest in companies.

## **37 Capital Expenditure and Capital Financing**

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

2017/18 £000	2018/19 £000
<b>5,347 Opening Capital Financing Requirement</b>	<b>5,204</b>
<u>Capital Investment</u>	
109 Property, Plant and Equipment	8
0 Intangible Assets	25
216 Assets Held for Sale	56
804 Revenue Expenditure Funded from Capital under Statute	2,220
6 Release of Funds From Previous Year	0
<u>Sources of finance</u>	
(316) Capital receipts	(415)
(143) Minimum Revenue Provision Set Aside from Capital Receipts	0
(799) Government grants and other contributions	(1,894)
<u>Sums set aside from revenue</u>	
(20) Direct revenue contributions	(143)
<b>5,204 Closing Capital Financing Requirement</b>	<b>5,061</b>
<u>Explanation of movements in year</u>	
Increase / (Decrease) in underlying need to borrowing (unsupported by	
(143) Government financial assistance)	(143)
<b>(143) Increase/(decrease) in Capital Financing Requirement</b>	<b>(143)</b>

## 38 Leases

### Council as Lessee

#### Operating Leases

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

	31 March 2018 £000	31 March 2019 £000
Not later than one year	56	49
Later than one year and not later than five years	98	86
Later than five years	12	0
<b>Total</b>	<b>166</b>	<b>135</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement during 2018/19 in relation to these leases was £0.058m.

### Council as Lessor

#### Operating Leases

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

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

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

	31 March 2018 £000	31 March 2019 £000
Not later than one year	77	72
Later than one year and not later than five years	329	283
Later than five years	2,137	2,089
<b>Total</b>	<b>2,543</b>	<b>2,444</b>

### **39 Impairment Losses**

During 2018/19 no impairment losses have been recognised, other than those identified as part of the non-current assets valuation process carried out by Wilks, Head and Eve, chartered surveyors on behalf of the Council. Note 14 provides further information in relation to the revaluation of non-current Assets.

### **40 Defined Benefit Pension Schemes**

#### **Participation in pension schemes**

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

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

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

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

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

#### **Transactions relating Post-employment Benefits**

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.



The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Transactions Relating to Post Employment Benefits	2017/18 £000	2018/19 £000
<u>Comprehensive Income and Expenditure Statement</u>		
<u>Cost of Services</u>		
- Administration expenses	8	8
<u>Financing and Investment Income and Expenditure:</u>		
- Net interest on the defined liability	455	426
<b>Total Post Employment Benefits charged to the Provision of Services</b>	<b>463</b>	<b>434</b>
<u>Remeasurement of the net defined liability comprising:</u>		
- Return on assets (excluding the amount included in the net interest expense)	317	363
- Change in financial assumptions	667	(1,046)
- Change in demographic assumptions	0	1,612
- Experience (gain) / loss on defined benefit obligation	0	0
- Liabilities assumed / (extinguished) on settlements	0	0
- Other actuarial (gains) / losses on assets	0	0
<b>Total Post Employment Benefit Charged to the Income and Expenditure Statement</b>	<b>984</b>	<b>929</b>
<b>Movement in Reserves Statement</b>		
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(463)	(434)
<u>Actual amount charged against the General Fund balance for pensions in the year:</u>		
- Employers contributions payable to scheme	587	599

### Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

Pensions Assets and Liabilities Recognised in the Balance Sheet	2017/18 £000	2018/19 £000
Present value of the defined benefit obligation	(29,265)	(28,232)
Fair value of plan assets (bid value)	13,480	13,459
Deficit/(Surplus)	(15,785)	(14,773)
Present value of unfunded obligation	(1,557)	(1,475)
<b>Net liability arising from defined benefit obligation</b>	<b>(17,342)</b>	<b>(16,248)</b>



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

Reconciliation of Fair Value of the Scheme Assets	2017/18 £000	2018/19 £000
<b>Opening balance as at 1st April</b>	<b>13,580</b>	<b>13,480</b>
Interest on assets	330	328
Return on assets less interest	317	363
Other actuarial gains/(losses)	0	0
Administration expenses	(8)	(8)
Contributions by employer including unfunded	587	599
Estimated benefits paid plus unfunded net of transfers in	(1,326)	(1,303)
<b>Closing balance as at 31st March</b>	<b>13,480</b>	<b>13,459</b>

## Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Reconciliation of present value of the scheme liabilities	Funded liabilities: Local Government Pension Scheme	
	2017/18 £000	2018/19 £000
<b>Opening balances as at 1 April</b>	<b>(32,030)</b>	<b>(30,822)</b>
Interest cost	(785)	(754)
Change in financial assumptions	667	(1,046)
Change in demographic assumptions	0	1,612
Experience loss / (gain) on defined benefit obligation	0	0
Estimated benefits paid net of transfers in	1,243	1,220
Unfunded Pension Payments	83	83
<b>Closing balance as at 31 March</b>	<b>(30,822)</b>	<b>(29,707)</b>

## Local Government Pension Scheme assets comprised:

LG Pension Scheme Assets	2017/18	2018/19
Equities	72%	70%
Gilts	6%	6%
Other bonds	9%	9%
Property	9%	9%
Cash	4%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels etc.

The Peninsula Pensions administered pension fund liabilities have been estimated by Barnett Waddingham LLP, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

Basis for Estimating Assets and Liabilities	2017/18	2018/19
Long-term expected rates of return on assets in the scheme:		
Mortality assumptions:		
<u>Longevity at 65 for current pensioners</u>		
- Males	24.0	22.9
- Females	25.2	24.0
<u>Longevity at 65 for future pensioners</u>		
- Males	26.2	24.6
- Females	27.5	25.8
Rate of inflation - RPI	3.4%	3.5%
Rate of inflation - CPI	2.4%	2.5%
Rate of increase in salaries	3.9%	4.0%
Rate of increase in pensions	2.4%	2.5%
Rate for discounting scheme liabilities	2.5%	2.4%
Take up option to convert annual pension into retirement lump sum	10.0%	10.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the project unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

### Impact on the Council's Cash Flows

The liabilities show the underlying commitments that the Council has in the long term to pay post-employment (retirement) benefits. The total liability of £16.248m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for the funding of the deficit mean that the financial position of the Council remains healthy. The deficit on the Local Government Pension Scheme will be made good by increased contributions over the working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The Council expects to pay £0.528m in contributions to the scheme in 2019/20.

Sensitivity Analysis	£000	£000	£000
<b>Adjustment to discount rate</b>	<b>0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	29,289	29,707	30,132
<b>Adjustment to long term salary increase</b>	<b>0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	29,707	29,707	29,708
<b>Adjustment to pension increases and deferred revaluation</b>	<b>0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	30,132	29,707	29,288
<b>Adjustment to mortality age rating assumption</b>	<b>+1 Year</b>	<b>None</b>	<b>-1 Year</b>
Present value of total obligation	30,980	29,707	28,488

## **41 Contingent Liabilities**

As at 31 March 2019 the Council had the following contingent liabilities:

### **Clanville Housing**

The Council continues to maintain its adopted Low Cost Home Ownership Scheme in respect of Clanville Grange in Minehead. In January 2014 the Council adopted a revised Affordable Home Ownership Policy such that in future it will continue to be required to re-purchase (at a discounted price) when owners wish to sell the properties but when they are sold on, they will be sold with a 25% discount and with a restrictive Covenant rather than a Deed of Pre-emption. This means that there will be no ongoing liability to the Council. The Council has an on-going liability for five properties with no properties within the scheme currently owned by the Council.

### **Municipal Mutual Insurance**

In 1992/93 the Council's then insurer, Municipal Mutual Insurance Limited, ceased accepting new business and the Council was obliged to make new arrangements for insurance. A number of claims were outstanding at that time and, in common with many other local authorities, this Council joined in a scheme of arrangement to meet all outstanding claims. On 28 March 2012 the Supreme Court ruled that the insurer who was on risk at the time of an employee's exposure to asbestos was liable to pay compensation for the employee's mesothelioma. West Somerset Council is listed as Scheme Creditors party to the contingent Scheme of Arrangement sanctioned by the Court in January 1994. Municipal Mutual Insurance may therefore ask for West Somerset to pay a percentage of the paid out figure and may also ask for the same percentage figure as further claims are paid. It is not possible at this point in time to predict with any accuracy the potential contribution the Council may be required to pay.

### **South West Audit Partnership Limited**

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

## **42 Contingent Assets**

### **Hinkley Point C**

There are two s106 agreements in place, one in relation to the site preparation works planning permission granted by West Somerset Council in January 2012 and the other in relation to the development consent order granted by the Secretary of State in March 2013. Thus far, all contributions have been paid on time and in full. A total of £0.142m is due in April 2019 and another £0.332m is due in May 2019.

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

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

## **43 Nature and Extent of Risks Arising From Financial Instruments**

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in December 2017).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also

produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance for Local Authorities. This guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy, together with its Treasury Management Practices, are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

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

- **Credit risk** - the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** - the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

### **Credit risk**

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

The Council manages credit risk by ensuring that investments are placed with organisations of high credit quality as set out in the Treasury Management Strategy.

The 2018/19 Treasury Management Strategy which incorporated the prudential indicators was approved by Council on 23 February 2018 and is available on the Council website. The key issues within the 2018/19 strategy were:

- The Authorised Limit for 2018/19 was set at £24.000m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £12.000m. This is the expected level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and fully based on the Council's net debt.

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

### **Credit Risk Exposure**

The Council has the following exposure to credit risk at as 31 March 2019:

### **Investments**

The investment risk is minimised through the Annual Investment Strategy which requires that deposits are not made with financial institutions unless they meet minimum credit criteria, as laid down by the credit agencies recommended by the Council's treasury advisors, Arlingclose. The Annual Investment Strategy also imposes a maximum sum to be invested with each financial institution.

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

2017/18			2018/19		
Long Term £000	Short Term £000	Credit Rating	Long Term £000	Short Term £000	
0	3,850	AAA	0	1,310	
0	9,436	AA	0	7,042	
0	3,000	Unrated	0	5,000	
<b>0</b>	<b>16,286</b>	<b>Total</b>	<b>0</b>	<b>13,352</b>	

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies adjusted for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a "D" credit rating or equivalent. At 31st March 2019, £0.001m (2018: £0.002m) of loss allowances related to treasury investments.

### Trade Receivables

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

	31 March 2018 £000	31 March 2019 £000
Less than three months	282	164
Three to six months	95	64
Six months to one year	128	155
More than one year	311	388
<b>Total</b>	<b>816</b>	<b>771</b>

At the beginning of 2018/19 the provision for impairment of sundry debts (excluding council tax, business rates and housing benefits) stood at £0.141m. The Council has now made a provision for impairment of sundry debts of £0.112m in the 2018/19 accounts, which is an overall decrease of £0.029m. The revised level of provision has been reviewed in light of the current economic conditions.

### Liquidity risk

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

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

## **Market risks:**

### **Interest rate risk**

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

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

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

### **Price risk**

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

### **Foreign exchange risk**

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

## Collection Fund

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

2017/18			2018/19		
Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
<b>Income</b>					
(13,933)	0	<b>(13,933)</b>	(18,129)	0	<b>(18,129)</b>
0	(22,726)	<b>(22,726)</b>	0	(24,169)	<b>(24,169)</b>
<b>(13,933)</b>	<b>(22,726)</b>	<b>(36,659)</b>	<b>(18,129)</b>	<b>(24,169)</b>	<b>(42,298)</b>
<b>Total Income</b>					
<b>Expenditure</b>					
<u>Apportionment of Previous Year Surplus:</u>					
601	0	<b>601</b>	494	0	<b>494</b>
108	325	<b>433</b>	89	261	<b>350</b>
0	53	<b>53</b>	0	42	<b>42</b>
12	24	<b>36</b>	10	19	<b>29</b>
481	64	<b>545</b>	396	51	<b>447</b>
<b>1,202</b>	<b>466</b>	<b>1,668</b>	<b>989</b>	<b>373</b>	<b>1,362</b>
<u>Precepts and Demands:</u>					
8,275	0	<b>8,275</b>	8,328	0	<b>8,328</b>
1,489	15,590	<b>17,079</b>	1,499	16,795	<b>18,294</b>
0	2,520	<b>2,520</b>	0	2,730	<b>2,730</b>
166	1,131	<b>1,297</b>	167	1,184	<b>1,351</b>
6,620	2,111	<b>8,731</b>	6,662	2,217	<b>8,879</b>
0	953	<b>953</b>	0	1,009	<b>1,009</b>
<b>16,550</b>	<b>22,305</b>	<b>38,855</b>	<b>16,656</b>	<b>23,935</b>	<b>40,591</b>
<u>Charges to the Collection Fund:</u>					
(6)	67	<b>61</b>	278	166	<b>444</b>
640	0	<b>640</b>	1,564	0	<b>1,564</b>
(131)	0	<b>(131)</b>	(31)	0	<b>(31)</b>
(3,514)	0	<b>(3,514)</b>	(1,235)	0	<b>(1,235)</b>
29	0	<b>29</b>	29	0	<b>29</b>
4	0	<b>4</b>	0	0	<b>0</b>
78	0	<b>78</b>	77	0	<b>77</b>
<b>(2,900)</b>	<b>67</b>	<b>(2,833)</b>	<b>682</b>	<b>166</b>	<b>848</b>
<b>919</b>	<b>112</b>	<b>1,031</b>	<b>198</b>	<b>305</b>	<b>503</b>
<b>(Surplus) / Deficit for the year</b>					
(1,972)	(611)	(2,583)	(1,053)	(499)	(1,552)
<b>(1,053)</b>	<b>(499)</b>	<b>(1,552)</b>	<b>(855)</b>	<b>(194)</b>	<b>(1,049)</b>
<b>(Surplus) / Deficit c/fwd 31st March</b>					
<u>Attributable to:</u>					
(526)	0	<b>(526)</b>	(428)	0	<b>(428)</b>
(95)	(349)	<b>(444)</b>	(77)	(136)	<b>(213)</b>
0	(57)	<b>(57)</b>	0	(22)	<b>(22)</b>
(11)	(25)	<b>(36)</b>	(8)	(10)	<b>(18)</b>
(421)	(68)	<b>(489)</b>	(342)	(26)	<b>(368)</b>
<b>(1,053)</b>	<b>(499)</b>	<b>(1,552)</b>	<b>(855)</b>	<b>(194)</b>	<b>(1,049)</b>

\* Please note the West Somerset Council (WSC) council tax precepts of £2.217m includes £0.025m in respect of the Somerset Rivers Authority which West Somerset Council collects on their behalf.



#### 44 Income from Business Ratepayers

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate. The Local Government Act 2015 introduced a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. WSC pays 50% to Central Government, 9% to Somerset County Council, 1% to the Devon and Somerset Fire and Rescue Authority and retains 40% for itself.

The total non-domestic rateable value as at 31 March 2019 was £45,868,350 (28 March 2018 £44,751,115). The standard national non-domestic multiplier for the year was £0.493 (2017/18 £0.479), the national domestic small business multiplier for the year was £0.480 (2017/18 £0.466).

#### 45 Council Tax Base

The Council's tax base for 2018/19, i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply), converted to an equivalent number of Band D dwellings, was calculated as follows:

Band	Chargeable Dwellings	Conversion Factor	Band D Equivalent
<b>A (Disabled)</b>	2.48	5/9	1.38
<b>A</b>	1,873.38	6/9	1,248.92
<b>B</b>	2,842.81	7/9	2,211.07
<b>C</b>	3,190.27	8/9	2,835.79
<b>D</b>	2,936.04	9/9	2,936.04
<b>E</b>	1,670.65	11/9	2,041.91
<b>F</b>	1,168.48	13/9	1,687.80
<b>G</b>	625.32	15/9	1,042.20
<b>H</b>	41.40	18/9	82.81
	<u>14,350.83</u>		<u>14,087.92</u>



## Glossary of Terms

Local Government, in common with many specialised activities, has developed over the years its own unique set of terms and phrases. This glossary helps to identify some of those terms and phrases (more often than not abbreviated in common usage to initial letters only), which will be found in this statement.

### **Accruals**

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

### **Amortisation**

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

### **Amortised Cost**

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

### **Apportionment**

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

### **Asset**

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

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

### **Assets Held for Sale**

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

### **Audit of Accounts**

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

### **Balances**

The accumulated surplus of revenue income over expenditure.

### **Balance Sheet**

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

### **Budget**

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

### **Capital Adjustment Account**

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

**Capital Charges**

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

**Capital Contributions/Grants**

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

**Capital Expenditure**

The acquisition of a non-current asset that will be used to provide services beyond the current accounting period or expenditure that adds value to an existing non-current asset.

**Capital Financing Requirement**

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

**Capital Programme**

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

**Capital Receipts**

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

**Carry Forwards**

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

**Cash Equivalents**

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

**Cash Flow Statement**

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

**Central Government Grants**

Central Government Grants comprise three types:

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

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

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

## **CIPFA/LASAAC**

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

## **Code**

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

## **Collection Fund**

Statutory funds recording the expenditure and income relating to council tax, non-domestic rates and residual community charge.

## **Collection Fund Adjustment Account**

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

## **Community Assets**

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

## **Comprehensive Income and Expenditure Statement (CIES)**

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

## **Council Tax**

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

## **Creditors**

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

## **Debtors**

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

## **Depreciation**

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

## **Derecognition**

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

## **Earmarked Revenue Reserves**

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

## **Effective Interest Rate**

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

**Employment Costs**

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

**Fair Value (Financial Instruments)**

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

**Fair Value (Tangible Assets)**

The price at which an asset could be exchanged in an arm's-length transaction less, where applicable, any grants receivable towards the purchase of use of that asset.

**Fees and Charges**

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

**Financial Instruments**

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

**Financing Transactions**

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

**General Fund Balance**

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

**Housing Benefits**

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

**Impairment**

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

**Income**

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

**Infrastructure**

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

**International Financial Reporting Standards (IFRS)**

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

**Investment**

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

**Investment Property**

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

**Liabilities**

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

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

**Loans and Receivables**

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

**Long-term Investments**

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

**Materiality**

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

**Minimum Revenue Provision (MRP)**

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

**Movement in Reserves Statement (MIRS)**

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

**Net Book Value**

The Balance Sheet amount of non-current assets and represents their historical cost or current replacement value less cumulative depreciation provisions.

**Net Current Replacement Cost**

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

**Net Realisable Value**

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

**Non-Current Asset**

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

**Non-Current Asset Held for Sale**

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

**Non-Operational Assets**

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

**Operational Assets**

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

**Operating Leases**

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

**Other Operating Costs**

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

**Precept**

The means by which Somerset County Council; Police and Crime Commissioner for Avon and Somerset; Devon and Somerset Fire and Rescue Authority and the parishes obtain their revenue income from the District Councils' Collection Fund.

**Provisions**

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

**Rateable Value**

The annual assumed rental value of a property that is used for business purposes.

**Related Parties**

Are when at any time during the financial period:

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

**Related Party Transactions**

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

**Remuneration**

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

**Reserves**

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

**Residual Value**

The value of an asset at the end of its useful life.

**Revaluation Reserve**

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

**Revenue Expenditure**

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

**Revenue Expenditure Funded from Capital under Statute**

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

**Revenue Support Grant (RSG)**

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

**Support Service Recharges**

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

**Usable Reserves**

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

**Useful Life**

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





Grant Thornton UK LLP  
2 Glass Wharf  
Temple Quay  
BRISTOL  
BS2 0EL

**Our Ref:**  
**Your Ref:**  
**Date:** 31 July 2019

Dear Sirs

## **West Somerset District Council Financial Statements for the year ended 31 March 2019**

This representation letter is provided in connection with the audit of the financial statements of West Somerset District Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

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

### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance

with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

- vi. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.  
  
The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

### **Information Provided**

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

- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

#### **Annual Governance Statement**

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

#### **Narrative Report**

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

#### **Approval**

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 31/07/2019.

Yours faithfully

Name: Paul Fitzgerald  
Position: Strategic Finance Advisor and S151 Officer  
Date: 31 July 2019

#### **Signed on behalf of the Governing Body:**

Name: Cllr Sue Buller  
Position: Chair of Audit Governance and Standards Committee  
Date: 31 July 2019



# **Somerset West and Taunton Council**

## **Audit Governance and Standards Committee – 31 July 2019**

### **Taunton Deane Borough Council Interim Audit Findings Report 2018/19**

**This matter is the responsibility of Executive Councillor Ross Henley**

**Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer**

#### **1 Executive Summary**

- 1.1 This short covering report introduces the annual report of our external auditor Grant Thornton outlining their findings to date from their audit of the Statement of Accounts for Taunton Deane Borough Council (TDBC), and the arrangements to secure Value for Money.
- 1.2 It has recently emerged that there are some factors that mean Grant Thornton has determined the audit testing cannot be completed by 31 July, and therefore we are not yet in a position to present a fully audited set of accounts with the accompanying Audit Opinion. This delay relates to logistical issues and is a matter of timing rather than quality of accounts.
- 1.3 The audit Committee is therefore requested to approve the unaudited accounts (in a separate report), on recommendation from the S151 Officer, and as such these will be republished in line with 31 July target date. A further update will be reported to Committee once the audit is completed and the Opinion given, however the Committee is requested to note the Findings reported to date.

#### **2 Recommendations**

- 2.1 The Committee is recommended to note the progress and matters arising in the Audit Findings Report from the Auditor on TDBC's Financial Statement of Accounts.
- 2.2 The Committee is recommended to note the Auditor's unqualified value for money conclusion.

### 3 Risk Assessment

#### Risk Matrix

Description	Likelihood	Impact	Overall
Risk: The Statement of Accounts do not provide a true and fair view of the Council's financial position and performance	3	4	12
<i>Mitigation: Arrangements for financial control, accounting and reporting are robust, and Statement of Accounts subject to external audit</i>	1	4	4

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

#### Risk Scoring Matrix

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

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

### 4 Background and Full details of the Report

- 4.1 The 2018/19 Unaudited Draft Statement of Accounts for TDBC was signed off by the Council's S151 Officer before 31 May 2019 – within the statutory deadline for 2018/19, and before the start of the external audit review.
- 4.2 The Auditor has not yet completed all of the testing required to issue their Opinion

therefore the Council cannot yet approve the audited Statement. The Audit Findings Report provides an update for Members on work completed so far and also lists work that is in progress at the time of issuing the report.

- 4.3 As a result, the Committee is requested to approve the Unaudited Statement of Accounts in order that this may be published by the 31 July deadline. This will reference the fact the audit is not yet complete.
- 4.4 Once the audit has been completed and the Auditor is able to report an Opinion on whether the accounts present a true and fair view, the audited accounts will be presented to Committee with a final Audit Findings Report.
- 4.5 The auditor has reviewed our arrangements to secure economy, efficiency and effectiveness in our use of resources, and have indicated that Grant Thornton is satisfied “the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources”.

## **5 Links to Corporate Aims / Priorities**

- 5.1 This report links to the Council’s aim of achieving financial stability.

## **6 Finance / Resource Implications**

- 6.1 The auditors’ report has not identified any non-trivial misstatements requiring an adjustment to be made. The contingent liability regarding the pension scheme in Note 37 has been removed from the Statement of Accounts.
- 6.2 This is the final (draft) Statement of Accounts for Taunton Deane Borough Council, with all assets, liabilities and balances transferring to Somerset West and Taunton Council on 1 April.
- 6.3 The S151 Officer acknowledges that the completion of the financial statements have been undertaken at a time of significant change to the organisation with transformation and the implementation of the new Council, directly impacting on the finance function as well as other teams. The S151 Officer places on record his thanks to the team who have worked extremely hard to complete the accounts and support the progress of the audit during this period of disruption.
- 6.4 It is disappointing that the audit has not been completed within the planned timescale, and a review will be completed, and plans prepared and implemented, to mitigate the risk of similar issues in future. For example, we will need to ensure better controls are in place to ensure working papers are provided on a timely basis.

## **7 Legal Implications**

- 7.1 The Council has a statutory duty to produce financial statements.

**8 Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Consultation Implications**

8.1 None.

**Democratic Path:**

- **Audit, Governance and Standards Committee – 31 July 2019**

**Reporting Frequency: Annually**

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# The Audit Findings for Taunton Deane Borough Council

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23 July 2019



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Your key Grant Thornton  
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## Section

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## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

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

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Taunton Deane Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• 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.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work is currently ongoing. During the course of our audit work we encountered a number of problems obtaining supporting evidence in relation to:</p> <ul style="list-style-type: none"> <li>• payroll supporting documentation;</li> <li>• transaction level reports for debtors and creditors;</li> <li>• supporting information to prove the completeness of journals;</li> <li>• working papers in relation to a number of areas in the financial statements.</li> </ul> <p>This also needs to be taken in the context of the increasing levels of scrutiny on auditors by regulators. In order to address feedback from the Financial Reporting Council, we have increased the scope and volume of the work undertaken in relation to PPE Valuations, the McCloud/Sargeant judgement and the Net Pension Liability. Additionally, we have received an objection to the accounts for 201819 and we are undertaking additional work to address this.</p> <p>Our findings so far are summarised on pages 6 to 12. We have identified audit adjustments and these are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. The outstanding items are listed further in further detail on Page 4</p> <p>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.</p> <p>As notified to management on 19th July, we do not anticipate issuing Taunton Deane Borough Council's opinion by the 31st of July</p>
<p><b>Value for Money arrangements</b></p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Taunton Deane Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources</p>
<p><b>Statutory duties</b></p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have received an objection to the accounts for 201819 and are currently undertaking additional testing and additional audit procedures in order to address the points raised in the objection.</p>

## Acknowledgements

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

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you in December 2018

## Conclusion

We have not substantially completed our audit of your financial statements, and we do not anticipate issuing you with an opinion by 31 July 2019. During our audit, we experienced significant delays caused due to late receipts of working papers and transaction level listings. Further detail about the delays we have experienced is included on page 3. We are engaging with the Council to obtain all the information required and agree a plan for a way forward.

The outstanding items include:

- Review of related party transactions
- Sample testing of depreciation costs
- Sample testing of income received in April and May 2019
- Sample testing of Revenue Expenditure funded by Capital Under Statute
- Testing of investments entered into between 25<sup>th</sup> March and 7<sup>th</sup> April 2019
- Testing of long and short term borrowings
- Review of movement in reserves statement for internal consistency
- Review of cash flow statement for internal consistency
- Review of Expenditure and Funding Analysis note for internal consistency
- Testing of journals identified through risk based scoring
- Review of payroll to general ledger reconciliation
- Testing of welfare benefits expenditure
- Review of Financial Instruments note
- Review of and testing of Collection Fund
- Review and testing of Housing Revenue Account
- Testing of grant income
- Testing of creditors and debtors
- Review of provisions
- Testing of a sample of operating expenditure and income between months 10-12
- Testing of a sample of PPE and Investment Property revaluations
- Review of pensions data sent to the actuary
- Testing of a sample of payments made in April and May 2019
- Review of annual governance statement and narrative statement
- Receipt and review of IAS 19 assurances from the auditor of Somerset Pension Fund

# Materiality

## Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan except for the materiality calculations in relation to redundancies. As part of our planning discussions, we identified that given the nature and value of redundancy costs, it would be appropriate to apply the financial statements materiality to this item of expenditure, rather than reduce it to 2% of the total redundancy costs. We detail in the table below our determination of materiality for Taunton Deane Borough Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1.6 million	<ul style="list-style-type: none"> <li>This equates to 1.7% of your 2018/19 gross expenditure for the year. This was determined as the appropriate benchmark for determining materiality. Our knowledge of the environment at Taunton Deane Borough Council, and the transformation programme have factored into our decision to set materiality at 1.7% as this is deemed an appropriate percentage to apply to the benchmark. Per our statement above, this materiality will also apply to redundancy costs.</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>
Performance materiality	£1.1 million	<ul style="list-style-type: none"> <li>This equates to 75% of materiality. We have not identified any factors which would lead to us reducing the level of performance materiality</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>
Trivial matters	£80k	<ul style="list-style-type: none"> <li>ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. We have set triviality at 5% of materiality</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>
Materiality for senior officers remuneration	£26k	<ul style="list-style-type: none"> <li>Senior Officers' Remuneration is a balance which require a lower materiality due to its sensitive nature, hence materiality is set at 2% of the total senior officers remuneration note</li> <li>This is consistent with that reported in our Audit Plan in December 2018</li> </ul>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Income from West Somerset Recharges

#### Auditor commentary

As identified in our audit plan dated 17 December 2018, Income from West Somerset recharges is a significant risk at Taunton Deane Borough Council. We have:

- Evaluated the Council's accounting policy for recognition of income from the recharges for appropriateness
- Gained an understanding of the Authority's system and business processes for accounting for income from West Somerset recharges
- Evaluated the design and effectiveness of the controls around recharges, by undertaking a walkthrough of associated controls
- Agreed all income for the year to invoices raised and undertook a reconciliation between the general ledger and the bank

Our audit work in this area is complete and has not identified any issues in respect of income from West Somerset recharges

2

### Management override of controls

#### Auditor commentary

As identified in our audit plan dated 17 December 2018, management override of controls is a significant risk at Taunton Deane Borough Council. We have:

- Evaluated the business processes and design effectiveness of management controls over journals
- Analysed the journals listing and determined the criteria for selecting high risk unusual journals
- Undertaken an exercise to ensure the completeness of the journals listing

Our audit work in this area is still ongoing. Areas yet to be completed include:

- Testing of unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- Gaining an understanding of the accounting estimates and critical judgments made by management and considering their reasonableness
- Evaluation of the rationale for any changes in accounting policies, estimates or significant unusual transactions

**We will provide you with an update on these areas once we have concluded our audit**

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of land and buildings

#### Auditor commentary

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

- 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;
- written to the valuer to confirm the basis on which the valuations were carried out;

Our audit work in this area is still ongoing. Areas yet to be completed include:

- Challenge of the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- Testing of a sample of revaluations made during the year to see if they have been input correctly into the Authority's asset register
- Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to the current value at year end

We identified that land and buildings classified as specialist assets have been valued using the depreciated replacement cost (DRC) method, and other assets have been valued using the existing use value method. Investment properties are valued at fair value. A detailed review of estimation processes is included within the key judgement and estimates section on Page 8.

**We will provide you with an update on these areas once we have concluded our audit**

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

4

### Valuation of the pension fund net liability

#### Auditor commentary

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

- 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 evaluated the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- 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

Our audit work in this area is still ongoing. Areas yet to be completed include:

- Assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- Undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report; and
- Obtaining assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of the 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.

**We will provide you with an update on these areas once we have concluded our audit**

5

### Accounting for Redundancies

#### Auditor commentary

We have:

- Reviewed the processes and evaluated the controls around accounting for redundancy payments
- Reviewed a sample of redundancy costs and pension strain payments to check the calculation of and accounting for the redundancy costs, to ensure that amounts are accurate, and the basis for re-charging these between Councils is appropriate

Our audit work in this area is still ongoing. Areas yet to be completed include:

- Review of policies and procedures around redundancy costs
- Review of the disclosures of redundancy costs in the financial statements to ensure that they have been correctly included

**We will provide you with an update on these areas once we have concluded our audit**



# Significant findings – key judgements and estimates


Accounting area	Summary of management’s policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals - £1.338m</b>	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required. Management’s calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision has decreased by a net £190k for potential refunds related to 2018/19	<ul style="list-style-type: none"> <li>• Estimate is based on historical data and on success rates in prior appeals.</li> <li>• There has been no change to the valuation method</li> <li>• The method of calculation is consistent with that used by other authorities.</li> <li>• The value of the estimate will fluctuate dependent on a number of factors.</li> <li>• The decrease of £190k is considered to be reasonable based on the amount of outstanding appeals</li> <li>• disclosure of estimate in the financial statements is considered to be appropriate and in line with the Code</li> </ul>	
<b>We are still to complete our work in this area.</b>			
<b>Land and Buildings – Council Housing - £286.386m</b>	The Council owns Council dwellings and is required to revalue these properties in accordance with DCLG’s Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks Head and Eve to complete the valuation of these properties. The year end valuation of Council Housing was £286.386m, a net increase of £19.2m from 2017/18 (£267.175m).	<p>We reviewed management’s processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used.</p> <p><b>Work yet to be completed includes:</b></p> <ul style="list-style-type: none"> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Challenge of key assumptions where appropriate.</li> <li>• Sample testing of revaluations made during the year to ensure they are input correctly into the asset register and subsequently recorded in the financial statements.</li> </ul>	
<b>We will provide you with an update on these areas once we have concluded our audit</b>			

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**Assessment**

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

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<p><b>Land and Buildings – Other - £81.807m</b></p>	<p>Other land and buildings comprises of specialised assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head &amp; Eve to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 22% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net decrease of £8.912m. Management have considered the year end value of non-valued properties. We are in the process of discussing management's exercise.</p>	<ul style="list-style-type: none"> <li>We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used.</li> </ul> <p>Our audit work in this area is still ongoing. Areas yet to be completed include:</p> <ul style="list-style-type: none"> <li>Challenge of the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>Testing of a sample of revaluations made during the year to see if they have been input correctly into the Authority's asset register</li> <li>Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to the current value at year end</li> </ul> <p><b>We will provide you with an update on these areas once we have concluded our audit</b></p>	

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**Assessment**

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


# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<p><b>Net pension liability – £89.484m</b></p>	<p>The Council's net pension liability at 31 March 2019 is £89.484m (PY £93.673m) comprising the Somerset Pension Fund Local Government Scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £8.742m net actuarial gain during 2018/19.</p>	<ul style="list-style-type: none"> <li>We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. This includes gaining assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. <b>Our work on this last item is currently outstanding</b></li> <li>We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> </ul> <table border="1" data-bbox="860 612 1809 1075"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assesment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.40%</td> <td>2.35 - 2.45%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.40%</td> <td>2.45 - 2.40%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.5%</td> <td>Scheme and employer specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.6 / 22.9</td> <td>22.2 – 25.0 / 20.6 – 23.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.8 / 24.0</td> <td>25.0 - 26.6 / 23.2 – 24.8</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identify any inconsistencies. Impact of any changes to valuation method</li> <li>The Authority has considered the impact of GMP equalisation on the net pension liability. They also commissioned the actuary to undertake a materiality assessment with respect to the McCloud/Sargeant judgment in relation to the Local Government Pension Scheme. They have assessed the overall impact of these matters as being below performance materiality. We will review the assumptions and factors used by the actuary and management in undertaking this assessment. We are required to undertake further work in relation to the McCloud judgment, which is currently ongoing at a local and national level. We will report back to those charged with governance once we have completed our audit work in this area.</li> </ul>	Assumption	Actuary Value	PwC range	Assesment	Discount rate	2.40%	2.35 - 2.45%	●	Pension increase rate	2.40%	2.45 - 2.40%	●	Salary growth	2.5%	Scheme and employer specific	●	Life expectancy – Males currently aged 45 / 65	24.6 / 22.9	22.2 – 25.0 / 20.6 – 23.4	●	Life expectancy – Females currently aged 45 / 65	25.8 / 24.0	25.0 - 26.6 / 23.2 – 24.8	●	<p>●</p>
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**Assessment**

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

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<p><b>Level 3 investments</b></p>	<p>The Council have investments in a number of investment properties that are valued on the balance sheet as at 31 March 2019 at £18.683m. The investments are not traded on an open market and the valuation of the investment is subjective. In order to determine the value, management have employed Wilks Head and Eve as management experts. The commercial land and buildings located in the Council's area are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. The value of the investment has increased by £14.5m in 2018/19 due to reclassifications from property, plant and equipment of £14.4m, and net gains from fair value adjustments of £0.1m</p>	<ul style="list-style-type: none"> <li>We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used.</li> </ul> <p>Our audit work in this area is still ongoing. Areas yet to be completed include:</p> <ul style="list-style-type: none"> <li>Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding and challenge of key assumptions.</li> <li>Testing of a sample of revaluations made during the year to ensure they are input correctly into the asset register and in the financial statements.</li> <li>Detailed work around the categorisation and valuation techniques of investment properties</li> </ul> <p><b>We will provide you with an update on these areas once we have concluded our audit</b></p>	

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**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

# Going concern

## Our responsibility

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

## Going concern commentary

### Management's assessment process

Management has considered CIPFA's guidance on going concern for local government and has reviewed the financial position and reserves of the Council. Due to the transformation programme between Taunton Deane and West Somerset, the Council ceased on 31 March 2019.

### Auditor commentary

- Management has undertaken an assessment of the use of the going concern assumption and demonstrated that no material uncertainties exist.
- We concur with management's assessment of the use of going concern basis of accounting.
- It should be noted that although the Council ceased on 31 March 2019, going concern in the context of local government should be considered in the context of the CIPFA code 'an Authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern'.
- Preparation of the accounts on a going concern basis is therefore appropriate and our opinion will be modified to reflect this.

### Work performed

We reviewed management's assessment of the use of the going concern basis of accounting and consideration of any material uncertainties.

### Auditor commentary

- No issues were identified.

### Concluding comments

### Auditor commentary

- No issues were identified from our consideration of management's assessment of going concern or through our audit procedures. An unmodified opinion in respect of going concern will be given.
- We have however included an emphasis of matter paragraph reflecting the transfer of services to the new authority.

# Other communication requirements

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

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Corporate 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</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>Our work in relation to testing of related party transactions is not yet complete</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which will be included in the Committee papers</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, apart from a confirmation from Lloyds bank, which we are still awaiting</li> <li>We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified some disclosure changes within the draft financial statements. See page 23 for further details.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>Information and explanations requested from management was provided.</li> <li>We have experienced significant delays in completing our audit procedures, examples of which are provided below:             <ul style="list-style-type: none"> <li>Payroll information was received late, which delayed our completion of this work during the interim as well as final accounts audit</li> <li>Several working papers were received late, which delayed completion of audit work in the relevant areas</li> <li>Receipt of transaction level reports has been difficult to obtain, thereby delaying our substantive testing</li> </ul> </li> </ul>

# Other responsibilities under the Code

Issue	Commentary
<b>1</b> Other information	<ul style="list-style-type: none"> <li>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.</li> </ul> <p><b>We have not completed our audit work in this area</b></p>
<b>2</b> Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>3</b> Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold</p>
<b>4</b> Certification of the closure of the audit	<p>Our work is currently ongoing with regard to the objection that we received from an objector on the 201819 accounts. We will be unable to issue the certificate of closure of the audit until that objection has been addressed.</p>

# Value for Money

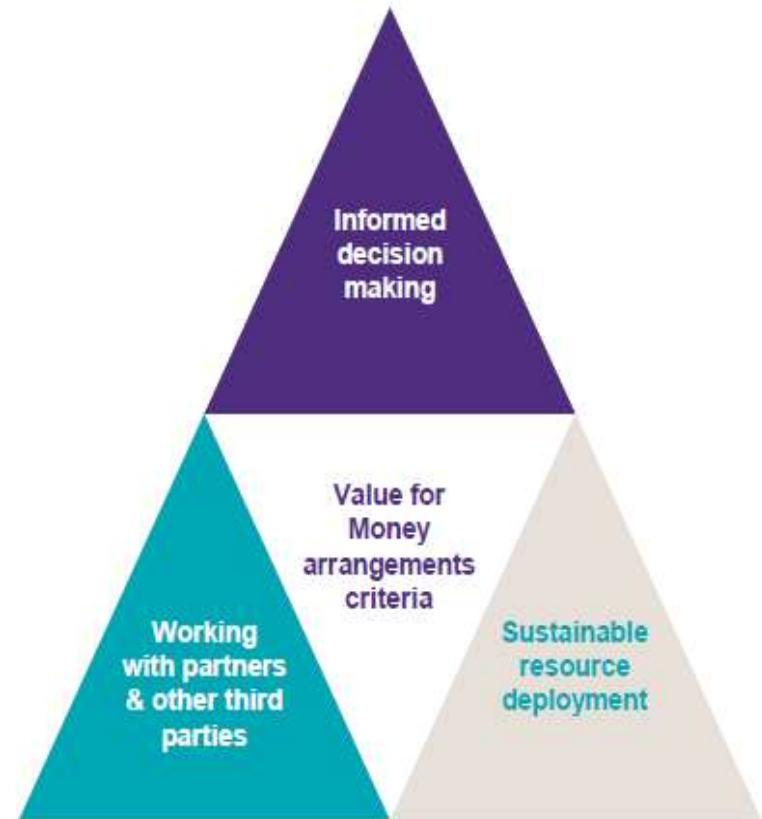
## Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



## Risk assessment

We carried out an initial risk assessment in December 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 17 December 2018.

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

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



# Value for Money

## Our work

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

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

- Medium Term Financial Planning and the need to identify further savings in the medium term to balance the budget; and
- The transformation programme, and monitoring and reporting of service delivery when the transformation programme reaches its peak in the final quarter of 2018-19

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 and 19

## Overall conclusion

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

## Recommendations for improvement

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

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

## Significant difficulties in undertaking our work

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

## Significant matters discussed with management

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

## Key findings

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

	Significant risk	Findings	Conclusion
<p>1</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 218</p>	<p><b>Medium Term Financial position including Transformation</b></p> <p>We reported in our audit plan that the Council continues to face financial pressures with the 4 year settlement for 2016/17 to 2019/20 resulting in a significant grant cut . The new Somerset West and Taunton Council has set a balanced budget for the 2019/20 financial year, with an indicative cumulative surplus of £787k due to be achieved by the end of 2023/24. However the Council's annual budget report highlights that future funding is uncertain. The MTFP position includes the projected savings arising through the implementation of the Transformation Business Case and formation of the new Council. Without these savings, the forecasted budget gap would be a deficit of £2.057m per year by 2023/24.</p>	<ul style="list-style-type: none"> <li>We reviewed the Council's Medium Term Financial Plan, including the assumptions and savings included within the modelling. We also considered the work being done by the Council to identify the additional savings that it needs to make over this period. The Authority's outturn for 2018/19 was £240k below budget, which was transferred to general reserves. At 31 March 2019 the Council has reserves of £16.417m, with £14.194m being in earmarked reserves and £2.223m in the general reserve.</li> <li>The Council set a balanced budget for the 2019/20 financial year, with a harmonised Council tax rate. This results in a Band D increase of £5 increase on the Taunton Deane rate, and a £2.32 increase on the West Somerset rate. Budgeted savings within this were £3.5m as a result of the transformation programme. It was identified in December 2018 that the overall costs for transformation are now estimated to exceed the original High Level Business Case estimates by £2,387,000, for which Taunton Deane's share is £1,880,000, however the revised Business Case increases the savings from £3,100,000 to £3,500,000 per annum. The Council should continue to monitor the transformation programme finances as any further increases could impact the medium term financial planning</li> <li>The additional costs mostly come from the average cost of redundancy not from higher numbers of redundancy. In 2016, the Council predicted the former to be £25,000 when in reality it has proven to be £34,000. This can be for a range of reasons the most likely being the age profile and length of service of the people involved. On reflection The Council states that they should have included a range for the redundancy estimate stress testing the Business Case to the pay back of three years which they remain within.</li> <li>The current Somerset West and Taunton MTFP runs to 2023/24 and is based on detailed modelling assumptions. These include inflation, pay and contract increases as well as anticipated reductions in grant funding, including the four year funding settlement accepted by the Council. These assumptions have been reviewed and appear to be reasonable based on the evidence and information currently available. The MTFP is updated regularly as information on grant settlements becomes available, outcomes from savings strategy are identified and any new cost pressures identified.</li> </ul>	<p><b>Auditor view</b></p> <p>Whilst significant pressures remain we conclude that, overall, the Council has demonstrated it has appropriate arrangements in place for sustainable resource deployment. The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning and report the movements and changes on an ongoing basis to Members.</p> <p><b>Management response</b></p> <p>The Council has robust budgeting arrangements in place and recognises a number of financial planning risks. Management views the realisation of benefits from transformation as critical to its sustainable financial position.</p>

## Key findings (Continued)

2

### Significant risk

#### Transformation programme and service delivery

We reported in our audit plan that we would undertake procedures to understand the Council's mechanisms for identifying, monitoring and reporting any operational service delivery issues arising from the transformation programme, especially when the programme reaches its peak in the last quarter of 2018-19.

As part of our value for money risk assessment, we have considered the high level business case, and identified that given the level of redundancies and other service disruption, we will consider the detail behind the monitoring of the transformation programme, and identify whether appropriate governance policies and procedures have been followed throughout.

### Findings

- In line with agreed reporting arrangements for programme governance, an update report was taken to the Shadow Council's Scrutiny Committee on the 26th of November, and then to Full Council for both Councils on 11th and 12th December 2018. The report showed that cost is off target, and resource is at risk. The Councils requested an update to the budget for the transformation programme of £2.387m, of which Taunton Deane's share is £1.88m, and West Somerset's share is £507k. The updated Business Case provided a payback period, at 2.7 years, which is below the three year good practice benchmark the Council has used for this programme. The additional budget was approved by members.
- A second progress report on the transformation programme was taken to Shadow Scrutiny Committee on 14th January 2019. This agenda item highlighted several queries and concerns from members. Members suggested that officers needed to manage the customer's expectations and distribute communications properly and in a timely manner, and the Programme Sponsor agreed and they had already started work on communications. Concern was raised in the 'dip' in service levels during the delivery of the Transformation Project. The Programme Director confirmed that was to be expected and that Members had been advised that service levels might be reduced as a result of the recruitment process. These points, included within the public minutes show a reasonable level of scrutiny with regards to the transformation programme, and also reflects the level of engagement and discussion around salient points of the programme.
- We have held discussions with officers at the Council responsible for managing service delivery, and it was identified that whilst overall the main operational elements of the transformation had been delivered in accordance with the timeline, there were some lessons learnt for both Councils as part of the programme, the main lesson of which involves staggering implementation.
- Overall, we have identified that update reports have been taken to Scrutiny meetings providing members a chance to participate and add value to the transformation programme as a whole. Informal internal monitoring also shows that detailed logs were kept of the issues and blockers with regards to operational service delivery, and these were monitored and updated regularly. It was also identified that an external body was hired to provide experienced consultancy services to aid the transformation programme, which shows the Council's approach to the transformation programme took into account measures to ensure a smooth transition from two Councils to one.

### Conclusion

#### Auditor view

Overall we are satisfied that the Council governance procedures with regards to the transformation programme are robust. Some issues with service delivery were identified, as communicated to members, and the Council have identified lessons to be learnt from this going forward.

#### Management response

The Council has managed a lengthy period of significant and rapid change, and will learn from successes and challenges faced

# Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

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

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	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits claim	17,898	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 is £17,898 in comparison to the total fee for the audit of £38,984 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Audit of Pooled Housing Capital Receipts	TBC	Self-Interest (because this may be 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 is low in comparison to the total fee for the audit of £38,984 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

# Action plan

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 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.

1	Assessment	Issue and risk	Recommendations
	●	The Council's Medium Term Financial Plan is dependent on savings to be realised from the transformation programme. The programme has incurred higher costs than originally anticipated. The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning, and reserves.	<p>The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning</p> <p><b>Management response</b></p> <p>The council will continue to monitor both costs and realisation of benefits related to transformation.</p>

#### Controls

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

# Follow up of prior year recommendations

We identified the following issues in the audit of Taunton Deane Borough Council's 2017/18 financial statements, which resulted in 1 recommendations being reported in our 2017/18 Audit Findings report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1  Page 222	✓	<p>In the course of our review of the revaluation of Property, Plant and Equipment, it was found that a number of assets were not revalued in the last 5 years as required by the CIPFA Code. This affected £1.5m of Council Dwellings (which are indexed each year to ensure a current valuation) and £2.9m of other HRA Assets.</p> <p>We recommend that the Council ensure these assets are revalued at the earliest opportunity and ensure that all assets are valued in accordance with the code going forward.</p>	<p><b>Auditor response</b></p> <p>Our work is ongoing in this area and we continue to focus our challenge on those assets that have not been valued in year to ensure that the fair value estimate is materially correct.</p> <p><b>Management response</b></p> <p>Valuation of these assets has been undertaken for the 2018/19 accounts.</p>

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

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

## Impact of adjusted misstatements

We have not identified any adjusted misstatements in the financial statements at present. Our audit work is still ongoing and we will update those charged with governance once we complete our audit procedures

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Financial Instruments</b> Page 223	The Council has categorised money market funds as being held at amortised cost, however our audit testing has identified that these should be categorised as fair value through profit and loss. The Council holds £3 million of money market funds which need to be reclassified.	We recommend the Council update their financial instruments note to categorise money market funds as fair value through profit and loss rather than amortised cost	✓
<b>Income and Expenditure Analysed by Nature</b>	Our testing has identified that £615k of expenditure was classified within operating expenditure, but actually relates to payroll. This has no impact on the note totals or the primary statements as it is simply a re-classification.	We recommend the Council update their Income and Expenditure analysed by Nature note in order to correct this misclassification.	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit, Governance and Standards 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
1 Our internal actuary has reviewed the impact of GMP equalisation judgement. For councils using Barnett Waddingham the impact is a potential overstatement of the net pension liability of 0.15% equating to £134k for Taunton Deane Borough Council. The Authority has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.	£0	£134	£0	Not material individually or in total
2 As part of the McCloud ruling the Council have undertaken a materiality review and identified that there is an understatement in the estimated impact on total liabilities as at 31 March 2019	£0	(£61)	£0	Not material individually or in total
<b>Overall impact</b>	<b>£0</b>	<b>£73</b>	<b>£0</b>	



# Fees

## Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we anticipate necessary in order to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment

### Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert	1,500
Pensions – IAS 19	June – July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS19 this year.	1,500
PPE Valuations – work of experts	June – July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500

Total Audit Fees	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
<b>Audit related services:</b>			
Council Audit	50,629	38,984	38,984
Additional Audit Fee (see above)			4,500
<b>Total audit fees (excl VAT)</b>	<b>50,629</b>	<b>38,984</b>	<b>43,484</b>

### Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	
Certification of Housing Benefit (estimate)	17,898
Pooling of Capital Receipts	TBC
<b>Total fees for other services</b>	<b>17,898</b>



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# **Somerset West and Taunton Council**

## **Audit Governance and Standards Committee – 31 July 2019**

### **Taunton Deane Borough Council Statement of Accounts 2018/19**

**This matter is the responsibility of Cllr Ross Henley, Portfolio Holder for Corporate Resources**

**Report Author: Emily Collacott, Finance Business Partner**

#### **1 Executive Summary / Purpose of the Report**

- 1.1 The Statement of Accounts for 2018/19 is required to be approved by the Audit, Governance and Standards Committee and signed by the S151 Officer and the Chair of the Audit Governance and Standards Committee.
- 1.2 At the time of preparing this report the audit of the draft accounts remains in progress, and Grant Thornton recently informed the S151 Officer that audit testing cannot be completed by 31 July Committee date as a result of some delays in information and additional testing requirements. It is not therefore possible to present the audited accounts for approval by the 31 July statutory deadline. This delay relates to logistical issues and is a matter of timing rather than quality of accounts.
- 1.3 The S151 Officer has discussed the requirements for publication in these circumstances. The Audit Governance and Standards Committee is therefore requested to approve the draft accounts as unaudited, and as such these will be republished in line with 31 July target date. A further update will be reported to Committee once the audit is completed and the Opinion given, however the Committee is requested to approve the updated draft accounts for publication subject to completion of the audit.
- 1.4 There are no material errors identified in the accounts from the testing undertaken so far, and a small number of misstatement and disclosure changes were identified which have been made in the updated draft set of financial statements. These are covered in Grant Thornton's interim Audit Findings Report included within this Agenda.

#### **2 Recommendations**

- 2.1 The Committee is recommended to:
  - a. Note the progress of the Audit and that the Audit Opinion is not anticipated

to be issued by 31 July 2019.

b. Approve the 2018/19 Draft Statement of Accounts subject to audit.

### **3 Background and Full details of the Report**

- 3.1 The Accounts and Audit Regulations 2015 require the audited Statement of Accounts to be approved by a resolution of a nominated committee. The current constitutional arrangements devolve this responsibility to the Audit Governance and Standards Committee.
- 3.2 The S151 officer is required to sign off the unaudited Draft Accounts as true and fair by 31 May. The audited Statement of Accounts must be approved by Committee by 31 July. Once approved the Statement must be signed by the S151 Officer and the Chair of the Audit, Governance and Standards Committee, and published on the Council's website.
- 3.3 The Council's Statement of Accounts is being audited this year by Grant Thornton UK LLP. At the time of writing this report, Grant Thornton has indicated it is unlikely that they will be able to provide their Audit Opinion by 31 July, with a significant amount of testing still to be completed. As highlighted within the Audit Findings Report, there have been problems obtaining information / working papers on a timely basis. Equally, there is an increase in the scope and volume of work required due to increasing levels of scrutiny on auditors by regulators.
- 3.4 The demands on Council officers and Grant Thornton has also been exacerbated as the auditor has received an objection to the accounts from a member of the public, and is required to undertake additional work in response to this.
- 3.5 Grant Thornton have completed their review of the Council's value for money arrangements, and have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **4 Statement of Accounts**

- 4.1 The Statement of Accounts for 2018/19 has been prepared on an IFRS (International Financial Reporting Standards) basis in line with the CIPFA (Chartered Institute of Public Finance Accountancy) Code of Practice on Local Authority Accounting in the UK 2018/19.
- 4.2 The Statement of Accounts contain four main statements reflecting the position of the Council at 31 March 2019:
- Comprehensive Income and Expenditure Statement
  - Movement in Reserves Statement
  - Balance Sheet
  - Cash Flow Statement

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

### **Comprehensive Income and Expenditure Statement**

- 4.4 The Comprehensive Income and Expenditure Statement (CIES) shows the day to day revenue spending and income on the Council's services. It also shows the council tax and Government grants received to help pay for those services. The Comprehensive Income and Expenditure Statement shows the net cost on an "accounting basis" which includes accounting adjustments such as depreciation, impairment and revaluation losses, and other types of accounting adjustments. These adjustments are then reversed out in the Movement in Reserves Statement to show the "funding" position of the Council.
- 4.5 The Net Cost of Services has increased by £18.851m compared to the previous year's accounts. This relates primarily to an increase in costs in the Operations service area as a result of the redundancy payments being incurred, and an increase in the depreciation / impairment of assets.
- 4.6 This has meant there has also been a movement on the Provision of Services which has moved from a £113k deficit in 2017/18 to a deficit of £15.541m in 2018/19.
- 4.7 The movement on the revaluation of Property, Plant and Equipment from a deficit of £25.493m in 2017/18 to a deficit of £15.488m in 2018/19. The re-measurement of the pension liability has decreased from a deficit of £10.138m in 2017/18 to £8.742m in 2018/19. This has resulted in a decrease to the deficit on the CIES from £35.423m in 2017/18 to £8.689m in 2018/19.
- 4.8 The Financial Outturn position for 2018/19 has recently been reported to Executive in July. This included information relating to the Council's financial performance for the 2018/19 financial year. The reports highlighted key variances to the budget and provided explanations for these, and shows a net underspend against budget for the year and an increase in General Reserves.

### **Movement in Reserves Statement**

- 4.9 This account shows the changes in the Council's financial resources over the year by showing the movement on the reserves held. These are analysed into Usable Reserves (these can be used to fund spending) and Unusable Reserves (reserves that cannot be spent as they contain technical accounting adjustments that do not represent available funding).
- 4.10 The total of the Council's Usable Reserves (capital and revenue combined) has decreased by £11.106m in year to £42.263m. The decrease is due to funding of

redundancies, transformation, refurbishment of Deane House and funding of the capital budget.

- 4.11 The Statement shows that both the General Fund and Housing Revenue Account (HRA) balances are above the minimum level required in the Council's financial strategy. During the year General Fund Reserves have decreased from £2.299m to £2.223m (minimum recommended level £1.700m) whilst the HRA Reserve balance has decreased from £2.778m to £2.718m in year (minimum recommended £1.800m).

### **Balance Sheet**

- 4.12 The Balance Sheet provides a snapshot of the Council's financial position as at 31 March 2019 (with comparatives for 31 March 2018).
- 4.13 The Balance Sheet shows that net assets have moved from a positive balance of £249.791m to £258.455m, an increase of £8.664m.

### **Cash Flow Statement**

- 4.14 The cash flow statement summarises the flows of cash and cash equivalents into and out of the Council during the year.
- 4.15 Cash and cash equivalents are represented by the following: cash in hand; deposits with financial institutions repayable without penalty on notice of not more than 24 hours; and investments that mature in one month or less from the date of the balance sheet and are readily convertible into cash.
- 4.16 During the year the Council's cash and cash equivalents increased by approximately £2.525m.

### **Housing Revenue Account**

- 4.17 The Housing Revenue Account (HRA) Income and Expenditure Account shows the economic cost in year of providing housing services.
- 4.18 The HRA for 2018/19 shows that net expenditure for the year of £2.275m compared with net income of £4.114m in the previous year. The main differences are the share of costs of redundancy and transformation borne by the HRA and the impairment of council house dwellings valuations.

### **Collection Fund**

- 4.19 The Collection Fund Statement shows the total amount the Council has collected from tax payers on behalf of, and distributed to, all of the precepting authorities and Central Government. The major precepting authorities are Somerset County Council, Avon and Somerset Police, Devon and Somerset Fire and Rescue Authority and Central Government. The Council has a statutory obligation to

maintain a separate Collection Fund Account.

- 4.20 The presentation of the statement clearly separates the Council Tax and Business Rates movements and balances. The statement shows that the Council has collected £110.571m on behalf of ourselves, the precepting authorities and Central Government. This comprises council tax income of £69.058m and business rates income of £41.513m.
- 4.21 The statement currently shows a surplus of £1.789m (TDBC share = £189k) in respect of Council Tax and a surplus of £1.097m (TDBC share = £439k) in respect of business rates.

## **5 Result of the Audit of the Statement of Accounts**

- 5.1 As stated above, the external audit review is in progress but not yet completed, and as such Grant Thornton do not envisage issuing their Audit Opinion by 31 July. No material errors have been identified that require the accounts to be adjusted.
- 5.2 During the audit work completed to date a small number of misstatement and disclosure changes were identified and these are reflected in the Statement of Accounts presented to Committee with this report. These changes have been identified in the Audit Findings Report included within this Agenda.
- 5.3 The auditor has completed their review of our arrangements to secure economy, efficiency and effectiveness in our use of resources, and provides an opinion in the form of a value for money conclusion. Their report states that “the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources”.
- 5.4 As the audit remains in progress the Committee is requested to approve the Statement of Accounts subject to audit, and publish these by the 31 July deadline. The final audited Statement will be brought to the Committee once the audit has been completed, with a final Audit Findings Report and Opinion.

## **6 Links to Corporate Aims / Priorities**

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

## **7 Finance / Resource Implications**

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

## **8 Legal Implications**

- 8.1 There is a Statement of Responsibilities within the Statement of Accounts, which summarises responsibilities for the Council and its S151 officer. The Accounts are

prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, which specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council.

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

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

## **9 Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Consultation Implications**

9.1 None in respect of this report.

### **Democratic Path:**

- **Audit Governance and Standards Committee – 31 July 2019**

**Reporting Frequency: Annually**

### **List of Additional Documents:**

Taunton Deane Borough Council Statement of Accounts  
Letter of Representation

### **Contact Officers**

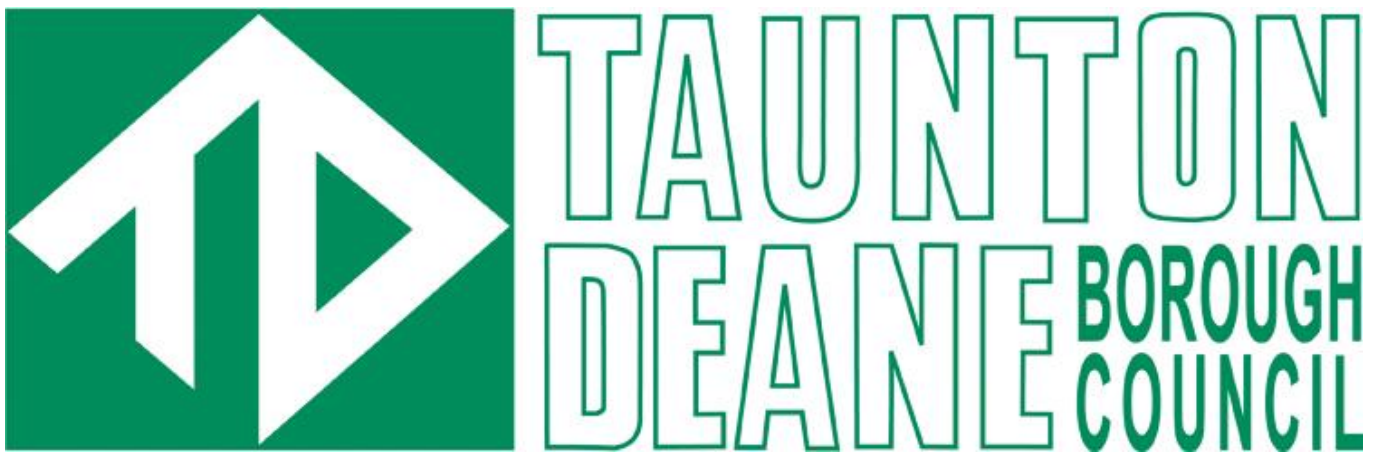
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**TAUNTON DEANE BOROUGH COUNCIL**  
**UNAUDITED**  
**STATEMENT OF ACCOUNTS 2018/19**



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# Narrative Report

## STATEMENT BY THE STRATEGIC FINANCE ADVISER AND S151 OFFICER

### INTRODUCTION

Local authorities in England are required by the Accounts and Audit Regulations 2015 to publish a narrative report with the Statement of Accounts. The purpose of the Narrative Report is to provide information on the authority, its main objectives and strategies and the principal risks that it faces.

This report highlights some of the most important matters reported in the accounts and provides a management commentary on the financial performance and standing of the Council. The commentary is focussed both on the performance in the past year and on issues affecting the Council going forward particularly with regard to the formation of the new Somerset West and Taunton Council from 1 April 2019.

### TAUNTON DEANE BOROUGH COUNCIL – KEY INFORMATION

Taunton Deane is a local government district with borough status based in Somerset. It has an area of 178.87 sq. mi (463.26km<sup>2</sup>) and a population of 117,400 (mid-2017 estimate). The main town in the district is Taunton and the district area also includes the town of Wellington and surrounding villages.

As a shire district, the Council delivers local services within a two-tier structure of principal local government authorities, with 'upper tier' services provided by Somerset County Council and 'lower tier' services provided by Taunton Deane Borough Council. Taunton Deane Council still maintains responsibility for the management and ownership of its own housing stock (more than 5,000 dwellings) and this is accounted for separately in a 'ring-fenced' Housing Revenue Account. The Council is responsible for a range of services including (but not limited to):

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

### THE GOVERNANCE FRAMEWORK

The governance framework consists of the systems and processes, and culture and values, by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost effective services. This framework is applicable both for the current Council – Taunton Deane Borough Council – and its successor from April 2019 – Somerset West and Taunton Council. 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, Executive or Council as appropriate.

Further information is included in the Annual Governance Statement.

## **THE CORPORATE STRATEGY AND PLAN**

In February 2016 the Council approved its Corporate Strategy. The Strategy provides a clear direction for the Council to follow, with four key priority areas where the Council will concentrate its efforts and resources from April 2016.

The key elements of the Strategy are:

- Refreshed high-level Corporate Priorities for the Council
- Design principles for our organisation
- Refreshed vision
- Clarity on the role and purpose of the Council

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

The Corporate Plan 2017-18 was approved by the Council in October 2017 and the Plan for 2018-19 was a continuation of this. It sets out our priorities and success measures we will use to monitor progress, organised into key themes of:

- Key Theme 1 – People
- Key Theme 2 – Business and Enterprise
- Key Theme 3 – Our Place
- Key Theme 4 – A Modern and Efficient Council

## **DECISION MAKING AND RESPONSIBILITIES**

The Council consists of 56 elected Members, with an Executive of Lead Members who are supported and held to account by Scrutiny Committees. Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate. The Constitution sets out the functions of key governance officers, including the statutory posts of Chief Executive, 'Monitoring Officer' and 'Section 151 Officer' and explains the role of these officers for ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

## **MANAGING RISK**

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

Senior management meet to identify the principal risks to the Council. These risks are recorded in a Corporate Risk Register. Each Service Area also keeps a separate risk register for its area. These registers also record the controls necessary to manage the risks. The registers are regularly reviewed and challenged by senior management and by the Audit Committee. Specific assurance is sought concerning those risks associated with the key elements of the Governance Framework and that any necessary improvements to controls have been implemented. The Governance Framework cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

## **FINANCIAL MANAGEMENT**

The Council has a long established record of effective financial management and managing within our means. We continue to face the challenge of designing a sustainable budget for the future in the face of further Government plans to cut public spending. The Council has worked in partnership with West Somerset Council since 2013 to share management and staff across the two Councils. Together this partnership has resulted in efficiencies and produced annual savings of £1.8m.

In 2016 the two Councils agreed a High Level Transformation Business Case which puts the customer at its heart, and seeks to drive benefits through implementing new ways of delivering services, providing more services digitally and modernising our business processes. The Councils have also obtained agreement from the Secretary of State to create a new Council from April 2019 that will create a new district and Council area currently covered by the two. The financial implications for the business case were refreshed in December 2018, with the new Council and transformed services producing further savings of £3.5m per year.

Taunton Deane set a balanced budget for 2018/19, and the new Council has in February 2019 set a balanced budget for 2019/20 with a broadly balanced position projected throughout the 5-year Medium Term Financial Plan. The Strategic Finance Advisor and 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 2018/19.

## **CREATING A NEW COUNCIL**

Taunton Deane and West Somerset councils submitted an application to Government in March 2017 requesting agreement to create a new single district Council to replace the two. Following a period of consultation the Secretary of State announced approval of this change in March 2018. This was subsequently followed by the making of the Somerset West and Taunton (Modification of Boundary Change Enactments) Regulations 2018 and the Somerset West and Taunton (Local Government Changes) Order 2018 on 25 May, 2018. The new Somerset West and Taunton Council will formally come into

## **COUNCIL'S PERFORMANCE**

The Council has continued to manage its finances effectively in the climate of reducing grant funding from central Government. We have continued to deliver efficiencies from the One Team of officers across Taunton Deane and West Somerset Councils, and set our 2018/19 budget without making cuts to frontline services. Our joint transformation programme is pivotal in reducing our operating costs whilst improving services to our customers and communities. The Council continues to focus on Growth and Development and we have committed further funds to support this vision.

The Council has made good progress over recent years in meeting the challenge of 'balancing the books'. Phase 1 of the Council's partnership with West Somerset District Council has contributed to the delivery of savings through efficiency in the management and staff structures since 2014. Following an earlier mandate from Councillors in January 2016, a business case was developed and the Council

agreed in partnership with Taunton Deane to jointly transform the way services are delivered. This has culminated in the creation of a single new council, Somerset West and Taunton to deliver services for both councils from 1 April 2019.

Some of the key highlights of how the Council has performed during 2018/19 are shown below:

### **Housing**

Resident led plans to build up to 230 new homes and replace Woolaway houses in north Taunton were approved during the year. Work could begin as soon as spring 2020. This is alongside the continuation of the Council's new build development programme.

The Council has exceeded the target for delivery of affordable homes in Taunton Deane for another year. It currently has 205 lower cost homes completed against a target of 200 and is on course to deliver another 26 by the end of the 2018/19 financial year bringing the total to 231. The housing enabling and development team works closely with their housing association partners and within their own development program to increase the number of new affordable homes in Taunton Deane. The Partnership has delivered more than 1,000 low cost homes over the last five years.

### **Car Parks**

A £1.2million scheme of improvements to car parks and signage in Taunton went live in February 2019. The Council has implemented the new pay on exit system at the Orchard, Tangier, Canon Street, Wood Street, Castle Street and Enfield car parks and this will link into Variable Message Signing (VMS) in place at key locations in Priorswood Road, Cross Keys, Toneway, East Reach, Silk Mills and Wellington Road.

### **Park and Open Spaces**

Five of Taunton Deane's parks and open spaces have been recognised by the Green Flag Award Scheme as some of the very best in the world. They are among a record-breaking 1,883 UK parks and green spaces that will today receive prestigious Green Flag Awards and Green Flag Community Awards – the mark of a quality park or green space. This international award, now into its third decade, is a sign to the public that the space boasts the highest possible environmental standards, is beautifully maintained and has excellent visitor facilities.

### **Deane House Refurbishment**

The Deane House refurbishment was completed (apart from the agreed additional works to the Automatic Opening Vents in the stairwells). Midas completed the works on time, to a high quality and within the agreed budget. Avon and Somerset Police have now been in occupation for three months and are enjoying working from The Deane House. We have already seen benefits to our customers with our teams working together within the Customer Hub.

### **Partnership Working**

The Council is already part of several successful partnerships with other authorities including the Somerset Waste Partnership, South West Private Sector Housing Partnership, Building Control, Shape Mendip Legal Services and more. We have needed to be both responsive and innovative in forming new partnerships and strengthening others, to work more efficiently and be more effective.

We embraced the concept of 'One Team' for our shared management with West Somerset Council, and our shared lead with Avon and Somerset Police for innovative, co-ordinated, multi-agency, frontline working focused on our more disadvantaged areas which is now established across Somerset. Both attracted funding from the Government in recognition of their aims and objectives and the forerunner of the latter, the Halcon One Team has won several awards and received national attention.

We have seen improved outcomes from collaborative working particularly on the front-line where a problem-solving approach translates into more settled, better supported tenants and residents. This has



more recently been extended to Taunton Town Centre where problems with rough sleeping and begging were increasing. In order to understand better and share the responsibility, the agencies came together and drew up a detailed plan which has again attracted funding from Government to implement this. The Homelessness Reduction Plan has already reduced our rough sleeping by half and is providing essential support to resettle a few with local connections into permanent housing.

## **Growth Strategy and Specific projects**

### **Coal Orchard Redevelopment**

Over the last few months there has been good progress. The former St James Swimming Pool was demolished just before Christmas and the site levelled. The OJEU tender process for a main contractor has been completed, albeit the timetable became extended due to requests for extensions of time. Midas Construction have been selected as the preferred contractor and a Pre-Construction Services Contract has been entered into in order for the final contract and scheme details and infrastructure to be resolved. Some investigative survey work has been carried out during February, and this was co-ordinated with the digging of the final three archaeological trenches, so that car park closures were kept to a minimum.

Over the next couple of months the contractors will be working on phasing and construction details leading to building works commencing in late spring 2019. The build programme is still being finalised but will be approximately 18 months. We are working with our commercial agents, JLL, to ensure that the space and design of the units are attractive to leaseholders in the current market. We will be launching a marketing programme in early summer for both commercial and residential.

### **Firepool**

A key milestone has been reached with the Section 106 Agreement being finalised with Somerset County Council Highways signing off in March 2019. Consequently site master plan delivery planning is now progressing along with preparation for some early site enabling works. Site set up and infrastructure works will commence shortly. Initial work involves site clean-up, replacement of fencing to secure the site and construction of access from the Northern Inner Distributor Road. In addition, some minor demolitions will be undertaken including breaking up the concrete slabs. Proposals are being prepared which will be brought to the new Council in due course relating to a masterplan business case and delivery action plan.

### **Environmental**

Somerset Waste Partnership (SWP) has had another successful year, with a recycling rate of around 53% in Quarter 3 of 2018/2019 and continuing to recycle over 95% in the UK (over half staying in Somerset). SWP have increased the scope of their recycling centre contract with Viridor, enabling residents to use every recycling centre to recycle cartons/tetrapaks and plastic pots, tubs and trays. SWP remain on track to move away from landfill by 2020, with the construction of an Energy from Waste plant at Avonmouth.

SWP's key programme of work has been to procure a new collection contractor who will roll out the Recycle More service. The Somerset Waste Board has announced SUEZ recycling and recovery UK as the preferred bidder for its new collections contract. SWP, which is responsible for waste and recycling services on behalf of four district councils and the wider county council in Somerset, has been gearing up for the service change since 2017, when it agreed to end its previous contract with Keir 18 months early.

The Keir contract will come to an end on 27 March 2020, and the new contract will focus on implementing SWP's 'Recycle More' strategy, which will see residual waste collections reduced to three-weekly while extra materials (like plastic pots, tubs and trays) will be collected at the kerbside, along with pre-existing weekly dry recycling and food waste collections. It is hoped that this strategy will result in annual savings of around £1.7 million before rollout costs. Coinciding with the start of the new contract, an energy-from-waste (EfW) plant is set to open in nearby Avonmouth in 2020, with capacity to process all waste currently landfilled in Somerset.

## Leisure

After a detailed procurement exercise the council has awarded its leisure contract to Sport and Leisure Management Ltd (SLM). The new contract will commence from 1 August 2019 and is expected to generate savings of almost £7m over the 8 months and 10 years term of the contract.

## FINANCIAL PERFORMANCE

### Economic Environment

It has been well documented that Local Government has seen major cuts over several years now and 2018/19 saw us with a challenging budget to close and the prospect of further cuts to come with some of our grants changed or extinguished completely. We now know that Revenue Support Grant (RSG) will disappear by 2019/20. Overall this will mean our Settlement Funding baseline (including RSG, Rural Services grant and Business Rates Baseline) will have reduced from £5.8m in 2013/14 to £2.7m by 2019/20 – a reduction of 53%.

Housing growth within the Borough has had a positive impact on our funding, with our New Homes Bonus (NHB) Grant reaching £3.6m. We have prioritised this and future NHB funding to underpin our planned £16m investment in growth, infrastructure and regeneration. We have therefore performed well in obtaining grant through this growth-incentive based funding stream.

The overall funding position and trend does not come as a surprise to us and we have acted prudently to try to protect ourselves from having to make cuts that will impact adversely on the public. We know in some cases this has been unavoidable, but we have taken steps to look at the long-term position and set aside funds for Growth and Economic Development. This financial planning has included looking at our risk profile and maintaining adequate reserves to mitigate against in particular the effect of business rates appeals to set aside funds in reserves to ensure the Council can deliver projects which we have laid before Committee and which we believe will add to the experience of living in Taunton Deane, such as the development at Firepool. We have also built in some resilience with regards to delivery of the transformation programme and to other adhoc pressures and new service demands.

### Financial Management

The financial standing of the Council is robust with sound and improving financial management practices. The outturn for the Council results in a transfer to general reserves of £240k.

## FINANCIAL OVERVIEW

### General Fund Revenue Budget and Reserves

For 2018/19, the Council initially had to address a budget gap in the region of £0.4m. This resulted primarily from the reduction in Revenue Support Grant; inflation rate increases and other cost pressures. The Council was able to set a balanced budget whilst at the same time be able to put extra funding in its Business Smoothing Reserve to protect it from any future volatility arising from changes to business rates.

As part of the Final Settlement details, Central Government again gave all district councils the power to raise Council Tax by £5 for a Band D property without the need for a referendum. Taunton Deane took this option which raised £85k towards the budget gap compared to previous estimates based on a 1.99% increase.

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

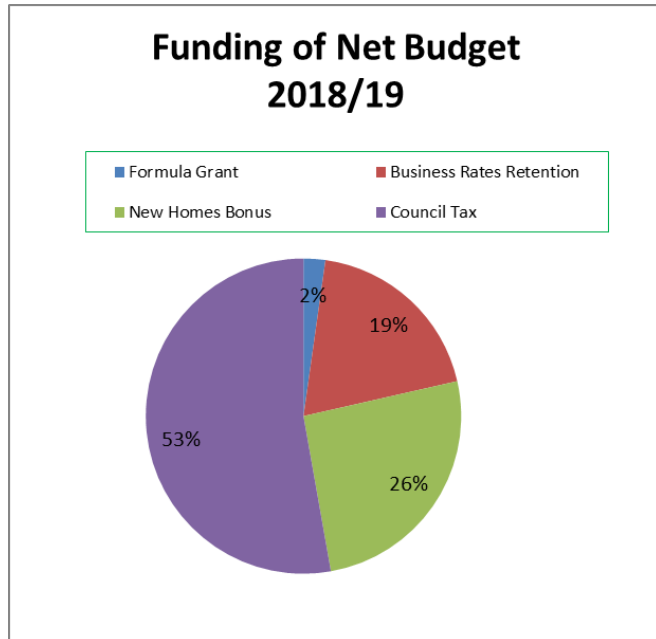
- a) General funding, Revenue Support Grant has reduced by £365,013 (57%) whilst Rural Services Delivery Grant has increased by £5,483 (25%).



b) New Home Bonus funding has decreased by £470,170 (12%)

The Council's Net Budget for 2018/19 was £13.826m, representing the net cost of General Fund services funded by grants, business rates and council tax as shown in the following table and graph.

	£k
Formula Grant (RSG and RSDG)	308
Retained business rates	3,593
Business rates Collection Fund deficit	(937)
New Homes Bonus	3,564
Council Tax Collection Fund surplus	64
Council Tax income	7,234
Net Budget	13,826



In setting the budget for 2018/19 the Council increased Council Tax by 3.38% (£5 on an equivalent Band D property). This meant that the Band D Council Tax rate became £152.88.

The Council's actual net expenditure in 2018/19 was £13.272m which results in a reported net underspend of £240k (1.7% of Net Budget). The net underspend arose due to variances in several budget areas. The most significant underspends have been reported against Benefits, recycling, Interest income, Bereavement, and Grounds Maintenance. These together with other smaller underspends have enabled the Council to offset budget overspends/shortfalls in arriving at the net position. The following table provides a summary of the financial results for the year compared to budget.

<b>General Fund Outturn 2018/19</b>	Budget £k	Actual £k	Variance £k	Variance %
<b>Net Cost of Services</b>	<b>17,623</b>	<b>17,555</b>	<b>(68)</b>	<b>(0.5%)</b>
<b>Other Operating Costs and Income</b>				
Deane Helpline Trading Account	135	164	29	0.2%
Interest & Investment Income	(444)	(908)	(464)	(3.4%)
Transfers from Capital Adjustment Account	(1,500)	(1,500)	0	
Transfers from General Reserves	(335)	(335)	0	
Transfers from Earmarked Reserves	(1,704)	(1,704)	0	
<b>Total Other Operating Costs and Income</b>	<b>(3,848)</b>	<b>(4,283)</b>	<b>(435)</b>	<b>(3.2%)</b>
<b>NET EXPENDITURE BEFORE GRANTS &amp; TAXATION</b>	<b>13,775</b>	<b>13,272</b>	<b>(503)</b>	<b>(3.7%)</b>
<b>TOTAL FUNDING</b>	<b>(13,775)</b>	<b>(13,512)</b>	<b>263</b>	<b>2.0%</b>
<b>TOTAL (UNDER)/OVERSPEND FOR THE YEAR</b>	<b>0</b>	<b>(240)</b>	<b>(240)</b>	<b>(1.7%)</b>

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

The General Fund Reserves have reduced from £2.299m at the start of the year to £2.223m at 31 March 2019, this is £523k above the recommended minimum balance of £1.700m and provides some mitigation for emerging risks.

The Council also carries Earmarked Reserve balances, which represent funds that have been set aside to support specific spending in future years. The General Fund Earmarked Reserves balance at 31

March 2019 stands at £14.194m. This balance covers a wide variety of known planned spending commitments, including: Business Rates funding deficit; New Homes Bonus Growth Reserve; Creating a New Council; and Garden Village together with several other smaller commitments which we have prudently put aside.

**CAPITAL SPENDING AND RESERVES**

In addition to our spending on day-to-day service provision, the Council spends money on assets such as buildings, major improvements to parks, and contributions to jointly-financed schemes. Capital expenditure in the year totalled £26.777m (£14.995m in 2017/18). Capital spending comprises £15.398m on General Fund schemes and £11.379m on HRA capital works, as summarised in the table below. The General Fund capital spending related to a wide range of projects which included costs for the new Deane House Accommodation, ICT equipment, disabled facilities grants, area regeneration schemes, and many other smaller projects. HRA capital works are largely related to maintaining housing standards, including replacing kitchens, bathrooms, windows, doors, heating systems and other related works.

<b>General Fund Capital Schemes</b>	<b>£k</b>	<b>HRA Capital Schemes</b>	<b>£k</b>
Deane House Accommodation	4,580	Heating Systems	1,999
Regeneration Schemes	5,463	Kitchens and Bathrooms	1,660
Housing Enabling and Housing Standards	696	Doors and Windows	286
Play Equipment and Sports Facilities	1,034	Accessibility Aids and Adaptations	305
DLO Vehicles, Plant and Equipment	251	Door Entry Systems	373
Transformation	1,428	Asbestos Works	441
ICT Equipment	91	Development of Additional Dwellings	1,764
Waste Containers	96	Fascias, Soffits and Fire Safety	987
Community Grants	217	Insulation	888
Crematorium	191	Buybacks	2,096
YMCA Loan	750	Other schemes	579
Community Assets	576		
Other schemes	25		
<b>Total</b>	<b>15,398</b>	<b>Total</b>	<b>11,379</b>

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

The General Fund Capital Programme has committed approved capital spending in future years of £40.276m. The HRA Capital Programme has committed approved capital spending into future years of £13.507m.

<b>Sources of Capital Funding</b>	<b>£k</b>
Revenue Funding	7,180
Capital Grants and Contributions	2,471
Capital Receipts	2,899
Borrowing	6,875
Major Repairs Reserve (HRA)	7,352
<b>Total</b>	<b>26,777</b>

Overall the Council has sufficient resources available to meet its current approved capital programme but recognises that significant further funds will be required to meet all our future aspirations.

Capital reserves reflect funds set aside to fund investment in capital items in future years, and largely comprise grants, contributions and capital receipts that are committed on projects to be completed in the current approved capital programme. The Council currently holds £27.467m of capital reserves, providing funding for the approved capital spending referred to above. The Council has also approved borrowing of £28.316m to fund approved schemes.

**Balance Sheet**

Below is an extract from our Balance Sheet showing the position at year end and the comparison with the position last year:-

	<b>31 March 2018</b>	<b>31 March 2019</b>
	<b>£k</b>	<b>£k</b>
Non-current assets	404,957	425,150
Net current assets – debtors, stock and cash less short term creditors and liabilities	21,112	1,894
Long term liabilities and provisions	(176,278)	(168,589)
<b>Net assets</b>	<b>249,791</b>	<b>258,455</b>
Represented by: Usable reserves	53,369	42,262
Represented by: Unusable reserves	196,422	216,193
<b>Total Reserves</b>	<b>249,791</b>	<b>258,455</b>

**Housing Revenue Account (HRA) Budget and Reserves**

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

The Net Budget for the HRA is £Nil, reflecting the self-financing nature of the account. However, financial performance is measured against the Gross Income budget, which is £26,644k for the year. The HRA has reported a net surplus of £296k for 2018/19, which is 1.1% of gross income. The surplus increases the HRA General Reserve, and relates mainly to one-off items including staffing for Housing Management and a reduction in the impairment allowance for debtors.

HRA Outturn 2018/19	Budget £k	Outturn £k	Variance	
			£k	%
Gross Income	(26,644)	(26,641)	3	
Service Expenditure	14,302	14,079	(223)	(0.8%)
Other Operating Costs and Income	7,898	7,764	(134)	(0.5%)
Earmarked Reserve Transfers	13	0	(13)	
Capital Financing and Debt Repayment	4,431	4,502	71	0.2%
<b>Net Variance</b>	<b>0</b>	<b>(296)</b>	<b>(296)</b>	<b>(1.1%)</b>

The Housing Revenue Account Reserve has decreased from £2.778m at the start of the year to £2.718m at 31 March 2019. The yearend balance is still well above the minimum level set within the Council's financial strategy of £1.8m, providing some resilience for financial and service risks and opportunities.

The HRA Earmarked Reserve balance at 31 March 2019 is £2.718m, a decrease of £4.272m in the year. The reserves are committed in a number of areas including: Social Housing Development Fund £1.339m to support new build and acquisition of additional homes, and a range of other smaller reserves.

## Treasury Management

Total cash and cash equivalents plus short term investments at 31 March 2019 were £25.356m. The main factors that would affect cash in the future are:

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

	31 March 2018	31 March 2019
	£k	£k
Cash and other cash equivalents	17,818	20,343
Short term investments	16,194	5,013
<b>Total</b>	<b>34,012</b>	<b>25,356</b>

## Pensions

The Council's share of the overall Pension Fund deficit decreased from £93.7m at 31 March 2018 to £89.5m at 31 March 2019. The deficit has decreased by 4%, which is largely due to a change in the financial valuation assumptions by the actuaries.

Following the actuarial valuation in 2016 we have changed the way in which we contribute to the Pension Fund as an employer. We are now required to contribute a percentage plus a lump sum each year. In 2018/19 this lump sum was £1.944m.

## PRINCIPAL RISKS AND UNCERTAINTIES

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. We also use our risk register as a tool to help demonstrate and calculate our minimum acceptable level of reserves.

Risks are managed at all levels within the Council. The most serious and/or cross-cutting strategic risks are escalated to the Corporate Risk Register. The Corporate Risk Register is subject to regular review by the Joint Management Team and the risks regularly reported to the Council's Corporate Governance Committee. Each risk has an owner and is supported by actions designed to reduce uncertainty and the Council's exposure to risk.

The key areas of corporate risk at March 2019, centred on:

- Financial uncertainty / budgetary pressures
- Asset Management – regulatory compliance
- The Growth Programme - delivering the ambitions and realising the outcomes & benefits as defined in the Taunton Growth Prospectus and Taunton Rethink.
- Impact of welfare reform – impact on our residents and our rental income
- Business continuity – preparedness for disaster / major incident
- Non-compliance with national law or policy
- Delivering services with a reduced staffing capacity

## FUTURE DEVELOPMENTS AND OUTLOOK

During 2018/19, the Council continued to work towards the creation of the new council Somerset West and Taunton from 1 April 2019. A balanced budget for the new council was approved in February 2019 and this indicated a sustainable financial position – no significant budget gap identified within the medium term financial plan. Nevertheless, 2019/20 is a critical period for the new Council with a significant change in staffing levels, business processes and ways of delivering services to its customers. This carries a degree of financial risk especially with the dependence on delivery of full transformation savings.

The Government continue to develop their policy on local government finance. In the 2019/20 local government finance settlement, the Secretary of State again indicated the plans for local government (as a whole) to retain 75% of business rates by 2020, and the move to 100% retention of business rates continues to be explored. There is therefore significant uncertainty regarding the funding position for 2020/21 onwards, with the funding system due to be updated following the Spending Review, Fair Funding Review and Business Rates Retention reform – all due to be implemented from April 2020.

## EXPLANATION OF ACCOUNTING STATEMENTS

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

- The **Comprehensive Income and Expenditure Statement** (page 18) brings together details of the Council's day-to-day revenue spending and income on its services, and other gains and losses in the year.
- The **Movement in Reserves Statement** (page 19) shows the changes in the Council's financial resources over the year, by showing the movement on the different reserves held, analysed into 'usable reserves' (that can be used to fund spending) or other reserves
- The **Balance Sheet** (page 20) provides a snapshot of the Council's financial position at 31 March and sets out what is owned and what is owed.
- The **Cash Flow Statement** (page 21) summarises the flows of cash into and out of the Council during the year.
- The **Notes to the Financial Statements** (pages 22 to 81) provide supplementary information on some of the figures contained within the primary statements. They also include accounting policies, which guide the treatment of income and expenditure, and disclosures relating to the assets and liabilities of the Council.

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

## FURTHER INFORMATION

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

P Fitzgerald ACMA CGMA, Section 151 Officer, The Deane House, Belvedere Road, Taunton, TA1 1HE  
Telephoning: (01823) 217557  
E-mail to: [p.fitzgerald@somersetwestandtaunton.gov.uk](mailto:p.fitzgerald@somersetwestandtaunton.gov.uk)

## The Statement of Responsibilities for the Statement of Accounts

### The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Strategic Finance Advisor and s151 Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### The Strategic Finance Advisor is required to:

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

In preparing this Statement of Accounts, the Strategic Finance Advisor has:

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

The Strategic Finance Advisor has also:

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

### Certification of the Accounts

This Statement of Accounts gives a true and fair view of the financial position of Taunton Deane Borough Council at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

P Fitzgerald ACMA, CGMA  
Strategic Finance Advisor  
Section 151 Officer

### Approval of the Accounts

This draft Statement of Accounts is unaudited and as published may be subject to change. The audited Statement of Accounts will be presented to be approved by resolution of the Audit, Governance and Standards Committee in July 2019, under powers allocated by the constitutional arrangements of the Council, and signed by the Chair of the Committee.

Chair of Audit, Governance and Standards Committee

# **Independent Auditor's Report to the Members of Taunton Deane Borough Council**

The Auditor's opinion will appear here when issued.

## **Independent Auditor's Report to the Members of Taunton Deane Borough Council - continued**

The Auditor's opinion will appear here when issued.



## **Independent Auditor's Report to the Members of Taunton Deane Borough Council - continued**

The Auditor's opinion will appear here when issued.

## **Independent Auditor's Report to the Members of Taunton Deane Borough Council - continued**

The Auditor's opinion will appear here when issued.



## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 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 and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
<b>2018/19</b>								
<b>Balance at 31 March 2018</b>	(23,912)	(9,769)	(13,110)	(3,273)	(3,305)	(53,369)	(196,422)	(249,791)
Remeasurement of Financial Instruments following adoption of IFRS 9 (note 16)	(19)	0	0	0	0	(19)	43	24
<b>Remeasured Balance at 31 March 2018</b>	<b>(23,931)</b>	<b>(9,769)</b>	<b>(13,110)</b>	<b>(3,273)</b>	<b>(3,305)</b>	<b>(53,388)</b>	<b>(196,379)</b>	<b>(249,767)</b>
<b><u>Movement in Reserves during 2018/19</u></b>								
Total Comprehensive Income and Expenditure	11,039	4,502	0	0	0	15,541	(24,230)	(8,689)
Adjustments between accounting basis and funding basis under regulations (note 8)	(3,524)	(171)	(173)	561	(1,109)	(4,416)	4,416	0
<b>Increase/(Decrease) in 2018/19</b>	<b>7,515</b>	<b>4,331</b>	<b>(173)</b>	<b>561</b>	<b>(1,109)</b>	<b>11,125</b>	<b>(19,814)</b>	<b>(8,689)</b>
<b>Balance at 31 March 2019</b>	<b>(16,416)</b>	<b>(5,438)</b>	<b>(13,283)</b>	<b>(2,712)</b>	<b>(4,414)</b>	<b>(42,263)</b>	<b>(216,193)</b>	<b>(258,456)</b>
<b>2017/18</b>								
<b>Balance at 31 March 2017</b>	<b>(19,530)</b>	<b>(10,071)</b>	<b>(9,339)</b>	<b>(4,591)</b>	<b>(2,867)</b>	<b>(46,398)</b>	<b>(167,970)</b>	<b>(214,368)</b>
<b><u>Movement in Reserves during 2017/18</u></b>								
Total Comprehensive Income and Expenditure	2,028	(1,915)	0	0	0	113	(35,536)	(35,423)
Adjustments between accounting basis and funding basis under regulations (note 8)	(6,410)	2,217	(3,771)	1,318	(438)	(7,084)	7,084	0
<b>Increase/(Decrease) in 2017/18</b>	<b>(4,382)</b>	<b>302</b>	<b>(3,771)</b>	<b>1,318</b>	<b>(438)</b>	<b>(6,971)</b>	<b>(28,452)</b>	<b>(35,423)</b>
<b>Balance at 31 March 2018</b>	<b>(23,912)</b>	<b>(9,769)</b>	<b>(13,110)</b>	<b>(3,273)</b>	<b>(3,305)</b>	<b>(53,369)</b>	<b>(196,422)</b>	<b>(249,791)</b>

## Balance Sheet

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

31 March 2018 £000	Notes	31 March 2019 £000
267,175	Council Dwellings	286,386
100,525	Other Land and Buildings	81,807
5,157	Vehicles, Plant and Equipment	7,320
10,445	Infrastructure Assets	10,214
7,107	Community Assets	7,720
0	Surplus Assets	58
5,438	Assets Under Construction	7,715
<b>395,847</b>	<b>Total Property, Plant and Equipment</b>	<b>401,220</b>
141	Heritage Assets	141
4,174	Investment Property	18,683
641	Intangible Assets	685
2,228	Long-term Investments	2,161
1,926	Long-term Debtors	2,260
<b>404,957</b>	<b>Long Term Assets</b>	<b>425,150</b>
16,194	Short Term Investments	5,013
2,258	Assets Held for Sale	635
139	Inventories	156
8,132	Short Term Debtors	10,325
17,818	Cash and Cash Equivalents	20,343
<b>44,541</b>	<b>Current Assets</b>	<b>36,472</b>
(3,000)	Short Term Borrowing	(13,501)
(18,881)	Short Term Creditors	(19,140)
(1,548)	Provisions	(1,937)
<b>(23,429)</b>	<b>Current Liabilities</b>	<b>(34,578)</b>
(82,605)	Long Term Borrowing	(79,105)
(93,673)	Other Long Term Liabilities	(89,484)
<b>(176,278)</b>	<b>Long Term Liabilities</b>	<b>(168,589)</b>
<b>249,791</b>	<b>Net Assets</b>	<b>258,455</b>
53,369	Usable Reserves	42,262
196,422	Unusable reserves	216,193
<b>249,791</b>	<b>Total Reserves</b>	<b>258,455</b>

## Cash Flow Statement

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

2017/18		2018/19
£000	Notes	£000
<b>(113) Net surplus or (deficit) on the provision of services</b>		<b>(15,541)</b>
Adjustments to net surplus or deficit on the provision of services for non		
17,635 cash movements	24	23,569
Adjustments for items included in the net surplus on the provision of		
<u>(4,656)</u> services that are investing and financing activities	24	<u>(3,351)</u>
<b>12,866 Net cash flows from Operating Activities</b>		<b>4,677</b>
(11,237) Investing Activities	25	(9,152)
<u>(4,000)</u> Financing Activities	26	<u>7,000</u>
<b>(2,371) Net increase or decrease in cash and cash equivalents</b>		<b>2,525</b>
<u>20,189</u> Cash and cash equivalents at the beginning of the reporting period	18	<u>17,818</u>
<b><u>17,818</u> Cash and cash equivalents at the end of the reporting period</b>	18	<b><u>20,343</u></b>

## Notes to the Core Financial Statements

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

### 1. Accounting Policies

#### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end on 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).

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

#### ii. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. With effect from 1<sup>st</sup> 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.

#### iii. Cash and Cash Equivalents

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

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

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

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

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

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

#### **v. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current (fixed) assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible assets attributable to the service.

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

The Council's adopted Minimum Revenue Provision (MRP) Policy is the Equal Instalment Method whereby MRP is linked to weighted asset life. This is considered to be a prudent approach as it takes into account the materiality of each asset and its remaining useful life.



## vi. Council Tax and Non-Domestic Rates

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

### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement 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.

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

## vii. Employee Benefits

### Benefits Payable During Employment

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

### Termination Benefits

Termination benefits are amounts payable as a result of either the Council's decision to end an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy. (Voluntary early retirement under scheme rules is not a termination benefit since the benefit is a right of all scheme members). Termination benefits are recognised as a liability or an expense only when the Council is demonstrably committed through a detailed formal plan to either terminating the employment of an employee or group of employees before the normal retirement date or providing termination benefits as a result of an offer to encourage voluntary redundancy.

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

Where termination benefits involve pension enhancements (usually in the form of 'added years') the enhancements will be treated as pension costs for the purposes of the statutory transfer between the Pensions Reserve and the General Fund. The General Fund will be charged with the amount payable by the Council to the pension fund or pensioner in the year and the difference between the pension costs calculated by the Code and the contributions due under the pension's scheme regulations will be charged or credited to the Pensions Reserve and shown in the Movement in Reserves Statement

### **Post-Employment Benefits**

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

### **The Local Government Pension Scheme**

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

- The liabilities of the SCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.55% (based on the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with the consideration of the duration of the Employer's liabilities).
- The assets of the SCC pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

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

### **Service cost comprising:**

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

- net interest on the net defined benefit liability – i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

**Remeasurements comprising:**

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

**Contributions paid to the SCC pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

**Discretionary Benefits**

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

**viii. Events After The Reporting Period**

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

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

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

## ix. Financial Instruments

### Financial Liabilities

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

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

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

### Financial Assets

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

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

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

### Financial Assets Measured at Amortised Cost

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

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

### **Expected Credit Loss Model**

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

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

### **Financial Assets Measured at Fair Value through Profit or Loss**

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

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

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

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

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

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

### **x. Government Grants and Contributions**

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

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

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

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

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

### **Community Infrastructure Levy**

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

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

### **xi. Investment Property**

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

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

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

### **xii. Leases**

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

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

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



## **The Council as Lessee**

### ***Operating Leases***

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

## **The Council as Lessor**

### ***Operating Leases***

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

## **xiii. 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.

## **xiv. Property, Plant and Equipment**

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

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

### **Impairment**

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)



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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

- Dwellings - the Major Repairs Allowance is used as a reasonable estimate for depreciation
- Other buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- Infrastructure – straight-line allocation over 50 years (or the life of the asset if less).

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

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

### **Disposals and Non-Current Assets Held for Sale**

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

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

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

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

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

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

## **xv. Provisions and Contingent Liabilities**

### **Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. If the date of likely settlement is so far in the future to affect the present value of the obligation, the provision will be shown in the statements at its discounted present value using a discount rate judged appropriate at the time. The discounted value recognises that payments made or received at some time in the future are not worth the same as payments made or received immediately.

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

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

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

### **Contingent Liabilities**

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

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

## **xvi. Reserves**

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

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

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

## **xvii. Revenue Expenditure Funded from Capital under Statute**

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

## **xviii. VAT**

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

## **xix. Fair Value Measurement**

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

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

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

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

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

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

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

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

The Authority has yet to adopt several accounting standards which will be introduced in the 2019/20 Code. At the time of writing, the impact on our accounts is not fully known although based on our current arrangements it is likely to be immaterial.

## **3. Critical Judgements in Applying Accounting Policies**

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

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

- The Council is a key partner in Firepool development which is one of the largest mixed use regeneration schemes in the south-west and one of the first key areas for "Project Taunton", a town-wide regeneration initiative which recognises the opportunity for the Council to be a lead partner providing further contributions to the continued growth and prosperity of Taunton. The Council has capitalised the costs of the project so far, which are mainly to do with the necessary planning, land and property acquisition and preparation for such a high-profile asset creation.
- There continues to be a high degree of uncertainty about future levels of funding for local government. The Council has therefore put significant senior management and transactional resources into identifying opportunities for both reducing costs and improving performance. While it is possible that funding uncertainty might impair the Council's assets, for example by requiring the closure of specialist facilities currently valued in the Balance Sheet as operational assets, at this stage the Council has determined that this uncertainty is not yet sufficient to indicate any impairment may become necessary.
- A Business Rates provision has been made in the accounts for £1.338m. The Council has put in its best estimate of the expenditure required to settle the present obligation based on the appeals put in by ratepayers.

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

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

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Significant Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment (PPE)	<p>PPE assets are depreciated over useful lives that are chosen based on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the working lives change significantly as a result of the Council's review of its services then those useful lives may lengthen or shorten.</p> <p>The carrying values of assets such as council houses depend very much on outside factors; for example, the significant revaluation in 2016/17 was due to a change in the discount factor applied nationally to social housing. This factor depends on market conditions such as the value of similar properties in an open market and rent yields for the private sector. The discount factor for the south-west in 2015/16 was 31%; in 2018/19 it is 35%.</p>	<p>Depreciation is calculated to spread the cost of an asset over its estimated working life. If the working life is reduced, depreciation goes up and carrying-value goes down; if the working life is extended, depreciation goes down and so carrying value goes up. For example, with vehicles costing approximately £1.6 million and an average working life of around five years, extending the life by 1 year would reduce annual depreciation by £54k.</p> <p>With council housing having a balance-sheet value of around £286m, each 1% change in the social housing discount factor moves the valuation up or down by £2.9m while having no effect on the actual housing stock itself.</p>
Pensions Liability	<p>Estimates of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Council works in partnership with other local authorities to engage a firm of consulting actuaries to provide expert advice about the assumptions to be applied, and reviews those assumptions in discussion with its partner Councils. Part of the annual accounts process is to review previous assumptions and test them against what actually happened, to provide further data for future assumptions.</p>	<p>The effects on the net pension liability of many changes in individual assumptions can be measured. For example, if the discount rate were to change by plus or minus 0.1% from its assumed 2.40%, then the projected service cost would be between £5.398m to £5.680m. A similar change of 1 year in the mortality age range assumption means the projected service cost could be from £5.366m to £5.714m.</p>

Item	Significant Uncertainties	Effect if Actual Results Differ from Assumptions
	<p>With so much national debate and change in pension provisions, the assumptions are both difficult to predict from historical data and likely to change significantly in the short to medium term. The pension liability and its underlying data is therefore very much a carefully-reasoned estimate of the most likely combination of factors, but by its very nature is significantly uncertain.</p>	<p>However, the assumptions interact in complex ways; for example, pension membership may fall, the proportion of commutable pension exchanged by members for cash on retirement may go up while members live longer and equity yields improve.</p>
<p>Business Rates Appeals Provision</p>	<p>Estimates have been made for the provision for refunding ratepayers who have successfully appealed against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed.</p>	<p>There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation.</p>
<p>Arrears</p>	<p>At 31 March 2019 the Council had a balance of Council Tax debtors of £6.1m, an increase of £0.5m over the previous year; this level of debtor is to be expected when collecting Council Tax of around £65m each year. The Council has made an impairment provision within the collection fund of £3.5m to cover debts that are not collectible for a variety of reasons; this Council's share of this is 11% of the total. However, in the current economic climate the level of unpaid debts could change significantly at short notice.</p>	<p>The Council is confident that the current levels of provision present a true and fair estimate of likely unpaid debts. However, the figures are large; with council tax income of nearly £70m this year from approximately 43,000 households, a 0.1% change in the collection rate changes the amount collected by around £70k in a full year (the Council's risk would be 11% of this amount). The Council's collection rate for 2018/19 was 99%.</p>

## 5. Material Items of Income and Expense

The year has seen the implementation of the plan to transform the way the two councils work in preparation for the launch of the new council in April. This Transformation project has given rise to termination costs (comprising redundancies, pension enhancements etc) relating to 191 employees and totalling £5.611 million, of which £4.688 million is charged to Taunton Deane.

During the year, there have been 36 sales of Council dwellings to Council tenants; this has resulted in a gain shown in the Comprehensive Income and Expenditure Statement of £1.059m.

## 6. Events After the Balance Sheet Date

On 1 April 2019 Taunton Deane Borough Council combined with West Somerset Council to form the new Somerset West and Taunton Council. Under the terms of the Statutory Instrument all property, rights and liabilities held by the two former authorities transferred to the new authority on 1 April 2019. These financial statements have been prepared on a going concern basis.

There have been no other events after the balance sheet date of 31 March 2019 that require the financial statements or notes to be adjusted for 2018/19.



## 7. Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent payers how the funding available to the Authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the council's portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2017/18				2018/19		
Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
1,730	86	1,816	Corporate Management	4,148	1,593	5,741
2,171	529	2,700	Growth & Development	2,174	442	2,616
2,953	2,637	5,590	Housing & Communities (General Fund only)	5,030	5,959	10,989
4,052	1,627	5,679	Operations	4,825	2,271	7,096
884	54	938	Transformation	1,811	932	2,743
(11,330)	7,216	(4,114)	Housing Revenue Account	(9,393)	11,668	2,275
<b>460</b>	<b>12,149</b>	<b>12,609</b>	<b>Net Cost of Services</b>	<b>8,595</b>	<b>22,865</b>	<b>31,460</b>
(4,540)	(7,956)	(12,496)	Other Income and Expenditure	3,251	(19,170)	(15,919)
<b>(4,080)</b>	<b>4,193</b>	<b>113</b>	<b>(Surplus) or Deficit</b>	<b>11,846</b>	<b>3,695</b>	<b>15,541</b>
(29,601)			Opening General Fund and HRA Balance	(33,681)		
0			Remeasurement of Financial Instruments	(19)		
(4,080)			Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	11,846		
<b>(33,681)</b>			<b>Closing General Fund and HRA Balance at 31 March *</b>	<b>(21,854)</b>		

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

## Notes to Expenditure and Funding Analysis

## Adjustments between Funding and Accounting Basis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes Note 1 £000	Net Change for Pensions Adjustments Note 2 £000	Other Statutory Differences Note 3 £000	Total Statutory Adjustments £000
<b>2018/19</b>				
Corporate Management	2	1,591	0	1,593
Growth & Development	423	52	(33)	442
Housing & Communities (General Fund only)	5,924	41	(6)	5,959
Operations	2,186	167	(82)	2,271
Transformation	917	15	0	932
Housing Revenue Account	11,512	187	(31)	11,668
<b>Net Cost of Services</b>	<b>20,964</b>	<b>2,053</b>	<b>(152)</b>	<b>22,865</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(20,584)</b>	<b>2,500</b>	<b>(1,086)</b>	<b>(19,170)</b>
<b>Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>380</b>	<b>4,553</b>	<b>(1,238)</b>	<b>3,695</b>
<b>2017/18</b>				
Corporate Management	7	63	0	70
Growth & Development	386	157	33	576
Housing & Communities (General Fund only)	2,533	97	18	2,648
Operations	1,193	459	69	1,721
Transformation	9	44	0	53
Housing Revenue Account	6,706	496	76	7,278
<b>Net Cost of Services</b>	<b>10,834</b>	<b>1,316</b>	<b>196</b>	<b>12,346</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(11,524)</b>	<b>3,014</b>	<b>554</b>	<b>(7,956)</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(690)</b>	<b>4,330</b>	<b>750</b>	<b>4,390</b>

## Note 1

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

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

## Note 2

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

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



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

### Note 3

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

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

### Segmental Income

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

<b>2017/18</b>	<b>2018/19</b>
<b>£000</b>	<b>£000</b>
(334) Corporate Management	(364)
(2,270) Growth & Development	(2,494)
(1,159) Housing & Communities (General Fund only)	(1,097)
(10,988) Operations	(11,336)
(245) Transformation	(1,087)
(26,844) Housing Revenue Account	(27,905)
<b>(41,840) Income analysed on a segmental Basis</b>	<b>(44,283)</b>
(4,607) Trading Operations	(4,613)
<b>(46,447) Total Income</b>	<b>(48,896)</b>

## **8. Adjustments Between Accounting Basis and Funding Basis Under Regulations**

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

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

### **General Fund Balance**

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

### **Housing Revenue Account Balance**

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

### **Major Repairs Reserve**

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

### **Capital Receipts Reserve**

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

### **Capital Grants Unapplied**

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

## Taunton Deane Borough Council

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

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£000	£000	£000	£000	£000
<b>2018/19</b>					
<b>Adjustments to the Revenue Resources</b>					
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements</i>					
Pension costs (transferred to or from the Pensions Reserve)	3,582	971	0	0	0
Council Tax and NNDR (transfers to or from the Collection Fund)	(1,097)	0	0	0	0
Holiday Pay (transferred to or from the Accumulated Absences Account)	(111)	(30)	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	6,465	13,179	0	0	1,109
<b>Total Adjustment to Revenue Resources</b>	<b>8,839</b>	<b>14,120</b>	<b>0</b>	<b>0</b>	<b>1,109</b>
<b>Adjustment between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(548)	(2,950)	3,498	0	0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0	44	(44)	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	382	0	(382)	0	0
Posting of HRA resources from revenue to the Major Repairs Reserve	0	(6,790)	0	6,790	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	(400)	(1,821)	(279)	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(4,749)	(2,432)	0	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(5,315)</b>	<b>(13,949)</b>	<b>2,793</b>	<b>6,790</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts reserve to finance capital expenditure	0	0	(2,899)	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(7,351)	0
Deferred Debtors repaid	0	0	279	0	0
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>(2,620)</b>	<b>(7,351)</b>	<b>0</b>
<b>Total Adjustments 2018/19</b>	<b>3,524</b>	<b>171</b>	<b>173</b>	<b>(561)</b>	<b>1,109</b>
<b>2017/18</b>					
<b>Adjustments to the Revenue Resources</b>					
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements</i>					
Pension costs (transferred to or from the Pensions Reserve)	2,927	1,404	0	0	0
Council Tax and NNDR (transfers to or from the Collection Fund)	542	0	0	0	0
Holiday Pay (transferred to or from the Accumulated Absences Account)	(5)	17	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	3,534	8,739	0	0	704
<b>Total Adjustment to Revenue Resources</b>	<b>6,998</b>	<b>10,160</b>	<b>0</b>	<b>0</b>	<b>704</b>
<b>Adjustment between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(528)	(4,011)	4,539	0	0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0	69	(69)	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	382	0	(382)	0	0
Posting of HRA resources from revenue to the Major Repairs Reserve	0	(6,509)	0	6,509	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	(180)	(1,821)	(488)	0	0
Capital expenditure financed from revenue balances	(262)	(105)	0	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(588)</b>	<b>(12,377)</b>	<b>3,600</b>	<b>6,509</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts reserve to finance capital expenditure	0	0	(317)	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(7,827)	0
Application of capital grants to finance capital expenditure	0	0	0	0	(266)
Deferred Debtors repaid	0	0	488	0	0
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>171</b>	<b>(7,827)</b>	<b>(266)</b>
<b>Total Adjustments 2017/18</b>	<b>6,410</b>	<b>(2,217)</b>	<b>3,771</b>	<b>(1,318)</b>	<b>438</b>

## 9. Movements in Earmarked Reserves

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

<b>Earmarked Reserves</b>	<b>Balance at 31/3/2017 £000</b>	<b>Transfers Out £000</b>	<b>Transfers In £000</b>	<b>Balance at 31/3/2018 £000</b>	<b>Transfers Out £000</b>	<b>Transfers In £000</b>	<b>Balance at 31/3/2019 £000</b>
<b>General Fund</b>							
Asset Management - General	289	(289)	81	81	(81)	0	0
Asset Management - Leisure	197	(8)	0	189	(52)	0	137
Back Office Project Costs	499	(443)	0	56	(56)	0	0
Brewhouse Refurbishment	56	0	38	94	0	56	150
Business Rates Smoothing Reserve	1,937	(134)	875	2,678	(1,790)	716	1,604
Capital Financing Reserve *	789	(308)	195	676	(26)	0	650
Carry Forwards	429	(321)	1,195	1,303	(1,303)	928	928
CEO Initiatives	103	(13)	53	143	(93)	0	50
Corporate Training	66	0	64	130	(42)	0	88
Customer Access & Accommodation Project	1,668	(150)	0	1,518	(1,518)	0	0
DLO Trading Account	121	0	0	121	(121)	0	0
DLO Vehicle Replacement Reserve *	316	0	0	316	(77)	0	239
Eco Towns Projects	238	0	0	238	0	0	238
Economic Development & Growth Initiatives	315	0	0	315	(122)	0	193
Garden Village	512	(53)	455	914	(519)	550	945
Homelessness Grant	164	0	0	164	(164)	0	0
Housing Enabling	193	0	10	203	(183)	0	20
Monkton Heathfield	557	(98)	0	459	(112)	0	347
Neighbourhood Planning Grant	122	0	0	122	0	0	122
New Homes Bonus Reserve	4,231	(911)	4,295	7,615	(5,170)	3,724	6,169
Parking	95	0	125	220	0	0	220
Performance & Client Consultancy	63	0	40	103	(63)	0	40
Resources Service Costs	189	(56)	61	194	(161)	0	33
SAP Replacement *	320	(251)	0	69	(69)	0	0
Self Insurance Fund	485	0	0	485	(285)	0	200
Transformation Reserve	2,143	(356)	258	2,045	(3,100)	1,727	672
Transition	0	0	0	0	0	386	386
Travel Plan	149	0	44	193	(37)	36	192
Waste Earmarked Reserve	134	(15)	74	193	(87)	0	106
Other Earmarked Reserves	964	(408)	221	777	(312)	0	465
<b>Total General Fund</b>	<b>17,344</b>	<b>(3,814)</b>	<b>8,084</b>	<b>21,614</b>	<b>(15,543)</b>	<b>8,123</b>	<b>14,194</b>

**Taunton Deane Borough Council**

<b>Earmarked Reserves</b>	<b>Balance at 31/3/2017 £000</b>	<b>Transfers Out £000</b>	<b>Transfers In £000</b>	<b>Balance at 31/3/2018 £000</b>	<b>Transfers Out £000</b>	<b>Transfers In £000</b>	<b>Balance at 31/3/2019 £000</b>
<b>Housing Revenue Account (HRA)</b>							
Capital Financing Reserves *	103	0	0	103	(103)	0	0
Carry Forwards	797	(797)	344	344	(319)	161	186
Community Development Fund	206	0	0	206	(206)	0	0
Electrical Testing	1,970	(121)	0	1,849	(1,496)	121	474
Employment & Skills	138	0	0	138	(36)	0	102
One Teams	257	(145)	0	112	(62)	0	50
Planned External Maintenance	1,148	(172)	0	976	(976)	0	0
Potential Bad Debts	434	0	0	434	(434)	0	0
SAP Replacement *	105	(105)	0	0	0	0	0
Self Insurance Fund	173	0	0	173	(173)	0	0
Social Housing Development Fund	1,289	0	1,185	2,474	(2,264)	1,129	1,339
Transformation Reserve	0	(189)	189	0	(801)	1,180	379
Transition	0	0	0	0	0	178	178
Other Earmarked Reserves	227	(46)	0	181	(171)	0	10
<b>Total HRA</b>	<b>6,847</b>	<b>(1,575)</b>	<b>1,718</b>	<b>6,990</b>	<b>(7,041)</b>	<b>2,769</b>	<b>2,718</b>

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

- Business Rates Smoothing Reserve – to smooth the effect of successful Business Rates appeals
- Carry Forwards Reserve – to carry forward underspends and unallocated grants to future years
- Customer Access & Accommodation Reserve – to provide funding towards the refurbishment of the Council's main office
- New Homes Bonus Reserve - to receive and distribute the New Homes Bonus Grant
- Transformation – funding set aside for the costs of our Transformation programme including the formation of a new council for West Somerset and Taunton Deane
- Electrical Testing – to provide funding towards the HRA Electrical Testing Contracts
- Social Housing Development Fund – to provide funding towards Social Housing Development

## 10. Other Operating Expenditure

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

2017/18 £000	2018/19 £000
766 Parish Council precepts	773
13 Levies	0
382 Payments to the Government Housing Capital Receipts Pool	382
59 Pension Administration Costs	64
(1,270) (Gains)/Losses on the disposal of non-current assets	(1,269)
<b>(50) Total</b>	<b>(50)</b>

## 11. Financing and Investment Income and Expenditure

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

2017/18 £000	2018/19 £000
171 Trading account (surpluses) and deficits	72
2,542 Interest payable and similar charges	2,502
2,727 Net interest on the net defined liability (asset)	2,343
(475) Interest receivable and similar income	(728)
(410) Income and expenditure in relation to investment properties and changes in their fair value	(736)
<b>4,555 Total</b>	<b>3,453</b>

## 12. Taxation and Non Specific Grant Income

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

2017/18 £000	2018/19 £000
(6,943) Council tax income	(7,323)
(3,267) Non domestic rates income and expenditure	(4,465)
(4,750) Non-ringfenced Government grants	(3,904)
(2,041) Capital grants and contributions	(3,630)
<b>(17,001) Total</b>	<b>(19,322)</b>

More details of grants the Council has received can be found in Note 32 Grant Income.

### 13. Expenditure and Income Analysed by Nature

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

2017/18 £000		2018/19 £000
	<b>Expenditure</b>	
25,885	Employee Benefits Expenses	33,678
49,747	Other Services Expenses	50,321
10,985	Depreciation, Amortisation, Impairment and Revenue Expenditure funded from Capital under Statute	21,190
(1,270)	Gain on the Disposal of Assets	(1,269)
5,269	Interest Payments	4,844
779	Precepts and Levies	773
382	Payments to Housing Capital Receipts Pool	382
<b>91,777</b>	<b>Total Expenditure</b>	<b>109,919</b>
	<b>Income</b>	
(46,447)	Fees, Charges and Other Service Income	(48,896)
(10,821)	Income from Council Tax, Non-Domestic Rates, District Rate Income	(11,725)
(33,501)	Government Grants and Contributions	(32,293)
(420)	Income and Expenditure in relation to investment properties and changes in their fair value	(736)
(475)	Interest and Investment Income	(728)
<b>(91,664)</b>	<b>Total Income</b>	<b>(94,378)</b>
<b>113</b>	<b>(Surplus) or Deficit on the Provision of Services</b>	<b>15,541</b>

## 14. Property, Plant and Equipment

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

Movement in 2018/19	Council Dwellings £000	Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
<b>Cost or Valuation</b>								
<b>At 1 April 2018</b>	<b>267,175</b>	<b>101,492</b>	<b>10,363</b>	<b>12,526</b>	<b>7,184</b>	<b>0</b>	<b>5,438</b>	<b>404,178</b>
Additions	11,174	65	1,352	0	613	0	9,925	23,129
Revaluation increases / (decreases) recognised in the Revaluation reserve	8,621	(639)	0	0	0	0	0	7,982
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(9,493)	0	0	0	0	0	(9,493)
Derecognition - Disposals	(592)	(164)	0	0	0	0	0	(756)
Assets reclassified within Property, Plant and Equipment	(180)	6,064	1,706	0	0	58	(7,648)	0
Assets reclassified (to)/from Investment Property	0	(14,366)	0	0	0	0	0	(14,366)
Assets reclassified (to)/from Held for Sale	188	0	0	0	0	0	0	188
<b>At 31 March 2019</b>	<b>286,386</b>	<b>82,959</b>	<b>13,421</b>	<b>12,526</b>	<b>7,797</b>	<b>58</b>	<b>7,715</b>	<b>410,862</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2018</b>	<b>0</b>	<b>(967)</b>	<b>(5,206)</b>	<b>(2,081)</b>	<b>(77)</b>	<b>0</b>	<b>0</b>	<b>(8,331)</b>
Depreciation charge	(6,511)	(1,411)	(895)	(231)	0	0	0	(9,048)
Depreciation written out to the Revaluation Reserve	6,511	994	0	0	0	0	0	7,505
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	226	0	0	0	0	0	226
Derecognition - Disposals	0	6	0	0	0	0	0	6
<b>At 31 March 2019</b>	<b>0</b>	<b>(1,152)</b>	<b>(6,101)</b>	<b>(2,312)</b>	<b>(77)</b>	<b>0</b>	<b>0</b>	<b>(9,642)</b>
<b>Net Book Value</b>								
<b>At 31 March 2019</b>	<b>286,386</b>	<b>81,807</b>	<b>7,320</b>	<b>10,214</b>	<b>7,720</b>	<b>58</b>	<b>7,715</b>	<b>401,220</b>



<b>Comparative Movement 2017/18</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant and Equipment £000</b>	<b>Infrastructure Assets £000</b>	<b>Community Assets £000</b>	<b>Assets under Construction £000</b>	<b>Total £000</b>
<b>Cost or Valuation</b>							
<b>At 1 April 2017</b>	<b>247,284</b>	<b>97,280</b>	<b>11,403</b>	<b>12,526</b>	<b>7,157</b>	<b>3,215</b>	<b>378,865</b>
Additions	10,068	183	888	0	27	2,223	13,389
Revaluation increases / (decreases) recognised in the Revaluation reserve	13,530	5,285	0	0	0	0	18,815
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(1,019)	0	0	0	0	(1,019)
Derecognition - Disposals	(1,751)	(237)	(1,928)	0	0	0	(3,916)
Assets reclassified (to)/from Held for Sale	(1,956)	0	0	0	0	0	(1,956)
<b>At 31 March 2018</b>	<b>267,175</b>	<b>101,492</b>	<b>10,363</b>	<b>12,526</b>	<b>7,184</b>	<b>5,438</b>	<b>404,178</b>
<b>Accumulated Depreciation and Impairment</b>							
<b>At 1 April 2017</b>	<b>0</b>	<b>(363)</b>	<b>(5,937)</b>	<b>(1,850)</b>	<b>(77)</b>	<b>0</b>	<b>(8,227)</b>
Depreciation charge	(6,082)	(1,251)	(813)	(231)	0	0	(8,377)
Depreciation written out to the Revaluation Reserve	6,082	597	0	0	0	0	6,679
Depreciation written out to the Surplus / Deficit on the Provision of Services	0	47	0	0	0	0	47
Derecognition - Disposals	0	3	1,544	0	0	0	1,547
<b>At 31 March 2018</b>	<b>0</b>	<b>(967)</b>	<b>(5,206)</b>	<b>(2,081)</b>	<b>(77)</b>	<b>0</b>	<b>(8,331)</b>
<b>Net Book Value</b>							
<b>As at 31 March 2018</b>	<b>267,175</b>	<b>100,525</b>	<b>5,157</b>	<b>10,445</b>	<b>7,107</b>	<b>5,438</b>	<b>395,847</b>

## Depreciation

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

- Council Dwellings – Various components over useful lives of between 15-100 years
- Other Land and Buildings – Straight Line allocation over a useful life of between 25-60 years
- Vehicles Plant and Equipment – Straight line basis over a useful life of between 4-10 years
- Infrastructure – Depreciation on a straight line basis of between 5-50 years.

## Capital Commitments

The major contractual commitments on the Council's Housing Revenue Account and General Fund Capital Programme in 2018/19 are shown below.

### General Fund

The Council has entered into contracts for the development of Taunton Technology Park and Coal Orchard. Remaining commitments on these contracts are approximately £1,070k.

The Council has also entered into a contract to commit a contribution of £1,500k towards the M5 Junction 25 Capacity Improvement Scheme.

Similar commitments as at 31 March 2018 on other General Fund Projects were approximately £4.628m in total.

### Housing Revenue Account

At 31 March 2019 the Council has entered into a number of contracts to maintain the Housing Stock in 2019/20. These relate to Kitchens, Bathrooms, Fascias and Soffits and Heating Improvements and total approximately £2,695k.

Similar commitments at 31 March 2018 on Housing Revenue Account contracts were £1.512m.

## Revaluations

The Council normally carries out a rolling programme of asset valuations to ensure that all property, plant and equipment required to be measured at fair value is revalued at least every five years. However, in 2016/17 the Council undertook a full valuation of all General Fund land and buildings and Housing Revenue Account (HRA) beacon properties. In 2017/18 the Council reverted to a rolling programme of revaluations.

Valuations at 31 March 2019 have been carried out by Wilks Head & Eve, Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest prices adjusted for the condition of the asset.

The valuation report received states the following basis has been used in calculating the fair value of property, plant and equipment. Existing Use Value (EUV) has been used where there is sufficient evidence of market transactions and Depreciated Replacement Cost (DRC) has been used where the asset is of specialised nature or where there is little or no evidence of market transactions.

The assets have been valued taking into account the following assumptions:

- All properties have been valued as free from borrowings and encumbrances.
- The Valuer has not undertaken structural surveys of the properties, independent site investigations, tested services, nor exposed parts of the structure which were covered, unexposed or inaccessible.

- The Valuer has assumed inspection of those parts which have not been inspected would not cause the Valuer to alter his opinion of value. Nevertheless the Valuer has had regard to the age, use and general condition of the building when determining his opinion of the value.
- It is assumed that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material has been used in the construction of the properties and that none have subsequently been incorporated.
- The Valuer has assumed, unless advised to the contrary and confirmed in the Valuation report, that all properties and their values are unaffected by contamination and other environmental issues.
- The Valuer has not made enquires as to whether the properties meet statutory requirements regarding such matters as licences, fire precautions, public environmental health, health and safety at work and building regulations legislation, The Valuer has assumed that all properties comply with these various requirements.
- It is assumed that the Council will in the future maintain its property portfolio to a reasonable standard.
- Details of tenures have been derived from the tenancy schedules provided to the Valuer. For avoidance of doubt the Valuer has assumed these are accurate and up to date. The Valuer has not undertaken any inspection of title deeds. The properties have been valued on the basis that they are not subject to any unusual or onerous restrictions, encumbrances or outgoing and that good title can be shown. It is assumed that all properties have the necessary planning consents and certificates for use and construction and are not being used in breach of any covenants.
- Where a market value relies on an alternative planning use, this use has been derived from planning policies in consultation with the Council's Planning Service.
- All data provided by the Council used in the valuations is assumed to be correct.
- These valuations do not take into account Value Added Tax or any other taxes.

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

	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant and Equipment £000</b>	<b>Total £000</b>
Valued at Historic Cost	0	0	13,421	<b>13,421</b>
Valued at:				
31 March 2017	304	24,866	0	<b>25,170</b>
31 March 2018	0	39,542	0	<b>39,542</b>
31 March 2019	286,082	18,551	0	<b>304,633</b>
<b>Total</b>	<b>286,386</b>	<b>82,959</b>	<b>13,421</b>	<b>382,766</b>

## 15. Investment Property

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

2017/18 £000	2018/19 £000
539 Rental income from investment property	592
(116) Gains/(losses) on the disposal of investment property	0
(13) Net gains/(losses) from fair value adjustments	144
<b>410 Total</b>	<b>736</b>

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

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

2017/18 £000	2018/19 £000
4,303 Balance at start of the year	4,174
(116) Disposals	0
(13) Net gains/(losses) from fair value adjustments	143
<b>Transfers:</b>	
0 (To)/from Property, Plant & Equipment	14,366
<b>4,174 Balance at end of the year</b>	<b>18,683</b>

### Fair Value Measurement of Investment Property

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

2017/18 £000	Significant Unobservable Inputs (Level 3)	2018/19 £000
1,718	Commercial Buildings	3,186
2,456	Commercial Land	15,497
<b>4,174</b>	<b>Investment Property</b>	<b>18,683</b>

### Significant Unobservable Inputs – Level 3

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

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

### **Highest and Best Use of Investment Properties**

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

### **Valuation Techniques**

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

## **16. Financial Instruments**

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

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

### **Financial Liabilities**

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

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

- Long-term loans from the Public Works Loan Board and commercial lenders
- Overdraft with NatWest Bank
- Trade payables for goods and services received

### **Financial Assets**

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

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

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

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

- Money market funds and other collective investment schemes
- Covered bonds issued by building societies

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

## Financial Instruments - Balances

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

31 March 2018			31 March 2019		
Long Term	Short Term	Financial Liabilities	Long Term	Short Term	
£000	£000		£000	£000	
<b>Loans at amortised cost:</b>					
82,500	3,000	Principal sum borrowed	79,000	13,500	
106	0	Accrued interest	105	1	
<b>82,606</b>	<b>3,000</b>	<b>Total Borrowing</b>	<b>79,105</b>	<b>13,501</b>	
<b>Liabilities at amortised cost:</b>					
0	5,032	Trade payables	0	2,613	
<b>0</b>	<b>5,032</b>	<b>Included in Creditors</b>	<b>0</b>	<b>2,613</b>	
<b>82,606</b>	<b>8,032</b>	<b>Total Financial Liabilities</b>	<b>79,105</b>	<b>16,114</b>	

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

31 March 2018			31 March 2019		
Long Term	Short Term	Financial Assets	Long Term	Short Term	
£000	£000		£000	£000	
<b>At amortised cost</b>					
3	8,000	Principal	3	5,000	
0	6	Accrued interest	0	15	
0	0	Loss Allowance	0	(2)	
<b>At fair value through profit &amp; loss</b>					
2,225	8,188	Fair value	2,157	0	
<b>2,228</b>	<b>16,194</b>	<b>Total Investments</b>	<b>2,160</b>	<b>5,013</b>	
<b>At amortised cost</b>					
0	631	Principal	0	2,254	
0	8	Accrued interest	0	6	
0	0	Loss Allowance	0	(3)	
<b>At fair value through profit &amp; loss</b>					
0	17,179	Fair value	0	18,086	
<b>0</b>	<b>17,818</b>	<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>20,343</b>	
<b>At amortised cost</b>					
67	2,728	Trade receivables	72	1,187	
1,859	285	Loans made for service purposes	2,188	401	
<b>1,926</b>	<b>3,013</b>	<b>Included in Debtors</b>	<b>2,260</b>	<b>1,588</b>	
<b>4,154</b>	<b>37,025</b>	<b>Total Financial Assets</b>	<b>4,420</b>	<b>26,944</b>	

### Soft Loans

Soft loans are those advanced at below market rates in support of the Council's service priorities. The Council has no material outstanding soft loans and has made no material soft loans in 2018/19.

## Financial Instruments - Gains and Losses

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

2017/18				2018/19				
Financial Liabilities Amortised Cost £000	Financial Assets Amortised Cost £000	Fair Value Profit & Loss through £000	Total £000		Financial Liabilities Amortised Cost £000	Financial Assets Amortised Cost £000	Fair Value Profit & Loss through £000	Total £000
2,542	0	0	2,542	Interest expense	2,502	0	0	2,502
0	0	0	0	Losses on derecognition	0	0	0	0
<b>2,542</b>	<b>0</b>	<b>0</b>	<b>2,542</b>	<b>Interest payable and similar charges</b>	<b>2,502</b>	<b>0</b>	<b>0</b>	<b>2,502</b>
0	(142)	(333)	(475)	Interest income	0	(175)	(530)	(705)
0	0	0	0	Gains from changes in fair value	0	0	(23)	(23)
<b>0</b>	<b>(142)</b>	<b>(333)</b>	<b>(475)</b>	<b>Interest and investment income</b>	<b>0</b>	<b>(175)</b>	<b>(553)</b>	<b>(728)</b>
<b>2,542</b>	<b>(142)</b>	<b>(333)</b>	<b>2,067</b>	<b>Net impact on surplus/deficit on provision of services</b>	<b>2,502</b>	<b>(175)</b>	<b>(553)</b>	<b>1,774</b>
0	0	95	95	Losses on revaluation				0
<b>0</b>	<b>0</b>	<b>95</b>	<b>95</b>	<b>Impact on other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2,542</b>	<b>(142)</b>	<b>(238)</b>	<b>2,162</b>	<b>Net Gain/(Loss) for the year</b>	<b>2,502</b>	<b>(175)</b>	<b>(553)</b>	<b>1,774</b>

## Financial Instruments – Fair Values

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

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019, using the following methods and assumptions:

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

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

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

31 March 2018				31 March 2019	
Carrying Amount £000	Fair Value £000	Financial Liabilities	Fair Value Level	Carrying Amount	Fair Value
		<b>Financial Liabilities held at Amortised Cost</b>			
82,568	93,196	Long Term Loans from PWLB	3	79,568	80,313
3,038	5,122	Other Long Term Loans	3	13,038	14,930
<u>85,606</u>	<u>98,318</u>	<b>Total</b>		<u>92,606</u>	<u>95,243</u>
		Liabilities for which fair value is not disclosed	*	2,613	
<u>5,032</u>		<b>Total Financial Liabilities</b>		<u>95,219</u>	
<u>90,638</u>					
		<b>Recorded on Balance Sheet as:</b>			
5,032		Short Term Creditors		2,613	
3,000		Short Term Borrowing		13,501	
<u>82,606</u>		Long Term Borrowing		<u>79,105</u>	
<u>90,638</u>				<u>95,219</u>	

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

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

31 March 2018				31 March 2019	
Carrying Amount £000	Fair Value £000	Financial Assets	Fair Value Level	Carrying Amount £000	Fair Value £000
		<b>Financial Assets held at Fair Value</b>			
17,179	17,179	Bond Funds	1	15,086	15,086
10,413	10,413	Covered Bonds	1	2,157	2,157
0	0	Money Market Funds	1	3,000	3,000
		<b>Financial Assets held at Amortised Cost</b>			
(369)	(369)	Bank Accounts	*	(1,546)	(1,546)
9,017	9,017	Term Deposits	*	8,819	8,819
2,144	2,264	Loans made for Service Purposes	3	2,589	2,839
<u>38,384</u>	<u>38,504</u>	<b>Total</b>		<u>30,105</u>	<u>30,355</u>
		Assets for which fair value is not disclosed	*	1,259	
<u>2,795</u>		<b>Total Financial Assets</b>		<u>31,364</u>	
<u>41,179</u>					
		<b>Recorded on Balance Sheet as:</b>			
2,228		Long Term Investments		2,160	
1,926		Long Term Debtors		2,260	
16,194		Short Term Investments		5,013	
3,013		Short Term Debtors		1,588	
<u>17,818</u>		Cash & Cash Equivalents		<u>20,343</u>	
<u>41,179</u>		<b>Total Financial Liabilities</b>		<u>31,364</u>	

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



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

### Transition to IFRS 9 Financial Instruments

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018. The main changes include the reclassification and remeasurement of financial assets and the earlier recognition of the impairment of financial assets.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the remeasurement is instead shown as an additional line in the Movement in Reserves Statement. The changes made on transition to the balance sheet are summarised below:

	IAS 39 31.3.18 £000	Reclassification £000	Impairment £000	IFRS 9 1.4.18 £000
<b>FINANCIAL ASSETS</b>				
<b>Investments</b>				
Loans & Receivables/Amortised Cost	8,009	0	(4)	8,005
Available for Sale/FVOCI	10,413	(10,413)	0	0
FVPL	0	10,413	0	10,413
<b>Total Investments</b>	<b>18,422</b>	<b>0</b>	<b>(4)</b>	<b>18,418</b>
<b>Cash &amp; Cash Equivalents</b>				
Loans & Receivables/Amortised Cost	639	1,001	(1)	1,639
Available for Sale/FVOCI	17,179	(2,101)	0	15,078
FVPL	0	1,100	0	1,100
<b>Total Cash &amp; Cash Equivalents</b>	<b>17,818</b>	<b>0</b>	<b>(1)</b>	<b>17,817</b>
<b>Debtors</b>				
Loans & Receivables/Amortised Cost	<b>4,939</b>	<b>0</b>	<b>(19)</b>	<b>4,920</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>41,179</b>	<b>0</b>	<b>(24)</b>	<b>41,155</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Borrowing</b>				
Amortised Cost	(85,606)	0	0	(85,606)
<b>Creditors</b>				
Amortised Cost	(5,032)	0	0	(5,032)
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>(90,638)</b>	<b>0</b>	<b>0</b>	<b>(90,638)</b>
<b>RESERVES</b>				
<b>Usable Reserves</b>				
General Fund	(23,912)	(24)	5	(23,931)
Other Usable Reserves	(29,457)	0	0	(29,457)
<b>Total Usable Reserves</b>	<b>(53,369)</b>	<b>(24)</b>	<b>5</b>	<b>(53,388)</b>
<b>Unusable Reserves</b>				
Available for Sale Financial Instruments Reserve	(24)	24	0	0
Capital Adjustment Account	(191,469)	0	19	(191,450)
Other Unusable Reserves	(4,929)	0	0	(4,929)
<b>Total Unusable Reserves</b>	<b>(196,422)</b>	<b>24</b>	<b>19</b>	<b>(196,379)</b>
<b>TOTAL RESERVES</b>	<b>(249,791)</b>	<b>0</b>	<b>24</b>	<b>(249,767)</b>

**17. Debtors**

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

**Current Debtors:**

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£000</b>		<b>£000</b>
2,728	Trade receivables	1,187
160	Prepayments	252
5,244	Other receivable amounts	8,886
<b>8,132</b>	<b>Total</b>	<b>10,325</b>

**Long term Debtors:**

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

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£000</b>		<b>£000</b>
56	Sundry Mortgages	55
10	Car/Bike Loans to Employees	17
742	Somerset CCC Loan	675
999	Somerset Waste Partnership Loan	795
39	COACH Loan	33
80	Hestercombe Loan	76
0	YMCA Loan	641
0	Expected Credit Losses	(32)
<b>1,926</b>	<b>Total</b>	<b>2,260</b>

**Debtors for Local Taxation:**

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

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£000</b>		<b>£000</b>
502	Less than one year	649
267	One to two years	304
169	Two to three years	190
434	More than three years	529
<b>1,372</b>	<b>Total</b>	<b>1,672</b>

## 18. Cash and Cash Equivalents

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

<b>31 March 2018</b> <b>£000</b>	<b>31 March 2019</b> <b>£000</b>
8 Cash held by the Council	6
(377) Bank current accounts	(1,552)
1,008 Call Accounts	2,802
15,078 Bond Funds	15,086
2,101 Deposit Funds	4,001
<b>17,818 Total Cash and Cash Equivalents</b>	<b>20,343</b>

## 19. Assets Held for Sale

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

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

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

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

<b>Current</b> <b>31 March 2018</b> <b>£000</b>	<b>Current</b> <b>31 March 2019</b> <b>£000</b>
<b>1,133 Balance outstanding at start of the year</b>	<b>2,258</b>
Assets newly classified as held for sale:	
1,956 Property, Plant and Equipment	635
Assets declassified as held for sale:	
0 Property, Plant and Equipment	(823)
(831) Assets sold	(1,435)
<b>2,258 Balance outstanding at year end</b>	<b>635</b>

## 20. Creditors

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

31 March 2018		31 March 2019
£000		£000
5,032	Trade payables	2,613
13,849	Other payables	16,527
<b>18,881</b>	<b>Total</b>	<b>19,140</b>

## 21. Provisions

31 March 2018			31 March 2019		
NDR Appeals	Other Provisions	Total	NDR Appeals	Other Provisions	Total
£000	£000	£000	£000	£000	£000
<b>934</b>	<b>116</b>	<b>1,050</b>	<b>1,528</b>	<b>20</b>	<b>1,548</b>
722	0	722	0	579	579
(128)	(3)	(131)	(146)	0	(146)
0	(93)	(93)	(44)	0	(44)
<b>1,528</b>	<b>20</b>	<b>1,548</b>	<b>1,338</b>	<b>599</b>	<b>1,937</b>

### **Business Rates Appeals**

The Local Government Finance Act 2012 introduced changes to the accounting arrangements for Business Rates. These changes require the Council to put in a provision for appeals for refunding ratepayers who have appealed against the rateable value of their properties on the rating list. The Council has to put in its best estimate of the expenditure required to settle the present obligation which totals £3.346m in respect of the Business Rates Collection Fund. There has not been any significant increase in the number of appeals during 2018/19 but the Council continues to take a prudent approach to evaluating the risk.

### **Other Provisions**

The additional provision of £579k relates to termination costs arising from the Transformation project. This represents the Council's best estimate of the costs arising from decisions taken before 31 March 2019 where there is uncertainty as to the termination date of the relevant employees.

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

## 22. Usable Reserves

The table below details the Council's usable reserves which can be applied to fund expenditure or reduce local taxation.

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£000</b>		<b>£000</b>
2,299	General Fund Balance	2,223
21,614	General Fund Earmarked Reserves	14,194
2,778	Housing Revenue Account Balance	2,718
6,990	Housing Revenue Account Earmarked Reserves	2,719
13,110	Capital Receipts Reserve	13,283
3,273	Major Repairs Reserve	2,711
3,305	Capital Grants Unapplied Account	4,414
<b>53,369</b>	<b>Total Usable Reserves</b>	<b>42,262</b>

## 23. Unusable Reserves

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

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£000</b>		<b>£000</b>
99,573	Revaluation Reserve	114,414
191,469	Capital Adjustment Account	190,995
(93,673)	Pensions Reserve	(89,484)
(474)	Collection Fund Adjustment Account	624
(497)	Accumulated Absences Account	(356)
24	Available-for-sale Financial Instruments Reserve	0
<b>196,422</b>	<b>Total Unusable Reserves</b>	<b>216,193</b>

## Revaluation Reserve

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

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

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

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

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£000</b>		<b>£000</b>
<b>74,612</b>	<b>Balance as at 1 April</b>	<b>99,573</b>
27,884	Upward revaluation of assets	22,151
(2,391)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(6,664)
25,493	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	15,487
(420)	Difference between fair value depreciation and historical cost	(535)
(112)	Accumulated gains on assets sold or scrapped	(111)
(532)	Amount written off to the Capital Adjustment Account	(646)
<b>99,573</b>	<b>Balance as at 31 March</b>	<b>114,414</b>

### Capital Adjustment Account

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

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

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

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

31 March 2018 £000		31 March 2019 £000
193,135	<b>Balance as at 1 April</b>	191,469
	Remeasurement of Financial Instruments following adoption of IFRS 9 (note 16)	<u>(19)</u>
	<b>Remeasured Balance at 1 April 2018</b>	<b>191,450</b>
	<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</i>	
(8,377)	Charges for Depreciation and impairment of non current assets	(9,061)
(971)	Revaluation losses on Property, Plant and Equipment	(9,267)
(250)	Amortisation of intangible assets	(221)
(1,387)	Revenue expenditure funded from capital under statute	(2,634)
(3,315)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,185)
<u>(14,300)</u>		<u>(23,368)</u>
532	Adjusting amounts written out of the Revaluation Reserve	646
<b>(13,768)</b>	<b>Net written out amount of the cost of non current assets consumed in the year</b>	<b>(22,722)</b>
	<i>Capital financing applied in the year:</i>	
317	Use of the Capital Receipts Reserve to finance new capital	2,899
7,827	Use of Major Repairs Reserve to finance new capital expenditure	7,352
1,337	Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital	2,470
266	Application of grants to capital financing from the Capital Grants Unapplied Account	0
2,489	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	2,500
367	Capital expenditure charged against the General Fund and HRA balances	7,180
<u>12,603</u>		<u>22,401</u>
(13)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	144
<u>(488)</u>	Deferred Debtors repaid	<u>(279)</u>
<b>191,469</b>	<b>Balance as at 31 March</b>	<b>190,994</b>

### Pensions Reserve

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

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

31 March 2018 £000		2018/19 £000
<b>(99,480)</b>	<b>Balance as at 1 April</b>	<b>(93,673)</b>
10,138	Remeasurement of the net defined benefit liability/(assets)	8,742
	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the	
(8,624)	Comprehensive Income and Expenditure Statement	(9,508)
	Employer's pension contributions and direct payments to pensioners	
4,293	payable in the year	4,955
<b>(93,673)</b>	<b>Balance as at 31 March</b>	<b>(89,484)</b>

### Collection Fund Adjustment Account

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

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

31 March 2018				2018/19		
Council Tax £000	Business Rates £000	Total £000		Council Tax £000	Business Rates £000	Total £000
265	(197)	68	<b>Balance as at 1 April</b>	164	(638)	(474)
			Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and expenditure			
(101)	(441)	(542)	Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	25	1,073	1,098
<b>164</b>	<b>(638)</b>	<b>(474)</b>	<b>Balance as at 31 March</b>	<b>189</b>	<b>435</b>	<b>624</b>

### Accumulated Absences Account

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

31 March 2018 £000		2018/19 £000
<b>(484)</b>	<b>Balance as at 1st April</b>	<b>(496)</b>
	Settlement or cancellation of accrual made at the end of the	
484	preceding year	496
<b>(496)</b>	Amounts accrued at the end of the current year	<b>(356)</b>
	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	
(12)	accordance with statutory requirements.	140
<b>(496)</b>	<b>Balance as at 31st March</b>	<b>(356)</b>



**Available-for-Sale Financial Instruments Reserve**

The Available-for-Sale Financial Instruments Reserve is no longer required following the reclassification of Financial Instruments in accordance with IFRS 9.

<b>31 March 2018</b>	<b>2018/19</b>
<b>£000</b>	<b>£000</b>
<b>119 Balance as at 1st April</b>	<b>24</b>
0 Balance transferred to General Fund on adoption of IFRS 9	(24)
Downward revaluation of investments not charged to the	
(95) Surplus/Deficit on the Provision of Services	0
<b>24 Balance as at 31st March</b>	<b>0</b>

**24. Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

<b>2017/18</b>	<b>2018/19</b>
<b>£000</b>	<b>£000</b>
(491) Interest received	(737)
2,543 Interest paid	2,501
<b>2,052</b>	<b>1,764</b>

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

<b>2017/18</b>	<b>2018/19</b>
<b>£000</b>	<b>£000</b>
8,377 Depreciation	9,048
2,723 Impairment and downward valuations	9,267
250 Amortisation	221
13 Movement in fair value of investment property	(143)
297 Increase/(decrease) in impairment for bad debts	(92)
2,556 (Decrease)/increase in creditors	259
(2,973) (Increase)/decrease in debtors	(2,101)
0 (Increase/decrease) in inventories	(17)
4,331 Movement in pension liability	4,553
1,563 Carrying amount of non-current assets sold or derecognised	2,185
498 Increase/(decrease in provisions)	389
<b>17,635</b>	<b>23,569</b>

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

2017/18 £000	2018/19 £000
(4,656) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(3,351)
<b><u>(4,656)</u></b>	<b><u>(3,351)</u></b>

## 25. Cash Flow Statement – Investing Activities

2017/18 £000	2018/19 £000
(13,528) Purchase of Property, Plant and Equipment, Investment Property and intangible assets	(23,394)
(17,006) Purchase of short-term & long-term investments	(15,013)
(80) Other payments for investing activities	(750)
4,656 Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,351
14,343 Proceeds from short-term and long-term investments	26,238
378 Other receipts from investing activities	416
<b><u>(11,237)</u></b> Net cash flows from investing activities	<b><u>(9,152)</u></b>

## 26. Cash Flow Statement – Financing Activities

2017/18 £000	2018/19 £000
0 Cash receipts of short-term and long-term borrowing	10,000
(4,000) Repayment of short-term and long-term borrowing	(3,000)
<b><u>(4,000)</u></b> Net cash flows from financing activities	<b><u>7,000</u></b>

## Reconciliation of Liabilities Arising From Financing Activities

2017/18 £000	2018/19 £000
<b>As at 1 April</b>	
85,606 Long Term Borrowings	82,605
4,000 Short Term Borrowings	3,000
<b><u>89,606</u></b>	<b><u>85,605</u></b>
(4,000) Financing Cash Flows	7,000
<b><u>85,606</u></b> As at 31 March	<b><u>92,605</u></b>
82,605 Long Term Borrowings	79,105
3,000 Short Term Borrowings	13,500
<b><u>85,605</u></b> Total	<b><u>92,605</u></b>

## 27. Trading Operations

Until 31<sup>st</sup> March 2017 there were two Direct Labour Organisations within the Council which operated as trading accounts. From 1<sup>st</sup> April 2017 the Building Maintenance DLO no longer operates as a trading account and has been incorporated within the Housing Revenue Account (as its primary role is to maintain the Council's housing stock).

The continuing trading operations are detailed below:

### Grounds Maintenance DLO and Nursery

Maintains the Council's parks, playing fields and other open spaces for both the general fund and HRA; and provision of plants for these purposes.

### Deane Helpline

In addition to the DLO the Council operates the Deane Helpline, which provides a 24-hour response service to the elderly and disabled.

Trading Account performance over the past three years is detailed in the table below:

		2016/17		2017/18		2018/19	
		£'000	£'000	£'000	£'000	£'000	£'000
Building Maintenance DLO	Turnover	(5,303)		0		0	
	Expenditure	5,258		0		0	
	<b>(Surplus)/Deficit</b>		<b>(45)</b>		<b>0</b>		<b>0</b>
Grounds Maintenance DLO	Turnover	(3,241)		(3,456)		(3,486)	
	Expenditure	3,281		3,487		3,364	
	<b>(Surplus)/Deficit</b>		<b>40</b>		<b>31</b>		<b>(122)</b>
<b>Net DLO (Surplus)/Deficit</b>			<b>(5)</b>		<b>31</b>		<b>(122)</b>
Deane Helpline	Turnover	(1,030)		(1,155)		(1,127)	
	Expenditure	1,090		1,295		1,321	
	<b>(Surplus)/Deficit</b>		<b>60</b>		<b>140</b>		<b>194</b>
<b>Net Trading (Surplus)/Deficit</b>			<b>55</b>		<b>171</b>		<b>72</b>

The above figures differ from the outturn reports, which indicated that the DLO had made a surplus, as they include additional costs (principally pension adjustments) in order to comply with IFRS.

## 28. Members' Allowances

The table below shows the amounts payable by the Authority to Members of the Council as allowances and expenses during the year. More details of what was paid to our Members is available on our website: [www.tauntondeane.gov.uk](http://www.tauntondeane.gov.uk).

2017/18	2018/19
£000	£000
313 Allowances	314
15 Expenses	18
<b>328 Allowances paid in the year</b>	<b>332</b>

## 29. Officers' Remuneration

Taunton Deane Borough Council and West Somerset District Council operate a shared management and staff structure and the figures below represent the full cost of remuneration paid to employees working jointly for both councils.

Through the joint Transformation Programme and the creation of the new Somerset West and Taunton Council, a new senior management structure was established with effect from October 2018 and a new Chief Executive appointed from 1 January 2019. New 'Head of Function' posts were introduced with all Assistant Director posts, the Assistant Chief Executive post and two Director posts deleted. Officers in the deleted posts left at different times during the year according to agreed transition arrangements for the major changes being implemented.

The former joint Chief Executive of Taunton Deane Borough and West Somerset District councils left on 28 February 2019. The following table includes part year costs in 2018/19 for the Chief Executive, Former Chief Executive, Head of Commercial Investment, Head of Localities, Head of Customer, Head of Strategy, Head of Communications and Engagement, Head of Performance and Governance, Director of Growth and Development, Director of Housing and Communities, and all Assistant Directors apart from Planning and Environment who left on 31 March 2019.

Post holder information (Post Title)		Salary, Fees and Allowances	Compensation for Loss of Office	Expenses Allowances	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration	Annualised Salary
		£	£	£	£	£	£	£
Chief Executive	<b>2018/19</b>	28,750	0	0	<b>28,750</b>	4,427	<b>33,177</b>	115,000
	2017/18	0	0	0	0	0	0	0
Former Chief Executive	<b>2018/19</b>	115,453	88,899	1,546	<b>205,898</b>	16,157	<b>222,055</b>	114,455
	2017/18	119,126	0	0	119,126	14,311	133,437	112,211
Director for Operations & Deputy Chief Executive	<b>2018/19</b>	90,212	0	573	<b>90,785</b>	14,203	<b>104,988</b>	90,212
	2017/18	88,443	0	0	88,443	10,115	98,558	88,443
Head of Commercial Investment	<b>2018/19</b>	42,453	0	298	<b>42,751</b>	6,538	<b>49,289</b>	84,905
	2017/18	0	0	0	0	0	0	0
Head of Localities	<b>2018/19</b>	42,453	0	0	<b>42,453</b>	6,538	<b>48,991</b>	84,905
	2017/18	0	0	0	0	0	0	0
Head of Customer	<b>2018/19</b>	38,250	0	298	<b>38,548</b>	8,422	<b>46,970</b>	76,500
	2017/18	0	0	0	0	0	0	0
Head of Strategy	<b>2018/19</b>	33,608	0	466	<b>34,074</b>	5,891	<b>39,965</b>	76,500
	2017/18	0	0	0	0	0	0	0
Head of Communications & Engagement	<b>2018/19</b>	38,495	0	3,264	<b>41,759</b>	0	<b>41,759</b>	80,000
	2017/18	0	0	0	0	0	0	0
Head of Performance & Governance	<b>2018/19</b>	38,495	0	143	<b>38,638</b>	5,928	<b>44,566</b>	80,000
	2017/18	0	0	0	0	0	0	0
Strategic Finance Adviser & S151 Officer	<b>2018/19</b>	68,779	0	2,132	<b>70,911</b>	10,592	<b>81,503</b>	63,679
	2017/18	67,013	0	0	67,013	8,122	75,135	62,430
Director for Growth & Development	<b>2018/19</b>	42,453	0	0	<b>42,453</b>	6,538	<b>48,991</b>	83,240
	2017/18	83,247	0	0	83,247	10,318	93,565	83,247
Director for Housing & Communities	<b>2018/19</b>	<b>42,453</b>	<b>0</b>	<b>0</b>	<b>42,453</b>	6,429	<b>48,882</b>	93,240
	2017/18	83,240	0	0	83,240	10,361	93,601	83,240
Assistant Chief Executive & Monitoring Officer	<b>2018/19</b>	67,394	0	0	<b>67,394</b>	10,379	<b>77,773</b>	67,394
	2017/18	67,427	0	0	67,427	7,992	75,419	66,072
Assistant Director - Housing & Community Development	<b>2018/19</b>	35,738	0	0	<b>35,738</b>	5,504	<b>41,242</b>	62,466
	2017/18	62,430	0	0	62,430	7,419	69,849	62,430
Assistant Director - Planning & Environment	<b>2018/19</b>	64,950	32,327	309	<b>97,586</b>	9,807	<b>107,393</b>	63,679
	2017/18	62,430	0	0	62,430	7,489	69,919	62,430
Assistant Director - Corporate Services	<b>2018/19</b>	31,839	0	0	<b>31,839</b>	4,903	<b>36,742</b>	63,679
	2017/18	62,430	0	0	62,430	7,489	69,919	62,340
Assistant Director - Operational Delivery	<b>2018/19</b>	42,855	0	322	<b>43,177</b>	4,903	<b>48,080</b>	63,679
	2017/18	62,490	0	0	62,490	7,479	69,969	62,430
Assistant Director - Business Development	<b>2018/19</b>	31,839	42,133	0	<b>73,972</b>	4,903	<b>78,875</b>	63,679
	2017/18	62,430	0	0	62,430	7,489	69,919	62,430
Assistant Director - Energy & Infrastructure	<b>2018/19</b>	12,008	0	282	<b>12,290</b>	1,826	<b>14,116</b>	62,430
	2017/18	66,748	0	0	66,748	8,066	74,814	62,430
Assistant Director - Resources & Support	<b>2018/19</b>	36,902	49,112	0	<b>86,014</b>	5,473	<b>91,487</b>	69,683
	2017/18	69,683	0	0	69,683	8,490	78,173	69,683

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

2017/18 Number of employees Total	Remuneration Band	2018/19 Number of employees Total
5	£50,000 - £54,999	14
0	£55,000 - £59,999	5
0	£60,000 - £64,999	2
0	£75,000 - £79,999	2

### 30. Termination Benefits

As part of the Transformation project with West Somerset the Councils jointly terminated the contracts of 191 employees in 2018/19, compared to 0 in 2017/18.

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

Exit Package Cost Band (including special payments)	Number of Other Departures Agreed		Number of Compulsory Redundancies		Total Number of Exit Packages By Cost Band		Total Cost of Exit Packages In Each Band (£)	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £000	2018/19 £000
£0 - £20,000	0	112	0	0	0	112	0	1,360
£20,001-£40,000	0	39	0	0	0	39	0	1,129
£40,001-£60,000	0	16	0	0	0	16	0	761
£60,001-£80,000	0	12	0	0	0	12	0	834
£80,001-£100,000	0	6	0	0	0	6	0	535
£100,001-£120,000	0	2	0	0	0	2	0	213
£120,001-£140,000	0	1	0	0	0	1	0	138
£140,001-£160,000	0	1	0	0	0	1	0	152
£180,001-£200,000	0	1	0	0	0	1	0	196
£340,001-£360,000	0	1	0	0	0	1	0	343
<b>Total included in the CIES</b>	<b>0</b>	<b>191</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>191</b>	<b>0</b>	<b>5,661</b>

These figures are split between Taunton Deane Borough Council and West Somerset Council in the proportion 83.55:16.45.

**31. External Audit Costs**

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

2017/18 £000		2018/19 £000
51	Fees payable to external auditors with regards to external audit services carried out by the appointed auditor for the year	39
10	Fees paid to external auditors for the certification of grant claims and returns for the year	21
<b>61</b>	<b>Total</b>	<b>60</b>

**32. Grant Income**

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

2017/18 £000		2018/19 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
645	Revenue Support Grant	280
4,035	New Homes Bonus	3,565
70	Other Non Specific Government Grants	30
1,520	Capital Grants	3,630
<b>6,270</b>	<b>Total</b>	<b>7,505</b>
<b>Credited to Services</b>		
14,986	Rent Allowances	13,098
10,972	Rent Rebates	9,877
424	Housing Benefit Admin	396
849	Other Grants and Contributions	4,216
<b>27,231</b>	<b>Total</b>	<b>27,587</b>
<b>33,501</b>		<b>35,092</b>

**33. Related Parties**

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

**UK Central Government**

UK Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grant income is shown in Note 32.

Transactions to and from the Pension Fund are detailed in Note 36.

## Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2018/19 is shown in Note 28.

During 2018/19, works and services to the value of £10,655 were commissioned from organisations in which one Member had an interest. Contracts were entered into in full compliance with the Council's standing orders. In addition, the Council paid grants totalling £111,023 to voluntary organisations in which two Members had positions on the governing body. In all instances, the grants were made with proper consideration of declarations of interest. The relevant Member did not take part in any discussion or decision relating to the grants. Details of all these interests are recorded in the Register of Members Interests, open to public inspection at the Council office during office hours.

## Officers

During 2018/19 works and services to the value of £36,671 were commissioned from organisations in which one senior officer had an interest. Contracts were entered into in full compliance with the Council's standing orders.

The Council is a member of South West Audit Partnership Limited, a company limited by guarantee which provides internal audit services to its thirteen local authority members (including this Council). During the year the Head of Performance and Governance replaced the Assistant Director – Corporate Services and the Assistant Director – Resources & Support as a Director of South West Audit Partnership Limited.

## 34. Capital Expenditure and Capital Financing

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

2017/18 £000	2018/19 £000
<b>111,654</b>	<b>114,048</b>
<i>Opening Capital Financing Requirement</i>	
<i>Capital investment</i>	
13,389	23,128
80	750
139	265
1,387	2,634
<b>14,995</b>	<b>26,777</b>
<i>Sources of finance</i>	
(317)	(2,899)
(1,603)	(2,470)
(7,827)	(7,352)
<i>Sums set aside from revenue</i>	
(367)	(7,180)
(2,487)	(2,500)
<b>(12,601)</b>	<b>(22,401)</b>
<b>114,048</b>	<b>118,424</b>
<b>Closing Capital Financing Requirement</b>	
Explanation of movements in the Capital Financing Requirement in year:	
Increase / (Decrease) in underlying need to borrowing (unsupported by Government financial	
975	4,376
assistance)	
<b>975</b>	<b>4,376</b>
<b>Increase/(decrease) in Capital Financing Requirement</b>	



### 35. Leases

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

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

#### Council as Lessor

##### Operating Leases

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

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

2017/18 £000	2018/19 £000
582	768
2,139	2,820
2,291	3,021
<b>5,012</b>	<b>6,609</b>
<b>Total payments due in future years</b>	

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

## **36. Defined Benefit Pensions Schemes**

### **Participation in Pension Schemes**

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

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

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

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

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

### **Transactions relating to post-employment benefits**

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and the HRA via the Movement in Reserves Statement. The following transactions shown in the table have been made in the Comprehensive Income and Expenditure Statement and the General Fund/HRA Balance via the Movement in Reserves Statement during the year:

2017/18 £000		2018/19 £000
<b>Comprehensive Income and Expenditure Statement (CIES)</b>		
<b>Cost of Services</b>		
5,838	Current service cost	7,101
59	Administration expenses	64
<b>Financing and Investment Income and Expenditure:</b>		
2,727	Net interest expense	2,343
<b>8,624</b>	<b>Total Post Employment Benefits charged to the Surplus on the Provision of Services</b>	<b>9,508</b>
<b>Remeasurement of the net defined liability comprising:</b>		
(2,176)	Return on assets (excluding the amount included in the net interest expense)	(2,945)
(7,962)	Actuarial gains and losses arising on changes in financial assumptions	5,844
0	Actuarial gains and losses arising on changes in demographic assumptions	(11,641)
<b>(10,138)</b>	<b>Total Post Employment Benefit Charged to the Income and Expenditure Statement</b>	<b>(8,742)</b>
<b>Movement in Reserves Statement</b>		
(8,624)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(9,508)
<b>Actual amount charged against the General Fund balance for pensions in the year:</b>		
4,293	Employers contributions payable to scheme	4,955

### Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

2017/18 £000	Local Government Pension Scheme	2018/19 £000
(200,050)	Present value of the defined obligation	(201,363)
108,717	Fair value of plan assets	114,075
(91,333)	Sub-total	(87,288)
(2,340)	Present value of unfunded obligation	(2,196)
<b>(93,673)</b>	<b>Net liability arising from defined benefit obligation</b>	<b>(89,484)</b>

**Reconciliation of present value of the scheme liabilities (defined benefit obligation):**

2017/18 £000	Funded liabilities: Local Government Pension Scheme	2018/19 £000
<b>(203,382)</b>	<b>Opening balances as at 1 April</b>	<b>(202,390)</b>
(5,817)	Current service cost	(5,530)
(5,633)	Interest cost	(5,112)
(988)	Contributions from scheme participants	(1,027)
	<b>Remeasurement (gains) and losses</b>	
0	Actuarial gains/losses arising from changes in demographic assumptions	11,641
7,962	Actuarial gains/losses arising from changes in financial assumptions	(5,844)
(21)	Past service cost	(1,571)
5,331	Benefits paid	6,130
158	Unfunded Pension Payments	144
<b>(202,390)</b>	<b>Closing balance as at 31 March</b>	<b>(203,559)</b>

**Reconciliation of fair value of the scheme assets:**

2017/18 £000	Local Government Pension Scheme	2018/19 £000
<b>103,902</b>	<b>Opening fair value of scheme assets</b>	<b>108,717</b>
2,906	Interest income	2,769
	<b>Remeasurement (gain/loss):</b>	
2,176	The return on plan assets, excluding the amount in the net interest expense	2,945
4,293	Contributions from employers	4,955
988	Contributions from scheme participants into the scheme	1,027
(5,489)	Benefits paid	(6,274)
(59)	Administration expenses	(64)
<b>108,717</b>	<b>Closing balance as at 31st March</b>	<b>114,075</b>

**Local Government Pension Scheme assets comprised:**

2017/18 £000	Fair Value of Scheme Assets	2018/19 £000
77,609	Equities	79,729
5,883	Gilts	6,479
10,183	Other bonds	10,421
10,321	Property	9,931
4,721	Cash	7,515
<b>108,717</b>	<b>Total</b>	<b>114,075</b>

From the information we have received from the Administering Authority we understand that of the total Fund at 31 March 2019 approximately £58.178m (2018 £9.350m) of Equities and £9.925m (2018 £10.328m) of Property did not have a quoted market price in an active market.

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The Local Government Pension Scheme has been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

2017/18	Local Government Pension Scheme	2018/19
<b>Long-term expected rate of return on assets in the scheme:</b>		
Mortality assumptions:		
<u>Longevity at 65 for current pensioners</u>		
24.0	- Men	22.9
25.2	- Women	24.0
<u>Longevity at 65 for future pensioners</u>		
26.2	- Men	24.6
27.5	- Women	25.8
3.30%	Rate of inflation - RPI	3.40%
2.30%	Rate of inflation - CPI	2.40%
3.80%	Rate of increase in salaries	2.50%
2.30%	Rate of increase in pensions	2.40%
2.55%	Rate for discounting scheme liabilities	2.40%
10.0%	Take up option to convert annual pension into retirement lump sum	10.00%

### Sensitivity Analysis:

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation In the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	(7,794)	7,498
Rate of increase in salaries (increase or decrease by 0.1%)	(372)	369
Rate of increase in pensions (increase or decrease by 0.1%)	(3,550)	3,482
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	3,848	(3,926)

## **Impact on the Council's Cash Flows**

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £89.484m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The deficit on the Local Government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The total of contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2020 is £4.214m.

## **37. Contingent Liabilities**

### **Leisure Contract**

During 2004/05, the Council created a Leisure Trust, Tone Leisure, to manage its leisure services on its behalf. In January 2017 Tone Leisure formally merged with Greenwich Leisure Limited (GLL) and its employees transferred to GLL in accordance with the Transfer of Undertakings (Protection of Employment) rules. The Council remains liable for the deficit on the Pension Fund attributable to GLL at 31 March 2019 only if GLL can no longer be considered a going concern. The Council has assessed GLL as a going concern and any potential liability is therefore considered minimal.

During the year the council has carried out a tendering exercise the result of which means that a new leisure operator, Sports and Leisure Management Ltd. will manage leisure services from 1 August 2019. It has been assumed that the new operator will take on any existing pension liabilities on a fully funded basis and will therefore be credited with assets equivalent to the value of the pension liabilities assumed.

### **South West Audit Partnership Limited**

In March 2013, new governance arrangements were approved with the formation of a new company limited by guarantee to replace the previous Joint Committee. At its Full Council meeting on 4 March 2013, Taunton Deane Borough Council elected to become a Member of the Company – South West Audit Partnership Ltd – with effect from 1 April 2013. At the same meeting the Council offered to guarantee to the Somerset Pension Fund the level of deficit funding related to ex-TDBC employees, estimated at £268k.

### **Business Rates Appeal by the NHS**

Along with other local authorities we have received claims from a local trust hospital to receive mandatory charitable relief (under Section 47 of the LGFA 1988) in relation to their Business Rates bills, including backdating the relief for six years. If these claims are successful this would result in an 80% mandatory award being applied per application. Currently Trusts or Foundation Trusts are not considered charitable organisations but rather public funded organisations with boards of directors and not trustees. The matter is now the subject of a legal process nationally and local government stand by the stance that relief is not applicable. We have therefore not provided for any settlement in our accounts.

## **38. Nature and Extent of Risks Arising From Financial Instruments**

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in December 2017).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also

produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance for Local Authorities. This guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy, together with its Treasury Management Practices, are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's treasury management activities expose it to a variety of financial risks including:

- **Credit Risk** - the possibility that other parties might fail to pay amounts due to the Council.
- **Liquidity Risk** - the possibility that the Council might not have funds available to meet its commitments to make payments.
- **Market Risk** - the possibility that financial loss may arise for the Council as a result of changes in such measures as interest rates and stock market movements.

### Credit Risk: Treasury Investments

The Council manages credit risk by ensuring that investments are placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, and other local authorities without credit ratings. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A limit of up to £6.0m is placed on the amount of money that can be invested with a single counterparty. The Council also sets a total group investment limit for institutions that are part of the same banking group. No more than £6.0m in total can be invested for a period of longer than a year.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £6.0m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise.

The Council does not hold collateral against any investments.

### Credit Risk Exposure

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

2017/18			2018/19		
Long Term	Short Term	Credit Rating	Long Term	Short Term	
£000	£000		£000	£000	
2,225	25,295	AAA	2,225	19,000	
0	3,000	AA-	0	0	
0	2,000	A+	0	7,800	
0	4,000	Unrated	0	0	
<b>2,225</b>	<b>34,295</b>	<b>Total</b>	<b>2,225</b>	<b>26,800</b>	

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 150% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an



investment grade credit rating. They are determined to be credit-impaired when awarded a “D” credit rating or equivalent. At 31st March 2019, £0.005m (2018: £0.005m) of loss allowances related to treasury investments.

### Trade Receivables

During 2018/19 the Council continued to carefully review historic debtor balances and has written off old irrecoverable debts. The Council has a policy of exploring cost effective ways to ensure debts are fully recovered and thus minimise exposure to credit risk.

The following analysis summarises the Council’s trade and lease receivables, by due date. Only those receivables meeting the definition of a financial asset are included.

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>Trade Debtors</b>		<b>Trade Debtors</b>
<b>£000</b>		<b>£000</b>
2,209	Past due less than three months	2,300
358	Past due over three months up to six months	49
101	Past due over six months up to twelve months	151
160	Past due over twelve months	135
0	Individually impaired	0
<b>2,828</b>		<b>2,635</b>

Loss allowances on trade receivables have been calculated by reference to the Council’s historic experience of default, multiplied by 150% to adjust for current and forecast economic conditions. Receivables are determined to have suffered a significant increase in credit risk where they are 30 or more days past due and they are determined to be credit-impaired where they are 90 or more days past due.

### Credit Risk: Loans

In furtherance of the Council’s service objectives, it has lent money to local organisations at market rates. The amount recognised on the balance sheet is £2.621m (2018 £2,149m) and the Council’s total exposure to credit risk from these instruments is £3,217m (2018 £2,480m).

The Council manages the credit risk inherent in its loans for service purposes in line with its published Investment Strategy.

Loss allowances on loans for service purposes total £0.032m (2018 £0.019m) and have been calculated by reference to 12-month expected credit losses as there is no experience of default on such loans.

### Liquidity Risk

The Authority has ready access to borrowing at favourable rates from the Public Works Loans Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. The risk is managed by maintaining a spread of fixed rate loans.



The maturity analysis of the principal sums borrowed is as follows:

2017/18			2018/19		
Long Term £000	Short Term £000	Credit Rating	Long Term £000	Short Term £000	
<b>Loans by Type</b>					
79,500	3,000	Public Works Loan Board	76,000	3,500	
3,000	0	Other Financial Institutions	3,000	0	
0	0	Other Local Authorities	0	10,000	
<b>82,500</b>	<b>3,000</b>		<b>79,000</b>	<b>13,500</b>	
<b>Loans by Maturity</b>					
0	3,000	Less than 1 year	0	13,500	
3,500	0	Over 1 but not over 2 years	3,500	0	
18,500	0	Over 2 but not over 5 years	22,000	0	
43,000	0	Over 5 but not over 10 years	41,000	0	
10,500	0	Over 10 but not over 15 years	5,500	0	
7,000	0	More than 20 years	7,000	0	
<b>82,500</b>	<b>3,000</b>		<b>79,000</b>	<b>13,500</b>	

**Market Risks:**

**Interest Rate Risk**

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	<b>£000</b>
Increase in interest payable on variable rate borrowings	50
Increase in interest receivable on variable rate investments	(208)
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>(158)</b>
Decrease in fair value of fixed rate borrowings	(360)
Decrease in fair value of fixed rate investment assets	(33)

**Taunton Deane Borough Council**

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

**Price Risk**

The Council does not generally invest in equity shares and is therefore not subject to equity price risk.

**Foreign Exchange Risk**

The Authority has no financial assets or liabilities denominated in foreign currencies, thus has no exposure to loss arising from movements in exchange rates.

## Housing (HRA) Income and Expenditure Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement of the HRA Statement.

2017/18		2018/19	
£000	£000	£000	£000
<b>Income</b>			
	(24,398)		(24,074)
	(626)		(634)
	(1,271)		(1,737)
	(428)		(328)
	<u>(26,723)</u>		<u>(26,773)</u>
<b>Expenditure</b>			
7,091	Repairs and Maintenance	7,331	
8,342	Supervision and Management	9,595	
360	Rents, Rates, Taxes and Other Charges	472	
6,534	Depreciation and Impairment of Fixed Assets	11,512	
57	Movement in the Allowance for Bad Debts	<u>(91)</u>	
	<u>22,384</u>		<u>28,819</u>
<b>Net Income of HRA Services as included in the</b>			
<b>(4,339) Comprehensive Income and Expenditure Statement</b>		<b>2,046</b>	
	225 HRA Service Share of Corporate and Democratic Core		<u>229</u>
<b>(4,114) Net (Income)/Expenditure of HRA Services</b>		<b>2,275</b>	
<b>HRA Share of Operating and Expenditure included in the Comprehensive Income and Expenditure Statement:</b>			
	19 Pension Administration Costs		21
(1,360)	(Gain) or Loss on Sale of HRA Fixed Assets		(1,094)
2,715	Interest Payable and Similar Charges		2,681
(63)	Interest and Investment Income		0
888	Pension Interest Cost		763
0	Capital grants and contributions		<u>(144)</u>
<b>(1,915) (Surplus)/Deficit for the year on HRA Services</b>		<b>4,502</b>	

## Statement of Movement on the HRA Balance

2017/18		2018/18	
£000	£000	£000	£000
	<b>3,224</b>		<b>2,778</b>
	Balance on the HRA at the end of the previous year		
	Surplus or the year on the HRA Income and Expenditure		
1,915	Account	(4,502)	
	Adjustments between accounting basis and funding under		
	Statute (see analysis in Notes to the Supplementary		
<u>(2,217)</u>	Statements)	<u>171</u>	
(302)	Reserves	(4,331)	
<u>(144)</u>	Transfers (to) or from Reserves	<u>4,271</u>	
	(446) Increase or (Decrease) in the Year on the HRA		<u>(60)</u>
	<b><u>2,778</u></b>		<b><u>2,718</u></b>
	Balance on the HRA at the end of the current year		

## Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection fund from taxpayers and distribution to local authorities and the Government of Council Tax and Business Rates.

2017/18			2018/19		
Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
<b>Income</b>					
0	(64,825)	<b>(64,825)</b>	0	(69,656)	<b>(69,656)</b>
(40,160)	0	<b>(40,160)</b>	(40,059)	0	<b>(40,059)</b>
2,414	0	<b>2,414</b>	889	0	<b>889</b>
Apportionment of Previous Year's Surplus/(Deficit)					
(48)	0	<b>(48)</b>	(1,172)	0	<b>(1,172)</b>
(9)	1,114	<b>1,105</b>	(211)	432	<b>221</b>
Police and Crime Commissioner for Avon and Somerset					
0	184	<b>184</b>	0	70	<b>70</b>
(1)	82	<b>81</b>	(23)	31	<b>8</b>
(38)	167	<b>129</b>	(937)	65	<b>(872)</b>
<b>(37,842)</b>	<b>(63,278)</b>	<b>(101,120)</b>	<b>(41,513)</b>	<b>(69,058)</b>	<b>(110,571)</b>
<b>Expenditure</b>					
Demands and Shares					
18,522	0	<b>18,522</b>	19,024	0	<b>19,024</b>
3,334	45,940	<b>49,274</b>	3,424	49,458	<b>52,882</b>
Police and Crime Commissioner for Avon and Somerset					
0	7,426	<b>7,426</b>	0	8,040	<b>8,040</b>
370	3,331	<b>3,701</b>	380	3,485	<b>3,865</b>
14,818	6,877	<b>21,695</b>	15,219	7,234	<b>22,453</b>
169	0	<b>169</b>	173	0	<b>173</b>
1,485	0	<b>1,485</b>	(474)	0	<b>(474)</b>
Increase/(Decrease) in Provision for Appeals					
Increase/(Decrease) in Allowance for Impairment of Bad and Doubtful Debts					
390	616	<b>1,006</b>	400	598	<b>998</b>
7	0	<b>7</b>	1	0	<b>1</b>
356	0	<b>356</b>	166	0	<b>166</b>
<b>39,451</b>	<b>64,190</b>	<b>103,641</b>	<b>38,313</b>	<b>68,815</b>	<b>107,128</b>
<b>1,609</b>	<b>912</b>	<b>2,521</b>	<b>(3,200)</b>	<b>(243)</b>	<b>(3,443)</b>
<b>(Surplus)/Deficit for the year</b>					
494	(2,458)	(1,964)	2,103	(1,546)	557
<b>(Surplus)/Deficit Balance Brought Forward</b>					
<b>2,103</b>	<b>(1,546)</b>	<b>557</b>	<b>(1,097)</b>	<b>(1,789)</b>	<b>(2,886)</b>
<b>(Surplus)/Deficit Balance Carried Forward</b>					
Attributable to:					
1,052	0	<b>1,052</b>	(548)	0	<b>(548)</b>
189	(1,120)	<b>(931)</b>	(99)	(1,290)	<b>(1,389)</b>
Police and Crime Commissioner for Avon and Somerset					
0	(182)	<b>(182)</b>	0	(219)	<b>(219)</b>
21	(80)	<b>(59)</b>	(11)	(91)	<b>(102)</b>
841	(164)	<b>677</b>	(439)	(189)	<b>(628)</b>
<b>2,103</b>	<b>(1,546)</b>	<b>557</b>	<b>(1,097)</b>	<b>(1,789)</b>	<b>(2,886)</b>

## Notes to the Supplementary Statements

## Housing Revenue Account

## A Housing Stock

The Council was responsible for managing close to 5,700 dwellings during 2018/19. The stock at 31 March was made up as follows:

2017/18 £000		2018/19 £000
2,831	Houses	2,841
846	Bungalows	846
2,045	Flats and Maisonettes	2,037
<u>5,722</u>		<u>5,724</u>
1	Shared Equity	1
<u>5,723</u>		<u>5,725</u>

The change in stock was made up of 36 sales, the construction of 26 new dwellings and the buyback of 12 properties.

## B Value of Assets

The balance sheet value of HRA assets at 31 March 2018 and 31 March 2019 is shown below.

Movement in 2018/19	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infra- structure Assets £000	Total Property, Plant and Equipment £000	Assets Held For Sale £000	Intangible Assets £000	Total £000
<b>Cost or Valuation</b>								
<b>At 1 April 2018</b>	267,175	18,712	260	1,987	288,134	2,042	753	290,929
Additions	11,174	0	22	0	11,196	0	23	11,219
Revaluation increases / (decreases) recognised in the Revaluation Reserve	8,621	(5,363)	0	0	3,258	0	0	3,258
Revaluation increases / (decreases) recognised in the Surplus/deficit on the Provision of Services	0	(4,709)	0	0	(4,709)	0	0	(4,709)
Derecognition - Disposals	(592)	(10)	0	0	(602)	(1,219)	0	(1,821)
Reclassified within Property, Plant and Equipment	(180)	180	0	0	0	0	0	0
Reclassified (to)/from Held From Sale	188	0	0	0	188	(188)	0	0
<b>At 31 March 2019</b>	<b>286,386</b>	<b>8,810</b>	<b>282</b>	<b>1,987</b>	<b>297,465</b>	<b>635</b>	<b>776</b>	<b>298,876</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2018</b>	0	(633)	(152)	(512)	(1,297)	0	(728)	(2,025)
Depreciation charge	(6,511)	(279)	(31)	(51)	(6,872)	0	(24)	(6,896)
Depreciation written out to the Revaluation Reserve	6,511	691	0	0	7,202	0	0	7,202
Depreciation written out to the Surplus / Deficit on the Provision of Services	0	221	0	0	221	0	0	221
<b>At 31 March 2019</b>	<b>0</b>	<b>0</b>	<b>(183)</b>	<b>(563)</b>	<b>(746)</b>	<b>0</b>	<b>(752)</b>	<b>(1,498)</b>
<b>Net Book Value</b>								
<b>At 31 March 2019</b>	<b>286,386</b>	<b>8,810</b>	<b>99</b>	<b>1,424</b>	<b>296,719</b>	<b>635</b>	<b>24</b>	<b>297,378</b>

Comparative Movement 2017/18	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infra- structure Assets £000	Total Property, Plant and Equipment £000	Assets Held For Sale £000	Intangible Assets £000	Total £000
<b>Cost or Valuation</b>								
<b>At 1 April 2017</b>	<b>247,284</b>	<b>18,492</b>	<b>203</b>	<b>1,987</b>	<b>267,966</b>	<b>917</b>	<b>753</b>	<b>269,636</b>
Additions	10,068	0	57	0	10,125	0	0	10,125
Revaluation increases / (decreases) recognised in the Revaluation reserve	13,530	220	0	0	13,750	0	0	13,750
Derecognition - Disposals	(1,751)	0	0	0	(1,751)	(831)	0	(2,582)
Reclassified (to)/from Held From Sale	(1,956)	0	0	0	(1,956)	1,956	0	0
<b>At 31 March 2018</b>	<b>267,175</b>	<b>18,712</b>	<b>260</b>	<b>1,987</b>	<b>288,134</b>	<b>2,042</b>	<b>753</b>	<b>290,929</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2017</b>	<b>0</b>	<b>(363)</b>	<b>(127)</b>	<b>(460)</b>	<b>(950)</b>	<b>0</b>	<b>(653)</b>	<b>(1,603)</b>
Depreciation charge	(6,082)	(276)	(25)	(52)	(6,435)	0	(75)	(6,510)
Depreciation written out to the Revaluation Reserve	6,082	6	0	0	6,088	0	0	6,088
<b>At 31 March 2018</b>	<b>0</b>	<b>(633)</b>	<b>(152)</b>	<b>(512)</b>	<b>(1,297)</b>	<b>0</b>	<b>(728)</b>	<b>(2,025)</b>
<b>Net Book Value</b>								
<b>At 31 March 2018</b>	<b>267,175</b>	<b>18,079</b>	<b>108</b>	<b>1,475</b>	<b>286,837</b>	<b>2,042</b>	<b>25</b>	<b>288,904</b>

### C Value of Dwellings at 31 March 2019

The open market value of dwellings within the HRA at 31 March 2019 is £818.245m compared with the balance sheet value of £286.386m. The difference of £531.859m represents the economic cost to the Government of providing Council housing at less than open market rents.

### D Rent Arrears

Rent arrears as at the end of the financial year were as follows:

31 March 2018 £000		31 March 2019 £000
<b>897</b>	Rent Arrears	<b>736</b>
<b>(342)</b>	Provision for Bad Debts	<b>(322)</b>
<b>555</b>	<b>Anticipated Collectable Arrears</b>	<b>414</b>
2.20%	Arrears as % of Gross Rent Income	1.70%

### E Rent Rebates

Assistance with rents is available under the Housing Benefits scheme for tenants on low incomes. The rent shown in the HRA is the gross rent before rent rebates are granted.

### F Gross Rent Income

This is the total rent income due for the year after allowing for voids. During the year 1.77% (1.14% in 2017/18) of available properties were vacant. Average weekly rents were £80.89, a decrease of £0.73 (-0.89%) over the previous year.

**G Major Repairs Reserve**

The Council is required to maintain a Major Repairs Reserve. The account is credited with depreciation and is used to finance HRA capital expenditure. The depreciation charge for council dwellings is funded by the major repairs allowance, which is included within the HRA subsidy, and reflects the cost of keeping the stock in its current condition.

2017/18 £000	2018/19 £000
<b>4,591</b> Balance as at 1 April	<b>3,273</b>
6,509 Transfer from Revenue to Major Repairs Reserve	6,790
(7,827) Financing of HRA Capital Expenditure	(7,352)
<b>3,273</b> Balance as at 31 March	<b>2,711</b>

**H Total Capital Expenditure and Receipts**

2017/18 £000	2018/19 £000
<b>HRA Capital Expenditure</b>	
10,068 Dwellings	11,174
0 Intangible Assets	23
57 Vehicles, Plant and Equipment	182
0 Revenue Expenditure funded from Capital under Statute	0
<b>10,125</b>	<b>11,379</b>
<b>Financed By</b>	
0 Capital Receipts	1,596
0 Government Grants and Contributions	144
0 Contribution from Revenue	2,287
7,827 Major Repairs Reserve	7,352
2,298 Borrowing	0
<b>10,125</b>	<b>11,379</b>

The table below shows the amount of capital receipts received by the HRA:

2017/18 £0	2018/19 £000
3,978 Dwellings	2,917
(69) Administrative Cost of Sales	(44)
<b>3,909</b>	<b>2,873</b>



**I Pension Scheme**

Following advice issued by CIPFA regarding Accounting for Defined Benefit Retirement Benefits in the HRA, TDBC has concluded that neither ring-fencing nor resource accounting in the HRA require the HRA to be treated differently from other services on the grounds of proper practice. There is therefore an amount of £187,181 (2017/18 £496,586) included within management expenditure, which reflects the current service costs of the Pension Scheme, in accordance with IAS 19. These costs are currently notional and do not represent real cash outflows. Within the Housing Revenue Account these costs are negated by a contribution from the pension reserve.

**J Adjustments between Accounting Basis and Funding Basis Under Statute**

This note details the adjustments that are made to the surplus/deficit for the year recognised by the Council on the HRA Statement in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2017/18 £000	2018/19 £000
	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance
17	with statute requirements (30)
(1,360)	Reversal of (gain) or loss on sale of HRA non-current assets (1,094)
(105)	Capital expenditure charged against revenue (2,432)
1,404	HRA share of contributions to or from the Pensions Reserve 971
(6,509)	Transfer to/(from) the Major Repairs Reserve (6,790)
4,336	Transfer to/(from) the Capital Adjustment Account 9,546
<b>(2,217)</b>	<b>171</b>
	Balance on the HRA at the end of the current year

**Collection Fund****K Council Tax**

The Council's tax base for 2018/19, i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply), converted to an equivalent number of Band D dwelling, was calculated as follows:

<b>Band</b>	<b>Number of Taxable Dwellings after Discount</b>	<b>Ratio</b>	<b>Band D Equivalent Dwellings</b>
A (Disabled Reduction)	6.89	5/9	3.83
A	4,513.19	6/9	3,008.79
B	12,531.73	7/9	9,746.90
C	9,311.87	8/9	8,277.22
D	6,688.62	9/9	6,688.62
E	5,675.76	11/9	6,937.05
F	3,342.55	13/9	4,828.13
G	1,496.69	15/9	2,494.48
H	65.75	18/9	131.50
	<b>43,633.05</b>		<b>42,116.52</b>
Less adjustment for Non-Collection of Rates			(630.22)
Council Tax Base			<b>41,486.30</b>

**L Income from Business Ratepayers**

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate. The Local Government Act 2012 introduced a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. TDBC pays 50 per cent to the Government, 9 per cent to Somerset County Council, 1 per cent to Devon and Somerset Fire Authority and retains 40 per cent.

The total non-domestic rateable value at 31 March 2019 was £103,882,379 (31 March 2018 £103,111,343). The standard national non-domestic multiplier for the year was £0.493 (2017/18 £0.479); the national non-domestic small business multiplier for the year was £0.480 (2017/18 £0.466).

## Glossary of Terms

Local government, in common with many other specialised fields, has developed over the years its own unique set of terms and phrases. This glossary helps to identify some of those terms and phrases, which will be found in this statement.

### **Accruals**

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

### **Amortisation**

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

### **Amortised Cost**

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

### **Apportionment**

The sharing of costs fairly based upon usage of a service.

### **Assets Held for Sale**

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

### **Assets under Construction**

Assets under construction are assets that are currently being developed and are not yet completed. They are capitalised at cost.

### **Band D Equivalent**

A band D is the average property valuation band. This is calculated by multiplying the number of properties by the band D ratio to produce an equated tax base i.e. as if all properties were in band D.

### **Billing Authority**

A local authority responsible for the collection of council tax and non-domestic rates.

### **Budget Requirement**

The budget requirement is the net revenue expenditure calculated in advance each year by every billing authority and precepting authority. It is important for two reasons; as a step in the valuation of council tax and as a basis for local authority capping. It is calculated as the estimated gross revenue expenditure minus the estimated revenue income, allowing for movements in reserves.

### **Capital Charges**

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of their services; the charges reflect notional depreciation costs only.

### **Capital Expenditure**

Expenditure on the purchase or provision of assets, which will be of long-term value to the Council e.g. land, buildings, vehicle, plant and equipment.

### **Capital Receipts**

The proceeds from the sale of land and other assets. Capital receipts can be used to finance new capital expenditure, within rules set down by the Government, or to repay debt on existing assets.

### **Cash Equivalents**

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

### **Capital Financing Requirement (CFR)**

CFR measures the Council's underlying need to borrow or finance by other long-term liabilities for a capital purpose.

### **Chartered Institute of Public Finance Accountancy (CIPFA)**

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

### **CIPFA/LASAAC**

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

### **Collection Fund**

A statutory fund maintained by a billing authority, which is used to record council tax and non-domestic rates collected by the Council, along with payments to precepting authorities as well as into its own general fund.

### **Collection Fund Adjustment Account**

The collection fund adjustment account represents the Council's share of the collection fund surplus or deficit.

### **Community Assets**

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

### **Commutated Sum**

An amount paid to the Council by a developer to cover the cost of maintaining a piece of land over a number of years, usually play areas.

### **Componentisation**

Where an asset is split into significant components (e.g. a building could be split into building/windows/roof/boiler) to enable them to be depreciated over their separate useful lives.

### **Council Tax**

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

### **Creditors**

Amounts owed by the Council at the balance sheet date in respect of goods and services received before the end of the financial year.

### **Debtors**

Amounts owed to the Council but unpaid at the balance sheet date.

### **Depreciation**

Represents the reduction in useful economic life of an asset whether arising from use, the passage of time, or obsolescence.

### **Direct Service Organisation (DSO)/Direct Labour Organisation (DLO)**

The term direct service organisation (DSO) is used to cover both direct labour organisations (DLO's) established under the Local Government, Planning and Land Act 1980 and DSO's established under the Local Government Act 1988. These organisations are set up by a local authority to provide services subject to compulsory competitive tendering (CCT). Although the requirements of CCT no longer apply to these services, the terms DLO and DSO are still commonly used.

### **Earmarked Reserves**

Amounts of money set aside for a specific purpose.

### **Estimates**

The amounts which are expected to be spent, or received as income, during an accounting period. The term is also used to describe detailed budgets, which are either being prepared for the following year, or have been approved for the current year.

### **Fair Value**

The amount for which an asset could be exchanged, or liability settled between knowledgeable and willing parties in an arm's length transaction.

### **Fees and Charges**

Income raised by charging for the use of facilities or services.

### **Financial Instruments**

Cash, evidence of an ownership interest in an entity, or a contractual right to receive, or deliver, cash or another financial instrument.

### **Finance Lease**

A lease that transfers substantially all of the rewards of ownership of a fixed asset to the lessee.

### **General Fund**

All district and borough councils have to maintain a general fund which is used to pay for day-to-day items of non-housing revenue expenditure such as wages and salaries, heating and lighting, office supplies, etc. Spending on the provision of council housing, however, must be charged to a separate Housing Revenue Account.

### **Government Grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

### **Gross Expenditure**

The total cost of providing the Council's services, before taking into account income from government grant and fees and charges for services.

### **Housing Revenue Account (HRA)**

Local authorities are required to maintain a separate account – the Housing Revenue Account – which sets out the expenditure and income arising from the provision of housing. Other services are charged to the general fund. Since 1990/91, local authorities have not been allowed to transfer monies between their General Fund and their HRA; this is known as "ring fencing".

### **IFRS**

International Financial Reporting Standards (IFRS's) are issued by the Accounting Standards Board. The Council's accounts conform to IFRS's where they are applicable to local authorities.

### **Impairment**

A reduction in the value of fixed assets caused either by a consumption of economic benefits or by a general fall in prices.

### **Infrastructure Assets**

Fixed assets that by their nature cannot be sold and therefore expenditure is only recoverable by continued use of that asset. Examples of infrastructure assets are highways and footpaths.

### **Inventories**

Inventories include goods or other assets purchased for resale, consumable stores and raw materials.

### **Investments**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments are classified as such only when it is intended to hold the investment for more than one year or where there are restrictions on the investor's ability to dispose of it. Investments which do not meet the above criteria should be classified as current assets.

### **Investment Properties**

Investment Properties are properties which are held by the Council solely to earn rentals or for capital appreciation or for both.

### **Liquid Resources**

Assets which are readily convertible into known amounts of cash.

### **Loans and Receivables**

Loans and receivables are financial instruments that have fixed or determinable payments and are not quoted on the stock market.

### **LGA**

The Local Government Association is the national voice of local government. They work with councils to support, promote and improve local government.

### **Minimum Revenue Provision (MRP)**

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

### **Money Market Funds**

A money market fund is an open-ended mutual fund that invests in short term debt securities.

### **Net Book Value**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

### **Net Current Replacement Cost**

The cost of replacing or recreating the particular asset in its existing condition and for its existing use.

### **Net Expenditure**

Gross expenditure less specific service income, but before deduction of revenue support grant.

### **Net Realisable Value**

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

### **National Non-domestic Rate (NNDR)**

A levy on businesses, based on a national rate in the pound set by the government multiplied by the "rateable value" of the premises they occupy. NNDR is collected by billing authorities. Also known as "business rates", the "uniform business rate" and the "non-domestic rate".

### **Operating Lease**

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

### **Post Balance Sheet Events**

Events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Council approves the financial statements.

### **Precept**

The levy made by precepting authorities on billing authorities, requiring the latter to collect income from council taxpayers on their behalf.

### **Precepting Authorities**

Those authorities which are not billing authorities i.e., do not collect the council tax and non-domestic rate. County councils and police and fire authorities are "major precepting authorities" while parish, community and town councils are "local precepting authorities".

### **Property Plant and Equipment**

Property Plant and Equipment is the word used for a group of assets which consist of the following: Council Dwellings, Other Land and Buildings, Vehicles Furniture Plant and Equipment, Infrastructure Assets, Community Assets, Assets under Construction and Assets Held for Sale.

### **Provisions**

Provisions are amounts set aside in one year for liabilities or losses which are likely or certain to be incurred, but uncertain in timing or value.

### **Public Works Loan Board (PWLB)**

A central government agency, which provides long and shorter-term loans to local authorities.

### **Rateable Value**

Estimate of the value of a property which is used as a basis for local taxation.

### **Re-chargeable Works**

Ad-hoc jobs, the costs of which are recoverable from third parties.

### **Reserves**

Reserves are amounts set aside which do not fall within the definition of provisions and include general reserves (or "balances"), which every authority must maintain as a matter of prudence.

### **Revenue Expenditure**

This can be defined as expenditure on the day-to-day running of the council.

### **Revenue Expenditure funded from Capital under Statute**

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

### **Revenue Support Grant (RSG)**

This is the grant which the government pays to the Council to bridge the gap between income raised by the council tax and NDR and the total assessment of the authority's need to spend (as measured by its standard spending assessment). The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

### **Support Service Recharges**

The allocation of the costs of back office functions such as Accountancy, HR or ICT etc. to front line services.

**Tangible Assets**

Tangible assets that yield benefits to local authority and the services it provides for a period of more than one year.

**Useful Life**

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

**Work in Progress**

The value of work on an uncompleted project at the balance sheet date, which has yet to be recovered from the client.